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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

	2012	2011	*% of*
	RMB'M	*RMB'M*	*Change*
Revenue	**1,351.0**	629.2	114.7
Gross profit	**326.2**	219.5	48.6
Profit for the year (before non-controlling interests)	**68.0**	50.4	34.9
Profit for the year (after non-controlling interests)	**66.5**	44.3	50.1
Basic earnings per share *(RMB cents)*	**6.74**	4.45	51.5

For the year ended 31 December 2012 (the "Year 2012"), Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (the "Group") recorded the followings:

- Revenue for the Year 2012 amounted to approximately RMB1,351.0 million, representing an increase of approximately RMB721.8 million from approximately RMB629.2 million for 2011.

- Profit for the Year 2012 before non-controlling interests amounted to approximately RMB68.0 million, representing an increase of approximately RMB17.6 million from approximately RMB50.4 million for 2011.

- Profit for the Year 2012 after non-controlling interests amounted to approximately RMB66.5 million, representing an increase of approximately RMB22.2 million from approximately RMB44.3 million for 2011.

- Basic earnings per share for the Year 2012 increased from approximately RMB4.45 cents in 2011 to approximately RMB6.74 cents in 2012, representing an increase of approximately 51.5%.

The board (the "Board") of directors (the "Directors") of the Company is pleased to announce the audited consolidated financial results of the Company and the Group for the Year 2012 together with the comparative figures for the corresponding year in 2011 (the "Year 2011") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012

	Notes	**2012** *RMB'000*	2011 *RMB'000*
REVENUE	*5*	**1,350,996**	629,214
Cost of sales		**(1,024,803)**	(409,742)
Gross profit		**326,193**	219,472
Other income and gains	*5*	**22,222**	25,976
Selling and distribution expenses		**(156,355)**	(127,318)
Administrative expenses		**(74,533)**	(44,446)
Other expenses		**(27,807)**	(19,493)
Finance costs	*7*	**(4,315)**	(1,436)
Share of profits and losses of associates		**–**	5,006
Gain on remeasurement of interests upon acquisition		**–**	14,126
Profit before tax	*6*	**85,405**	71,887
Income tax expense	*8*	**(17,388)**	(21,453)
PROFIT FOR THE YEAR		**68,017**	50,434
Attributable to:			
Owners of the parent		**66,490**	44,275
Non-controlling interests		**1,527**	6,159
		68,017	50,434
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translating foreign operations		**5,153**	(27,360)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**5,153**	(27,360)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**73,170**	23,074
Attributable to:			
Owners of the parent		**69,386**	28,861
Non-controlling interests		**3,784**	(5,787)
		73,170	23,074
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted *(RMB)*	*9*	**6.74 cents**	4.45 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**264,290**	251,619
Prepaid land lease payments		**2,142**	2,199
Goodwill		**84,466**	82,891
Other intangible assets		**30,107**	31,305
Investments in associates		**–**	1,730
Deferred tax assets		**25,285**	22,896
Total non-current assets		**406,290**	392,640
CURRENT ASSETS			
Inventories	*10*	**190,935**	261,614
Trade and bills receivables	*11*	**141,297**	177,792
Prepayments, deposits and other receivables		**77,330**	49,384
Held-to-maturity investments		**60,000**	200,000
Tax recoverable		**9,797**	3,819
Time deposits		**420,000**	110,000
Cash and cash equivalents	*12*	**282,714**	342,241
Total current assets		**1,182,073**	1,144,850
CURRENT LIABILITIES			
Trade payables	*13*	**104,698**	84,297
Other payables and accruals		**229,654**	259,508
Derivative financial instruments		**1,129**	1,175
Interest-bearing bank loans and other borrowings		**95,555**	91,386
Tax payable		**9,524**	5,204
Total current liabilities		**440,560**	441,570
NET CURRENT ASSETS		**741,513**	703,280
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,147,803**	1,095,920

	2012	2011
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,147,803**	1,095,920
NON-CURRENT LIABILITIES		
Interest-bearing bank loans and other borrowings	**39,007**	42,669
Defined benefit plan	**17,417**	13,207
Deferred tax liabilities	**27,552**	28,927
Other liabilities	**–**	490
Total non-current liabilities	**83,976**	85,293
Net assets	**1,063,827**	1,010,627
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**86,866**	86,866
Reserves	**900,666**	840,376
	987,532	927,242
Non-controlling interests	**76,295**	83,385
Total equity	**1,063,827**	1,010,627

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from Ernst & Young, the external auditors of the Company on the Group's consolidated financial statements for the Year 2012:

"BASIS FOR DISCLAIMER OF OPINION ON THE PROFIT AND CASH FLOWS

As further explained in our report dated 5 December 2013 on the Group's consolidated financial statements for the year ended 31 December 2011, during the course of our audit, we noticed, among other matters, certain irregularities in the accounting records of a wholly-owned subsidiary of the Company, Ausnutria Dairy (China) Co., Ltd. ("Ausnutria China"). These irregularities mainly related to certain sales transactions and related accounts, including but not limited to, revenue, cost of sales, trade receivable, inventories and other payables (collectively referred to as the "Unresolved Issues"). The Unresolved Issues raised our concern over the authenticity of Ausnutria China's accounting records and supporting documents, including those relating to sales transactions in the amount of approximately RMB123 million (RMB143.5 million inclusive of value added-tax) recorded in the month of December 2011.

The Unresolved Issues mainly included the following.

- *there were inconsistencies between goods delivery documents and the accounting records for certain sales transactions in December 2011, and replies from distributors (who are customers of the Group) to supplementary confirmation procedures initiated by Ausnutria China regarding the December 2011 sales transactions revealed further anomalies;*

- *there were discrepancies during 2011 between the quantity of inventories sold in the accounting records and the quantity of inventories delivered to the distributors in summary delivery records provided by the Group's logistic service provider; and*

- *data in the old sales order system, which should have ceased to be used from October 2011, had been manually altered after that time, and data in the inventory barcode system had been manually altered without reasonable cause.*

We reported the Unresolved Issues to the board of directors of the Company (the "Board") in March 2012. This led to the establishment by the Board of a special review committee of the Company (the "SRC") on 29 March 2012, whose findings cast doubts over the completeness and authenticity of certain records and documents of Ausnutria China and over the reliability of the information and explanations provided to us by certain members of management of Ausnutria China.

As further explained in note 2, at the request of the SRC, the chief financial officer of the Company and several senior managers of Ausnutria China (the "Management") performed certain procedures to quantify the financial impact of the Unresolved Issues on the financial statements. As a result of these procedures, the Management, the SRC and the Board identified adjustments for the reduction of accounts receivable amounting to RMB236 million and the increase in inventory amounting to RMB63 million that were required to be put through to the financial statements for the year ended 31 December 2012.

The Management, the SRC and the Board considered that the best available information on hand for the purpose of quantifying the financial impact of such adjustments on the year ended 31 December 2011 and prior years was the order books (the "Order Books") maintained by the staff in the sales accounting department to keep track of the sales order status of, and cash receipts from, distributors. The Company estimated the adjustments required for revenue for the year ended 31 December 2011 and prior years using the total monetary amounts of sales orders received as recorded in the Order Books, after adjusting for those orders received around the respective year end dates to allow for the estimated timing of delivery to distributors. Regarding the cost of sales adjustments, the Company separately estimated the average gross margin rates which it considered to be reasonable for the year ended 31 December 2011 and prior years. Based on these estimations, the Management considered that RMB190 million of the RMB236 million adjustment to the accounts receivable should be adjusted to the accounts receivable at 31 December 2011 as a reduction of revenue and RMB53 million of the RMB63 million adjustment to inventory should be adjusted to the inventory at 31 December 2011 as a reduction of cost of sales, and the remaining adjustment on accounts receivable of RMB46 million and the remaining inventory adjustment of RMB10 million should be adjusted in the consolidated financial statements for the year ended 31 December 2012 as reduction of revenue and cost of sales.

For reasons described below, we were not able to satisfy ourselves on the validity, completeness and accuracy of the adjustments made by the Company for the year ended 31 December 2011 and prior years as a result of the above investigation and quantification. In particular, the procedures to restate the revenue amounts for the year ended 31 December 2011 and prior years by the Company were primarily based on the Order Books, which recorded the monetary amounts of sales orders, dates of orders received and dates of cash receipts using computer spreadsheets, but did not contain any information on the inventory type, quantity, unit price nor date of delivery. In addition, the Order Books were not part of Ausnutria China's financial reporting system, were not subject to the process of internal controls, and had not been reconciled with any other accounting-related documentation such as warehouse records or delivery documents. Furthermore, we have not been provided with sufficient documentation and explanations to support such estimates of average gross margin rates to our satisfaction. Accordingly, the adjustments made to cost of sales might not have the appropriate correlation to the above revenue adjustments, and the resulting gross profit might not have properly reflected the results of sales transactions for the respective years. In addition, the corresponding adjustments made to inventories, trade receivable and other payables might not reflect the amounts of inventories held and amounts due from and due to distributors at the respective year end dates. Due to the break down of the computer hard disk hosting the old sales system and lack of back-up data, there was no practical way for us to verify the authenticity and completeness of the sales order information in the Order Books and the sales cut-off estimates at the respective year end dates, as well as assessing whether the restated revenue amounts appropriately reflected the goods sold and delivered in the respective years.

In summary, we were unable to perform practicable audit procedures to satisfy ourselves on the reliability of information originated from the Order Books and estimates used in the determination of the sales transactions and related accounts. As a result, we disclaimed our opinion on the Group's consolidated financial statements for the year ended 31 December 2011 accordingly.

Furthermore, we were unable to perform practical audit procedures to ascertain whether the adjustments of RMB46 million and RMB10 million adjusted to the profit and loss account for the year ended 31 December 2012 should be adjusted in 2012 or prior years.

Any adjustments that might have been found necessary in respect of the above would have a consequential impact on the Group's opening balances of the consolidated financial statements as at 1 January 2012 and the Group's results for the year ended 31 December 2012 and the information presented in respect of the corresponding figures for the year ended 31 December 2011 in the consolidated financial statements for the year ended 31 December 2012.

DISCLAIMER OF OPINION ON THE PROFIT AND CASH FLOWS

Because of the significance of the matters described in the Basis for Disclaimer of Opinion on the Profit and Cash Flows paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the profit and cash flows of the Group. Accordingly, we do not express an opinion on the Group's profit and cash flows for the year ended 31 December 2012.

UNMODIFIED OPINION ON THE FINANCIAL POSITION

In our opinion, the company and consolidated statements of financial position give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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 address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located in Mainland China, at Floor 9, XinDaXin Building, No. 168, HuangXing Road (M), Changsha City, Hunan Province; in Hong Kong, at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central; and in the Netherlands, at Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen. The shares of the Company were listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009.

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

2. BASIS OF PREPARATION

As mentioned in the Company's annual report for the year ended 31 December 2011, during the audit in respect of the financial statements for the year ended 31 December 2011, certain unresolved issues (the "Unresolved Issues") relating to Ausnutria Dairy (China) Co., Ltd. ("Ausnutria China", a major indirect wholly-owned subsidiary of the Company), were reported by Ernst & Young, the auditors of the Company, to the Board on 29 March 2012. On the same date, in the interest of the Company and its shareholders as a whole, the Company then applied for the suspension of trading of its shares on the Stock Exchange. Details in relation to the Unresolved Issues are set out in the announcement of the Company dated 28 June 2013.

On 29 March 2012, a special review committee (the "SRC") comprising two of the independent non-executive directors of the Company, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong, was established by the Board to conduct a review in relation to the Unresolved Issues. The SRC, upon its establishment, requested certain management of the Group, consisting of the chief financial officer of the Company and several senior managers of Ausnutria China (the "Management") who were not associated in any way with the Unresolved Issues to carry out a review to, among other things, quantify the financial impact in relation to the Unresolved Issues. Based on its review, the Management informed the SRC prior to the commencement of the PwC Review (as defined herein below) that certain sales of Ausnutria China amounting to RMB123 million (equivalent to approximately RMB143.5 million (inclusive of 17% valued-added-tax in the PRC (the "VAT"))) were recorded in the accounting system of Ausnutria China in December 2011 (the "Questionable December Transactions"), but the goods had not yet been delivered to its distributors on or before 31 December 2011 and accordingly, should not be recognised as sales of Ausnutria China in December 2011.

Following the Unresolved Issues raised by Ernst & Young and the establishment of the SRC, King & Wood Mallesons ("KWM") were engaged by the SRC as the legal advisors to the SRC and the Board in relation to the Unresolved Issues. In turn, PricewaterhouseCoopers Limited ("PwC"), an independent professional adviser, was appointed by KWM on behalf of the SRC to conduct a forensic review (the "PwC Review") on the Unresolved Issues. PwC issued its report in relation to its findings on the PwC Review to KWM, which was copied to the SRC, on 12 August 2013.

The key findings of the PwC Review are:

(a) the Questionable December Transactions (in respect of which the relevant underlying documents relating to a sample of the Questionable December Transactions appeared to be different from a sample of transactions of Ausnutria China for other months in 2011, and for which the goods involved had not been delivered to the distributors on or before 31 December 2011), should not be recognised as sales of Ausnutria China in December 2011;

(b) the integrity of Ausnutria China's old sales order system (the "Old Sales Order System", which had ceased to be used since October 2011 but recorded the Questionable December Transactions) is questionable, as the data in which relating to the Questionable December Transactions had been manually altered. The integrity of the warehouse barcode system of Ausnutria China is also questionable as the data in the warehouse barcode system for December 2011 had been manually altered to match the data previously provided by the management of Ausnutria China to Ernst & Young; and

(c) there were discrepancies between the accounting records of monthly quantity of goods delivered kept by the accounting department of Ausnutria China (the "Accounting Records") and information provided by the independent logistic service provider engaged by Ausnutria China involved in the Unresolved Issues during January to November 2011 as well as discrepancies in the inventory movement records between the Accounting Records and Ausnutria China's warehouse records (the "Warehouse Records") in 2011.

In addition to the Questionable December Transactions, PwC also identified other questionable transactions of Ausnutria China amounting to approximately RMB11.5 million (inclusive of 17% VAT) for November 2011 (the "Questionable November Transactions") and approximately RMB39.6 million (inclusive of 17% VAT) for the period from January to November in 2011 with a similar pattern to those of the Questionable December Transactions.

Further details in relation to the PwC Review are set out in the announcement of the Company on 18 August 2013.

Based on the results of the PwC Review and certain responses provided by the Management and the SRC, the Board found that certain employees in the accounting department, the information technology department, the sales department and the logistics department of Ausnutria China were involved in fabricating various delivery documents, including sales orders, delivery notes, the logistic service provider's delivery notes and goods receipts acknowledged by customers, which were presented to Ernst & Young for examination during the audit with a view to matching the financial data previously provided by certain employees of Ausnutria China to Ernst & Young and creating the impression that the Questionable November Transactions, the Questionable December Transactions and certain other questionable sales transactions during the period from January to November in 2011 had taken place before the relevant underlying goods were actually delivered. Based on the results of the PwC Review and other work performed by the Management and the SRC, the Board concluded that errors relating to the early recognition of revenue had occurred since October 2009 and extended into 2010 and 2011.

The SRC and the Board directed the Company to adopt measures to address the Unresolved Issues raised by Ernst & Young as well as the findings of the PwC Review. These measures have included the restructuring of the Board and the senior management of Ausnutria China, and the implementation of recommendations from an external professional internal control consultant on control weaknesses in the internal control(s) and information technology system(s) of the Company and Ausnutria China that may have given rise to the Unresolved Issues.

Due to the fact that (i) the former chief financial officer of Ausnutria China and a number of employees who might have been involved in the Unresolved Issues had left Ausnutria China and the information gathered from other employees did not appear to be conclusive; (ii) some of the Accounting Records, the Warehouse Records and certain other supporting documents have been manually altered and/or forged; and (iii) the lack of complete and accurate records of Ausnutria China, as the hard disk which hosted the Old Sales Order System had been inoperable since March 2012 and there was no backed up data available, the SRC and the Board had doubts over the completeness and accuracy of the accounting records in relation to certain sales transactions and the corresponding cost of sales of Ausnutria China for the year ended 31 December 2011 and certain periods prior to that date (as mentioned above) and, accordingly, the related trade receivables and inventories as at 31 December 2011 and the reporting period dates of certain other periods prior to 31 December 2011 (as mentioned above).

The SRC and the Board noted that each of the staff in the sales accounting department（營銷財務部）of Ausnutria China had kept an order book for the distributors that he/she has been responsible for since around 2005 (the "Order Books"). The Order Books were prepared to keep track of the sales order status of and the cash receipts from Ausnutria China's distributors.

In view of the abovementioned doubts over the completeness and accuracy of the accounting records, as the Order Books are the best available alternative information that the SRC and the Board can reasonably rely on, the Management has used the information maintained by the sales accounting department in the Order Books to summarise all the orders and cash receipt information and compared them to the financial statements of Ausnutria China from January 2006 to December 2011. Certain additional procedures were also carried out by the Management, including but not limited to the confirmation and reconciliation of balances with the distributors as at 30 June 2013, certain roll-back procedures based on the confirmed balances of trade receivables and reconciling the cash receipts as set out in the Order Books with Ausnutria China's bank statements for the relevant years.

Based on the results of the PwC Review and the information available at the date of approval of these consolidated financial statements, the SRC and the Board believe that the Questionable December Transactions, the Questionable November Transactions and other questionable sales transactions, if any, during the period from January to November in 2011 should have been excluded from this preparation of the consolidated financial statements of the Group for the year ended 31 December 2011 and all significant adjustments in relation to the Unresolved Issues have been put through to adjust the consolidated financial statements for the year ended 31 December 2011 and 2012.

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consideration in full.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Tax – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments in 2012 as follows:

(a) the Ausnutria segment comprises the manufacture and sale of own-branded paediatric cow milk formula products in Mainland China and Hong Kong; and

(b) the Ausnutria Hyproca segment comprises the manufacture and sale of dairy products in the Netherlands on a subcontract basis for its customers as well as for the sale of its own-branded products in Mainland China and other overseas countries.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations 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, held-to-maturity investments, and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

	Year ended 31 December 2012		
	Ausnutria	Ausnutria Hyproca	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
Sales to external customers	**486,677**	**864,319**	**1,350,996**
Intersegment sales	**–**	**10,554**	**10,554**
	486,677	**874,873**	**1,361,550**
Reconciliation:			
Elimination of intersegment sales			**(10,554)**
Revenue from operations			**1,350,996**
Segment results	**102,224**	**3,048**	**105,272**
Reconciliation:			
Elimination of intersegment results			**(89)**
Interest income			**12,316**
Finance costs			**(4,315)**
Corporate and other unallocated expenses			**(27,779)**
Profit before tax			**85,405**
Segment assets	**221,269**	**576,106**	**797,375**
Reconciliation:			
Elimination of intersegment receivables			**(586)**
Corporate and other unallocated assets			**791,574**
Total assets			**1,588,363**
Segment liabilities	**163,585**	**226,975**	**390,560**
Reconciliation:			
Elimination of intersegment payables			**(586)**
Corporate and other unallocated liabilities			**134,562**
Total liabilities			**524,536**
Other segment information			
Impairment losses recognised in profit or loss	**10,078**	**19,405**	**29,483**
Depreciation and amortisation	**8,969**	**26,335**	**35,304**
Capital expenditure*	**10,264**	**32,501**	**42,765**

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

	Year ended 31 December 2011		
	Ausnutria	Ausnutria Hyproca	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
Sales to external customers	417,310	211,904	629,214
Revenue from operations			629,214
Segment results	57,986	18,023	76,009
Reconciliation:			
Interest income			5,002
Finance costs			(1,436)
Corporate and other unallocated expenses			(7,688)
Profit before tax			71,887
Segment assets	343,471	552,390	895,861
Reconciliation:			
Elimination of intersegment receivables			(27,804)
Corporate and other unallocated assets			669,433
Total assets			1,537,490
Segment liabilities	264,996	198,237	463,233
Reconciliation:			
Elimination of intersegment payables			(27,756)
Corporate and other unallocated liabilities			91,386
Total liabilities			526,863
Other segment information			
Share of profits and losses of associates	5,006	–	5,006
Impairment losses recognised in profit or loss	1,307	–	1,307
Investments in associates	1,730	–	1,730
Depreciation and amortisation	5,251	5,468	10,719
Capital expenditure*	39,104	8,346	47,450

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

Geographical information

(a) Revenue from external customers

	2012	2011
	RMB'000	*RMB'000*
The PRC	**640,421**	441,051
European Union	**510,842**	148,658
Middle East	**70,269**	9,150
Others	**129,464**	30,355
	1,350,996	629,214

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

(b) Non-current assets

	2012	2011
	RMB'000	*RMB'000*
The PRC	**76,747**	78,234
The Netherlands	**304,258**	291,510
	381,005	369,744

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 year, there was no revenue from a single external customer accounted for 10% or more of the Group's total revenue (2011: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	**1,350,996**	629,214
Other income and gains		
Interest income	**12,316**	5,002
Interest income on held-to-maturity investments	**5,809**	10,300
Government grants	**996**	1,681
Insurance compensation income	**–**	8,018
Others	**3,101**	975
Total other income and gains	**22,222**	25,976

6. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of inventories sold	**997,717**	408,435
Write-down of inventories to net realisable value	**27,086**	1,307
Cost of sales	**1,024,803**	409,742
Depreciation	**29,389**	9,849
Amortisation of prepaid land lease payments	**57**	57
Amortisation of other intangible assets	**5,858**	813
Minimum lease payments under operating leases:		
Buildings	**2,440**	1,544
Foreign exchange differences, net	**167**	9,541
Provision for claims from customers	**9,028**	–
Write-off of other intangible assets	**127**	–
Write-off of trade receivables	**1,912**	–
Write-off of interests in associates	**358**	–
Transaction costs for the subscription and the acquisition of the equity interests in Ausnutria Hyproca B.V.	**–**	7,257
Auditors' remuneration	**6,238**	4,382
Advertising and promotion expenses	**68,320**	78,264
Professional fees	**14,074**	–
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**121,881**	52,779
Pension scheme contributions	**14,329**	4,454
	136,210	57,233

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans	**4,361**	1,313
Interest on finance leases	**21**	13
Total interest expense on financial liabilities not at fair value through profit or loss	**4,382**	1,326
Unrealised (gain)/loss on interest rate swaps	**(67)**	110
	4,315	1,436

8. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

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

Ausnutria China has been designated as a High-tech Enterprise from 2010, and was granted a preferential CIT tax rate of 15% for the three years ended 31 December 2012. Subsequent to the reporting period, in March 2014, the application for the renewal of the designation of Ausnutria China as a High-tech Enterprise has been approved and Ausnutria China has been granted the preferential CIT tax rate of 15% for another three years ending 31 December 2015.

	2012	2011
	RMB'000	*RMB'000*
Current – charge for the year		
– Mainland China	**19,631**	16,204
– The Netherlands	**(352)**	3,497
Current – underprovision in prior years		
– The Netherlands	**2,002**	–
Deferred	**(3,893)**	1,752
Total tax charge for the year	**17,388**	21,453

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 986,843,000 (2011: 995,302,438) in issue during the year.

Earnings

	2012	2011
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**66,490**	44,275

Shares

	2012	2011
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**986,843,000**	995,302,438

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

10. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**74,899**	142,297
Finished goods	**114,261**	116,347
Others	**1,775**	2,970
Total	**190,935**	261,614

11. TRADE AND BILLS RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**122,615**	119,818
Bills receivable	**18,682**	57,974
Total	**141,297**	177,792

The Group normally allows a credit period from 1 month to 12 months (2011: from 1 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.

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:

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**107,476**	113,622
3 to 6 months	**6,927**	3,591
6 months to 1 year	**4,648**	2,333
Over 1 year	**3,564**	272
Total	**122,615**	119,818

There was no provision for impairment as at 31 December 2012 (2011: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

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

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

12. CASH AND CASH EQUIVALENTS

	2012	2011
	RMB'000	*RMB'000*
Cash and bank balances	**282,714**	342,241

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB248,204,000 (2011: RMB273,908,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

13. TRADE PAYABLES

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

	2012	2011
	RMB'000	*RMB'000*
Within 12 months	**104,689**	84,250
Over 12 months	**9**	47
	104,698	84,297

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

BUSINESS OVERVIEW

The global dairy market has continued to grow over the past few years, particularly in the People's Republic of China (the "PRC") which was driven by macro factors such as strong economic growth, increasing disposable income and rising rates of urbanisation, as well as industry-specific factors including rising health awareness and consumer preferences.

As one of the key components of the PRC dairy market, the paediatric milk formula market has been expanding rapidly as well. The increasing number of working mothers in the PRC, coupled with the convenience and comprehensive nutritional benefits offered by infant formula products, have resulted in growing popularity among mothers in the PRC to choose infant formulas for their children.

In order to maintain a healthy growth in the industry and to improve the quality standards of paediatric milk formula, the PRC government has launched a series of new policies (the "New Policies") to improve the national standard for the safety of dairy products, including but not limited to the raising of the standards on the grant/renewal of the production license of the paediatric milk powder manufacturers in the PRC; the requirement for the establishment of full tracking systems by paediatric milk powder manufacturers from the production to distribution of paediatric milk powder in the PRC; and the requirement to obtain the registration of dairy products by foreign enterprises, which are now governed by a more stringent set of new rules and regulations before their products can be imported into the PRC.

As a result of the above, the Year 2012 and the periods thereafter continue to be a complicated and challenging time for the Group. While it is the Board's priority to deal with the Unresolved Issues and to seek for the resumption of trading in the shares of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has taken strategic moves to comply with the New Policies and at the same time to build the Group's upstream production and procurement capability in order to capture the growing markets in the PRC and other overseas markets.

During the Year 2012, the Group continued to invest in new information systems (the "New IT Systems") so as to establish the full tracking systems for its production and distribution, which are now new mandatory requirements under the New Policies in the PRC. In addition, the Group has entered into an agreement with the Medical School of Beijing University to form a 10-year strategic cooperation for the joint research and development of paediatric milk formula for the PRC market. The Group believes that the cooperation with the Medical School of Beijing University will greatly enhance the future research and development capability of the Group by leveraging on the resources of the Medical School of Beijing University as well as the Group.

In addition, the Group launched a series of new infant formula products which are targeted to penetrate into different sectors of the PRC market as well as the establishment of joint ventures for the distribution of the Group's goat milk based infant formula in other countries during the Year 2012 and subsequent to the reporting period.

In recent years, paediatric milk formula powder brands with high quality raw milk sourced from overseas have gained increasing market shares. The increase in the demand of high quality paediatric milk formula sourced from overseas have also contributed to the increase in the demand of the dairy products produced by Ausnutria Hyproca B.V. ("Ausnutria Hyproca"), a 51%-owned subsidiary of the Company, and its subsidiaries (the "Ausnutria Hyproca Group"), which was acquired by the Group in 2011 with milk source and production facilities based in the Netherlands, for the Year 2012. The Group will continue to invest in the Ausnutria Hyproca Group in order to increase its production capacity and to enhance the quality standards of the dairy products produced by the Ausnutria Hyproca Group.

For the Year 2012, the Group recorded revenue of approximately RMB1,351.0 million, representing an increase of approximately RMB721.8 million or approximately 114.7% from approximately RMB629.2 million for the Year 2011. The increase is mainly attributable to (i) the increase in sales of the Group (excluding the Ausnutria Hyproca Group) (the "Ausnutria Group") by approximately RMB69.4 million; and (ii) the contribution of revenue of approximately RMB874.9 million (Period from 17 October 2011 (the completion date of the acquisition) to 31 December 2011 ("Period 2011"): approximately RMB211.9 million) from the Ausnutria Hyproca Group which was consolidated into the Group since 17 October 2011.

Gross profit for the Year 2012 was approximately RMB326.2 million, representing an increase of approximately RMB106.7 million, or approximately 48.6%, when compared with the Year 2011. The gross profit margin of the Group for the Year 2012 decreased from approximately 34.9% for the Year 2011 to 24.1%, primarily due to the dilutive effect as a result of the change in sales mix after consolidating the full year results of the Ausnutria Hyproca Group which has been consolidated into the Group since 17 October 2011.

The Group's profit attributable to equity holders of the Company for the Year 2012 amounted to approximately RMB66.5 million, representing an increase of approximately 50.1% when compared with the Year 2011. The increase in net profit was mainly contributed by the growth in the operating performance of the Ausnutria Group and the effective cost controls on the marketing activities and the administrative expenses of the Group which was partly offset by the adverse impact of the temporary interruption on the production of the Ausnutria Hyproca Group and the additional professional fees incurred as a result of the Unresolved Issues.

In July 2012, the Ausnutria Hyproca Group suspended its production temporarily at the request by one of the supplement suppliers (the "Supplier") as one of the raw materials that was previously delivered by the Supplier might have been contaminated. As at the date of this announcement, based on all the lab test results conducted by the internal and external laboratories, no contamination has been found in the products supplied by the Ausnutria Hyproca Group. Besides, no cases indicating that the products sold by the Ausnutria Hyproca Group were contaminated have been reported by the customers since the occurrence of the incident.

As a result of this incidence, the Ausnutria Hyproca Group incurred a loss for the Year 2012 amounting to approximately RMB35.0 million (Year 2011: Nil), comprising mainly the write-off of inventories. The net losses attributable to the owners of the Company after tax and deducting the non-controlling interests for the Year 2012 amounted to approximately RMB13.7 million (Year 2011: Nil). The Ausnutria Hyproca Group has already commenced the legal actions against the Supplier to recover all the above losses as well as the interruption on its business and operations. The Company is of the view that, after taking into accounts the advices from the lawyers and the insurance company, the Ausnutria Hyproca Group has a very good chance to recover all the above losses from the Supplier ultimately. However, as no concrete settlement has been reached with the Supplier, the potentially recoverable amount has not been recorded in profit and loss.

Further details regarding the operating performance of the Group are included in the "Management Discussion and Analysis" section of this announcement.

OUTLOOK

Downstream business

In the Third Plenary Session of the 18th Central Committee of the Communist Party of the PRC, it was announced that the one-child policy which has been in existence for more than thirty years will be relaxed. Furthermore, in early 2013, the PRC government launched the New Policies to improve the national standard for the safety of dairy products which the Company believes will accelerates the consolidation of the paediatric milk powder industry and would eventually lead to the elimination of small and medium enterprises in this industry. In accordance with the circular issued by the China Food and Drug Administration in relation to the Promulgation of the General Principles (the "General Principles") for the Examination of Production Approval for Paediatric Milk Formula Powder (2013 version) (No. 49)(國家食品藥品監督管理總局發佈關於嬰幼兒配方乳粉生產許可審查細則 (2013版)的公告(第49號)) promulgated by the PRC government on 16 December 2013, the paediatric milk powder manufacturers in the PRC are required to complete the renewal review process of the production license by 31 May 2014. An application submitted by a manufacturer of paediatric milk formula powder for the renewal of its production license will now be subject to the General Principles which impose more stringent criteria for granting a production license.

The Company is pleased to announce that, on 14 March 2014, Ausnutria China has completed the renewal review process of its production license and has succeeded in obtaining the renewed production license in accordance with the General Principles for another three years up to 13 March 2017. Further details regarding the grant of the production license are set out in the announcement of the Company dated 24 March 2014.

Though the New Policies have created uncertainties and a temporary interruption on the dairy industry in the PRC as distributors are more conservative in placing their orders after the announcement of the New Policies pending for further clarity and details regarding execution of the New Policies, the Group believes that the above policies will lead to a boost in the demand for paediatric milk powder, benefiting the paediatric milk powder manufacturers who can meet the national standard under the New Policies, including the Group, in the long run.

Upstream business

Since 2011, the Company has taken strategic moves to build the Group's upstream production and procurement capability and to capture the growing markets in the PRC and globally by acquiring an aggregate of 51% equity interests in Ausnutria Hyproca which has international presence and expertise in the international paediatric nutritional products. To facilitate the further integration of the business of the Ausnutria Hyproca Group into the Group and with an aim to strengthen the management of the Company with international perspectives, on 7 June 2013, the Group entered into a call option agreement (the "COA") with Dutch Dairy Investments B.V. ("DDI") under which Ausnutria Dairy (Dutch) Coöperatief U.A. ("Ausnutria (Dutch)") was granted a call option by DDI and Ausnutria (Dutch) had the right to exercise at its sole discretion to acquire the remaining 49% equity interests in Ausnutria Hyproca to be settled by the issuance of 202,125,000 new Shares (the "COA Shares"), representing approximately 17% of the enlarged issued share capital of the Company. The call option has a life of 12 months from the date of the COA (the "Initial Period") which is extendable for a further 12-month period at the unilateral right of DDI. On the same date, Mr. Bartle van der Meer, one of the shareholders and directors of DDI with ample international experience in banking, investment and paediatric nutritional products, has been appointed as an executive Director and chief executive officer of the Company. Details of the COA and the change of Directors were set out in the announcement of the Company dated 7 June 2013.

Owing to the unavailability of the recent published audit report of the Company prior to the expiration of the Initial Period, the Company has not been able to proceed with the approval process of the COA. On 5 June 2014, DDI has exercised its right to extend the call option for another 12-month period to 6 June 2015 in accordance with the terms of the COA as mentioned in the above. Further details regarding the extension of the call option are set out in the announcement of the Company dated 9 June 2014.

The Group believes that the acquisition of Ausnutria Hyproca not only broadens and secures the Group's long term milk supply sources, but also provides a very good platform for the globalisation of the Group's businesses in the long run.

Other policy

Pursuant to the Food Safety Law of the People's Republic of China（中華人民共和國食品安全法）firstly promulgated by the government of the PRC on 28 February 2009, in order to ensure food safety and protect public health, any enterprises engaged in the food related activities (including food processing plants) in the territories of the PRC shall abide by this law with effect from 1 June 2009.

Furthermore, in accordance with the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the "AQSIQ")（國家質量監督檢驗檢疫總局）（「總局」）Announcement No. 152 on the Administrative Measures Governing the Inspection and Quarantine of Import and Export Dairy Products（進出口乳品檢驗檢疫監督管理辦法，總局第152號令）, the AQSIQ Announcement No. 145 on the Provisions on the Administration of Registration of Foreign Enterprises Producing Imported Food（進口食品境外生產企業註冊管理規定，總局第145號令）and the AQSIQ Announcement No. 62, 2013 on the Implementation List for Registration of Foreign Enterprises Producing Imported Food（關

於發佈《進口食品生產企業註冊實施目錄》的公告，總局2013年第62號公告）, in order to reinforce the inspection and quarantine of import and export of dairy products, unregistered foreign enterprises producing dairy products are forbidden to import their products into the PRC from 8 May 2014 onwards.

The Company is pleased to announce that pursuant to the AQSIQ Announcement No. 51, 2014 on Promulgating the List of First Batch of Registered Overseas Dairy Producers that are Eligible to Export to China（首批進口乳品境外生產企業註冊名單，總局2014年第51號公告）, on 6 May 2014, three of the Company's subsidiaries incorporated in the Netherlands that are wholly-owned by Ausnutria Hyproca, namely, (i) Lypack Leeuwarden B.V.; (ii) Hyproca Dairy B.V.; and (iii) Lyempf Kampen B.V. ("Hyproca Lyempf"), have been included in the first batch of registered overseas dairy products producers that were granted the registrations for importing their products into the PRC. Products approved to be imported into the PRC for the respective companies are as follows:–

Name	**Products approved to be imported into the PRC**
Lypack Leeuwarden B.V.	Infant formula milk powder and fortified formula milk powder
Hyproca Dairy B.V.	Whole milk powder, skimmed milk powder, butter and cream
Hyproca Lyempf	Other milk powder

The granting of the license to the above subsidiaries has further assured and recognised the good quality of the dairy products produced by the Group's factories in the Netherlands.

During the visit of the PRC President Xi Jinping to the Netherlands in March 2014, a joint statement has been issued by the two countries to further enhance the economic co-operation in a wider range that includes more exports of Dutch dairy products to the PRC. The Group believes that the New Policies and the success in obtaining the renewed production license of Ausnutria China together with the grant of the import license to the above subsidiaries will create more opportunities and increase the competitiveness which will facilitate the long term growth of the Group.

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

Strengthening the management of the customers' and distributors' relationship in the PRC

In 2011, the Group invested in the New IT Systems including the latest version of the Enterprise Resource Planning (ERP), Customer Data Management (CDM) and Customer Relationship Management (CRM) systems with the assistance of IBM. One of the reasons of setting up these new systems is to provide better services to the Group's customers as well as distributors by implementing a membership program and reward system for the customers and an on-line platform for orders placing and timely monitoring of the account activities with its distributors.

Through the New IT Systems, the Board believes that the Group will be able to establish in the long run a closer relationship with its customers and distributors, understand the consumer behavior and exercise tighter internal controls over the order status of its sales channels.

Continuing the strategy of upward integration

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

Increase the production capacity in the Netherlands

The Ausnutria Hyproca Group is located in the Netherlands, where there is ample supply of quality cow and goat milk. The demand for dairy products produced by the Ausnutria Hyproca Group has been increasing over the past years. In order to cater for this increasing demand, the Group advanced to the Ausnutria Hyproca Group a shareholder loan of EURO 7.0 million and EURO 10.0 million in June 2013 and December 2013, respectively, to finance the capital expenditure plans, including but not limited to the acquisition of approximately 140,000 square meters of land in the Netherlands for the intended construction of a new factory in Heerenveen, the Netherlands and the upgrade of the milk powder production towers and the purchases of new machineries for the increase in packaging capacity of the Ausnutria Hyproca Group (the "CAPEX Plan"). Details of the shareholder loans are set out in the announcements of the Company dated 7 June 2013 and 5 November 2013, respectively.

Though the CAPEX Plan has led to temporary interruption in the production of the Ausnutria Hyproca Group as the two milk production towers were temporarily suspended from productions for a few months in 2013 and 2014, the production capacity of the Ausnutria Hyproca Group is expected to increase significantly after the CAPEX Plan completed in June 2014.

Launch of goat milk based infant formula and other series of products

The Ausnutria Hyproca Group specialises in the complete chain of collecting fresh Dutch goat milk from farms to finished goods and is a leading producer of goat milk in the world. The Group has commenced the launch of Kabrita Series products in the PRC since the fourth quarter of 2011. In the same year and 2012, the Group entered into agreements with the Medical School of Beijing University for conducting a series of clinical trials of Kabrita products, the results of which have concluded that goat milk-based powder is better for children than cow milk-based powder in a number of different aspects, including nutrition and the development of immune system, etc.

In October 2013, the Group approved the conducting of the clinical trials for the application of the approval from the Food and Drug Administration ("FDA") for the sale of Kabrita Series of products in the United States.

The Group has also formed joint ventures with independent third parties for the sales of Kabrita Series products in Russia and the Middle East, the United States and Canada in 2012, 2013 and 2014, respectively. The Group will continue to launch Kabrita Series products in other major countries with the aim of becoming one of the market leaders of goat milk based paediatric nutrition products in the long run by leveraging on the studies and clinical trial results conducted by (i) the Medical School of Beijing University and (ii) the in-house research and development team in the Netherlands and in North America during the course of applying the approval with the FDA.

In addition, the Group has launched a series of new products under different cow milk infant formula, namely, the Puredo Series and the Hyproca 1897 Series in 2012 and 2013, respectively, which are targeted to penetrate into different sectors of the PRC market.

Despite the increasing market competition of paediatric nutritional products in the world, particularly in the PRC, and the more stringent rules and regulations imposed by the PRC government which has created uncertainties and a temporary interruption on the dairy industry in the PRC, the Board believes that the Group is well positioned to face the challenges ahead and is optimistic about its future.

Production and distribution tracking systems

Resulting from the investment of the New IT Systems with world standard partners with upgrading programs kicked off in 2013, the Group has successfully launched the full tracking systems for its production and distribution, which satisfy the new mandatory requirements under the New Policies in the PRC. With the new production tracking system, each tin of milk powder sold in the PRC is now marked with a unique barcode which allows the Group to trace back all the production details if there is any quality issue arisen subsequently. Furthermore, the new tracking system would enable the Group to monitor and track the distribution progress and logistic status of products sold to the retail consumer level.

Strengthening of the corporate governance

Last but not the least, the Group will continuously and proactively strengthen its corporate governance so as to establish a solid foundation for future growth and to rebuild the confidence of the shareholders of the Company (the "Shareholders") and potential investors. The Company will use its best endeavors to continue to strive for the highest returns and value to the Shareholders in the long run.

As a result of the above steps taken by the Group subsequent to the reporting period, both sales and operating performance of the Ausnutria Group continued to be picking up and improving in 2013. On the other hand, the operating performance of the Ausnutria Hyproca Group is expected to slow down due to the constraints of its current production capacity and the temporary interruption caused by the implementation of the CAPEX Plan.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overall performance

	2012	2011
	RMB'M	*RMB'M*
REVENUE:		
– Ausnutria Group	**486.7**	417.3
– Ausnutria Hyproca Group#	**874.9**	211.9
	1,361.6	629.2
Less: Intersegment sales	**(10.6)**	–
– Group (including the Ausnutria Hyproca Group)	**1,351.0**	629.2
GROSS PROFIT:		
– Ausnutria Group	**253.2**	193.7
– Ausnutria Hyproca Group#	**73.1**	25.8
	326.3	219.5
Less: Intersegment results	**(0.1)**	–
– Group (including the Ausnutria Hyproca Group)	**326.2**	219.5
	%	*%*
GROSS MARGIN:		
– Ausnutria Group	**52.0**	46.4
– Ausnutria Hyproca Group#	**8.4**	12.2
– Group (including the Ausnutria Hyproca Group)	**24.1**	34.9
PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE PARENT:		
– Ausnutria Group	**70.3**	38.1
– Ausnutria Hyproca Group#	**(3.8)**	6.2
– Group (including the Ausnutria Hyproca Group)	**66.5**	44.3

Acquired by the Group on 17 October 2011

Revenue – Overall

For the Year 2012, the Group recorded revenue of approximately RMB1,351.0 million, representing an increase of approximately RMB721.8 million, or approximately 114.7%, from RMB629.2 million for the Year 2011. The increase is mainly attributable to (i) the increase in sales of the Ausnutria Group by approximately RMB69.4 million; and (ii) the contribution of revenue of approximately RMB874.9 million (Period 2011: approximately RMB211.9 million) from the Ausnutria Hyproca Group which has been consolidated into the Group since 17 October 2011.

Revenue – Ausnutria Group

During the Year 2012, A-choice Series, Best-choice Series, Allnutria Series and Allnutria Organic Series, continued to be the major series of paediatric milk formula of the Ausnutria Group which are all imported from overseas and are designed to target consumers for premium products in the PRC. During the Year 2012, the Ausnutria Group has also commenced the launch of another imported cow milk infant formula, namely the Puredo Series, which is targeted to penetrate into different sectors of the PRC. The revenue derived from the Puredo Series of products in the PRC which was launched in June 2012 was approximately RMB30.7 million (Year 2011: Nil) for the Year 2012.

The increase in the revenue of the Ausnutria Group was mainly due to the improvement in the financial performance of Ausnutria China following the restructuring of its distribution network in 2010/2011 as well as the contribution from a series of new products under different infant formula that were launched during the year. Coping with the continuous increase in demand for infant milk formula in the PRC, the sales performance of the Ausnutria Group is gradually picking up and improving.

Revenue – Ausnutria Hyproca Group

The Ausnutria Hyproca Group is principally engaged in the dairy industry from research and development, milk collection, processing, production and packaging of dairy products with production facilities and milk sources in the Netherlands for own labels as well as under original equipment manufacturing ("OEM") and private label arrangements. The OEM and private label arrangements are serving cow milk dairy products to customers in the Netherlands and other overseas countries, such as the PRC, Taiwan, other European and Middle East countries. The Ausnutria Hyproca Group also sells paediatric milk formula under its own brands (*Kabrita for goat infant formula ("Kabrita")* in the PRC, Russia and the Middle East countries and *Neolac for cow infant formula* in the PRC). The Ausnutria Hyproca Group is one of the leading producers and distributors of goat milk products in the world.

For additional information, an analysis of the revenue of the Ausnutria Hyproca Group for the Year 2012 and the Year 2011 (as if it was had been acquired since 1 January 2011) is as follows:

	2012	2011	**2012**	2011
	EURO'M	*EURO'M*	***RMB'M***	*RMB'M*
			equivalent	equivalent
Revenue of the Ausnutria Hyproca Group	**107.5**	87.7	**874.9**	791.2

The increase in the revenue of the Ausnutria Hyproca Group for the Year 2012 was primarily attributed to (i) the increase in the revenue of Kabrita to approximately RMB36.2 million, representing an increase of approximately RMB27.6 million, or approximately 320.9%, from the Year 2011, as the product was launched in the fourth quarter of the Year 2011 in the PRC; and (ii) the continuous increases in the demand for paediatric nutrition products from its customers in the Netherlands and other overseas countries due to the increasing recognition of the good quality of milk supply in the Netherlands and the reputation of good quality products delivered by the Ausnutria Hyproca Group that was built up since the establishment of the Ausnutria Hyproca Group in 1897.

Gross profit – Overall

Gross profit for the Year 2012 was approximately RMB326.2 million, representing an increase of approximately RMB106.7 million, or approximately 48.6%, when compared with the Year 2011. The gross profit margin of the Group for the Year 2012 decreased from approximately 34.9% for the Year 2011 to 24.1%, primarily due to the dilutive effect as a result of the change in sales mix after consolidating the full year results of the Ausnutria Hyproca Group which has been consolidated into the Group since 17 October 2011 and the impact of the temporary interruption in the production of the Ausnutria Hyproca Group.

Gross profit – Ausnutria Group

Gross profit of the Ausnutria Group for the Year 2012 amounted to approximately RMB253.2 million, representing an increase of approximately RMB59.5 million, or approximately 30.7%, from the Year 2011. The gross margin of the Ausnutria Group for the Year 2012 increased from approximately 46.4% for the Year 2011 to 52.0%. In 2010/2011, Ausnutria China has undergone a restructuring of its sales channel and have granted bigger discounts to its distributors as an incentive for their promotion of Ausnutria China's products in the Year 2011. In view that the sales of Ausnutria China has been gradually improving since the implementation of the above strategies, Ausnutria China reduced its discounts granted to distributors during the Year 2012 and the gross profit margin of the Ausnutria Group improved to the 2010 level of approximately 51.2%.

Gross profit – Ausnutria Hyproca Group

For additional information, an analysis of the gross profit of the Ausnutria Hyproca Group for the Year 2012 and the Year 2011 (as if it had been acquired since 1 January 2011) is as follows:

	2012	2011	**2012**	2011
	EURO'M	*EURO'M*	***RMB'M***	*RMB'M*
			equivalent	equivalent
Gross profit:				
– Ausnutria Hyproca Group	**9.0**	10.7	**73.1**	96.5
	%	*%*	*%*	*%*
Gross profit margin:				
– Ausnutria Hyproca Group	**8.4**	12.2	**8.4**	12.2

In July 2012, the Ausnutria Hyproca Group suspended its production temporarily at the request by the Supplier as one of the raw materials that was previously delivered by the Supplier might have been contaminated. As a result of this incident, the Ausnutria Hyproca Group incurred a loss for the year ended 31 December 2012 amounting to approximately RMB35.0 million (Year 2011: Nil), comprising mainly the write-off of inventories.

As a result of the above incidence, the gross profit margin of the Ausnutria Hyproca Group was adversely affected by approximately 3.0% point. In addition, the Ausnutria Hyproca Group has recognised an impairment loss on inventories of approximately RMB9.0 million (Year 2011: Nil) during the Year 2012, which has further reduced the gross profit margin by another approximately 1% point, as a result of the write-off of certain inventories that failed to meet the internal quality standards of the Ausnutria Hyproca Group. Excluding the above impacts, the gross profit margin of the Ausnutria Hyproca Group for the Year 2012 remains to be stable when compared with the Year 2011.

Other income and gains

An analysis of other income and gains is as follows:

	2012	2011
	RMB'M	*RMB'M*
Interest income on held-to-maturity investments	**5.8**	10.3
Interest income on bank deposits	**12.3**	5.0
Government grants	**1.0**	1.7
Insurance compensation income	**–**	8.0
Others	**3.1**	1.0
	22.2	26.0

Selling and distribution costs

An analysis of selling and distribution costs is as follows:

	2012	2011
	RMB'M	*RMB'M*
Ausnutria Group:		
– Advertising and promotion	**61.0**	72.3
– Others	**58.9**	44.2
	119.9	116.5
Ausnutria Hyproca Group	**36.5**	10.8
	156.4	127.3

Selling and distribution costs mainly comprised advertising and promotion expense, salaries and travelling costs of the sales and marketing staff and delivery costs. Selling and distribution costs represented approximately 11.6% and 20.2% of revenue for the Year 2012 and the Year 2011, respectively.

Selling and distribution costs of the Ausnutria Group for the Year 2012 remains stable when compared with that of Year 2011 and this was due to the net effect of (i) the continuous decrease in advertising and promotion expense as the Group has continued its marketing strategy by placing more emphasis in regional promotion and marketing activities by means of holding exhibitions and local seminars provided to parents instead of launching the more costly television advertising activities; and (ii) the increase in other selling and distribution costs as a result of the setting up of new sales channel and establishing the new sales team for the launch of the Puredo Series during the Year 2012.

The selling and distribution costs of the Ausnutria Hyproca Group represented approximately 4.2% and 5.1% of the Ausnutria Hyproca Group's revenue for the Year 2012 and the Period 2011, respectively. Included in the selling and distribution costs of the Ausnutria Hyproca Group, approximately 50.4% (Period 2011: approximately 46.9%) was related to the sales and marketing costs of the Kabrita Series of products in the PRC. The increase in the selling and distribution costs of the Ausnutria Hyproca Group was also attributed to the full year consolidation effect of the Ausnutria Hyproca Group.

Administrative expenses

An analysis of the administrative expenses is as follows:

	2012	2011
	RMB'M	*RMB'M*
Ausnutria Group	**46.7**	40.6
Ausnutria Hyproca Group	**27.8**	3.8
	74.5	44.4

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

The increase in the administrative expenses of the Ausnutria Group was primarily attributed to (i) the increase in staff costs as a result of the general increase in salary; (ii) the increase in depreciation charges on the New IT System which was put into use since the fourth quarter of 2011; (iii) the increase in depreciation charges on buildings and leasehold improvements after Ausnutria China relocated its office from the factory to its existing office premises in late 2011 and early 2012; and (iv) the increase in auditors' remuneration.

The increase in the administrative expenses of the Ausnutria Hyproca Group was primarily attributed to the full year consolidation effect of the Ausnutria Hyproca Group and the increase in headcounts on both the managerial and administrative staff to cope with the continuous increase in the scale of operations of the Ausnutria Hyproca Group.

Other expenses

An analysis of the other expenses is as follows:

	2012	2011
	RMB'M	*RMB'M*
Ausnutria Group	**18.6**	17.5
Ausnutria Hyproca Group	**9.2**	2.0
	27.8	19.5

Other expenses mainly comprised legal and professional fees incurred as a result of the Unresolved Issues of approximately RMB14.1 million (Year 2011: Nil); write-off of trade receivables attributed to a number of distributors who have ceased trading with Ausnutria China of approximately RMB1.9 million (Year 2011: Nil); and exchange losses arising from the translation of bank deposits that were denominated in EURO and Hong Kong dollars ("HK$") to Renminbi ("RMB") of approximately RMB0.2 million (Year 2011: approximately RMB9.5 million).

The Year 2011's other expenses also included the transaction costs in relation to the subscription and the acquisition of the Ausnutria Hyproca of a total of approximately RMB7.3 million.

Finance costs

The finance costs for the Year 2012 amounted to approximately RMB4.3 million (Year 2011: approximately RMB1.4 million), representing the interest on bank and other borrowings that were attributable to the Ausnutria Hyproca Group. The bank and other borrowings outstanding as at 31 December 2012 of approximately RMB134.6 million remained to be stable when compared with the amount outstanding as at 31 December 2011 of approximately RMB134.1 million. The increase in finance costs was mainly attributable to the full year effect as a result of the consolidation of the Ausnutria Hyproca Group in October 2011. The Ausnutria Group did not have any borrowings for the Year 2012 and the Year 2011.

Income tax expenses

The profits generated by the Group were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to corporate income tax (the "CIT") at a rate of 25%. Ausnutria China was designated as a High-tech Enterprise in 2010 and was granted a preferential CIT tax rate of 15% for the three years ended 31 December 2012. 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 EURO 200,000 taxable profits and 25% for the taxable profits exceeding EURO 200,000.

In March 2014, Ausnutria China succeeded in renewing its High-tech Enterprise qualification, upon which Ausnutria China will continue to entitle to the preferential CIT tax rate of 15%, for another three years from 1 January 2013.

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

	The Netherlands		**Mainland China**		**Others**		**Group**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Profit/(loss) before tax *(RMB'M)*	**(1.7)**	27.6	**108.9**	56.4	**(21.8)**	(12.1)	**85.4**	71.9
Income tax expense *(RMB'M)*	**(0.4)**	4.4	**17.8**	17.1	**–**	–	**17.4**	21.5
Effective income tax rate *(%)*	**(24.1)**	15.7	**16.3**	30.3	**–**	–	**20.4**	29.8

Most of the profits generated by the Group for the Year 2012 were derived in Mainland China. The effective income tax rate for profit generated from Mainland China for the Year 2012 at 16.3% was slightly above the preferential CIT tax rate of 15% as part of the profit was contributed by the other operating subsidiary established in the PRC for the sale of Kabrita products which are subject to the standard CIT rate of 25%. The effective income tax rate for profit generated from Mainland China for the Year 2011 at 30.3% was primarily due to the overpayment of CIT in the Year 2011 arising from the overstatement of profit before tax of Ausnutria China as a result the Unresolved Issues, which may not be recoverable.

The Group did not have any assessable profits derived from the operations in the Netherlands for the Year 2012. The effective income tax rate for profit generated from the Netherlands for the Year 2011 (excluding the share of profit when the Ausnutria Hyproca Group was accounted for as an associate of the Group of approximately RMB4.8 million, the gain on remeasurement of the approximately 19.44% of the enlarged equity interests of approximately RMB14.1 million and those tax losses attributable to Ausnutria Dutch that was not recognised of approximately RMB2.0 million) of approximately 25.6% was in line with the standard CIT rate in the Netherlands.

The losses before tax recognised from other jurisdictions mainly represented professional fees incurred for the handling of the Unresolved Issues and the administrative expenses incurred by the Company. As the Company (which was incorporated solely for investment holding purpose) did not generate any assessable profits for the Year 2012 and the Year 2011, the expenses incurred were not tax deductible.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the Year 2012 amounted to approximately RMB66.5 million, representing an increase of approximately 50.1% when compared with the Year 2011. The increase in net profit was mainly contributed by the growth in the operating performance of the Ausnutria Group and the effective cost controls on the marketing activities and the administrative expenses of the Group which was partly offset by the adverse impact of the temporary interruption on the production of the Ausnutria Hyproca Group and the additional professional fees incurred as a result of the Unresolved Issues.

Analysis on Consolidated Statement of Financial Position

Non-current assets

As at 31 December 2012, the total non-current assets of the Group amounted to approximately RMB406.3 million (31 December 2011: approximately RMB392.6 million), mainly comprised property, plant and equipment of approximately RMB264.3 million (31 December 2011: approximately RMB251.6 million), goodwill arising from the acquisition of Ausnutria Hyproca of approximately RMB84.5 million (31 December 2011: approximately RMB82.9 million), other intangible assets of approximately RMB30.1 million (31 December 2011: approximately RMB31.3 million) and deferred tax assets of approximately RMB25.3 million (31 December 2011: approximately RMB22.9 million).

The increase in the non-current assets of the Group as at 31 December 2012 was principally due to the increase in property, plant and equipment of the Ausnutria Hyproca Group as part of its continuous production expansion plan to cope with the increasing demand of its products from the worldwide customers. The amount of capital expenditures invested by the Ausnutria Hyproca Group for the Year 2012 amounted to approximately RMB32.5 million (Year 2011: approximately RMB8.4 million). Other non-current assets position of the Group as at 31 December 2012 remained fairly stable when compared with that as at 31 December 2011.

Current assets

As at 31 December 2012, the total current assets of the Group amounted to approximately RMB1,182.1 million (31 December 2011: approximately RMB1,144.9 million), mainly comprised inventories of approximately RMB190.9 million (31 December 2011: approximately RMB261.6 million), trade receivables of approximately RMB122.6 million (31 December 2011: approximately RMB119.8 million), bills receivable of approximately RMB18.7 million (31 December 2011: approximately RMB58.0 million), held-to-maturity investments of RMB60.0 million (31 December 2011: RMB200.0 million), time deposits with banks in the PRC of RMB420.0 million (31 December 2011: RMB110.0 million) and cash and cash equivalents of approximately RMB282.7 million (31 December 2011: approximately RMB342.2 million).

Inventories

An analysis of the inventories is as follows:

	2012	2011
	RMB'M	*RMB'M*
Ausnutria Group	**51.3**	165.2
Ausnutria Hyproca Group	**139.6**	96.4
	190.9	261.6

The decrease in inventories as at 31 December 2012 was primarily attributed to the decrease in inventory level of the Ausnutria Group as a result of (i) the temporary delay in the supply of one of the major products of the Ausnutria Group due to the temporary shortage of one of the major ingredients in the market; and (ii) the shift of one of the products from other suppliers to the Ausnutria Hyproca Group in the fourth quarter of 2012 which was partly in the process of production and partly in transit as at 31 December 2012. The decrease was partly offset by the increase in inventory level of the Ausnutria Hyproca Group to meet the increasing demand for its products from its worldwide customers, including Ausnutria China.

Excluding the impact of the Ausnutria Hyproca Group, the inventory turnover days of the Ausnutria Group as at 31 December 2012 was approximately 169 days (31 December 2011: approximately 238 days)). The Ausnutria Group normally places its purchase orders with suppliers three to six months in advance of delivery. As a result of the lower than expected demand and hence sales in the PRC in the fourth quarter of 2011, the inventory level reached a comparatively high level as at 31 December 2011. Since 2012, the Group adopted a more prudent approach in placing its orders with distributors so as to digest the inventories carry forward from the Year 2011, the inventory level gradually return to its normal level and the inventory turnover days as at 31 December 2012 decreased by 69 days when compared with 31 December 2011.

The inventory turnover days of the Ausnutria Hyproca Group as at 31 December 2012 was approximately 54 days (31 December 2011: approximately 39 days) and was in line with the stock planning arrangement.

Trade and bills receivables

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

	2012	2011
	RMB'M	*RMB'M*
Trade receivables:		
– Ausnutria Group	**35.4**	22.6
– Ausnutria Hyproca Group	**87.2**	97.2
	122.6	119.8
Bills receivable	**18.7**	58.0
	141.3	177.8

The decrease in trade and bills receivables as at 31 December 2012 was mainly attributable to the decrease in bills receivable as at 31 December 2012 of approximately RMB39.3 million when compared with 31 December 2011.

The trade receivable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2012 was approximately 22 days (31 December 2011: approximately 23 days) and approximately 39 days (31 December 2011: approximately 34 days), respectively, which remained fairly stable and were in line with the credit periods granted by the Group to its customers.

Held-to-maturity investments

The balance as at 31 December 2012 represented an entrusted loan investment of RMB60.0 million (31 December 2011: RMB200.0 million), maturing on 25 April 2013. The decrease in held-to-maturity investments was due to the Group's adoption of a more prudent treasury approach since then and switching from investments in entrusted loans to time deposits with reputable financial institutions in the PRC instead.

The entrusted loan together with its interest derived thereon was transferred to times deposits and was placed with banks in Mainland China after its maturity in May 2013.

Time deposits and cash and cash equivalents

As at 31 December 2012, the Group's cash and bank balances and time deposits amounted to approximately RMB702.7 million, representing an increase of approximately RMB250.5 million, or approximately 55.4%, from RMB452.2 million as at 31 December 2011, of which approximately HK$174.3 million (31 December 2011: approximately HK$250.9 million) represented the unutilised portion of the proceeds from the IPO.

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

Current liabilities

As at 31 December 2012, the total current liabilities of the Group amounted to approximately RMB440.6 million (31 December 2011: approximately RMB441.6 million), mainly comprised trade payables of approximately RMB104.7 million (31 December 2011: approximately RMB84.3 million), other payables and accruals of approximately RMB229.7 million (31 December 2011: approximately RMB259.5 million) and interest-bearing bank loans and other borrowings of approximately RMB95.6 million (31 December 2011: approximately RMB91.4 million).

Trade payables

An analysis of the trade payables is as follows:

	2012	2011
	RMB'M	*RMB'M*
Ausnutria Group	**9.0**	21.3
Ausnutria Hyproca Group	**95.7**	63.0
	104.7	84.3

The increase in trade payables of the Group as at 31 December 2012 was mainly attributable to the increase in the amount of procurement as a result of the increase in the scale of production of the Ausnutria Hyproca Group which was driven by the continuous increase in worldwide demand for dairy products originated in the Netherlands. The trade payables of the Ausnutria Group as at 31 December 2012 decreased by approximately RMB12.3 million to approximately RMB9.0 million was a result of the temporary delay in shipments from some of its suppliers as mentioned above.

The trade payable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2012 was approximately 24 days (31 December 2011: approximately 25 days) and approximately 37 days (31 December 2011: approximately 26 days), respectively. The slight increase in the trade payable turnover days of the Ausnutria Hyproca Group was a result of the increase in average credit periods granted by the major suppliers due to increasing in quantity of raw materials purchased by the Ausnutria Hyproca Group.

Other payables and accruals

Other payables and accruals mainly represented advances and deposits from customers of a total of approximately RMB100.9 million (31 December 2011: approximately RMB151.4 million), deferred income of RMB46.9 million (31 December 2011: approximately RMB39.4 million), accrued salaries and welfare of approximately RMB21.7 million (31 December 2011: approximately RMB19.5 million), accrued advertising expenses of approximately RMB6.1 million (31 December 2011: approximately RMB8.8 million), accrued utility charges of approximately RMB8.5 million (31 December 2011: approximately RMB2.8 million), accrued delivery charges of approximately RMB4.9 million (31 December 2011: approximately RMB1.6 million), accrued professional fees and travelling expenses of the sales and marketing staff and other payables of a total of approximately RMB31.7 million (31 December 2011: approximately RMB36.0 million).

In prior years, Ausnutria China evaluated the performance of its distributors partly based on the amount of funds received from its distributors to be determined on an annual basis. In order to meet the annual target set out between Ausnutria China and its respective distributors, some of the distributors would advance cash to Ausnutria China in order to meet their targets particularly near the year end period so as to enjoy bigger sales target incentives and/or greater marketing support from Ausnutria China in the following year. The orders placed by the distributors and the actual physical delivery of the products to the distributors would depend on their then inventory level and the expected upcoming sales of respective distributors from time to time. As a result of the relatively lower amount of revenue being recognised in the Year 2011 when compared with the amount of funds received, the amount of advances from distributors (i.e. customers) relatively increased. Commencing in the Year 2012, Ausnutria China has revised the policy with its distributors whereby the performance of its distributors were measured based on the value of goods despatched. As a result of the above change in evaluation policy, the advances made by distributors decreased when compared with that as at 31 December 2011.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2012 and 2011 were all attributed to the Ausnutria Hyproca Group for the financing of its daily working capital and capital expenditures.

Non-current liabilities

As at 31 December 2012, the total non-current liabilities of the Group amounted to approximately RMB84.0 million (31 December 2011: approximately RMB85.3 million), mainly comprised interest-bearing bank loans and other borrowings of approximately RMB39.0 million (31 December 2011: approximately RMB42.7 million), accruals for defined benefit plan of approximately RMB17.4 million (31 December 2011: approximately RMB13.2 million) and deferred tax liabilities of approximately RMB27.6 million (31 December 2011: approximately RMB28.9 million).

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2012 and 2011 were all attributed to the Ausnutria Hyproca Group for the financing of its daily working capital and capital expenditures.

Accruals for defined benefit plan

The Ausnutria Hyproca Group operates unfunded defined benefit plans for its qualified employees. Under the plans, the qualified employees are entitled to retirement benefits at rates varying at certain percentage of their final salaries on attainment of a retirement age of 65. The accruals for defined benefit plans of approximately RMB17.4 million (31 December 2011: approximately RMB13.2 million) were determined based on the actuarial valuations as at 31 December 2012 carried out by independent professional valuers using the projected unit credit actuarial valuation method.

No defined benefit plan was operated by the Ausnutria Group.

Deferred tax liabilities

The balance represented (i) the tax effect arising from the timing differences on the depreciation and amortisation charged between accounting and tax reporting purpose that was attributed to the Ausnutria Hyproca Group as at 31 December 2012 and the fair value adjustment arising from the acquisition of Ausnutria Hyproca of a total of approximately RMB21.4 million (31 December 2011: approximately RMB22.7 million); and (ii) the withholding tax amounting to approximately RMB6.2 million (31 December 2011: approximately RMB6.2 million) calculated at 10% on the distributable profits of Ausnutria China that its expected to be distributed in the foreseeable future.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007.

Non-controlling interests

As at 31 December 2012, the balance mainly represented the 49% equity interests in Ausnutria Hyproca owned by DDI. The balance as at 31 December 2011 also included the 8.4% equity interests in Hyproca Lyempf which was acquired by the Ausnutria Hyproca Group from an independent third party at a consideration of EURO 2.8 million (equivalent to approximately RMB23.0 million) on 19 October 2012.

Analysis on Consolidated Statement of Cash Flows

An extract of the cash flows information of the Group for the Year 2012 and the Year 2011 is as follows:

	2012	2011
	RMB'M	*RMB'M*
Net cash flows from operating activities	**168.1**	127.4
Net cash flows used in investing activities	**(205.3)**	(253.0)
Net cash flows used in financing activities	**(23.5)**	(168.5)
Net decrease in cash and cash equivalents	**(60.7)**	(294.1)

Net cash flows from operating activities

Net cash flows from operating activities of the Group for the Year 2012 was approximately RMB168.1 million (Year 2011: RMB127.4 million), while the profit before tax for that year was approximately RMB85.4 million (Year 2011: RMB71.9 million).

The net difference of approximately RMB82.7 million (Year 2011: approximately RMB55.5 million) between the profit before tax and net cash flows from operating activities was mainly attributable to (i) the decrease in inventories of approximately RMB46.3 million (Year 2011: increase of approximately RMB39.7 million); (ii) the decrease in trade and bills receivables of approximately RMB36.1 million (Year 2011: increase of approximately RMB41.1 million); which was offset by (iii) the increase in prepayments, deposits and other receivables of RMB17.0 million (Year 2011: decrease of approximately RMB71.9 million). Changes in cash flows from operating activities for the Year 2011 also included the increase in other payables and accruals of approximately RMB62.7 million as a result of the increase in advances and deposits from customers.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2012 of approximately RMB205.3 million (Year 2011: approximately RMB253.0 million) mainly represented (i) the net proceeds received from the investments in the entrusted loans of RMB140 million (Year 2011: Nil); (ii) the net increase in the Group's time deposits with banks in the PRC by RMB310.0 million (Year 2011: RMB110.0 million); and (iii) the purchases of property, plant and equipment of approximately RMB40.3 million (Year 2011: approximately RMB15.6 million), mainly for the improvement in the production capacity of the Ausnutria Hyproca Group. Cash used in investing activities of the Group for the Year 2011 also included the subscription and the acquisition of a total of the 51% equity interests in Ausnutria Hyproca of approximately RMB128.8 million.

Net cash flows used in financing activities

The net cash flows used in financing activities of the Group for the Year 2012 of approximately RMB23.5 million (Year 2011: approximately RMB168.5 million) mainly represented the acquisition of the remaining 8.4% equity interests in Hyproca Lyempf, a 91.6% owned subsidiary of Ausnutria Hyproca at a consideration of EURO 2.8 million (equivalent to approximately RMB23.0 million). Net cash flows used in financing activities for the Year 2011 mainly represented the repurchase of the shares of the Company of a total consideration of RMB134.5 million and the payment of dividend of RMB24.8 million.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investments and acquisitions and disposals of subsidiaries and associated companies during the Year 2012.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGED OF ASSETS

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

	As at 31 December	
	2012	2011
Cash and cash equivalents *(RMB'M)*	**282.7**	342.2
Time deposits *(RMB'M)*	**420.0**	110.0
Total bank loans and other borrowings *(RMB'M)*	**134.6**	134.1
Total assets *(RMB'M)*	**1,588.4**	1,537.5
Gearing ratio *(%)*	**8.5**	8.7

As at 31 December 2012, the Ausnutria Hyproca Group had pledged its land and buildings, plant and machineries, inventories and trade receivables with a total carrying value of EURO 42.9 million, equivalent to approximately RMB357.1 million (31 December 2011: approximately EURO 41.5 million, equivalent to approximately RMB338.9 million) for the banking facilities granted to the Ausnutria Hyproca Group.

COMMITMENTS

As at 31 December 2012, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB4.8 million (31 December 2011: approximately RMB0.4 million).

As at 31 December 2012, the Group had contracted, but not provided for, capital commitments in respect of leasehold improvements and the purchase of plant and machineries of a total of RMB11.8 million (31 December 2011: RMB8.2 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

USE OF PROCEEDS

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

The use of the Net IPO Proceeds from the IPO up to 31 December 2012 was as follows:

	As stated in the Prospectus*	**Utilised**	**Balance as at 31 December 2012**
	HK$'000	***HK$'000***	***HK$'000***
Invest in upstream operations	**246,930**	**(192,776)**	**54,154**
Expand the Group's distribution network and brand building	**246,930**	**(246,930)**	**–**
Enhance the Group's research and development efforts	**82,310**	**(34,819)**	**47,491**
Introduce new series of organic paediatric nutrition products	**82,310**	**(61,346)**	**20,964**
Establish new production lines and warehouse	**82,310**	**(30,623)**	**51,687**
General working capital	**82,310**	**(82,310)**	**–**
	823,100	**(648,804)**	**174,296**

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

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

HUMAN RESOURCES

As at 31 December 2012, the Group has a total of 928 (31 December 2011: 823) full-time employees. For the Year 2012, total employee costs, including directors' emoluments, amounted to approximately RMB136.2 million (Year 2011: approximately RMB57.2 million), of which approximately RMB86.6 million (Period 2011: approximately RMB17.3 million) were attributed to the Ausnutria Hyproca Group. The increase in employee costs was mainly due to the full year consolidation effect and the continuous increase in the scale of operations of the Ausnutria Hyproca Group. 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.

SHARE OPTION SCHEME

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2012 and up to the date of this announcement.

CORPORATE GOVERNANCE

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

The Stock Exchange has revised and renamed the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to Corporate Governance Code (the "New CG Code") effective from 1 April 2012. The Board strives to implement the best practices embodies in the CG Code/New CG Code where feasible and as far as practicable.

In the opinion of the Directors, save for the exceptions as set out in the following, the Company has complied with the respective code provisions of the CG Code and the New CG Code during the Year 2012 and up to the date of this announcement.

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

As a result of the Unresolved Issues, the Group has breached the financial reporting provisions under the Listing Rules in (i) announcing the annual/interim results and reports for the years ended 31 December 2012 and 2013 and for the six-month periods ended 30 June 2012 and 2013; and (ii) convening an annual general meeting for the years ended 31 December 2012 and 2013.

2) **Code provision A.1.8**

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

On 26 September 2013, the Company's previous insurance company informed the Company that the directors and officers liability insurance, which was going to lapse on 7 October 2013, would not be renewed as a result of the suspension of trading in the Shares (the "Suspension") on the Stock Exchange and the insurance company was not in a position to undertake a full assessment for the risk exposure. On 7 January 2014, the Company had entered into a new directors and officers liability insurance with another insurance company.

3) **Code Provision A.2.7**

Under code provision A.2.7 of the New CG Code, the chairman should at least annually hold meetings with non-executive directors (including independent non-executive directors) without the executive directors present.

On 1 November 2013, a meeting had been held among the chairman and the non-executive Director (including the independent non-executive Directors) without the other executive Directors present, to discuss, among other things, the status in relation to the Suspension and the latest development of the Group. No such meeting has been held during the Year 2012 and up to 31 October 2013.

4) **Code provisions A.6.7 and E.1.2**

Under code provision A.6.7 of the New CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the Shareholders. In addition, code provision E.1.2 of the New CG Code provides that the chairman of the board should attend the annual general meeting.

As referred to the section headed "Delay in publishing the financial reports and convening annual general meetings" above, the Company will convene an annual general meeting for the years ended 31 December 2012 and 2013 as soon as practicable.

Resignation of non-executive Director

Mr. Dai Li ("Mr. Dai") resigned as the non-executive Director with effect from 4 March 2014 due to his personal commitments as a professor in a university. Mr. Dai agreed to remain as a consultant of the Company upon his resignation as the non-executive Director and work for the Company on a part time basis focusing on projects in relation to the future business development of the Group, particularly in the Netherlands.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2012 and up to the date of this announcement.

AUDIT COMMITTEE

The Company's audit committee comprises three independent non-executive Directors, namely, Mr. Chan Yuk Tong, Mr. Qiu Weifa and Mr. Jason Wan. The audit committee has reviewed the audited consolidated financial statements of the Group for the Year 2012 including the accounting principles and practices adopted by the Group and discussed with the management of the Company on matters relating to auditing, internal controls and financial reporting.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company for the Year 2012, which contains the detailed results and other information of the Company for the Year 2012 required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

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

Changsha City, the People's Republic of China, 27 June 2014

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, and three independent non-executive directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.