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AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS

	2013	2012	<i>% of</i>
	RMB'M	RMB'M	<i>Change</i>
Revenue	1,687.8	1,351.0	24.9
Gross profit	471.8	326.2	44.6
Profit for the year (before non-controlling interests)	126.9	68.0	86.6
Profit for the year (after non-controlling interests)	120.7	66.5	81.5
Basic earnings per share (RMB cents)	12.23	6.74	81.5
Proposed final dividend per share	HK\$0.10	–	N/A

For the year ended 31 December 2013 (the “Year 2013”), Ausnutria Dairy Corporation Ltd (the “Company”) and its subsidiaries (the “Group”) recorded the followings:

- Revenue for the Year 2013 amounted to approximately RMB1,687.8 million, representing an increase of approximately RMB336.8 million from approximately RMB1,351.0 million for 2012.
- Profit for the Year 2013 before non-controlling interests amounted to approximately RMB126.9 million, representing an increase of approximately RMB58.9 million from approximately RMB68.0 million for 2012.
- Profit for the Year 2013 after non-controlling interests amounted to approximately RMB120.7 million, representing an increase of approximately RMB54.2 million from approximately RMB66.5 million for 2012.
- Basic earnings per share increased from approximately RMB6.74 cents in 2012 to approximately RMB12.23 cents in 2013, representing an increase of approximately 81.5%.

In addition, the board (the “Board”) of directors (the “Directors”) of the Company has recommended the payment of a final dividend of HK\$0.10 (2012: Nil) per ordinary share for the Year 2013.

The Board is pleased to announce the audited consolidated financial results of the Company and the Group for the Year 2013 together with the comparative figures for the corresponding year in 2012 (the “Year 2012”) as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	<i>Notes</i>	2013 RMB'000	2012 RMB'000
REVENUE	5	1,687,781	1,350,996
Cost of sales		<u>(1,216,026)</u>	<u>(1,024,803)</u>
Gross profit		471,755	326,193
Other income and gains	5	25,884	22,222
Selling and distribution expenses		(227,757)	(156,355)
Administrative expenses		(84,742)	(74,533)
Other expenses		(20,939)	(27,807)
Finance costs	7	<u>(6,406)</u>	<u>(4,315)</u>
Profit before tax	6	157,795	85,405
Income tax expense	8	<u>(30,930)</u>	<u>(17,388)</u>
PROFIT FOR THE YEAR		<u>126,865</u>	<u>68,017</u>
Attributable to:			
Owners of the parent		120,705	66,490
Non-controlling interests		<u>6,160</u>	<u>1,527</u>
		<u>126,865</u>	<u>68,017</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (<i>RMB</i>)	9	<u>12.23 cents</u>	<u>6.74 cents</u>

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
PROFIT FOR THE YEAR	<u>126,865</u>	<u>68,017</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>2,889</u>	<u>5,153</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	2,889	5,153
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Remeasurement losses on defined benefit plans	(173)	–
Income tax effect	<u>42</u>	<u>–</u>
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(131)	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>2,758</u>	<u>5,153</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>129,623</u>	<u>73,170</u>
Attributable to:		
Owners of the parent	122,278	69,386
Non-controlling interests	<u>7,345</u>	<u>3,784</u>
	<u>129,623</u>	<u>73,170</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*31 December 2013*

	<i>Notes</i>	2013 RMB'000	2012 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		360,996	264,290
Prepaid land lease payments		2,085	2,142
Goodwill		85,495	84,466
Other intangible assets		33,526	30,107
Deferred tax assets		29,838	25,285
		<hr/>	<hr/>
Total non-current assets		511,940	406,290
CURRENT ASSETS			
Inventories	<i>10</i>	315,653	190,935
Trade and bills receivables	<i>11</i>	175,647	141,297
Prepayments, deposits and other receivables		120,423	77,330
Held-to-maturity investment		–	60,000
Tax recoverable		8,582	9,797
Pledged deposits	<i>12</i>	213,000	–
Time deposits	<i>12</i>	496,295	420,000
Cash and cash equivalents	<i>12</i>	161,161	282,714
		<hr/>	<hr/>
Total current assets		1,490,761	1,182,073
CURRENT LIABILITIES			
Trade payables	<i>13</i>	167,951	104,698
Other payables and accruals		256,553	229,654
Derivative financial instruments		716	1,129
Interest-bearing bank loans and other borrowings		259,986	95,555
Tax payable		37,484	9,524
		<hr/>	<hr/>
Total current liabilities		722,690	440,560
NET CURRENT ASSETS			
		<hr/>	<hr/>
		768,071	741,513
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		1,280,011	1,147,803

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,280,011</u>	<u>1,147,803</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank loans and other borrowings	36,852	39,007
Defined benefit plan	18,454	17,417
Deferred tax liabilities	<u>30,239</u>	<u>27,552</u>
Total non-current liabilities	<u>85,545</u>	<u>83,976</u>
Net assets	<u><u>1,194,466</u></u>	<u><u>1,063,827</u></u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	86,866	86,866
Reserves	<u>1,022,944</u>	<u>900,666</u>
	1,109,810	987,532
Non-controlling interests	<u>84,656</u>	<u>76,295</u>
Total equity	<u><u>1,194,466</u></u>	<u><u>1,063,827</u></u>

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 2013:

"BASIS FOR QUALIFIED OPINION

As further explained in note 2 to this announcement, issues in respect of certain sales transactions recorded by a subsidiary of the Company were identified by us in the prior year's audit. The Company had performed certain procedures to address the identified issues and as a result put through certain adjustments to its consolidated financial statements for the year ended 31 December 2012 and prior years. We were not able to perform satisfactory audit work on the adjustments that were put through to the consolidated financial statements for the year ended 31 December 2012 and prior years and accordingly, we were not able to express an audit opinion on the Group's profit and cash flows for the year ended 31 December 2012. Our opinion on the current year's consolidated financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the comparative information.

QUALIFIED OPINION

In our opinion, except for the possible effects on the comparative information of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

Ernst & Young modifies its opinion on the Company's consolidated financial statements for the Year 2013. The Company wish to highlight that such modification only relates to the comparability of the Group's profits and cash flows for the Year 2013 and the qualified comparative information for the Group's profits and cash flows for the year ended 31 December 2012 (but not on the Group's consolidated statement of financial position as at 31 December 2012). The Company would like to emphasize that such modification literally means that there is an otherwise clean opinion on the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the Year 2013.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located in 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 of the directors of the Company (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.

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 adjustment to the accounts receivable should be adjusted to the accounts receivable at 31 December 2011 as a reduction of revenue and RMB53 million adjustment to inventory should be adjusted to the inventory at 31 December 2011 as a reduction of cost of sales, and RMB46 million adjustment on accounts receivable and RMB10 million adjustment on inventory should be adjusted in the consolidated financial statements for the year ended 31 December 2012 as reduction of revenue and cost of sales, respectively.

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 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Government Loans</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 10, IFRS 11, and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – <i>Transition Guidance</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits</i>
IAS 27 (Revised)	<i>Separate Financial Statements</i>
IAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009-2011 Cycle</i>	Amendments to a number of IFRSs issued in May 2012

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

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 2013 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 pledged deposits, cash and cash equivalents, a held-to-maturity investment, 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 2013

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

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

Year ended 31 December 2012

	Ausnutria <i>RMB'000</i>	Ausnutria Hyproca <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue			
Sales to external customers	486,677	864,319	1,350,996
Intersegment sales	—	10,554	10,554
	<u>486,677</u>	<u>874,873</u>	<u>1,361,550</u>
Reconciliation:			
Elimination of intersegment sales			<u>(10,554)</u>
Revenue from operations			<u><u>1,350,996</u></u>
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			<u>(27,779)</u>
Profit before tax			<u><u>85,405</u></u>
Segment assets	221,269	576,106	797,375
Reconciliation:			
Elimination of intersegment receivables			(586)
Corporate and other unallocated assets			<u>791,574</u>
Total assets			<u><u>1,588,363</u></u>
Segment liabilities	163,585	226,975	390,560
Reconciliation:			
Elimination of intersegment payables			(586)
Corporate and other unallocated liabilities			<u>134,562</u>
Total liabilities			<u><u>524,536</u></u>
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*	<u>10,264</u>	<u>32,501</u>	<u>42,765</u>

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

Geographical information

(a) Revenue from external customers

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
The PRC	878,180	640,421
European Union	567,854	510,842
Middle East	80,969	70,269
Others	160,778	129,464
	<u>1,687,781</u>	<u>1,350,996</u>

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

(b) Non-current assets

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
The PRC	78,955	76,747
The Netherlands	403,147	304,258
	<u>482,102</u>	<u>381,005</u>

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

Information about a major customer

During the year, there was no revenue from a single external customer accounted for 10% or more of the Group's total revenue (2012: 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:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Revenue		
Sale of goods	<u>1,687,781</u>	<u>1,350,996</u>
Other income and gains		
Interest income	21,350	12,316
Interest income on held-to-maturity investments	2,564	5,809
Government grants	1,426	996
Others	<u>544</u>	<u>3,101</u>
Total other income and gains	<u>25,884</u>	<u>22,222</u>

6. PROFIT BEFORE TAX

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Cost of inventories sold	1,214,996	997,717
Write-down of inventories to net realisable value	<u>1,030</u>	<u>27,086</u>
Cost of sales	1,216,026	1,024,803
Depreciation	32,172	29,389
Amortisation of lease prepayments for land use rights	57	57
Amortisation of other intangible assets	5,788	5,858
Minimum lease payments under operating leases:		
Buildings	3,241	2,440
Foreign exchange differences, net	1,079	167
Provision for claims from customers	–	9,028
Write-off of other intangible assets	–	127
Write-off of trade receivables	2,781	1,912
Write-off of interests in associates	–	358
Impairment of property, plant and equipment	1,850	–
Auditors' remuneration	4,766	6,238
Advertising and promotion expenses	83,962	68,320
Professional fees	11,243	14,074
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	174,463	121,881
Pension scheme contributions	<u>15,331</u>	<u>14,329</u>
	<u>189,794</u>	<u>136,210</u>

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2013 RMB'000	2012 <i>RMB'000</i>
Interest on bank loans, overdrafts and other loans	6,251	4,361
Interest on finance leases	573	21
Total interest expense on financial liabilities not at fair value through profit or loss	6,824	4,382
Unrealised gain on an interest rate swap	(418)	(67)
	6,406	4,315

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

	2013 RMB'000	2012 <i>RMB'000</i>
Current charge for the year – Mainland China		
Charge for the year	35,101	19,631
Overprovision in prior years	(2,706)	–
Current charge for the year – The Netherlands		
Charge for the year	527	(352)
(Overprovision)/underprovision in prior years	(74)	2,002
Deferred	(1,918)	(3,893)
Total tax charge for the year	30,930	17,388

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 (2012: 986,843,000) in issue during the year.

Earnings

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>120,705</u>	<u>66,490</u>

Shares

	2013	2012
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>986,843,000</u>	<u>986,843,000</u>

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2013 and 2012 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

10. INVENTORIES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Raw materials	154,771	74,899
Finished goods	156,885	114,261
Others	<u>3,997</u>	<u>1,775</u>
Total	<u>315,653</u>	<u>190,935</u>

11. TRADE AND BILLS RECEIVABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade receivables	140,528	122,615
Bills receivable	<u>35,119</u>	<u>18,682</u>
Total	<u>175,647</u>	<u>141,297</u>

The Group normally allows a credit period from 1 to 12 months (2012: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Within 3 months	105,426	107,476
3 to 6 months	16,762	6,927
6 months to 1 year	18,044	4,648
Over 1 year	<u>296</u>	<u>3,564</u>
Total	<u>140,528</u>	<u>122,615</u>

There was no provision for impairment as at 31 December 2013 (2012: 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 AND OTHER BANK DEPOSITS AND PLEDGED DEPOSITS

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Cash and bank balances	161,161	282,714
Time deposits	<u>709,295</u>	<u>420,000</u>
	870,456	702,714
<i>Less:</i> Pledged deposits	(213,000)	–
Non-pledged time deposits with maturity of between 3 months to 12 months	<u>(496,295)</u>	<u>(420,000)</u>
Cash and cash equivalents in the consolidated statement of financial position	<u><u>161,161</u></u>	<u><u>282,714</u></u>

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB144,169,000 (2012: RMB248,204,000). In addition, all the time deposits of the Group were denominated in RMB. The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

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:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Within 12 months	167,942	104,689
Over 12 months	<u>9</u>	<u>9</u>
	<u><u>167,951</u></u>	<u><u>104,698</u></u>

Trade payables are interest-free 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 2013 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.

In recent years, 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 launched a new cow milk infant formula, namely the Hyproca 1897 series, which are targeted to penetrate into the high-end sector of the PRC market as well as the continue in the establishment of joint ventures for the distribution of the Group's goat milk based infant formula in the other countries during the Year 2013. 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.

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 for high quality paediatric milk formula sourced from overseas have also contributed to the increase in the demand for 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 2013.

During the Year 2013, the Group has granted two shareholders' loans to the Ausnutria Hyproca Group of a total of EURO 17.0 million (Year 2012: Nil) for the financing of 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 shareholders' loans are set out in the announcements of the Company dated 7 June 2013 and 5 November 2013, respectively.

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 2013, the Group recorded revenue of approximately RMB1,687.8 million, representing an increase of approximately RMB336.8 million, or approximately 24.9%, from approximately RMB1,351.0 million for the Year 2012. The increase is mainly attributable to (i) the increase in sales of the Group (excluding the Ausnutria Hyproca Group) (the "Ausnutria Group") by approximately 20.5%; and (ii) the contribution of revenue of approximately RMB1,101.2 million (Year 2012: approximately RMB864.3 million) by the Ausnutria Hyproca Group.

Gross profit for the Year 2013 was approximately RMB471.8 million, representing an increase of approximately RMB145.6 million, or approximately 44.6%, when compared with the Year 2012. The gross profit margin of the Group increased from approximately 24.1% for the Year 2012 to 28.0% for the Year 2013.

The Group's profit attributable to equity holders of the Company for the Year 2013 amounted to approximately RMB120.7 million, representing an increase of approximately 81.5% when compared with the Year 2012.

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. 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 accelerate 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 during this period pending for further clarify and details regarding the 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. 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. Upon fulfilling of the resumption conditions imposed by the Stock Exchange which were published in the announcement of the Company dated 3 July 2012, which is one of the conditions for the completion of the COA, the Company will take immediate and active steps in critically evaluating and assessing the execution of the call option.

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 facilitate the future 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, for the CAPEX Plan.

Though the CAPEX Plan has led to a temporary interruption to the production of the Ausnutria Hyproca Group as the two milk production towers of Hyproca Lyempf were temporarily suspended from productions for a few months in 2013 and 2014, the production capacity of the Ausnutria Hyproca Group is expected to significantly increase 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 October 2013, the Group approved the conducting of the clinical trials for the application of the approval from the FDA for the sale of Kabrita Series of products in the United States.

For the year ended 31 December 2013, the revenue derived from the Kabrita Series of products in the PRC amounted to approximately RMB137.7 million (2012: approximately RMB36.2 million).

The Group has 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 recent years. 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.

Despite the increase in 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overall performance

	2013 <i>RMB'M</i>	2012 <i>RMB'M</i>
REVENUE:		
– Ausnutria Group	586.6	486.7
– Ausnutria Hyproca Group	<u>1,148.4</u>	<u>874.9</u>
	1,735.0	1,361.6
<i>Less:</i> Intersegment sales	<u>(47.2)</u>	<u>(10.6)</u>
– Group (including the Ausnutria Hyproca Group)	<u><u>1,687.8</u></u>	<u><u>1,351.0</u></u>
GROSS PROFIT:		
– Ausnutria Group	309.9	253.2
– Ausnutria Hyproca Group	<u>163.9</u>	<u>73.1</u>
	473.8	326.3
<i>Less:</i> Intersegment results	<u>(2.0)</u>	<u>(0.1)</u>
– Group (including the Ausnutria Hyproca Group)	<u><u>471.8</u></u>	<u><u>326.2</u></u>
	%	%
GROSS MARGIN:		
– Ausnutria Group	52.8	52.0
– Ausnutria Hyproca Group	14.3	8.4
– Group (including the Ausnutria Hyproca Group)	<u><u>28.0</u></u>	<u><u>24.1</u></u>
PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE PARENT:		
– Ausnutria Group	115.5	70.3
– Ausnutria Hyproca Group	<u>6.2</u>	<u>(3.7)</u>
	121.7	66.6
<i>Less:</i> Intersegment results	<u>(1.0)</u>	<u>(0.1)</u>
– Group (including the Ausnutria Hyproca Group)	<u><u>120.7</u></u>	<u><u>66.5</u></u>

Revenue – Overall

For the Year 2013, the Group recorded revenue of approximately RMB1,687.8 million, representing an increase of approximately RMB336.8 million, or approximately 24.9%, from approximately RMB1,351.0 million for the Year 2012. The increase is mainly attributable to (i) the increase in sales of the Ausnutria Group by approximately 20.5%; and (ii) the contribution of revenue by the Ausnutria Hyproca Group as a result of the continuous increases in the demand for paediatric nutrition products from its customers in the Netherlands and other overseas countries.

Revenue – Ausnutria Group

During the Year 2013, 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 and the Year 2013, the Ausnutria Group has also commenced the launch of other imported cow milk infant formula, namely the Puredo Series in June 2012 and the 1897 Series in April 2013, which are targeted to penetrate into different sectors of the PRC. The revenue derived from the Puredo Series and the 1897 Series of products in the PRC was approximately RMB54.3 million (Year 2012: approximately RMB30.7 million) and approximately RMB41.3 million (Year 2012: Nil), respectively.

The increase in the revenue of the Ausnutria Group was in line with the continuous increase in demand of infant milk formula in the PRC, particularly those imported from the overseas.

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.

The increase in the revenue of the Ausnutria Hyproca Group for the Year 2013 was primarily attributed to (i) the continuous increase in the revenue of Kabrita to approximately RMB137.7 million, representing an increase of approximately RMB101.5 million, or approximately 280.4%, from the Year 2012; and (ii) the continuous increases in the demand for paediatric nutrition products from the customers in the Netherlands and other overseas countries due to the increasing recognition of the good quality of milk supply in the Netherlands and the reputation of good quality products delivered by the Ausnutria Hyproca Group that was built up since the establishment of the Ausnutria Hyproca Group in 1897.

In order to cater for the increasing in demand, the Ausnutria Hyproca Group has commenced the improvement plans on increasing the production capacity of the Ausnutria Hyproca Group's operations, including but not limited to the upgrade of the dry blending and package factory and the installation of a new kitchen for wet mix and a new spray tower in its factories since 2013. In addition, in January 2014, the Ausnutria Hyproca Group has purchased a parcel of land in the Industry Zone of Heerenveen, in the Netherlands, of about 140,000 square meters for the purpose of erecting a new factory. The Group has already completed the detailed design and feasibility study on the new factory and the Board is at the final stage of granting approval to proceed with such construction plan.

Gross profit

Gross profit for the Year 2013 was approximately RMB471.8 million, representing an increase of approximately RMB145.6 million, or approximately 44.6%, when compared with the Year 2012. The gross profit margin of the Group for the Year 2013 increased from approximately 24.1% for the Year 2012 to 28.0%, primarily due to the improve in the gross profit margin of the Ausnutria Hyproca Group which was adversely affected by the temporary interruption of the production as a result of the delivery of some possible contaminated raw materials by one of the supplement suppliers to the Ausnutria Hyproca Group during the Year 2012; and the increase in proportion of sales contributed by the own branded label business, namely, the Kabrita and the Neolac, which has contributed a higher gross profit margin when compared with the OEM and private label businesses of the Ausnutria Hyproca Group.

Other income and gains

An analysis of other income and gains is as follows:

	2013	2012
	<i>RMB'M</i>	<i>RMB'M</i>
Interest income on held-to-maturity investments	2.6	5.8
Interest income on bank deposits	21.4	12.3
Government grants	1.4	1.0
Others	0.5	3.1
	25.9	22.2

Selling and distribution expenses

An analysis of selling and distribution expenses is as follows:

	2013 <i>RMB'M</i>	2012 <i>RMB'M</i>
Ausnutria Group	130.9	119.9
Ausnutria Hyproca Group	96.9	36.5
	227.8	156.4

Selling and distribution expenses mainly comprised advertising and promotion expense, salaries and travelling costs of the sales and marketing staff and delivery costs. Selling and distribution costs represented approximately 13.5% and 11.6% of revenue for the Year 2013 and the Year 2012, respectively.

The selling and distribution expenses of the Ausnutria Group for the Year 2013 remains stable when compared with the Year 2012 and represented approximately 22.3% (Year 2012: 24.6%) of the Ausnutria Group's revenue. The selling and distribution expenses of the Ausnutria Hyproca Group represented approximately 8.4% and 4.2% of the Ausnutria Hyproca Group's revenue for the Year 2013 and the Year 2012, respectively. The increase in the selling and distribution costs of the Ausnutria Hyproca Group was mainly attributed to (i) the increase in the sales and marketing expenses for the promotion of the Kabrita Series of products in the PRC by approximately RMB18.4 million to approximately RMB53.9 million; and (ii) the increase in sales of the other operating subsidiaries of the Ausnutria Hyproca Group.

Administrative expenses

An analysis of the administrative expenses is as follows:

	2013 <i>RMB'M</i>	2012 <i>RMB'M</i>
Ausnutria Group	45.1	46.7
Ausnutria Hyproca Group	39.6	27.8
	84.7	74.5

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

Administrative expenses of the Ausnutria Group remained fairly stable during the Year 2013. The increase in the administrative expenses of the Ausnutria Hyproca Group was primarily attributed to the increase in headcounts on both the managerial and administrative staff to cope with the continuous increase in the scale of operations of the Ausnutria Hyproca Group, particular for the own branded label business, namely, Kabrita and Neolac in the PRC. The administrative expenses incurred from the own branded label business in the PRC increased by approximately RMB9.7 million to approximately RMB13.9 million for the Year 2013.

Other expenses

Other expenses mainly comprised legal and professional fees incurred as a result of the Unresolved Issues of approximately RMB11.2 million (Year 2012: RMB14.1 million); write-off of trade receivables attributed to a number of distributors who have ceased trading with Ausnutria China of approximately RMB2.8 million (Year 2012: RMB1.9 million); exchange losses arising from the translation of bank deposits that were denominated in EURO and Hong Kong dollars to RMB of a total of approximately RMB1.1 million (Year 2012: approximately RMB0.2 million) and impairment on property, plant and equipment of approximately RMB1.9 million (Year 2012: Nil).

Finance costs

The finance costs for the Year 2013 amounted to approximately RMB6.4 million (Year 2012: RMB4.3 million), representing the interest on bank loans and other borrowings principally for the financing of the working capital and the production expansion plan of the Ausnutria Hyproca Group.

The increase in finance costs was mainly attributable to the increase in the bank overdrafts facilities granted to the Ausnutria Hyproca Group for the financing of its working capital and the draw down of a new bank loan of EURO 10.0 million in June 2013 by the Ausnutria Group for the financing of the production expansion plan of the Ausnutria Hyproca Group.

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 ending 31 December 2015.

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

	The Netherlands		Mainland China		Others		Group	
	2013	2012	2013	2012	2013	2012	2013	2012
Profit/(loss) before tax (RMB'M)	7.4	(1.7)	171.2	108.9	(20.8)	(21.8)	157.8	85.4
Income tax expense (RMB'M)	0.7	(0.4)	30.2	17.8	-	-	30.9	17.4
Effective income tax rate (%)	10.1	(24.1)	17.6	16.3	-	-	19.6	20.4

Most of the profits generated by the Group for the Year 2013 and the Year 2012 were derived in the Mainland China. The effective income tax rate for profit generated from Mainland China for the Year 2013 at 17.6% remained fairly stable when compared with the Year 2012. The effective income tax rate was slightly above the preferential CIT tax rate of 15% as part of the profit was contributed by the other operating subsidiary established in the PRC for the sale of Kabrita products which are subject to the standard CIT rate of 25%.

The effective income tax rate for profit generated from the Netherlands for the Year 2013 of 10.1% was mainly due to there was tax incentive granted by the tax authority in the Netherlands for the research and development activities conducted by the Ausnutria Hyproca Group and the deferral of part of the profit tax as a result of the capital expenditures incurred by the Ausnutria Hyproca Group during the Year 2013.

The effective income tax rate of the Group was slightly higher than the effective tax rate for profits generated from other jurisdictions as there were losses incurred from elsewhere mainly for the 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 2013 and the Year 2012, 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 2013 amounted to approximately RMB120.7 million, representing an increase of approximately 81.5% when compared with the Year 2012. The increase in net profit was mainly contributed by the growth in the operating performance of the Ausnutria Group as a result of the increasing in market demand of import infant milk powder from the PRC. The increase was partly offset by the adverse impact of the temporary interruption on the production of the Ausnutria Hyproca Group as a result of the production expansion plan which had caused one of the two milk powder production towers of Hyproca Lyempf to be suspended from production for approximately four months in the Year 2013 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 2013, the total non-current assets of the Group amounted to approximately RMB511.9 million (31 December 2012: approximately RMB406.3 million), mainly comprised property, plant and equipment of approximately RMB361.0 million (31 December 2012: approximately RMB264.3 million), goodwill arising from the acquisition of Ausnutria Hyproca of approximately RMB85.5 million (31 December 2012: approximately RMB84.5 million), other intangible assets of approximately RMB33.5 million (31 December 2012: approximately RMB30.1 million) and deferred tax assets of approximately RMB29.8 million (31 December 2012: approximately RMB25.3 million).

The increase in the non-current assets of the Group as at 31 December 2013 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 2013 amounted to approximately RMB126.2 million (Year 2012: approximately RMB32.5 million). Other non-current assets position of the Group as at 31 December 2013 remained fairly stable when compared with that as at 31 December 2012.

Current assets

As at 31 December 2013, the total current assets of the Group amounted to approximately RMB1,490.8 million (31 December 2012: approximately RMB1,182.1 million), mainly comprised inventories of approximately RMB315.7 million (31 December 2012: approximately RMB190.9 million), trade receivables of approximately RMB140.5 million (31 December 2012: approximately RMB122.6 million), bills receivable of approximately RMB35.1 million (31 December 2012: approximately RMB18.7 million), pledged time deposits of approximately RMB213.0 million (31 December 2012: Nil), time deposits with banks in the PRC of RMB496.3 million (31 December 2012: RMB420.0 million) and cash and cash equivalents of approximately RMB161.2 million (31 December 2012: approximately RMB282.7 million).

Inventories

An analysis of the inventories is as follows:

	2013 RMB'M	2012 RMB'M
Ausnutria Group	90.4	51.3
Ausnutria Hyproca Group	225.3	139.6
	315.7	190.9

The increase in inventories as at 31 December 2013 was primarily attributed to the increase in the inventory level of the Ausnutria Hyproca Group in order to cope with the continuous increase in demand of its products from its worldwide customers including its own branded labels, namely, Kabrita and Neolac. The Ausnutria Hyproca Group has maintained a greater variety of raw materials and packaging materials in order to meet the growing demand from the customers.

The inventory turnover days of the Ausnutria Hyproca Group as at 31 December 2013 was approximately 71 days (31 December 2012: approximately 54 days) and was in line with the stock planning level.

The inventory turnover days of the Ausnutria Group as at 31 December 2013 was approximately 93 days (31 December 2012: approximately 169 days). In 2012, there was a temporary delay in the delivery on some of the orders by the suppliers of the Ausnutria Group in the fourth quarter of 2012 which had caused the inventory level to be at a comparatively lower level. The inventory level as at 31 December 2013 was in line with the normal inventory planning level of the Ausnutria Group.

Trade and bills receivables

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

	2013 <i>RMB'M</i>	2012 <i>RMB'M</i>
Trade receivables:		
– Ausnutria Group	28.0	35.4
– Ausnutria Hyproca Group	112.5	87.2
	140.5	122.6
Bills receivable	35.1	18.7
	175.6	141.3

The trade receivable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2013 was approximately 20 days (31 December 2012: approximately 22 days) and approximately 33 days (31 December 2012: approximately 39 days), respectively, which remained fairly stable and were in line with the credit periods granted by the Group to its customers.

Pledged deposits

As set out in the announcements of the Company dated 7 June 2013 and 5 November 2013, the Company has approved to grant two shareholders' loans of EURO 7.0 million (31 December 2012: Nil) and EURO 10.0 million (31 December 2012: Nil) for the financing of the production expansion plans of the Ausnutria Hyproca Group. In view that most of the funding of the Ausnutria Group is denominated in RMB and placed in the PRC, the Ausnutria Group has pledged its RMB deposits in the PRC of a total of RMB213.0 million (31 December 2012: Nil) to obtain the bank facilities in Europe for the financing of the shareholders' loans.

Time deposits and cash and cash equivalents

As at 31 December 2013, the Group's cash and bank balances and time deposits amounted to approximately RMB657.5 million, representing a decrease of approximately RMB45.2 million, or approximately 6.4%, from RMB702.7 million as at 31 December 2012, of which approximately HK\$109.1 million (31 December 2012: approximately HK\$174.3 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 2013, the total current liabilities of the Group amounted to approximately RMB722.7 million (31 December 2012: approximately RMB440.6 million), mainly comprised trade payables of approximately RMB168.0 million (31 December 2012: approximately RMB104.7 million), other payables and accruals of approximately RMB256.6 million (31 December 2012: approximately RMB229.7 million), interest-bearing bank loans and other borrowings of approximately RMB260.0 million (31 December 2012: approximately RMB95.6 million) and CIT payables of approximately RMB37.5 million (31 December 2012: approximately RMB9.5 million).

Trade payables

An analysis of the trade payables is as follows:

	2013 RMB'M	2012 RMB'M
Ausnutria Group	16.0	9.0
Ausnutria Hyproca Group	152.0	95.7
	168.0	104.7

The increase in trade payables of the Group as at 31 December 2013 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 of dairy products originated in the Netherlands.

The trade payable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2013 was approximately 16 days (31 December 2012: approximately 24 days) and approximately 47 days (31 December 2012: approximately 37 days), respectively. The 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 the increase 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 RMB60.5 million (31 December 2012: approximately RMB100.9 million), deferred income of approximately RMB70.1 million (31 December 2012: approximately RMB46.9 million), accrued salaries and welfare of approximately RMB25.3 million (31 December 2012: approximately RMB21.7 million), other tax payables of approximately RMB14.7 million (31 December 2012: approximately RMB4.0 million) and accrued marketing and promotion expenses and professional fees.

The increase in other payables and accruals was mainly due to the increase in sales in the fourth quarter of the Year 2013 when compared with the same period of the Year 2012. More accruals are required to be made for the deferred revenue that were recognised by the distributors and end customers, and the marketing and promotion expenses that were incurred but not yet settled as at the end of the reporting period.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2013 and 2012 were all primarily used for the financing of the daily working capital and capital expenditures of the Ausnutria Hyproca Group.

The increase in the interest-bearing bank loans and other borrowings as at 31 December 2013 was mainly due to (i) the increase in the bank overdrafts of the Ausnutria Hyproca Group for the financing of its daily working capital; and (ii) the draw down of a one-year term loan by Ausnutria (Dutch) for the financing of the capital expenditure plan of the Ausnutria Hyproca Group as set out in the announcement of the Company dated 7 June 2013.

Non-current liabilities

As at 31 December 2013, the total non-current liabilities of the Group amounted to approximately RMB85.5 million (31 December 2012: approximately RMB84.0 million), mainly comprised interest-bearing bank loans and other borrowings of approximately RMB36.9 million (31 December 2012: approximately RMB39.0 million), accruals for defined benefit plan of approximately RMB18.5 million (31 December 2012: approximately RMB17.4 million) and deferred tax liabilities of approximately RMB30.2 million (31 December 2012: approximately RMB27.6 million).

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2013 and 2012 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 RMB18.5 million (31 December 2012: approximately RMB17.4 million) were determined based on the actuarial valuations as at 31 December 2013 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 2013 and the fair value adjustment arising from the acquisition of Ausnutria Hyproca of a total of approximately RMB18.5 million (31 December 2012: approximately RMB21.4 million); and (ii) the withholding tax amounting to approximately RMB11.7 million (31 December 2012: approximately RMB6.2 million) calculated at 10% on the distributable profits of Ausnutria China.

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 2013 and 2012, the balance mainly represented the 49% equity interests in Ausnutria Hyproca owned by DDI.

Analysis on Consolidated Statement of Cash Flows

An extract of the cash flows information of the Group for the Year 2013 and the Year 2012 is as follows:

	2013 <i>RMB'M</i>	2012 <i>RMB'M</i>
Net cash flows from operating activities	82.6	168.1
Net cash flows used in investing activities	(361.9)	(205.3)
Net cash flows from/(used in) financing activities	159.5	(23.5)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(119.8)	(60.7)
	<hr/> <hr/>	<hr/> <hr/>

Net cash flows from operating activities

Net cash flows from operating activities of the Group for the Year 2013 was approximately RMB82.6 million (Year 2012: approximately RMB168.1 million), while the profit before tax for that year was approximately RMB157.8 million (Year 2012: approximately RMB85.4 million).

The net difference between the profit before tax and net cash flows from operating activities was mainly attributable to the increase in the scale of operations of the Ausnutria Hyproca Group which has required additional working capital for the business expansion. The increase in working capital needs of the Ausnutria Hyproca Group was partly financed by the increase in trade credit granted by its suppliers and partly by the increase in the bank overdrafts facilities in the Netherlands.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2013 of approximately RMB361.9 million (Year 2012: approximately RMB205.3 million) mainly represented (i) the purchase of property, plant and equipment of approximately RMB126.7 million (Year 2012: approximately RMB40.3 million), mainly for the expansion of the production capacity of the Ausnutria Hyproca Group; (ii) the increase in pledged time deposits of RMB213.0 million (Year 2012: Nil); and (iii) the net increase in the Group's time deposits with banks in the PRC by RMB76.3 million (Year 2012: RMB310.0 million); which was offset by the net proceeds received from the investments in the entrusted loans of RMB60.0 million (Year 2012: RMB140.0 million).

Net cash flows from/(used in) financing activities

The net cash flows from financing activities of the Group for the Year 2013 of approximately RMB159.5 million (Year 2012: used in of approximately RMB23.5 million) was primarily due to the draw down of the additional overdrafts facilities of approximately EURO 8.0 million granted by the bank of the Ausnutria Hyproca Group for the financing of its daily working capital and the draw down of a one-year term loan by Ausnutria (Dutch) of EURO 10.0 million for the financing of the capital expenditure plan of the Ausnutria Hyproca Group as set in the announcement of the Company on 7 June 2013.

Net cash flows used in financing activities for the Year 2012 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).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investments and acquisitions and disposals of subsidiaries and associated companies during the Year 2013.

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	
	2013	2012
Cash and cash equivalents (<i>RMB'M</i>)	161.2	282.7
Time deposits (<i>RMB'M</i>)	496.3	420.0
Total bank loans and other borrowings (<i>RMB'M</i>)	296.8	134.6
Total assets (<i>RMB'M</i>)	2,002.7	1,588.4
Gearing ratio (%)	14.8	8.5

As at 31 December 2013, the Group had pledged the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the Ausnutria Hyproca Group with a total carrying value of EURO 68.0 million, equivalent to approximately RMB572.2 million (31 December 2012: approximately EURO 42.9 million, equivalent to approximately RMB357.1 million) and the time deposits that were attributable to the Ausnutria Group of RMB213.0 million (31 December 2012: Nil) for the banking facilities granted to the Group.

DIVIDEND

The Board is glad to recommend the payment of a final dividend of HK\$0.10 (Year 2012: Nil) per Share for the Year 2013, subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company.

COMMITMENTS

As at 31 December 2013, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB6.6 million (31 December 2012: approximately RMB4.8 million).

As at 31 December 2013, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machineries and leasehold improvements of a total of RMB23.3 million (31 December 2012: RMB11.8 million).

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities (31 December 2012: 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 2013 was as follows:

	As stated in the Prospectus* HK\$'000	Utilised HK\$'000	Balance as at 31 December 2013 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	(48,282)	34,028
Introduce new series of organic paediatric nutrition products	82,310	(61,346)	20,964
Establish new production lines and warehouse	82,310	(82,310)	–
General working capital	82,310	(82,310)	–
	823,100	(713,954)	109,146

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 2013, the Group has a total of 1,127 (31 December 2012: 928) full-time employees.

For the Year 2013, total employee costs, including directors' emoluments, amounted to approximately RMB189.8 million (Year 2012: approximately RMB136.2 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

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 2013 and up to the date of this announcement.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as its own code of corporate governance practices. The Board also strives to implement the best practices embodied in the CG Code where feasible and as far as practicable.

In the opinion of the Directors, save for the exceptions as set out in the following, the Company has complied with the respective code provisions of the CG Code during the Year 2013 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 annual general meetings for the years ended 31 December 2012 and 2013.

2) Code provision A.1.8

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

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 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 provisions A.6.7 and E.1.2

Under code provision A.6.7 of the 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 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 ended 31 December 2013 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 2013 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 2013, which contains the detailed results and other information of the Company for the Year 2013 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.