

澳优·海普诺凯
Ausnutria

ESG Report
2016

RISE

by lifting others

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

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1. ABOUT THIS REPORT

1.1 Reporting Standards

To share with our stakeholders our sustainability values, initiatives and performance, we proudly present Ausnutria Dairy Corporation Ltd's ("Ausnutria" or the "Group") first environmental, social and governance (the "ESG") report. This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

1.2 Reporting Scope and Period

The reporting period is from 1 January 2016 to 31 December 2016. The information disclosed in this report covers the key initiatives and performance on the material ESG aspects, which are identified through stakeholder engagement, at our major operating sites in the People's Republic of China (the "PRC") and the Netherlands within the reporting period, unless otherwise stated.

As this is our first ESG report, we would also like to share with our stakeholders the Group's management approach and related policies on the material ESG aspects. In order to provide stakeholders a comprehensive picture on Ausnutria's ESG commitments and achievements, we also mentioned a few milestones in the previous years, beyond the reporting period, with a clear statement on the time period when it happened.

1.3 Accessibility of the Report

The report will be disseminated via electronic means. It is available on Ausnutria's website (www.ausnutria.com.hk) and the website of the Stock Exchange.

We welcome your comments on this report and the Group's sustainability development. Please share with us your feedback and suggestions via email at info@ausnutria.com.

2. FOREWORD FROM THE CHAIRMAN

I am pleased to present the first ESG Report of Ausnutria. Through this report, we hope to share with our stakeholders our beliefs in ESG and what we have achieved so far in terms of ESG.

2016 is the first year of our “Golden Decade” strategic plan. Adhering to its operating concept emphasizing professionalism, efficiency and quality, the Group have achieved satisfactory results and recorded a 30.3% growth in revenue as compared to 2015, amounting to RMB2,740.3 million of revenue. In particular, the revenue of our own-branded goat milk-based and cow milk-based infant formula has recorded a remarkable growth of 49.3%. Re-affirming our continuous commitment to excellence, integrity, accountability, quality, professionalism, improvement, innovation, unity and efficiency, we have further expanded our global presence this year through acquiring a high-end nutritional brand in Australia, and co-investing with a large dairy co-operative for the establishment of a new production plant in New Zealand.

黄金十年 共享未来!

Our brands have achieved continuous recognitions from the market in 2016. *Kabrita and Hyproca 1897* were listed among the top 10 most influential brands for infant formula at the CBME AWARDS, the most anticipated awards for children, baby and maternity industry in the PRC. *Allnutria* was also awarded by mama.cn, the leading baby and maternity web portal in the PRC, as “Consumers’ Most Favoured Brand”.

We continued to invest in research and development projects at our in-house research centres and through collaboration with external institutions. Four new formulae were developed this year, targeting infants with different dietary habits. Under our commitment to deliver safe products of the best quality to our customers, our products sold in the PRC have achieved a 100% passing rate in the monthly random inspection conducted by the China Food and Drug Administration this year.

As part of our comprehensive supply chain management system, we maintain regular dialogues with our suppliers. We work together with our suppliers to ensure the quality of our products, and minimize our impacts to the environment. We hold a firm belief that sustainable business practices are critical to our future. Despite the nature of our operation has limited impacts on the environment and natural resources, we constantly search for ways to incorporate environmental initiatives across our operations. Aiming to reduce our energy consumption by 2020, we have introduced an “Energy Efficiency Plan 2017-2020” in various major areas of the Group, in particular the Netherlands, where our production operations are mainly located. Various initiatives have been implemented during the year under this plan, which are described in this report.

Our people is our asset. We believe that as our team grows, our business grows too. We care about their well-being and continuous development. Through the establishment of Ausnutria University, we ensure sufficient training opportunities are provided to our employees every year. This year, we have successfully organized our first MBA course in the PRC. Furthermore, approximately 46.8 million of share options were granted to selected employees this year as a recognition of their contribution to the Group. We also invest resources in maintaining a healthy and safe working environment for the well-being of our employees.

To help us continually improve our ESG performance, we take time to listen to our stakeholders. This year, we have engaged different stakeholder groups, including our employees, business partners, customers, suppliers, industry associations and community partners. Their insights have provided reference to this report and our future ESG approach.

The “Green Factory” in the Netherlands which began construction in 2014 is now in its final stage of installing the product lines and equipment. We are expecting to commence its operation in 2017, and gradually achieve a threefold increase in our production capacity by 2019/2020.

We are proud of our achievements. Looking forward, we will continue to take a long-term view on managing our business, and as such, we are working to strengthen our ESG structure to manage our daily ESG risks.

We are delighted to welcome you to join us to embrace the challenges and opportunities ahead.

Yan Weibin
Chairman

3. ABOUT AUSNUTRIA

3.1 Corporate Profile

At Ausnutria, our mission is “Nourishing Life, Caring Growth” and our vision is “To become a leading infant formula supplier in the world as well as the most trustworthy nutrition product supplier and nutritional and health adviser in the PRC”. By upholding our mission and vision, we believe our business will grow continuously with bright performance.

AUSNUTRIA PRINCIPLES



Ausnutria is a leading dairy industry company listed on the Stock Exchange in October 2009 (Stock code: 1717). The Group is principally engaged in the dairy industry with activities ranging from research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands and other overseas countries. Apart from sourcing milk from its own factories in the Netherlands, the Group has diversified its infant formula supply to manufacturers located in New Zealand, Australia and France in recent years. The Group has also commenced new businesses since the fourth quarter of 2016. This includes the manufacture and distribution of nutrition products through the acquisition of the nutrition business in Australia, which engages in the business in the development, manufacturing, packaging and distribution of complementary medicine, nutritional and health care products, and the marketing and distribution of import functional milk in the PRC.

Founded in 2003, the Group commenced business by importing high-quality premium infant formula from Australia for sale and distribution in the PRC. In 2011, Ausnutria invested in its upstream business by acquiring the controlling interests in Ausnutria Hyproca B.V. (“Ausnutria Hyproca”) which has international presence and expertise in the international infant nutritional products business and milk source and production facilities. Based in the Netherlands, its quality milk supply in particular on goat milk is highly recognized as among the best in the world.

Since then, Ausnutria has become one of the very few Chinese corporations to own and operate a comprehensive production chain in the industry from milk collection, production and packaging to marketing and sales. This enables Ausnutria to have total control over the entire production and distribution process of its dairy products.

The Group sells its products under its own brands, including *A-choice*, *Allnutria* (including *Allnutria Organic*), *Puredo*, *Hyproca 1897*, *Neolac*, *Mygood* and *Eurlate* for cow milk-based infant formula, and *Kabrita* for goat milk-based infant formula. Except for *Kabrita* which is distributed globally, most of our own-branded cow-milk based infant formulae are principally designated for consumers located in the PRC. In addition, the Group also sells its products under contract manufacturing and private label arrangements for its worldwide customers through Ausnutria Hyproca.

Furthermore, the Group commenced the business in the manufacture and distribution of nutrition products through the acquisition of a nutrition care business in Australia and the marketing and distribution of import functional milk under the Group's own brand name "*Globlait*" in the PRC since the fourth quarter of 2016. The Group has also commenced the launch of its nutrition products under the brand name "*Nutrition Care*" in the PRC since the end of 2016.



◆ Acquisition of a nutrition care business in Australia

3.2 2016 Business Highlights and Achievements

In 2016, promising results were achieved in terms of operation performance and product diversification. As a result of enhancing the business structure and strategies, our business chain is strengthened to cater for the industry change and to accommodate to our long-term vision. The Group has also expanded its infant formula and nutritional business in the global market during the year, and has achieved satisfactory results in developing its market network and enhancing consumer services.

■ *Strong Financial Performance*

Recorded a 30.5% increase in revenue, amounting to RMB2,740.3 million, as compared to 2015.

■ *Tax Contribution*

We paid a total of approximately RMB244 million tax in the PRC and in the Netherlands in 2016.

- *Sustainable Growth in our Infant Formula*

Achieved a total of RMB1,682.4 million of revenue for own-branded goat and cow milk-based infant formula, a significant increase of 49.3%.

- *Leading in Imported Goat Milk-based Infant Formula Market*

Kabrita maintains its leading position in the PRC, accounted for approximately 53.5% of the market share of the total imported goat milk-based infant formula.

- *Remarkable Growth in Overseas Market*

Sales of *Kabrita* overseas has increased by over 70% with sales network extended to cover more regions in the world.

- *Expanding our Presence in the Children's Market*

Launched a functional liquid milk under our new brand, *Globlait*, in December 2016, targeting children in the PRC.



◇ Globlait, functional liquid milk

- *Milestone of our Nutritional Business*

Acquired 75% of *Nutrition Care*, a professional high-end nutritional product brand in Australia, to expand our global presence in the growing nutritional product market.



◇ Acquisition of 75% of Nutrition Care in Australia

■ *Enhancing our Capacities in Production and Sales*

The Group formed a joint venture with Westland Co-operative Dairy Company Limited, the second largest dairy co-operative in New Zealand, for the establishment of a new plant in New Zealand, which will be used for the production and sale of infant formula and other dairy based powder products.



✧ Formed a joint venture in New Zealand

■ *Recognitions of Products from the Sector and Society*

- *Allnutria*, with a strong presence in the 2nd-, 3rd- and 4th-tier markets in the PRC, was awarded as the "Consumers' Most Favoured Brand" presented by mama.cn, the leading web portal for baby and maternity information in the PRC
- *Kabrita* and *Hyproca 1897* were listed among the top 10 most influential brands for infant formula in the PRC at the CBME AWARDS, which is considered as the Oscars in the children, baby and maternity industry in the PRC

■ *Recognitions from our community services and contribution*

- *Kabrita* was awarded the "Charity Practice Award 2016(二零一六年度公益踐行獎)"
- "*Kabrita* U Love Plan" was awarded the "Charity Project Award 2016(二零一六年度公益項目獎)" by the 6th China Charity Festival (中國公益節)
- The "Mother Love 800g (母愛800g)" was accredited as the outstanding unit (優秀理事單位) by Hunan Charity Federation (湖南省慈善總會)

4. OUR SUSTAINABILITY APPROACH

4.1 Corporate Governance

Since Ausnutria's establishment, we have developed a robust corporate governance ("CG") structure. We constantly enhance our policies and procedures to ensure our CG structure fosters transparency, independence and integrity.

Registered in the Cayman Islands and listed on the Stock Exchange, we strictly comply with the ESG Reporting Guide as set out in the Appendix 27 of the Listing Rules. The following describes our CG ecology which promotes a healthy and sustainable development of our business.

The board (the "Board") of directors (the "Directors") comprises nine members, including four executive Directors, two non-executive Directors and three independent non-executive Directors as at the date of this report. The Board's composition is designed to be well-balanced to ensure strong independence exists across the Board, with a diversity of skills, expertise, experience and qualifications among the Directors. The Board is responsible for determining the strategic development of Ausnutria and reviewing the CG policy by performing duties including but not limited to monitoring Ausnutria's policies and practices in compliance with legal and regulatory requirements, and reviewing Ausnutria's compliance with Appendix 14 to the Listing Rules.

At the same time, the Board is also responsible for evaluating and determining our ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

Anti-Corruption

As an employer with high integrity standards, we continuously revise our corruption prevention measures and the related procedures. The code of conduct provided to all of our employees clearly outlines the procedures for handling confidential information and IT systems, preventing conflicts of interest, bribery and corruption, and safeguarding integrity. This set of guidelines lists out all acceptable and unacceptable behaviour in detail. Non-compliance with the rules may lead to a verbal warning, formal warning or other disciplinary or legal measures. The Board is obligated to ensure all employees strictly comply with the anti-corruption measures in order to promote the sustainable growth of Ausnutria.

4.2 Stakeholder Engagement

We believe that effective feedback from stakeholders not only contributes to comprehensive and impartial evaluation of our ESG performance, but also enables us to improve our performance based on their feedback. Beyond the daily interactive communication with stakeholders, we have authorised a third party this year to further engage with our major stakeholder groups through various channels.

Our major stakeholder groups, including employees, business partners, customers, suppliers, industry associations and community partners, were invited to evaluate and discuss a range of ESG issues in relation to our operations. Close to 1,000 internal and external stakeholders were engaged via survey, focus group discussions and interviews. Through quantitative and qualitative analysis, we have gained a comprehensive understanding of their perspectives and expectations. This has helped us to evaluate our ESG performance and identify areas for improvement. The results are also essential for the preparation of this report and the formulation of our ESG strategies in the future.

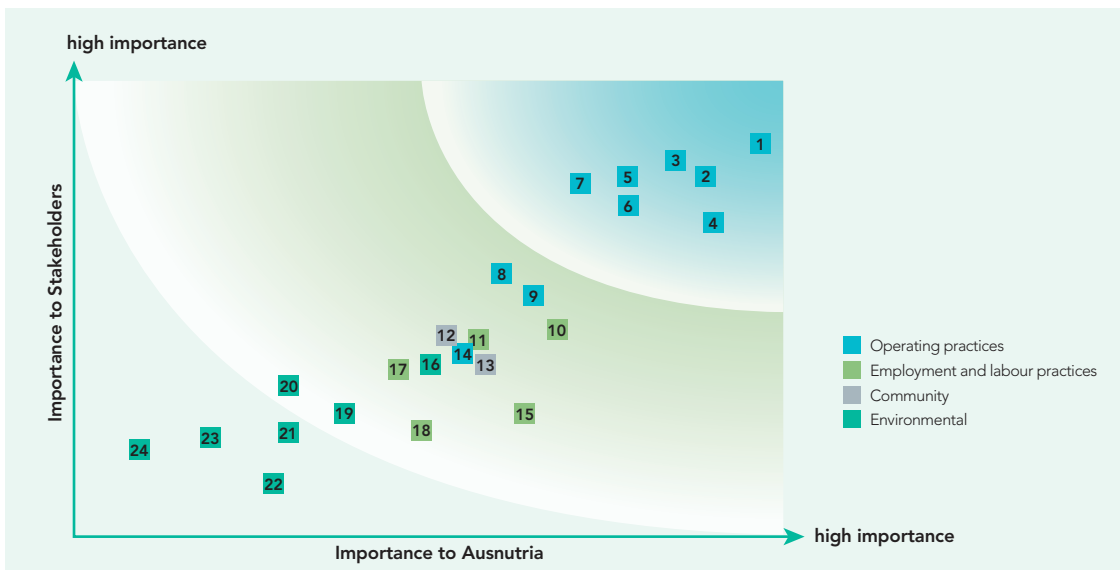
Stakeholders	Key Concerns and Expectations in 2016	Channels of Communication and Feedback
Employees	<ul style="list-style-type: none"> • Career development and promotion • Remuneration and welfare • Equal opportunity • Health and safety • Caring for people 	<ul style="list-style-type: none"> • Caring about employees' occupational health and safety; • Creating a comfortable green workplace; • Organising training activities regularly to promote career development and enhance competence at all levels; • Providing leisure activities and increasing cohesion.
Business Partners and Customers	<ul style="list-style-type: none"> • Integrity and fulfilment of promises • Safe and high-quality products • Healthy and affordable food • Information transparency • Attentive services • Opinions and complaints handling • Privacy protection • Investment in technology and innovation 	<ul style="list-style-type: none"> • Providing customers with excellent products in line with the high quality product strategy; • Maintaining channels of customer communication and feedback at sales offices, social media and complaint hotline/mailbox; • Conducting customer surveys regularly and improving performance; • Investing continuously in the development for healthy and safe products with the co-operation of professional institutions.

Stakeholders	Key Concerns and Expectations in 2016	Channels of Communication and Feedback
Suppliers	<ul style="list-style-type: none"> Integrity and fulfilment of promises Sharing of resources and future plans Win-win and in-depth cooperation Efficient and safe transport Effective communication and response Brand management 	<ul style="list-style-type: none"> Continuously enhance tendering and bidding practices, ensuring the performance of contractual obligations, and achieving mutual benefits with suppliers.
Industry Associations and Community Partners	<ul style="list-style-type: none"> Animal care Development of agricultural technology Public welfare and charities Environmental friendliness 	<ul style="list-style-type: none"> Further support of local cow and goat dairy associations, maintaining community campaigns, such as the milk formula donations, breastfeeding education and charity run; Encouraging employees to participate in volunteer services.

4.3 Materiality Assessment

With regard to its size and coverage of business, Ausnutria is involved in a wide range of ESG issues. Materiality assessment has been conducted in order to prioritise these issues with reference to the feedback gathered from this year’s stakeholder engagement.

Materiality matrix of the ESG issues of Ausnutria



24 ESG issues were identified as material to Ausnutria this year as a result of the materiality assessment. The management methods and performance relating to these issues are set out in the corresponding sections in this report.

Category	Environmental, social and governance issues
Operating practices	1 Food safety
	2 Product diversity
	3 Recall mechanism
	4 Intellectual property
	5 Customer communication channels
	6 Product responsibility compliance
	7 Protection of customer privacy
	8 Supplier diversity
	9 Supply chain management
14 Anti-corruption	
Employment and labour practices	10 Labour rights
	11 Training and development
	15 Diversity and inclusion
	17 Employee health and safety
	18 Employee welfare
Community	12 Community investment
	13 Community and animal care
Environmental	16 Waste recycling
	19 Packaging materials
	20 Environment conservation and biodiversity
	21 Resource conservation
	22 Greenhouse gas emissions
	23 Use of water
	24 Energy consumption

5. OUR DAIRY PRODUCTS

As a supplier of dairy products, in particular on infant formula, we are well aware of our responsibility in supporting the healthy growth of infants and children. As such, every stage of our production processes aims to ensure our products are of high quality in order to provide the essential nutrition for the development of infants and children.

5.1 Research and Development

Ausnutria Hyproca is a leading supplier of goat milk products in the world and specialises in a complete chain of production from collecting fresh Dutch goat milk from farms to supplying finished goods.

The Group has its own research centre in the PRC and in the Netherlands to support the continuous improvement of existing products and innovation of new products. For example, since and after the research centre being accredited as a “Provincial Grade Enterprise Technology Centre” by the Hunan Economic and Information Technology Commission (湖南省經濟和信息化委員會) in 2014, the Group succeeded in applying as an entrepreneurial technology centre (省級企業技術中心) from the Development and Reform Commission of Hunan Province (湖南省發展和改革委員會) in November 2016. A post-doctoral research workshop (博士後工作流動站) was approved to be set up, allowing us to attract national experts to join the Group as research, development and technological consultants. Besides, the Group was also among one of the first batch of enterprises to be reaffirmed as “Hi-tech Enterprises (高新技術企業)” by Hunan Province, the PRC.

Furthermore, Ausnutria has formed an international research and development team with more than 30 nutrition, medical, dairy and food industry experts from both the PRC and overseas, to launch the cooperation in research and development of infant formula and nutrition products. Ausnutria has received a total of 46 registered patents so far, including 24 invention patents, 17 design patents and 5 utility model patents. In addition, we received 34 authorised patents (which will become registered patents upon receipt of the authorization letter), including 14 invention patents, 16 design patents and 4 utility model patents.



✧ Ausnutria Institute of Food and Nutrition located in Changsha, the PRC

The Group has entered into a ten-year agreement with the health science center of Peking University in the PRC to jointly establish the “Peking University · Ausnutria Maternal & Infant Nutrition Research Center (北大·澳優母嬰營養研究中心)” and to set up a team of experts which mainly consists of professors from the health science center of Peking University to kick off the research on breast milk base (breast milk bank, breast milk fatty acids, amino acids, etc), research on infant formula, clinical validation and popular science education. Under the collaboration, the Group continues to carry out series of research work and clinical trials of *Kabrita* during 2016. One of our research results revealed that goat milk-based powder is a good alternative to cow milk-based powder in a number of aspects, from nutrition and digestion to immune system development.



- ◇ Jointly establish the “Peking University · Ausnutria Maternal & Infant Nutrition Research Center (北大·澳優母嬰營養研究中心)” with the health science center of Peking University in the PRC

The toddler products of our key international brand, *Kabrita*, are already available in the market of the United States. As part of the long-term strategy of *Kabrita*, the Group has conducted clinical trials since 2014 to apply for the approval from the US Food and Drug Administration (the “FDA”) for the sale of *Kabrita* infant formula products in the United States. Further application work on this is proceeding as scheduled, and the FDA approval is expected to be granted in 2018.

New products developed in 2016



Kabrita Jing Ying Nutritional Children's goat milk formula

Kabrita Jing Ying is developed for picky eaters. It contains vitamins and minerals, pre- and probiotics, OPO and DHA, and is aimed at providing essential nutrients and eye-sight development.



Kabrita Kosher formula

Our well-known *Kabrita* Gold formula stage 1, 2 and 3 for customers living by Kosher standards.



Neolac Organic

Neolac Organic's milk formula is made from organic milk coming from Dutch organic farms only. Our farmers choose organic agriculture out of a passion for nature and animal welfare. *Neolac Organic* formula is enriched with special nutrients, such as organic GOS (prebiotic fibre) and unsaturated fatty acids, DHA and AA.



Kabrita Gold

The newly updated *Kabrita Gold* for the European Union market will comply with the newest European Food Safety Authority recommended nutritional guidelines.

Ausnutria has also established subsidiaries with independent third parties for the sale of *Kabrita* in Russia and the Commonwealth of Independent States (the "CIS"), Europe, the Middle East, the United States and Canada, etc. Aspiring to become a global market leader in goat milk-based infant nutrition products, the Group will continue to launch *Kabrita* in other major countries, and leverage the studies and clinical trials conducted by (i) the Maternal and Child Nutrition Research Centre; (ii) the clinical studies in Europe; and (iii) the in-house research and development team in the Netherlands.

5.2 Product Quality and Safety

Business with integrity is our core belief. Within our organisation, we ensure our products comply with all laws and regulations relating to consumer health and safety.

By adopting a quality management system, we are committed to providing our customers and consumers with safe and high quality products. We do not tolerate any risk in our product safety, and have set high standards for raw materials, ingredients, production and packaging. With synergies throughout the entire chain, we are able to maintain product safety and quality, producing a wide range of high-end products.

In particular, our production processes in the Netherlands are certified for a number of food safety and quality standards, including HACCP (Hazard Analysis and Critical Control Points), BRC (British Retail Consortium) Global Standards and IFS (International Featured Standard) Food Standard. These standards are audited by independent certifying bodies to ensure that we comply with the Dutch and European food legislation.

World Class Safety and Quality
同步世界级 安全与品质

从牧场到餐桌，从奶滴到奶粉，全程可追溯
——只为赋予宝宝安全的营养！





澳优 澳优乳业
Ausnutria
——给生命更好的开始——



领跑中国乳业国际化
让宝宝营养与世界同步

We strive for continuous improvements in both our product and service quality by encouraging every comment and feedback from both our internal and external stakeholders. Customer satisfaction surveys are carried out regularly to understand consumers' perception on the quality of our products and service. Whenever negative feedback is received, it will be sent to the quality department as soon as possible for impact assessment. A comprehensive complaint handling procedure is established at Ausnutria, allowing us to continuously improve our products. We are responsive to customer complaints and committed to swift resolution of the problems. Complaints are sorted once received and are sent to responsible departments to analyse the root causes and identify preventive and corrective actions.

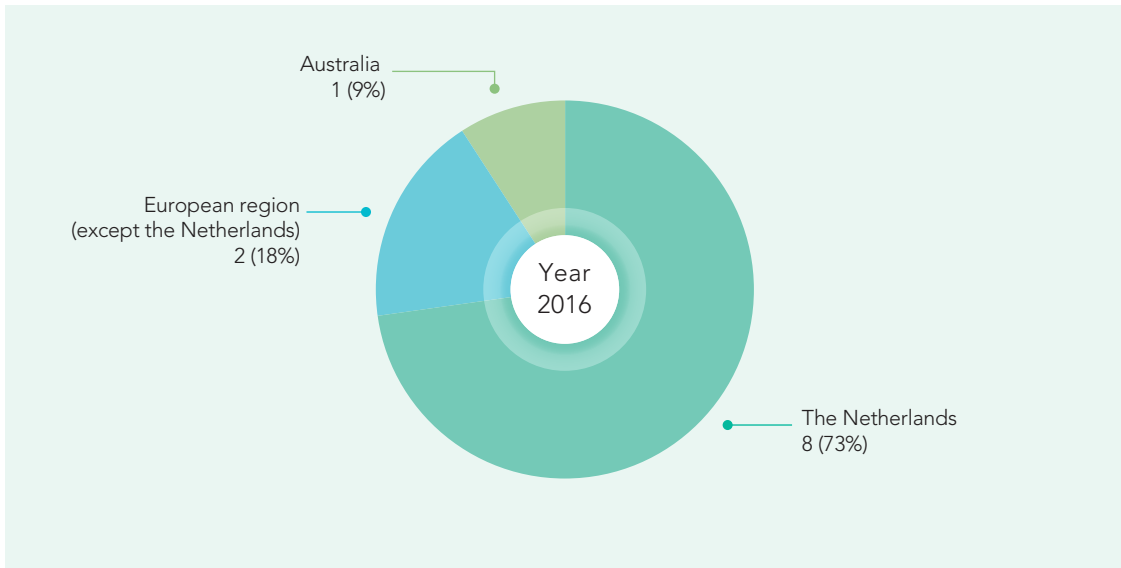
Each of our employees in Ausnutria must strictly comply with our food safety and quality system. In order to ensure every employee clearly understands and is familiar with the health and safety procedures, relevant training on food production regulations and quality checks are provided.

5.3 Supply Chain Management

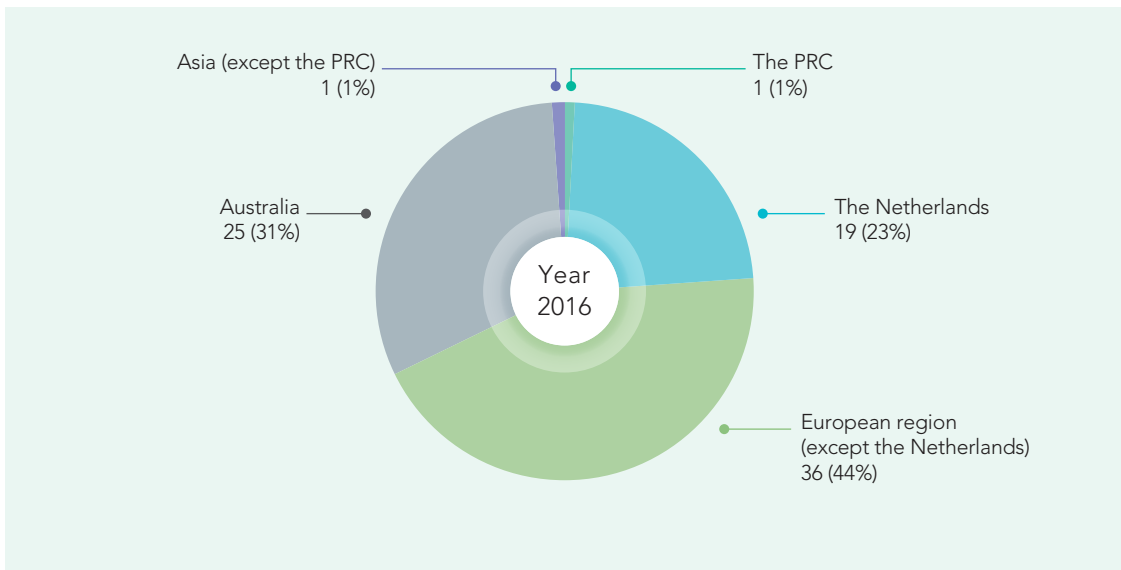
Ensuring the best quality of our milk sources, a well-managed supply chain is critical in our operations. Ausnutria cherishes real partnership and aims to build a long-term and close relationships with our suppliers. Through maintaining regular engagement with our suppliers on a wide range of topics with our suppliers, we are confident that we can depend on them for a stable supply of the highest quality milk and other raw materials.

At Ausnutria, a comprehensive supply chain management system has been established to oversee the purchasing process and management of suppliers. Preliminary assessment is conducted to evaluate potential suppliers before we enter into cooperation. Samples of their products are assessed against our quality requirements to ensure that we only procure from suppliers that meet our requirements and expectations. Continuous monitoring of our suppliers' compliance and performance levels is also necessary. Through conducting regular audits, we assess suppliers' reliability with a set of criteria including quality, delivery, and food safety. Suppliers are then classified into high, medium or low performance category based on the audit result and the type of service or product they provide to Ausnutria. The frequency of a supplier audit is then determined according to the category. In case we have received any concerns or complaints on food safety, a supplier audit is performed as early as possible to ensure product quality.

Number of dairy suppliers by location, Year 2016



Number of other suppliers by location, Year 2016



As Ausnutria processes both cow milk and goat milk, animal welfare is a key concern when we choose our milk suppliers. Through direct dialogues with our dairy suppliers in the Netherlands, we promote the idea of outdoor grazing as we believe such farming practice is beneficial to the well-being of the animals. As a result, more than half of our cow suppliers are practicing outdoor grazing. We have also considered the benefits on the environment and natural resources of grazing on organic dairy farms. As such, we invested in upstream organic related resources for a reliable and stable supply of organic infant formula required ingredients through engaging our suppliers. While the market and consumers are starting to pay more attention to sustainability, we will continue to work hand-in-hand with our dairy suppliers and dairy associations to achieve a sustainable farming practice.



Case Study:

KwaliGeit and the Sustainable Goat Dairy Chain

Together with our goat farmers, we strive for the highest quality goat milk. Therefore all goat farms work according to a chain-quality care system maintained by the Dutch Goat Dairy Association (“NGZO”), known as the “KwaliGeit (Qualigoat) Program”. By using the KwaliGeit Program, the Netherlands became a leader in securing a high quality standard for goat milk and goat farms. The KwaliGeit Program is in close cooperation with “LTO Melkgeitenhouderij” established and has also taken into account the requirements of the European hygiene regulations with respect to foods, and the regulations for dairy farmers apply. An oversight assessment will be performed on farms that have a recognition or are certified as “KwaliGeit”. These quality systems cover all aspects of the production of goat milk, not only legally required, but also additional parameters. This includes rules about milking and storage, cleaning and disinfection, environment and waste, animal feeding and water, use of medicines and well-being of the animals. Hyproca Goat Milk B.V., a subsidiary of Ausnutria Hyproca, continuously checks compliance to these regulations. A third party, Qlip, will also do the audit on the compliance. Qlip is accredited for these activities according to ISO/IEC 17020.

Since 2015, the NGZO, in collaboration with the Dutch Organisation for Agriculture and Horticulture (“LTO Nederland”), has expanded its total activities with the initiative “Sustainable Goat Dairy Chain”. NGZO, LTO Nederland, goat farmers, goat milk collectors, and goat milk processors, together with Ausnutria Hyproca all collaborate on three main subjects: 1) animal health and animal welfare; 2) energy and climate; and 3) market and image. Examples of main goals are extending the goat’s lifespan, decreasing the use of antibiotics, increasing the quality of milk, reducing the energy consumption during both milk collection and processing, reducing the CO₂ footprint, and using natural resources in a more efficient way.

5.4 Responsible Sales and Marketing

Upon producing high quality products, our mission is to ensure that the products are carefully and safely brought to our customers. In view of this, our commitment goes beyond simply producing quality products, and adopts a more effective sales and marketing control. This includes adhering to regulations on infant formula advertisement, intellectual property rights protection and data privacy protection.

Consumption period of milk powder is relatively short to ensure its quality is maintained. As such, our products cannot be stocked for a long period of time. Therefore, it is necessary for us to manage our stock items to prevent overstocking. For example, we have utilized the Customer Relationship Management ("CRM") software to help us consolidate product, distributor and customer information into a single database. The software has allowed us to prevent unnecessary wastage due to overstock in the channels and hence, a more effective sale distribution process.

We take a step further by acknowledging the importance of responsible marketing practices within the dairy industry. In order to help our customers to make the best purchases for their infants and children, we ensure that the labelling on our products are printed with honest and accurate information. Our products are properly labelled as we do not allow misleading information. Our labels are complied with relevant local laws and regulations, such as The Food Safety Law and the Provisions for Formula Registration of Infant Formula Milk Powder of the PRC, and the European Union law on the provision of food information to consumers.

Giving the best start of life

At Ausnutria, we believe that breast milk is the best source of nutrition for babies. Despite being a supplier of infant formula, we support exclusive breastfeeding for the first six months of life as recommended by the World Health Organization ("WHO"). As such, we do not promote stage 1 infant formula (0-6 months) to customers.

Ausnutria also values the relationship with customers. In terms of individual customers, we implemented a precise membership sales system in the PRC, built a new membership management IT system platform and provide services to the customers which are beyond their expectation. We also implemented a precise membership sales model to interact with our members through a variety of marketing practices as well as optimized shopping experience, to provide more value-added services to our members from products to services.



✧ The "First President Class" organized by the "Golden BIB Business School"

In terms of business customers, Ausnutria has in total invested more than RMB100 million in establishing the "Golden BIB Business School" in the PRC to launch training programs like the "First President Class", "Elite Manager Training Program" and "Nutritionist Training Program", to help and train thousands of business customers like distributors to enhance their professional and service capabilities.

6. OUR PEOPLE

As an international enterprise, we take our employee as an invaluable asset. We have a staff handbook which strictly complies with applicable laws and regulations in respective operating regions, and discrimination and child or forced labour are not tolerated in our business.

Workforce data, Year 2016

	Number of employees
Total Workforce in the PRC and the Netherlands	2,445
By location	
PRC	1,993
Netherlands	452
By Gender	
Female	1,150
Male	1,295
By Age Group	
30 years or below	1,213
31-40 years	890
41-50 years	234
50 years or above	108
By Position	
Top management	33
Middle management	305
Staff	2,107

6.1 Employment

Labour Standards

We provide excellent working environment as well as training and development opportunities for all our employees. We are also committed to the principle of equal opportunity employment, in which we refrain from any form of discrimination against employees in performing their job, such as race and gender. We cherish our nice work ambiance by ensuring that our employees always feel highly involved.

Employee Care and Retention Initiatives

Inspiration and motivation of our employees are of utmost importance to us. Therefore, we offer a series of care and retention initiatives in order to retain talents. We put constant effort into offering training and coaching to maximise the development opportunities for our employees, with appropriate terms of employment and fringe benefits.

Several initiatives are adopted in the Netherlands and the PRC with the same goal to retain our talent. In the Netherlands, performance management has been introduced to motivate our employees to maximise their potentials. As such, we adopt a performance-related compensation structure. Through setting a key performance index (KPI) in terms of departmental and individual goals together with our employees, supervisors are able to provide employees the right support to further improve his or her competences and performance. In addition, we provide incentives for our employees in the Netherlands by offering good secondary benefits, such as year-end bonuses and extra holiday hours, as well as prioritising internal promotion. On the other hand, our employees in the PRC are offered with competitive benefits such as holiday subsidies, free milk formula products for their children and free body check services. We also encourage continuous learning among our employees in the PRC by arranging exchanges for outstanding employees with reputable local or overseas firms.

Sharing our business success with employees

The Group introduced a share option scheme (the "Scheme") in 2009. Through the grant of share options, the Scheme aims to provide incentives and rewards to eligible participants, for example our employees, who contribute to the success of the Group's operations. Approximately 46.8 million of share options were granted in this reporting year.



✧ First “Ausnutria Run”(優跑團) in the PRC

In October 2016, we organised the first year “Ausnutria Run (優跑團)” which is a healthy running event. We wish to spread the believe of “Happy Work, Healthy Life” to each of our employees and their family members through “Ausnutria Run”, and encourage all the staff in Ausnutria to participate in charity activities by donating milk powder worth RMB50,000 in the event to the first social welfare home in Changsha to help the children and elderlies there.

6.2 Health and Safety

Workplace Safety Policy

We cherish our competent and engaged employees by providing them with safe and healthy working conditions. We strive to constantly optimise and maintain a good working environment that is free from work-related accidents and illnesses. We always endeavour to improve our employees’ physical, mental and emotional health.

At Ausnutria, we follow a comprehensive set of occupational health and safety procedures. The details are outlined in our staff handbook, which are handed out to all employees with a firm belief that the growth of business heavily relies on the collective effort of every employee. On the other hand, we are obliged to provide a pleasant workplace for our employees to develop their abilities at Ausnutria. As such, several initiatives are implemented to secure the safety of our employees, for example, closely monitoring the usage of electricity, fire prevention and hazardous materials.

Additionally, a set of occupational health and safety policies that are based upon the legally required risk analysis and evaluation are in place in the Netherlands. The policies are included in the company business rules, which are distributed to employees on their first day of work. An array of training options is provided to employees concerning to safety, including but not limited to first aid, explosion safety and working with hazardous substances. Also, evacuation drills are conducted on a regular basis to ensure our employees know how to stay safe during emergency situations. We also record and assess every accidents and dangerous situations. Our health and safety team investigated the root causes of these accidents, and translates the results of these analyses into measures that aim to prevent accident from happening in the future. In this reporting year, zero fatalities were recorded at our operations.



- ✦ Safety record signs to promote safety awareness among employees at our factories

6.3 Development and Training

Training Policy

We consider our employees as our most valuable asset. As such, we are dedicated to offer our employees a challenging, inspiring and appealing work environment to encourage self-development. By investing significantly in our employees, we offer various training and development options with the aim to help our employees to grow with us.

We carefully select and provide trainings to our employees by considering their job location and job function. In this reporting year, we have provided over 7,000 hours of trainings. A total of 1,243 employees received trainings, representing over half of our total workforce.

Producing high quality infant formula is the focus of our business. Therefore, providing high quality trainings for our operators is our priority. In the Netherlands, we collaborate with MBO Life Sciences to deliver professional trainings to our operators to improve their knowledge about our products and technical skills through on-the-job trainings and classes. Each participant is assigned with a personal mentor to support and guide them through the process. Participants are also allowed with a full day leave to attend the classes. At the end of the training, participants are required to pass an examination in order to obtain their certificates, allowing them to be certified as qualified operators. Furthermore, we started with the Lean Six Sigma in the operations in the Netherlands in 2015 and continued the implementation of it in 2016 to further build a continuous improving organisation. In addition, several other training programs have also taken place during the reporting year in our factories in the Netherlands, for example first aid training, audit training, and waste reduction training. With a diversified mix of employees comprising experienced specialists and young learning enthusiasts, we collaborate with different institutions to provide training. We believe that the mixture of experienced and new employees helps rejuvenate Ausnutria as an outstanding enterprise. While in the PRC, we focus on providing external, on-the-job and independent training offered by the Group and external parties to our employees. We strongly encourage our employees to pursue further studies in universities and professional institutions. In order to better plan for employees' development, Ausnutria University was established. More learning opportunities are provided to our employees, and their learning records are all documented for the assessment of their performance in annual appraisals.



◆ Employees and trainers celebrated the inauguration of Ausnutria University's first MBA course

Number of employees trained and hours in training, Year 2016

	Number of employees	Total training hours	Average training hours
Total workforce	1,243	7,123	5.73

7. OUR ENVIRONMENT

We are committed to the promotion of sustainable development and incorporate various sustainable practices into our daily business to make the world a better place for future generations. We hold a firm belief that doing business in a profitable way does not require forsaking the wellness of our planet. Apart from complying with applicable laws and regulations in respective regions, we always take our impact on the environment into account by establishing a series of environmentally friendly standards.

Case Study:

Sustainability in Action – A New “Green Factory” in the Netherlands

The Group approved and commenced the construction of a new factory in Heerenveen, the Netherlands (the “Green Factory”) in 2014 to improve the blending and packaging capacity as well as the quality standards of the Group. Following completion of the Green Factory, the blending and packaging capacity of the Group in the Netherlands will gradually increase from approximately 30,000 tons to 90,000 tons by 2019.

A number of green features will be implemented in the Green Factory for energy conservation:

- ✓ By using heat exchange pumps, heat energy from the ground can be used by the underfloor heating system. During summer this system can be used for cooling purposes as well. By using this system the climate within the factory can be controlled at a low level of energy consumption throughout the year
- ✓ Gravity will be used during the production process, which will reduce the amount of energy consumption within the production process
- ✓ Thermoplastic Polyolefin (TPO) is used as the roof material. This single-ply reflective light coloured material reflects sunlight very well and therefore contributes to cooler interior temperatures inside
- ✓ LED lights are used throughout the factory



The Green Factory is now in the final stage of installing the product lines and equipment and is expected to commence operation in 2017.

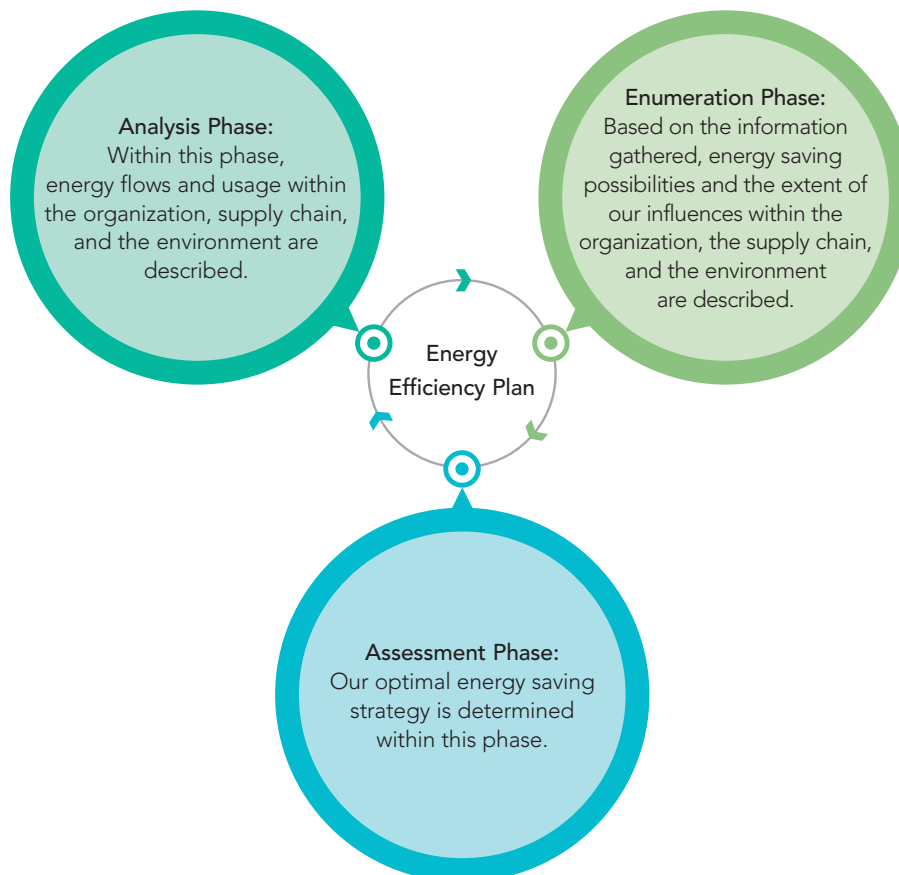
7.1 Energy and Emissions

Being a responsible company, we have high awareness of our energy consumption and emission patterns. Therefore, we have already implemented a multitude of energy-saving initiatives in both regions throughout the years.

This year, numerous measures are adopted in our factories under this plan for more energy efficient production process. For example, we have installed new icewater pumps to control the pressure of the production process. By controlling the pressure, 20% of the overall energy consumption can be saved. We have also introduced a new compressor system which has reduced approximately 324,000 KWh of electricity consumption annually. Instead of one single speed option, the new system is equipped with various speed options that allowed operators to choose the best suitable speed to avoid consuming additional electricity. In addition, we have upgraded part of our lighting system by replacing with motion-sensing dimmable LED lights. By adopting a highly energy efficient lighting technology, we have saved an estimate of 12,000 KWh of electricity per year. All new measures have prevented a total of 97 tonnes of CO_{2e} emissions in 2016. We will continue to make positive progress on environmental stewardship by proactively planning ahead.

To optimise our management strategy more efficiently, the “Energy Efficiency Plan 2017-2020” is introduced at all our spray drying factories in the Netherlands. With a goal to continuously reduce our energy consumption by 2020, the plan describes energy saving measures of Ausnutria for the coming four years. Under the plan, we keep track of our energy consumption and analyse the data in order to search for possibilities to lower the consumption. We are determined to invest in energy saving measures and have been working on different areas to achieve the goal.

Implementation of our “Energy Efficiency Plan 2017-2020”



Under the “Energy Efficiency Plan 2017-2020”, we monitor and evaluate the progress and results of our energy saving measures on an annual basis. We have established a clear timeline to introduce a wide variety of energy-saving projects by 2020. In the coming years, we are planning to further enhance and upgrade the equipment at our factories. Some examples are to increase the number of isolated pipelines and implement more energy efficient engines. We are also planning to fully adopt LED lightings to further reduce energy consumption.



dutch dairy association



Case Study:

Ausnutria's Contribution to Achieving Sustainability within the Industry

Ausnutria has joined the Dutch Dairy Association (“NZO”), a trade association representing the interests of dairy companies in the Netherlands. Under four working areas, namely sustainability, nutrition, quality, and market, NZO aims to reinforce its members’ abilities to produce and market their products. As a member of the NZO, Ausnutria has been actively contributing by joining one of their working groups where we promote knowledge sharing among members on Dutch milk processing.

Ausnutria is also a member of a joint initiative of NZO and LTO Nederland named the “Sustainable Dairy Chain (Duurzame Zuivelketen)”. Under the initiative, ambitious goals are formulated with an aim to achieve a sustainable production of dairy products by 2020. Through collective efforts with other members, Ausnutria pledged to take an active role in the initiative. We take the responsibility to provide advices on the implementation and other practical issues involved in achieving the goals, in particular on environmental goals. This includes sharing professional experience on energy-saving measures, sustainable energy generation and collective purchase of solar panels.

In the PRC, we have also published guidelines with regard to the environmental management procedures and the conservation of electricity for all of our employees. They are expected to observe and follow the guidelines under any circumstances. Some of the rules have been implemented like refraining from turning on lights in daytime when there is sufficient daylight during working hours. Employees working at night are only allowed to turn on the lighting necessary for their work. Moreover, we prohibit employees from turning on air conditioning or heating when the room temperature is between 16-28°C. We ensure all employees do their best to conserve electricity by communicating this concept to all departments. We believe that hard work will pay off, so we place a high importance in adopting a sustainable working style in our everyday business operation.

Energy consumption by type, Year 2016

Electricity	19,955,076 KWh
Unleaded petrol	35,857 Litre
Diesel	6,222 Litre
Natural gas	10,956,456 m ³
Renewable energy	1,671,935 KWh

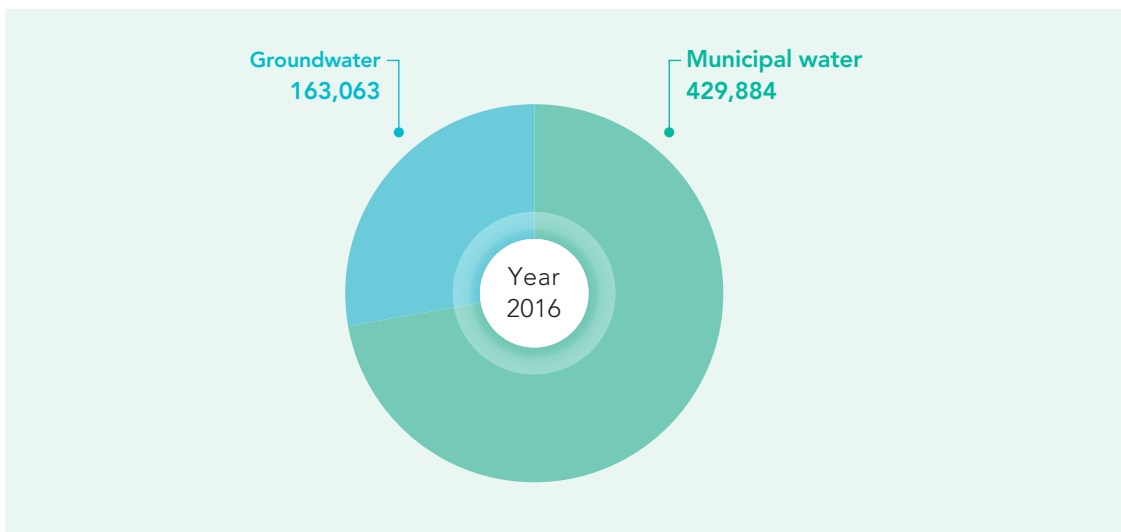
7.2 Water Management

During the production of our dairy products, a considerable amount of water is needed. Therefore, it is crucial for us to constantly review various water-saving initiatives focusing on water consumption reduction and wastewater recycling.

Factories in the Netherlands use water and ground water simultaneously during their operations. In 2016, the factory in Ommen started reusing the water from the cooling system instead of using water from wells. As a result, this closed system successfully conserved 40,000 m³ of water in this year. Moreover, the cleaning water in the Ommen factory is also reused as cleaning water for other facilities. The condensed water generated during production in the factory in Kampen is reused by the steam boiler for Clean-In-Place (CIP). Our dedication in promoting the efficient use of water is presented in the above initiatives, and we look forward to witnessing further improvements in water consumption and wastewater recycling.

We extended our efforts in managing wastewater generation to our operations in the PRC. As stated in our environmental management procedure, sewage must be treated to reach the effluent standard before it is discharged into municipal sewage pipes. The production department has also installed water taps with automatic sensors to better conserve water. Furthermore, by recycling the cooling water from the air conditioning system, more water is expected to be conserved. Our goal is to reduce water consumption and improve our water recycling work every year to promote sustainable development.

Water consumption by source (in m³), Year 2016



7.3 Waste Management

Certain amount of waste is produced at various stages of our production process. Through properly managing our waste production, Ausnutria is devoted to reduce the burden added to landfills due to our operations by combining our efforts of reducing the amount of waste at source and reusing and recycling waste whenever possible.

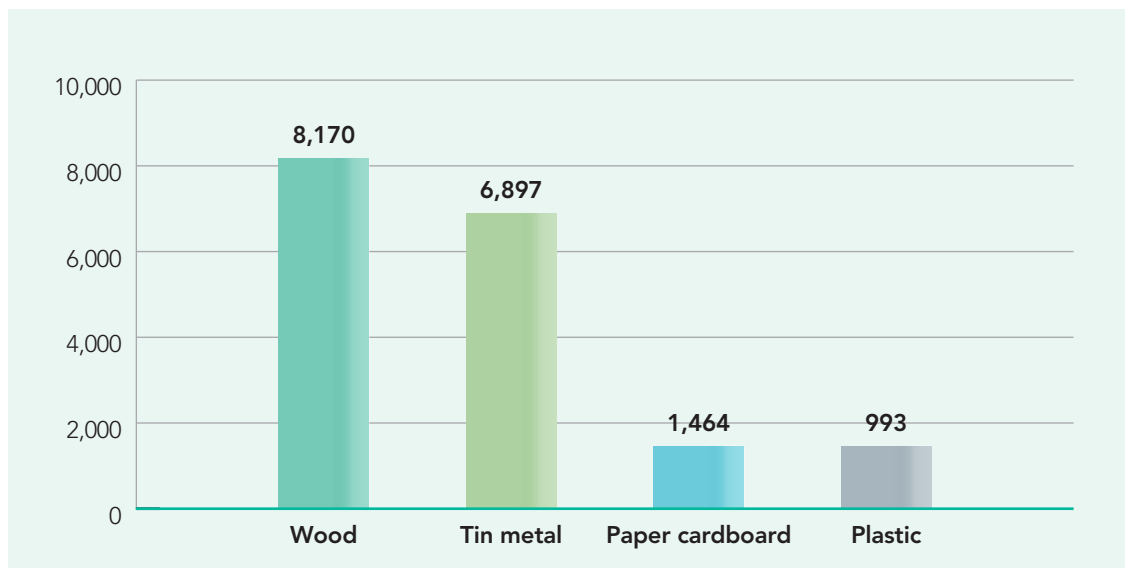
Systematic and clear waste handling procedures are implemented across our operations. We ensure that waste, including hazardous waste, generated from our production processes are properly sorted and handled by local specialised waste processors or licenced operators. Most waste processors in the Netherlands will explore ways to transform waste into useful materials in order to reduce the impact on the environment as much as possible. For example, our factory in Kampen has turned the Lyempf Kampen milk and milk powder into biogas with a waste processor, which is a valuable energy resource. Waste generated from our operations in the PRC are also collectively managed by licensed operators, where recyclable waste, such as paper boxes, metals and packaging materials, are handled separately. To allow effective management of waste across our operations in the Netherlands and the PRC, we strictly monitored our performance by keeping records of our waste generation, disposal, recycle and reuse.

Internally, we constantly explore opportunities to further improve our recycle and reuse practices. In 2016, we have successfully recycled over 8,000 tons of liquid waste residues which would have been disposed of otherwise. Additionally, we have looked into our hazardous waste generation and have been trying to recycle our waste machine oil to become useful resources to facilitate our production. In the PRC, waste machine oil is distributed to construction sites to use as a lubricant for machineries.

An effective waste management has to be coupled with good behaviours and practices from our employees. Apart from our production lines, we require our employees to use double-sided printing or recycled paper for documents for internal circulation. We also encourage our employees to purchase environmentally friendly office supplies. Through our daily collective efforts, we believe that the quality of our environment will also improve progressively.

Considering the environmental impact of packaging materials, we are dedicated to adopt simple packaging for our products that will cause the least burden to the environment. We sincerely hope that customers can enjoy our products in a sustainable way and be thoughtful of the environment at the same time.

Packaging materials by weight (in tons), Year 2016



8. OUR COMMUNITY

In Ausnutria, making profit is not our only focus. We also consider social participation as one of the key values within Ausnutria. Being a well-established company, Ausnutria believes that it should contribute to society without expecting an immediate return because it creates value for its customers and society in the long run. It is our devotion to make a positive contribution to society for a better tomorrow. This year, our investment in the community has made a remarkable impact. Our contributions to charitable donations in terms of value of goods donated amounted to a total of approximately RMB28.0 million. Under our encouragement, our employees have devoted close to 5,000 hours to volunteer work.

We have always been conscious about taking care of our direct neighbourhood and strive to optimize the living comfort for the community. By reaching out to the neighbourhood and meeting with them regularly, we keep the neighbourhood informed about the development of the Group and the community. We listen to their concerns and proactively respond to them. As such, we have taken actions to reduce the nuisance generated from our factories this year, hoping to minimize the social impacts of our operations. To continuously support to the community, we assisted the local fire department to conduct safety exercises at our factory in Leeuwarden.

Ausnutria endeavours to involve into a wide range of charitable activities. To expand our impact in the communities, we have sponsored and organized a variety of charity events in 2016. For example, in the PRC, Ausnutria formed partnerships with Changsha Welfare Institute (長沙市社會福利院) and other organisations and actively participated in charity affairs. A charity project named “Kabrita U Love Plan (優愛行動)” was set up in 2013, with the joint hands of employees, consumers, distributors and industry practitioners across the nation, Ausnutria delivered free infant and child supplies such as *Kabrita* to the underprivileged families, social welfare institutes, orphanages and rehabilitation hospitals in 27 provinces and municipalities including Inner Mongolia, Xinjiang, Shandong, Shanxi, Hebei, Sichuan, Guizhou, Yunnan, Hunan, Hubei, Guangxi, Guangdong and Fujian. *Kabrita* was awarded the “Charity Practice Award 2016(二零一六年度公益踐行獎)” for its excellent reputation and commitment to social responsibilities, while the “Kabrita U Love Plan” was awarded the “Charity Project Award 2016 (二零一六年度公益項目獎)” by the 6th China Charity Festival (中國公益節). The “Mother Love 800g (母愛800g)”, another charity project of Ausnutria in the PRC, which was a caring children in poverty program launched in 2015, was accredited as the outstanding unit (優秀理事單位) by Hunan Charity Federation (湖南省慈善總會) in 2016. There has been more than 100 events organised or participated through donation of material supplies like milk powder since the launch of the “Mother Love 800g”.



◆ Donation by the “Mother Love 800g” program



✧ A social practice group named “Hello · Nutrition”

Apart from charity contribution, Ausnutria also devotes to educating the public on the importance of infant nutrition to the growth and development of infants and thus, we organised and arranged series of relevant events. For example, we, together with the health science center of Peking University, organised a social practice group named “Hello · Nutrition” and went to cities like Inner Mongolia, Shanxi, Sichuan, Yunnan and Hunan to host more than 20 events including interactive seminars, large-scale free doctor appointments and donations. We educated local 390 families about early nutrition of infants through large-scale charity seminar, as well as carrying out academic exchange activities with local hospitals. At the same time, we also visited the children in the Children’s Home in Guiyang and donated materials worth more than RMB100,000.



✧ Activity of education on infant nutrition at early stage

Moreover, Ausnutria has set up a family doctor team, with experts from the health science center of Peking University as the core, to provide family doctor service, membership customized service as well as membership only activities. We also started nationwide activities focusing maternal education on maternal and infant families during pregnancy and infant nutrition at early stage and hosted for more than 2,200 shows with more than 100,000 participants and invested more than RMB15 million in total.



✧ The “Nutrition in the 1,000 days of early stage of life” project

Furthermore, in order to study the nutritional growth of infants, Ausnutria, together with the health science center of Peking University, started the maternal and infant nutrition pioneer subject “Research on the impact on the growth and development of infants by nutrition and feeding in the early stage of life”, and also launched the “Nutrition in the 1,000 days of early stage of life” project together with some city hospitals, to trace and study 800 sample families from 40 hospitals in 8 cities from all over the PRC for three consecutive years, 10 large-scale theme shows regarding the “Nutrition in the 1,000 days of early stage of life” were also organized and some experts from the health science center of Peking University were invited to the shows to share their knowledge in form of seminar. In addition, Ausnutria also co-organised with hospitals to host 89 free mother classes for first-time mothers, covering more than 2,500 families.



✧ The “Expert Platform for Nutrition and Health Management for Newborns in China”

In addition, Ausnutria, together with the Chinese Committee on Children Health, Chinese Medical Doctor Association and the Chinese Committee of Experts on Nutrition and Health Management for Newborns, jointly started the “Expert Platform for Nutrition and Health Management for Newborns in China”. This platform concerns about nutrition in early stage of life, scientific management of infant nutrition and health, as well as promoting and advocating the concept of “Healthy Medical Science”. So far we have provided related service to more than 70,000 families and pushed relevant nutritional information online for more than 100 passages.



- “Super Mums V Class (辣媽V班生)” jointly organised by Ausnutria, the health science center of Peking University, “Super Mums College (辣媽學院)” and mama.cn

Apart from first-time mothers, Ausnutria has also contributed to the education of father-and mother-to-be. Jointly with the health science center of Peking University, “Super Mums College (辣媽學院)” and mama.cn, we organised, through Wechat platform, the “Energy for Fathers (孕期父能量)” and “Super Mums V Class (辣媽V班生)” for more than 2,000 classes. Through the explanation by professional instructors, the father- and mother-to-be are guided on how to mix and supplement the nutrition scientifically so their babies can have a healthier growth.



- International Goat Milk Development Summit 2016 (國際羊乳發展高峰論壇)



- The Fourth Generation of Infant Formula Technology Development Forum (第四代嬰幼兒奶粉科技發展高峰論壇)

Simultaneously, we value knowledge exchange within the industry. For instance, Ausnutria, together with China Dairy Engineering Technology Research Centre (國家乳業工程技術研究中心), organised the China International Dairy Industry Cooperation Meeting (中國國際乳業合作大會) held in Harbin, the PRC in 2016 to co-convene the Fourth Generation of Infant Formula Technology Development Forum (第四代嬰幼兒奶粉科技發展高峰論壇) and the International Goat Milk Development Summit 2016 (國際羊乳發展高峰論壇). Expertise, scholars and enterprise representatives from the PRC and overseas were invited to the forum to explore the value and development of the fourth generation infant formula and goat milk. Through actively cooperating with industry peers and enterprises, we aim to promote the healthy development of the industry and contribute to nutrition to mankind.

We realise our responsibility to the communities, and are determined to create long-term and mutual values among us and the communities. We look forward to taking up more corporate social responsibility in the coming years to create a sustainable, beautiful and liveable society together with our communities.

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