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 2017

FINANCIAL HIGHLIGHTS

	2017	2016	*% of*
	RMB'M	*RMB'M*	*Change*
Revenue	**3,926.5**	2,740.3	43.3
Gross profit	**1,690.2**	1,124.9	50.3
Gross profit margin *(%)*	**43.0**	41.1	1.9 *(pps.)*
Earnings before interest, tax, depreciation and amortisation	**503.3**	333.3	51.0
Profit for the year (after non-controlling interests)	**308.1**	212.7	44.9
Basic earnings per share *(RMB cents)*	**24.61**	17.04	44.4
Final dividend per share *(HK$)*	**0.10**	0.05	100.0

For the year ended 31 December 2017 (the "Year 2017"), Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively, the "Group") recorded the followings:

- Revenue amounted to RMB3,926.5 million, representing an increase of RMB1,186.2 million or 43.3% from RMB2,740.3 million for the year ended 31 December 2016 (the "Year 2016"). Among which revenue derived from own-branded business increased by 57.5% to RMB2,862.6 million.
- Gross profit amounted to RMB1,690.2 million, representing an increase of RMB565.3 million or 50.3% from RMB1,124.9 million for the Year 2016.
- Profit for the year amounted to RMB308.1 million, representing an increase of RMB95.4 million or 44.9% from RMB212.7 million for the Year 2016.
- Basic earnings per share increased from RMB17.04 cents for the Year 2016 to RMB24.61 cents, representing an increase of 44.4%.

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 per share (2016: HK$0.05) of the Company for the Year 2017.

The Board is pleased to announce the audited consolidated financial results of the Group for the Year 2017 together with the comparative figures for the Year 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2017

	Notes	**2017** **RMB'000**	2016 *RMB'000*
REVENUE	*5*	**3,926,466**	2,740,262
Cost of sales		**(2,236,267)**	(1,615,403)
Gross profit		**1,690,199**	1,124,859
Other income and gains	*5*	**57,463**	62,631
Selling and distribution expenses		**(969,127)**	(646,411)
Administrative expenses		**(298,025)**	(215,656)
Other expenses		**(28,466)**	(14,055)
Finance costs	*7*	**(22,110)**	(17,849)
Share of profits and losses of:			
A joint venture		**940**	–
Associates		**7,671**	4,233
Profit before tax	*6*	**438,545**	297,752
Income tax expense	*8*	**(103,765)**	(63,756)
PROFIT FOR THE YEAR		**334,780**	233,996
Attributable to:			
Owners of the parent		**308,133**	212,672
Non-controlling interests		**26,647**	21,324
		334,780	233,996
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	*9*		
Basic			
– For profit for the year *(RMB cents)*		**24.61**	17.04
Diluted			
– For profit for the year *(RMB cents)*		**24.37**	17.01

	2017	2016
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**334,780**	233,996
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(10,495)**	(28,173)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(10,495)**	(28,173)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gains on the defined benefit plan	**10**	6,835
Income tax effect	**(3)**	(1,640)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**7**	5,195
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(10,488)**	(22,978)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**324,292**	211,018
Attributable to:		
Owners of the parent	**301,365**	191,594
Non-controlling interests	**22,927**	19,424
	324,292	211,018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,537,068**	830,891
Prepaid land lease payments		**27,960**	28,808
Goodwill	*10*	**155,596**	135,069
Other intangible assets		**330,027**	150,648
Investment in a joint venture		**43,122**	–
Investments in associates		**65,183**	52,103
Deposit paid		**58,543**	35,000
Derivative financial instruments		**13,856**	–
Deferred tax assets		**170,692**	154,085
Total non-current assets		**2,402,047**	1,386,604
CURRENT ASSETS			
Inventories	*11*	**1,083,385**	800,259
Trade and bills receivables	*12*	**225,412**	216,990
Prepayments, deposits and other receivables		**305,206**	194,834
Derivative financial instruments		**729**	–
Pledged deposits	*13*	**968,701**	778,427
Cash and cash equivalents	*13*	**635,650**	546,532
Total current assets		**3,219,083**	2,537,042
CURRENT LIABILITIES			
Trade payables	*14*	**271,925**	151,934
Other payables and accruals		**1,201,078**	797,007
Derivative financial instruments		**1,592**	2,482
Interest-bearing bank loans and other borrowings		**1,158,040**	761,455
Tax payable		**130,605**	115,711
Total current liabilities		**2,763,240**	1,828,589
NET CURRENT ASSETS		**455,843**	708,453
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,857,890**	2,095,057

	2017	2016
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,857,890**	2,095,057
NON-CURRENT LIABILITIES		
Interest-bearing bank loans and other borrowings	**814,144**	451,155
Defined benefit plan	**6,374**	6,138
Deferred tax liabilities	**90,366**	48,113
Total non-current liabilities	**910,884**	505,406
Net assets	**1,947,006**	1,589,651
EQUITY		
Equity attributable to owners of the parent		
Share capital	**109,172**	108,455
Reserves	**1,631,319**	1,359,614
	1,740,491	1,468,069
Non-controlling interests	**206,515**	121,582
Total equity	**1,947,006**	1,589,651

1. CORPORATE AND GROUP 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 at (i) Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong; (ii) 8th Floor, XinDaXin Building A, No. 168, Huangxing Middle Road, Changsha City, Hunan Province, the People's Republic of China (the "PRC"); (iii) Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands; and (iv) 25-27 Keysborough Avenue, Keysborough VIC 3173, Australia. The shares of the Company (the "Shares") were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The Company acts as an investment holding company of the Group. During the year, the Group is principally engaged in the research and development ("R&D"), production, marketing and distribution of dairy and related products and nutrition products to its worldwide customers, particularly in the PRC.

2. BASIS OF PREPARATION

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 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 Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 *included in Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had two reportable operating segments in 2017 as follows:

(a) the dairy and related products segment comprises the manufacturing and sale of dairy and related products, particularly on formula milk powder products, to its worldwide customers; and

(b) the nutrition products segment comprises the manufacturing and sale of nutrition products (other than dairy related) to its customers principally in the PRC and Australia.

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

Segment assets exclude cash and cash equivalents and other bank deposits and pledged deposits 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 2017

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	**3,851,131**	**75,335**	**3,926,466**
Intersegment sales	**–**	**2,841**	**2,841**
	3,851,131	**78,176**	**3,929,307**
Reconciliation:			
Elimination of intersegment sales			**(2,841)**
Revenue from operations			**3,926,466**
Segment results	**483,333**	**(31,448)**	**451,885**
Reconciliation:			
Interest income			**33,863**
Finance costs			**(22,110)**
Corporate and other unallocated expenses			**(25,093)**
Profit before tax			**438,545**
Segment assets	**3,873,877**	**217,485**	**4,091,362**
Reconciliation:			
Elimination of intersegment receivables			**(74,583)**
Corporate and other unallocated assets			**1,604,351**
Total assets			**5,621,130**
Segment liabilities	**1,683,882**	**92,641**	**1,776,523**
Reconciliation:			
Elimination of intersegment payables			**(74,583)**
Corporate and other unallocated liabilities			**1,972,184**
Total liabilities			**3,674,124**
Other segment information			
Impairment losses recognised in profit or loss	**83,719**	**–**	**83,719**
Share of profits and losses of a joint venture	**940**	**–**	**940**
Share of profits and losses of associates	**7,671**	**–**	**7,671**
Investment in a joint venture	**43,122**	**–**	**43,122**
Investments in associates	**65,183**	**–**	**65,183**
Depreciation and amortisation	**65,235**	**11,251**	**76,486**
Capital expenditure*	**515,973**	**3,062**	**519,035**

Year ended 31 December 2016

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	2,729,283	10,979	2,740,262
Intersegment sales	–	–	–
	2,729,283	10,979	2,740,262
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			2,740,262
Segment results	332,548	(23,813)	308,735
Reconciliation:			
Interest income			37,266
Finance costs			(17,849)
Corporate and other unallocated expenses			(30,400)
Profit before tax			297,752
Segment assets	2,411,866	223,727	2,635,593
Reconciliation:			
Elimination of intersegment receivables			(36,906)
Corporate and other unallocated assets			1,324,959
Total assets			3,923,646
Segment liabilities	1,114,677	43,614	1,158,291
Reconciliation:			
Elimination of intersegment payables			(36,906)
Corporate and other unallocated liabilities			1,212,610
Total liabilities			2,333,995
Other segment information			
Impairment losses recognised in profit or loss	55,828	–	55,828
Share of profits and losses of associates	4,233	–	4,233
Investments in associates	52,103	–	52,103
Depreciation and amortisation	52,522	2,425	54,947
Capital expenditure*	268,857	15,280	284,137

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

Geographical information

(a) Revenue from external customers

	2017	2016
	RMB'000	*RMB'000*
The PRC	**2,721,950**	1,819,499
European Union	**701,248**	563,982
Middle East	**117,253**	104,977
United States of America	**95,218**	95,774
Australia	**114,384**	25,861
New Zealand	**13,544**	5,352
Others	**162,869**	124,817
	3,926,466	2,740,262

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

(b) Non-current assets

	2017	2016
	RMB'000	*RMB'000*
The PRC	**343,055**	177,430
The Netherlands	**1,352,371**	852,094
Australia	**365,646**	143,247
New Zealand	**170,283**	59,748
	2,231,355	1,232,519

The non-current assets 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 (2016: 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 revenue, other income and gains is as follows:

	Note	**2017** ***RMB'000***	2016 *RMB'000*
Revenue			
Sale of goods		**3,926,466**	2,740,262
Other income and gains			
Interest income		**33,863**	37,266
Foreign exchange gains		**–**	11,692
Government grants	*(i)*	**10,675**	3,728
Insurance claim for business interruption		**–**	2,540
Management fees income from an associate		**1,833**	1,046
Others		**11,092**	6,359
Total other income and gains		**57,463**	62,631

(i) Various government grants have been received for investments in Hunan province, the PRC, where the Company's subsidiaries operate. All these grants are related to expenses and there were no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**2,152,548**	1,560,279
Write-down of inventories to net realisable value	**83,719**	55,124
Cost of sales	**2,236,267**	1,615,403
Depreciation	**56,136**	44,429
Amortisation of prepaid land lease payments	**848**	357
Amortisation of other intangible assets	**19,502**	10,161
Research and development costs	**37,908**	27,038
Minimum lease payments under operating leases	**11,436**	7,132
Loss on disposal of items of property, plant and equipment	**–**	1,741
Foreign exchange differences, net	**3,488**	(11,692)
Fair value gain on derivative instrument:		
– transaction not qualifying as hedge	**(715)**	–
Write-off of trade receivables	**–**	704
Loss on disposal of items of other intangible assets	**–**	945
Auditor's remuneration	**7,220**	6,575
Advertising and promotion expenses	**408,358**	312,291
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**445,092**	331,916
Equity share option expense	**7,585**	11,793
Pension scheme contributions*	**31,707**	20,828
	484,384	364,537

* *At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans	**26,185**	21,969
Interest on finance leases	**530**	669
Total interest expense on financial liabilities not at fair value through profit or loss	**26,715**	22,638
Less: Interest capitalised	**(3,567)**	(5,272)
	23,148	17,366
Other finance costs:		
Unrealised loss/(gain) on an interest rate swap	**(1,038)**	483
	22,110	17,849

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the year. No Hong Kong profits tax had been provided in the prior year as the Group did not generate any assessable profits arising in Hong Kong during that year.

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 CIT rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the United States tax laws, enterprises are subject to the United States CIT rate of 34% (subsequent to the end of the reporting period, enterprises are subject to the CIT rate of 21% with effect from 1 January 2018). Under the Canada tax laws, enterprises are subject to the Canada CIT rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia CIT rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand CIT rate of 28%. Under the Taiwan tax laws, enterprises are subject to the Taiwan CIT rate of 17%.

Ausnutria Dairy (China) Co., Ltd. ("Ausnutria China") was designated as a High-tech Enterprise from 2010, and was granted a preferential CIT rate of 15% since then. During 2017, the application for the renewal of the designation of Ausnutria China as a High-tech Enterprise, which expired in December 2016, has been approved and Ausnutria China was granted the preferential CIT rate of 15% for another three years ending 31 December 2019.

	2017	2016
	RMB'000	*RMB'000*
Current charge for the year – Mainland China		
Charge for the year	**114,428**	115,477
Underprovision in prior years	**–**	107
Current charge for the year – The Netherlands		
Charge for the year	**3,004**	4,110
Underprovision in prior years	**1,034**	173
Current charge for the year – Hong Kong		
Charge for the year	**1,022**	–
Underprovision in prior years	**653**	–
Current charge for the year – Taiwan		
Charge for the year	**464**	–
Deferred income tax	**(16,840)**	(56,111)
Total tax charge for the year	**103,765**	63,756

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 1,251,839,982 (2016: 1,247,732,530) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the share option issued. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Earnings

	2017	2016
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**308,133**	212,672

Shares

	2017	2016
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,251,839,982**	1,247,732,530
Effect of dilution – weighted average number of ordinary shares:		
Share options	**12,748,442**	2,441,325
	1,264,588,424	1,250,173,855

10. GOODWILL

	RMB'000
At 1 January 2016:	
Cost	**72,053**
Accumulated impairment	**–**
Net carrying amount	**72,053**
Cost at 1 January 2016, net of accumulated impairment	**72,053**
Acquisition of Nutrition Business	**61,798**
Exchange realignment	**1,218**
Cost and net carrying amount at 31 December 2016	**135,069**
At 31 December 2016:	
Cost	**135,069**
Accumulated impairment	**–**
Net carrying amount	**135,069**
Cost at 1 January 2017, net of accumulated impairment	**135,069**
Acquisition of Youluck and the ADP Group *(note 15)*	**14,856**
Exchange realignment	**5,671**
Cost and net carrying amount at 31 December 2017	**155,596**
At 31 December 2017:	
Cost	**155,596**
Accumulated impairment	**–**
Net carrying amount	**155,596**

11. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**369,011**	239,805
Finished goods	**703,833**	555,059
Others	**10,541**	5,395
Total	**1,083,385**	800,259

12. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**200,855**	161,943
Bills receivable	**24,557**	55,047
Total	**225,412**	216,990

The Group normally allows a credit period from 1 to 12 months (2016: 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.

Included in the Group' trade receivables are amounts due from associates of EUR1,450,000 (equivalent to approximately RMB11,313,000) (2016: EUR624,000, equivalent to approximately RMB4,559,000) and amount due from a joint venture of AUD811,000 (equivalent to approximately RMB4,130,000) (2016: Nil), which are repayable on similar credit terms to those offered to the major customers of the Group.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**187,246**	151,471
3 to 6 months	**7,413**	2,709
6 months to 1 year	**3,298**	5,510
Over 1 year	**2,898**	2,253
Total	**200,855**	161,943

There was no provision for impairment as at 31 December 2017 (2016: Nil). The carrying amounts of the trade and bills receivables approximate their fair values.

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017	2016
	RMB'000	*RMB'000*
Cash and bank balances	**398,361**	448,262
Time deposits	**1,205,990**	876,697
	1,604,351	1,324,959
Less: Pledged deposits	**(968,701)**	(778,427)
Cash and cash equivalents	**635,650**	546,532

14. TRADE PAYABLES

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

	2017	2016
	RMB'000	*RMB'000*
Within 12 months	**271,326**	151,001
Over 12 months	**599**	933
	271,925	151,934

Included in the trade payables are amounts due to associates of EUR3,072,000 (equivalent to approximately RMB23,972,000) (2016: EUR1,603,000, equivalent to approximately RMB11,712,000) and amount due to a joint venture of AUD19,000 (equivalent to approximately RMB97,000) (2016: Nil), which are repayable within 60 days.

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

15. BUSINESS COMBINATION

Pursuant to the agreements and supplemental agreements entered into between the Group and six independent parties (the " Youluck Vendors") on 23 March 2017 and 28 April 2017, respectively, the Group agreed to purchase and the Youluck Vendors agreed to sell an aggregate of 60% equity interest in Youluck International Inc. ("Youluck"), which is principally engaged in the marketing and distribution of infant formula and infant food products and the trading of nutrition products in Taiwan, at a cash consideration of TWD45.3 million (equivalent to approximately RMB10.4 million) (the "Youluck Acquisition"). The Youluck Acquisition was completed on 28 April 2017.

The Group has elected to measure the non-controlling interest in Youluck at the non-controlling interest's proportionate share of Youluck's identifiable net assets.

Pursuant to an agreement entered into between the Group and ADP Group Limited (the "ADP Vendor") on 22 May 2017, the Group agreed to purchase and the ADP Vendor agreed to sell the entire equity interest in ADP Holdings (Australia) Pty Ltd. ("ADP Holdings") (the "ADP Acquisition"). ADP Holdings and its subsidiaries (the "ADP Group") are principally engaged in the manufacturing, packaging and sale of dairy and milk powder products and related R&D activities with production facilities and business located at the Victoria state, Australia. The consideration of the ADP Acquisition was satisfied by cash of AUD10.0 million (equivalent to approximately RMB51.3 million) and by the issue and allotment of 13,928,571 shares of Ausnutrition Care Pty Ltd. ("ACP") (the "ACP Shares") to the ADP Vendor. The ADP Acquisition was completed on 5 July 2017. ADP Holdings is thereafter wholly-owned by ACP and the Company's interest in ACP was diluted to 70%.

The fair values of the identifiable assets and liabilities of Youluck and the ADP Group as at the respective dates of acquisitions were as follows:

	Fair values recognised on acquisitions *RMB'000*
Property, plant and equipment	**56,351**
Intangible assets	**153,418**
Deferred tax assets	**506**
Inventories	**33,047**
Trade receivables	**11,338**
Prepayments, deposits and other receivables	**9,379**
Cash and cash equivalents	**11,463**
Trade payables	**(11,473)**
Other payables and accruals	**(29,674)**
Tax payable	**(1,240)**
Interest-bearing bank loans and other borrowings	**(68,670)**
Deferred tax liabilities	**(48,203)**
Total identifiable net assets at fair value	**116,242**
Non-controlling interests	**(5,156)**
Goodwill on acquisition	**14,856**
Total consideration	**125,942**
Satisfied by:	
Cash	**62,075**
Issue of the ACP Shares	**63,867**
	125,942

The Group incurred transaction costs of RMB6,055,000 for the acquisitions. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisitions of Youluck and the ADP Group are as follows:

	RMB'000
Cash consideration	**(62,075)**
Cash and bank balances acquired	**11,463**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(50,612)**
Transaction costs of the acquisitions included in cash flows from operating activities	**(6,055)**
	(56,667)

Since the acquisition, the above acquired companies contributed RMB105,485,000 to the Group's revenue and RMB328,000 to the consolidated profit for the year ended 31 December 2017.

Assuming the combination took place at the beginning of the year, the revenue from the operations of the Group and the profit of the Group for the year would be RMB4,028,736,000 and RMB338,509,000, respectively.

16. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Proposed final dividend – HK10 cents (2016: HK5 cents) per ordinary share	**104,995**	55,805

The proposed final dividend for the year is subject to the approval of the Company's shareholders (the "Shareholders") at the forthcoming annual general meeting ("AGM").

OVERVIEW OF 2017

Business Overview

The Year 2017 is the second year of the "Golden Decade" strategic plan, which was formulated by the Company at the end of 2015. During the year, the Company continued to implement its strategic plans, including:

(i) increasing its effort on the building of a global supply chain on formula milk powder products;

(ii) strengthening the global sales network, particularly in the PRC;

(iii) streamlining the operations of the overseas nutritional business to cater for the development in the PRC market; and

(iv) increasing the investment in team building and human resources, in order to accommodate the long-term vision of the Group.

The above steps are paying off in terms of operation performance, product diversification, and a strengthened business chain for the Group. In addition, the Group has achieved satisfactory results in developing its global market network and enhancing consumer services during the year.

There were new challenges in the dairy industry during the year, in the form of tightened rules and regulations from governments, especially in the PRC, the Group's principal market. Nevertheless, the Group achieved a continuous growth in both revenue and operating results for the Year 2017. The growth was driven mainly by:

(i) continuous fine tuning of the strategic plans of the Group's core business, the own-branded infant formula;

(ii) product differentitation, particularly the success in launching *Kabrita* and organic infant formula;

(iii) improvements in the Group's sales network, organisational structure, and the capability of the Group's team;

(iv) increased public recognition of the high-quality standards of infant formula produced by the Group. The Company believes that the Group is one of the very few players in the PRC market that possesses the entire business chain from sourcing of milk supply and with production facilities based in overseas and having an extensive firmly-established distribution network in the PRC; and

(v) clear brand positioning and the implementation of innovative business strategies, which allowed the Group to penetrate different sectors and cater effectively to different market demands.

Additionally, because of the stable growth in demand for infant formula in the PRC (attributable to the steady growth in newborns), and the increasingly high industry entry barriers that result from the PRC's new regulations, the Company believes that the Group will benefit from the industry reforms in the long run.

Formula Milk Products Business

(A) Own-branded Cow Milk

In 2003, the Group commenced its marketing and distribution of cow milk formula products in the PRC, with its milk source based principally in Australia, under the brand names of *Allnutria*, *A-Choice*, and *Best-Choice*. In order to meet the continuous growth of the PRC's demand for formula milk powder products, and the needs of its wide range of consumers, the Group in recent years launched other formula brands, including *Hyproca 1897*, *Puredo*, *Mygood*, and *Eurlate*. For marketing and strategic reasons, these brands are operated by different business units of the Group. Furthermore, in order to ensure a stable and sufficient formula milk powder supply, and mitigate the risk of milk source concentration, the Group diversified its formula milk powder supply to a number of countries in recent years. For the Year 2017, the formula milk powder products sold by the Group in the PRC are imported from the Netherlands, New Zealand, Australia, and France. The Board believes that the above strategies will facilitate the steady, long-term growth of the Group.

For the Year 2017, sales of own-branded cow milk formula products amounted to RMB1,582.8 million, representing an increase of RMB563.9 million, or 55.3% as compared with the Year 2016.

(B) Own-branded Goat Milk

The Group's goat milk infant formula is marketed under the brand name of *Kabrita*. During the Year 2017, sales of *Kabrita* continued to be promising. In particular, it continues to be ranked as the number one imported goat milk infant formula in the PRC in terms of both sales value and volume.

All *Kabrita* series products are manufactured by the production facilities of the Group in the Netherlands, since their launch in 2011. The continuous success in *Kabrita* is mainly attributable to (i) the effective and innovative marketing strategy launched by the Group; (ii) the increasing market recognition of its higher nutritional value and the fact that it is more easily digested than cow milk formula; (iii) the supply network, well-established over the years, which enables the Group to secure all of the major ingredients (particularly goat whey) for the production of *Kabrita*; and (iv) the geographical location of the Group's manufacturing plant in the Netherlands, which enables ample supply of quality goat milk to support the unceasing growth of *Kabrita*.

For the Year 2017, sales of *Kabrita* in the PRC and overseas amounted to RMB1,067.2 million and RMB212.6 million, representing an increase of RMB403.7 million, or 60.8% and RMB77.2 million, or 57.0%, respectively, when compared with the Year 2016.

The presence of *Kabrita* has expanded to sixty-six countries and regions during the year. The Group will continue to launch *Kabrita* in other countries and aim to become a global leader in goat milk infant nutrition products. This ambition will be facilitated by (i) studies and clinical trials conducted by the medical school of Peking University; (ii) clinical studies in Europe; and (iii) in-house R&D in the Netherlands and North America, per the application for US Food and Drug Administration approval ("US FDA"). As it is anticipated that more markets recognise the nutritional value and superior quality of *Kabrita*, our business will expand.

(C) Private Label business

Alongside the development of its own-branded business, the Group also produces formula milk powder products for other worldwide customers on an OEM basis (the "Private Label"). For the Year 2017, sales of the Private Label business, which represented 10.7% (2016: 17.2%) of the total revenue of the Group, decreased by 10.6% to RMB422.0 million. During the Year 2017, the blending and packaging operations of the Group's factories in the Netherlands and the PRC were usually running at full capacity. The decrease in sales of the Private Label business was due mainly to a higher proportion of the production capacity being allocated to serve the Group's own-branded infant formula business, which recorded an increase in sales by 57.5% during the year.

Nevertheless, the Company believes that the Private Label business will continue to be an important sector in these fast-growing times for the Group. In particular, with the completion of new factories in the Netherlands at the end of 2017, the Private Label business can help to maximise the operation efficiency of production facilities, achieving economies of scale while simultaneously providing a reasonable return to the Group.

Nutrition Business

The Group commenced its manufacturing and distribution of nutrition products through the acquisition of the nutrition business in Australia. The acquisition was completed in October 2016. It includes the development, manufacturing, packaging, and distribution of complementary medicine, nutritional and health care products, under the brand names of "*Nutrition Care*" and "*Brighthope*". It also includes the provision of contract manufacturing services in its facilities, which are Therapeutic Goods Administration ("TGA") certified and located in Australia (the "Nutrition Business"). Prior to the acquisition by the Group, the products of the Nutrition Business were marketed and distributed mainly in Australia and New Zealand. For the Year 2017, revenue and operating performance derived from this sector amounted to RMB75.3 million (period ended 31 December 2016: RMB11.0 million) and loss attributable to the Company of RMB16.4 million (period ended 31 December 2016: RMB14.5 million).

Since the above acquisition, the Group has been active in streamlining the operations of the Nutrition Business and identifying the key and potential products to be introduced into and launched in overseas markets, particularly the PRC. The Group has launched a number of nutrition products including Gut Relief in late 2016 (*Nutrition Care* brand), which has a beneficial effect on the gastrointestinal tract, and Soforla in late 2017, a supplement that resolves lactose intolerance in infants. Gut Relief is distributed mainly in the PRC through e-commerce platforms such as a JD and Tmall, along with daigou. Soforla is distributed mainly through the Group's existing channels of formula milk powder products. Total sales of Gut Relief and Soforla since they were launched in the PRC during the year amounted to RMB31.8 million. As consumers in the PRC are becoming more health-conscious over time, the Group believes that the Nutrition Business will benefit from the increasing market demand of nutrition products by leveraging on its infrastructure and wide distribution network.

Production

The Group, between 2011 and 2015, acquired 100% of Ausnutria Operations B.V. (formerly Ausnutria Hyproca B.V.), and in 2014, a 50% equity interest in Farmel Holding B.V., a company together with its subsidiaries (the "Farmel Group"), engaged in the collection and trading of milk in Europe, completed the establishment of the entire business chain on the production of dairy products from the collection of milk in the Netherlands, R&D, quality controls, production, and to the marketing and distribution of dairy products to the worldwide customers of the Group.

Over the years, in order to accommodate the long-term growth in demand of the Group's products, and to accomplish the long-term vision of the Group to become one of the major global players on dairy products, the Group has approved a number of upstream capital expenditure plans. These include the construction of a number of new factories in the Netherlands and New Zealand, and the acquisition of a factory in Australia. The Group considers those countries to be the world's "golden milk zone" and thus can deliver the best quality and most stable supply of milk and dairy products to meet the increasing demand. Additionally, the Group has approved the expansion of the blending and packaging capacity of its factory in Changsha city, the PRC, for the production of formula milk powder products that are imported in bulk pack form.

The Netherlands

According to the import data from the customs of the PRC, the total import volume of infant formula from other countries to the PRC amounted to approximately 360,200 tons (2016: approximately 296,600 tons), of which the Netherlands accounted for 30.2% (2016: 38.1%), the largest import country of infant formula to the PRC for the past two years. This data confirms the increasing recognition of the quality of infant formula products produced in the Netherlands.

In 2015, the Board approved the building of a new formula milk powder blending and packaging complex in the Netherlands. The purpose was to cater to the long-term growth in demand of the Group's formula milk powder products, especially *Kabrita*, which is 100% originated in the Netherlands. The complex was owned by two separate wholly-owned subsidiaries of the Company, named Ausnutria Heerenveen Hector B.V. (the "Hector Factory") and Ausnutria Heerenveen Pluto B.V. (the "Pluto Factory").

Both the Hector Factory and the Pluto Factory have already received their respective production licenses in the Netherlands during the year, and have fulfilled the registration requirements for the Certification and Accreditation Administration of the PRC (the "CNCA") approval. At the date of this announcement, there are a total of ten infant formula blending and packaging factories in the Netherlands duly registered with the CNCA, of which three are wholly-owned by the Group. This demonstrates the competitive advantage of the Group in the Netherlands.

The total investment costs of the Hector Factory and the Pluto Factory amounted to approximately EUR113.2 million (equivalent to approximately RMB866.9 million), with a total design annual production capacity of 75,000 tons. Commercial production has already commenced in January of 2018.

In 2016, the China Food and Drug Administration (the "CFDA") issued the Administrative Measures for the Registration of Formulas for Infant Milk Formula Powder (《嬰幼兒配方乳粉產品配方註冊管理辦法》) (the "Formulas Registration Requirement") whereby each registered infant formula blending and packaging factory with the CNCA is allowed to register no more than three series (equivalent to nine formulas) subject to the fulfillment of respective requirements. This requirement significantly raised the entry barrier for infant formula products to be imported into the PRC.

According to the Group's strategic plan and the filing with the CFDA, the following series of the Group's infant formula will be produced by the following wholly-owned factories in the Netherlands, commencing in 2018.

Factory	Year of factory approval by CNCA	Series of infant formula registered	Status
Leeuwarden Factory	2014	*Kabrita*	Filing approved
		Hyproca Hollary	Filing approved
		Neolac	Filing approved
Hector Factory	2017	*Hyproca Hypure*	Under technical review
		Eurlate	Under technical review
Pluto Factory	2017	*Kabrita Youzhuang*	Filing approved for Steps 2 and 3*
		Allnutria	Filing approved for Steps 2 and 3*
		Myougood	Filing approved

* *Step 1 under technical review*

Australia

During the year, the Group acquired the ADP Group, with its production facilities and business located in the state of Victoria, Australia, the region that produces more than 65% of Australia's milk supply. The Group is of the view that the ADP Group has established a sound production and management system over the years. The ADP Acquisition can complement the Group's existing production portfolio by diversifying the Group's supply mix from the PRC, the Netherlands and New Zealand to Australia as well as to enhance its global presence in the industry.

As of the date of this announcement, there are a total of fifteen infant formula blending and packaging factories in Australia, including the factory owned by Australian Dairy Park Pty Ltd. ("ADP"), a wholly-owned subsidary of ADP Holdings, that have fulfilled the registration requirements of the CNCA. ADP has a total design annual production capacity of 20,000 tons. Since it was acquired by the Group during the year, production has already commenced for the Group's *Augood* and *ExtraPure* series products.

According to the Group's strategic plan and the filing with the CFDA, the following series of the Group's infant formula will be produced by ADP commencing in 2018.

Factory	Year of factory approval by CNCA	Series of infant formula registered	Status
ADP Factory	2014	*Augood*	Filing approved
		Oz Farm	Filing approved
		ExtraPure	Filing approved

New Zealand

In September 2016, the Group co-invested, by way of a capital and a shareholders' loan, with Westland Co-operative Dairy Company Limited ("Westland") (a New Zealand dairy co-operative) to form a joint venture named Pure Nutrition Limited, for the establishment of a new plant in Rolleston, New Zealand (the "NZ Factory"). The total investment cost was NZD36.5 million (equivalent to approximately RMB175.4 million). The Group and Westland have 60% and 40% respective ownerships in the NZ Factory. The principal activities of the NZ Factory are the production and sale of infant formula and other dairy based powder products, thus enlarging the Group's strategic presence in the top-tier milk sources around the globe. The NZ Factory will enhance the Company's infant formula and adult nutrition product production capacities, and allow the Company to further expand in the PRC and international markets. It will capitalise on the milk source in New Zealand and the technical edge of Westland, while laying the foundation for its future strategic development in Southeast Asian markets.

As of 31 December 2017, the Group has invested NZD34.6 million (equivalent to RMB165.8 million) in the NZ Factory, which has already obtained relevant licenses, including all of the certifications from New Zealand's Ministry for Primary Industries. It can commence production of formula milk powder products subsequent to the reporting period.

As of the date of this announcement, there are a total of fifteen infant formula blending and packaging factories in New Zealand that have succeeded in fulfilling the registration requirements approved by the CNCA. The NZ Factory, which has a total design annual production capacity of 20,000 tons, is scheduled to commence commercial production in the first quarter of 2018.

According to the Group's strategic plan and the filing with the CFDA, the following series of the Group's infant formula will be produced by the NZ Factory as soon as the registration of the respective series have been approved by the CFDA.

Factory	**Year of factory approval by CNCA**	**Series of infant formula registered**	**Status**
NZ Factory	Application	*PuredoNu*	Under technical review
	In progress	*Puredovita*	Under technical review

The PRC

The first factory of the Group was built in Changsha city, the PRC, in the early 2000s (the "First PRC Factory"), where the Group was founded. In order to accommodate the increasing demand of the Group's products, in July 2016, the Group acquired a plot of land (the "Changsha Land") that is adjacent to the First PRC Factory. This was accomplished by acquiring the entire equity interest in Mornring Nutrition Technology (Changsha) Co., Ltd.（沐林營養科技（長沙）有限公司）at a consideration of RMB28.5 million.

During the year, the Group began construction of a new infant formula blending and packaging factory on the Changsha Land (the "Smart Factory") with a design annual production capacity of 30,000 tons.

As of 31 December 2017, the Group has already invested a total of RMB78.6 million (31 December 2016: RMB28.5 million) in the Changsha Land and the Smart Factory. The construction of the Smart Factory is expected to be completed by mid-2018.

The following series of the Group's infant formula will be produced by the wholly-owned factories of the Group in Changsha city, the PRC, as soon as registrations of the respective series have been approved by the CFDA.

Factory	**Year of factory approval by CNCA**	**Series of infant formula registered**	**Status**
First PRC Factory	2014	*澳優愛優(幼優)*	Filing approved
		美納多	Filing approved
		美優高	Filing approved
Smart Factory	Construction in progress	*美納珍*	Filing in progress
		愛恩護	Filing in progress
		牛奶客	Filing in progress

Research and Development

As of 31 December 2017, the Group has more than ninety R&D personnel, of which twelve hold a doctoral degree. They are located in the PRC, the Netherlands, and Australia. The Group has also entered into strategic alliances with various universities, including The University of Groningen and Wageningen University & Research in the Netherlands, Peking University, China Agricultural University, and Hunan Agricultural University in the PRC. The goal is to develop the science for a new generation of infant formula, based on specialty milk and/or formula.

During the year, the Group also expanded its research capability in the PRC by building the Group's R&D center in Changsha city, with a gross area of 1,440 square meters.

As of the date of this announcement, the Group has a total of five infant formula blending and packaging factories duly registered with the CNCA, and it is expected to be increased to seven with the completion of the NZ Factory and the Smart Factory in 2018. They have already submitted sixteen series of infant formula applications to the CFDA, of which twelve have already been approved, with the remaining four under review. With the strong R&D capability of the Group, and the sound track record of having already obtained approval for twelve series, the Group believes that the remaining four will be approved during 2018.

As part of the long-term strategy of the Group to launch *Kabrita* worldwide, in 2014, the Group approved clinical trials to apply for approval by the US FDA, for the sale of Stage 1 and 2 *Kabrita* in the United States. In 2016, the Group received the "Generally Recognised as Safe" (GRAS) status (GRN No. 644) for the non-fat dry goat milk and goat whey protein concentrate, for use in the goat milk infant formula. This confirms that these ingredients are recognised as safe and permitted to be used as the source of protein in infant formula in the United States. The Group is putting its best efforts to complete the last few steps of the application, in particular the "Growth Monitoring" study. However, because the rate of enrolment of participating infants is slower than expected, the US FDA application is expected to be postponed from 2018 to early 2019.

Additionally, with the continuous effort to support the development of *Kabrita* with scientific measures, the R&D department in the Netherlands published a peer reviewed scientific paper during the year. It demonstrated that the digestive manner on infant that are feed by *Kabrita* is comparatively similar to human breast milk when compared with cow.

Human Resources

As of 31 December 2017, the Group's total number of full-time employees is 3,092 (2016: 2,631), of which 2,373 (2016: 1,993), 495 (2016: 452), 98 (2016: 60) and 23 (2016: 2), are located in the PRC, Netherlands, Australia and New Zealand, respectively. The total staff costs incurred for the year amounted to RMB484.4 million (2016: RMB364.5 million).

In 2015, the Group established an internal training center, Ausnutria University, in Changsha city, the PRC. Ausnutria University is a corporate university designed to foster talent, provide learning support, and develop a culture of continuing education for the staff of the Group, in order to cope with the Company's "Golden Decade" strategic plan. The three core goals of Ausnutria University are (i) boosting staff quality; (ii) optimising organisational performance; and (iii) nurturing a culture of excellence. Its programs have been well-received by the senior management since they were launched. The university also offers talent management programs for the middle management and supervisors, with the aim of speeding up the growth of the entire Ausnutria team, and nurturing key talents of each division for future needs, through professional and systematic training programs.

As it is anticipated that the headcount of the Group will continue to grow in the coming years, especially in the PRC, during the year the Group entered into agreements with the Wangcheng Bureau of Land and Resources, for the purchase of two adjacent plots of land. Their areas measure 34,424 square meters (the "Land A") and 6,922 square meters (the "Land B"), and are located in Changsha city, the PRC (the "HQ Land"). The investment in the HQ Land is for the construction of a future headquarters for the Group in the PRC.

As of the date of this announcement, the Group has already paid the cost of the Land A, RMB115.7 million, in full. The purchase of the Land B is expected to be completed before 30 April 2018.

Youluck Acquisition

On 23 March 2017 and 28 April 2017, the Group entered into share transfer agreements and share transfer supplemental agreements with the Youluck Vendors for the purchase of an aggregate 60.0% equity interest in Youluck at a total consideration of TWD45.3 million (equivalent to approximately RMB10.4 million). Youluck is a company established in Taiwan. Its principal activities are the marketing and distribution of infant formula and infant food products under the brand name "*Youluck*", as well as the trading of nutrition products in Taiwan.

The purpose of the Youluck Acquisition is to extend the Group's sales and distribution network in Taiwan, as part of the Group's strategic plan to become one of the global players in the industry. As of the date of completion of the Youluck Acquisition, Youluck has over 200 distributors in Taiwan, mainly maternity specialty stores and pharmacies. The Board believes that the Youluck Acquisition not only facilitates the Group's expansion into the Taiwan market, but also provides an immediate, well-established platform for the Group to launch its goat milk, organic infant formula, and other nutritional products in Taiwan.

The consideration for the Youluck Acquisition was determined after arm's-length negotiation between the Group and the Youluck Vendors with reference to, among other things, the net asset value, the well-established distribution network, and the branding and market position of Youluck in Taiwan. The Youluck Acquisition was completed on 28 April 2017.

ADP Acquisition

On 22 May 2017, Ausnutrition Care Pty Ltd., a wholly-owned subsidiary of the Company, entered into a share purchase deed with the ADP Vendor to acquire the entire equity interest in ADP Holdings. The consideration for the ADP Acquisition amounted to AUD22.4 million (equivalent to approximately RMB115.6 million) (the "ADP Consideration"), which was satisfied by cash of AUD10.0 million (equivalent to approximately RMB51.3 million) and by the issue and allotment of approximately 13.9 million new shares of ACP, representing 30% of the enlarged issued capital of ACP. The ADP Group is engaged principally in the manufacturing, packaging, and sale of dairy and milk powder products, as well as related R&D activities. It has production facilities and offices located in the Victoria state, Australia.

ADP was one of the first two factories in Australia granted the license by the PRC government for the import of infant formula products. It is currently one of the fifteenth infant formula manufacturing enterprises in Australia that has succeeded in fulfilling the registration requirements of the CNCA.

The ADP Consideration was determined after arm's-length negotiations between the Group and the ADP Vendor with reference to, among other things, the net asset value, production capability, future prospects of the ADP Group, and the fact that ADP is currently one of the fifteenth registered enterprises, as mentioned above.

The ADP Acquisition was completed on 5 July 2017. Since then, ADP Holdings is wholly-owned by ACP and the Company's interest in ACP was diluted to 70.0%, as a result of the issue and allotment of the ACP Shares as part of the ADP Consideration. ACP and ADP Holdings become indirect non-wholly-owned subsidiaries of the Company.

Further details regarding the ADP Acquisition are laid out in the announcement of the Company dated 22 May 2017.

Ozfarm Acquisition

On 22 May 2017, the Group entered into a share purchase deed with two independent parties (the "Ozfarm Vendors"). The Group agreed to purchase and the Ozfarm Vendors agreed to sell certain numbers of the existing shares in Ozfarm. In addition, Ozfarm agreed to issue and the Group agreed to subscribe to certain numbers of the new shares in Ozfarm. Upon completion of the above, Ozfarm is owned equally by the Group and the Ozfarm Vendors (the "Ozfarm Acquisition"). The total consideration for the Ozfarm Acquisition amounted to AUD11.0 million (equivalent to approximately RMB56.4 million) (the "Ozfarm Consideration").

Ozfarm is engaged principally in the sale and marketing of nutrition products, particularly formula milk products for infants, children, pregnant mothers, and the elderly. These products are sold in Australia, Singapore, and the PRC, under its own brand name *Oz Farm*. It also markets and exports other dairy, health care, and miscellaneous food products, such as honey. All the milk powder products of Ozfarm are manufactured by ADP.

Ozfarm, which is currently one of the major customers of ADP, owns one of the best-selling pregnant mother formula brands in Australia. In recent years, this formula has been awarded the gold medal by the Dairy Industry Association of Australia. The Ozfarm Acquisition allows the Group to not only tap into the pregnant formula market in Australia and other countries, but also expand the Group's current product range in the PRC.

The Ozfarm Consideration was determined after arm's-length negotiations between the Group and the Ozfarm Vendors with reference to, among other things, the historical financial performance of Ozfarm, the value of the *Oz Farm* brand, and its market position on formula milk products, especially the pregnant mother formula in Australia.

The Ozfarm Acquisition was completed on 5 July 2017. Since then, Ozfarm is equally owned by the Group and the Ozfarm Vendors, and become a joint venture of the Company.

Further details regarding the Ozfarm Acquisition are laid out in the announcement of the Company dated 22 May 2017.

Industry Overview

According to the National Bureau of Statistics of the PRC, the number of newborn in the PRC in 2017 and 2016 was 17.2 million and 17.9 million respectively. The Company believes that the number of newborn in the PRC will continue to increase as a result of the relaxation of the one-child policy as well as the increasing household income in the PRC which enable more families to consider a second child. The Company believes that the number of newborn, and hence the demand for infant formula, will continue to increase in the future.

Currently, there are about 112 and 96 infant formula blending and packaging factories in the PRC and overseas, respectively, which are registered with the CNCA. Following the Formulas Registration Requirement, which comes into effect on 1 January 2018, each registered infant formula blending and packaging factory with the CNCA is allowed to register no more than three series (equivalent to nine formulas) subject to the fulfillment of respective requirements. As of the date of this announcement, there are a total of 384 series and 1,138 formulas duly approved by the CFDA.

The high industry entry barrier as a result of the raising industry regulatory standards implemented by the PRC government is expect to provide a more healthy growth in the industry in the long run, which would benefits and in the interest to those industry participants who possess strong R&D and production capability.

OUTLOOK

Completion of the Global Supply Chain

As at 31 December 2017, the Group's two new blending and packaging factories in the Netherlands, namely the Hector Factory and the Pluto Factory, have already received their required production licenses, and have succeeded in fulfilling the registration requirements of the CNCA. The infant formula produced by the two new factories can be imported into the PRC as soon as the series have been duly registered with the CFDA under the Formulas Registration Requirement. In January 2018, the two new factories, which have a combined design production capacity of 75,000 tons, commenced their commercial production.

Subsequent to the reporting period and in January 2018, the NZ Factory received all of its certifications from New Zealand's Ministry for Primary Industries and, subject to respective countries import requirements, can now export non-infant formula. Registration with the CNCA is on schedule and expected to be completed in mid-2018.

With the anticipated completion of the Smart Factory in mid-2018, the Group's strategic plan to build the global supply chain, and hence strengthen the Group's production capability, which the Board believes is the critical success factor in the industry, is considered to be complete.

The compound annual growth rate on the sales of the Group's own-branded formula milk products for the past three years ended 31 December 2015, 2016 and 2017 was approximately 47.0%. The Group believes that the completion of the above factories will allow the Group to cope with the continuous growth in the demand for the Group's products.

Expansion of Infant Formula's Market Share

(A) The PRC

The Group's sale of formula milk powder products can be broadly categorised into two sectors, the "own-brand" and the "Private Label". The sale of own-brand can then be further categorised into "cow" and "goat". Since 2014, the Group has established a number of business units ("BU"), namely the Kabrita BU for goat products, and the Hyproca 1897 BU, the Allnutria BU, the Puredo BU, the Augood BU, and the Eurlate BU for cow products. Each BU has its clear and unique position and marketing strategy in promoting its products in the PRC, to fulfill the different needs of the nearly eighteen million newborns in the PRC every year.

During the Year 2017, the Group's blending and packaging factories in the Netherlands and the PRC were usually running at full capacity. In order to meet the demand for the Group's own-branded products in the PRC, the Group has incurred charges of approximately RMB89.1 million on air-freight during the Year 2017, in order to shorten the delivery time of the products to the market. Based on the current order books of each of the respective BUs, the shortage in products to the market is expected to remain at least in the first half of 2018. With the Hector Factory and Pluto Factory starting their production, and the re-designation of brands to different factories of the Group in accordance with the Formulas Registration Requirement, the shortage is expected to be relieved in the second half of 2018.

The Group will continue to implement its innovative marketing strategies. It will leverage on its strong customer database, its sophisticated membership IT platform, and its well-established distribution networks. This will increase its market share in the PRC and hence maintain the growth momentum of the Group.

Subsequent to 31 December 2017 and on 14 February 2018, the Group entered into a sale and purchase agreement (the "HNC Purchase Agreement") in relation to the acquisition of the remaining 15% equity interest (the "HNC Shares") in Hyproca Nutrition (Hongkong) Company Limited (the "HNC Group Acquisition"). Together with Hyproca Nutrition Co., Ltd. ("HNC") (collectively, the "HNC Group"), its wholly-owned subsidiary, it is principally engaged in the marketing and distribution of goat milk nutrition products in Hong Kong, Macau, and Mainland China. Pursuant to the HNC Purchase Agreement, the Group has conditionally agreed to acquire and the vendors, which they are all the existing employees of HNC, have conditionally agreed to sell the HNC Shares at a consideration based on 15% of 8.5 times the audited consolidated net profit of the HNC Group for the year ended 31 December 2017 (subject to certain adjustments to be determined later, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020). In any case, the total consideration for the HNC Group Acquisition shall not exceed HK$400,870,000. The consideration will be settled by the issue and allotment of the Shares, which shall not exceed 80,174,000 Shares in aggregate, at an issue price of HK$5.00 per Share.

The acquisition of the remaining 15% HNC Shares will enable the Group to further enhance its operating results and fully benefit from 100% of the cash flow and profits of the HNC Group. It will enable the Group to further increase its stake in the HNC Group, the operations of which the Group is familiar with through its existing 85% equity interest therein. Finally, it will facilitate better implementation of the operating philosophies and strategies of the Company into the HNC Group, create better synergy with the Group as a whole, and hence improve the operational efficiency.

Further details regarding the HNC Group Acquisition are laid out in an announcement of the Company dated 14 February 2018.

With the increasing recognition of the quality and high nutritional value of goat milk infant formula, the *Kabrita* series of products has progressed significantly, and become a major engine for the Group's business growth. Furthermore, the market share of *Kabrita* has been ranked as the number one imported goat milk infant formula in the PRC for four consecutive years since 2014. The Company is of the view that *Kabrita* will continue to grow steadily and contribute positively to the Group.

(B) Outside the PRC

In 2017, the Group experienced limits on production capacity and maintains a strategy to serve the own-branded sector in the PRC with priority. As a result, the development of *Kabrita* in other countries (which accounted for 16.6% of its total *Kabrita* sales) and the sale of the Private Label products slowed down during the Year 2017. With the completion of the Hector Factory and the Pluto Factory, the Group will increase its efforts on the promotion of *Kabrita* and the Private Label businesses outside the PRC in the coming years. According to the global marketing plan, the Group intends to launch *Kabrita* in Brazil and South Africa in 2018 and extend its coverage in Europe and Asia in 2019 and onwards.

Extension into the Nutrition Business Sector

The Group realises the business potential and the importance of continuing to supply quality nutrition products to infants as they grow into adulthood. In order to meet the needs of consumers, the Group has, through the acquisition of the Nutrition Business, launched its nutrition products in the PRC at the end of 2016.

During the Year 2017, the Group launched two nutrition products in the PRC, namely Gut Relief and Soforla. The feedback from consumers on these two products is considered to be promising and encouraging. In particular, Gut Relief has been ranked as the number one product in sales on Tmall in its category. The Group is scheduled to launch a number of other nutrition products in the PRC in the coming year. This will strengthen the market position and broaden the product portfolio of the Group in this sector.

The Group will continue to strengthen its marketing and business strategies in the nutrition sector by leveraging on its assets, including its strong R&D capability, its well-established, TGA certified production facilities in Australia, its extensive distribution network, and the strong demand for quality nutrition products in the PRC and worldwide.

Building the Group's Headquarters in the PRC

Subsequent to 31 December 2017 and on 12 February 2018, the Group entered into a joint venture agreement with an independent property developer (the "HQ Land Development Partner") for the formation of a joint venture (the "HQ Joint Venture") to develop the HQ Land. Pursuant to the agreement, the HQ Joint Venture will be owned by the Group and the HQ Land Development Partner as to 51% and 49%, respectively. The Group will contribute the HQ Land to the HQ Joint Venture, while the HQ Land Development Partner will contribute RMB100 million immediately after entering into the joint venture agreement. Pursuant to the agreement, except for the bank account which is jointly controlled by the Group and the HQ Land Development Partner, the HQ Land Development Partner will be responsible for the management, daily operations, funding, and financing arrangements of the HQ Joint Venture. In return, the Group will be entitled to two office building blocks on the HQ Land. The buildings specifications are already agreed upon, with 40,000 square meters of floor area and 400 car parking spaces. Per the agreement, the office buildings have to be completed within thirty months from the date when all of the land use rights have been obtained by the Group. As at the date of this announcement, the Group has obtained the rights for the Land A, and the rights of the Land B are expected to be obtained prior to 30 April 2018.

As the management and daily operations of the HQ Joint Venture are vested with the HQ Land Development Partner, the HQ Joint Venture will be accounted for as an associate of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

Revenue

	Notes	**2017**	2016	Change
		RMB'M	*RMB'M*	*%*
Own-branded formula milk powder products:				
Goat milk (in the PRC)	*(i)*	**1,067.2**	663.5	60.8
Goat milk (elsewhere)	*(i)*	**212.6**	135.4	57.0
		1,279.8	798.9	60.2
Cow milk (in the PRC)	*(i)*	**1,582.8**	1,018.9	55.3
		2,862.6	1,817.8	57.5
Private Label	*(ii)*	**422.0**	472.1	(10.6)
Milk powder	*(iii)*	**252.5**	223.5	13.0
Butter	*(iv)*	**172.0**	108.5	58.5
Others	*(v)*	**142.1**	107.4	32.3
Dairy and related products		**3,851.2**	2,729.3	41.1
Nutrition products*	*(vi)*	**75.3**	11.0	584.5
Total		**3,926.5**	2,740.3	43.3

* *New businesses commenced in the fourth quarter of 2016.*

Notes:

(i) Represented the sale of own-branded cow milk formula products in the PRC and *Kabrita* in the PRC, Europe, Russia and the Commonwealth of Independent States, United States, Canada, the Middle East countries and South Africa.

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

(iii) Represented the sale of semi-finished and finished cow and goat milk powder to the worldwide customers.

(iv) Represented the sale of butter which is a by-product produced during the milk treatment process.

(v) Mainly represented the processing of condensed milk and the trading of fresh and liquid milk, etc.

(vi) Represented the sale of nutrition products in the PRC, Australia and New Zealand which are mainly produced in Australia.

For the Year 2017, the Group recorded revenue of RMB3,926.5 million, representing an increase of RMB1,186.2 million, or 43.3%, from RMB2,740.3 million for the Year 2016. Despite the competition of the formula milk powder products market in the PRC continued to be intense during the Year 2017, revenue of the Group continued to increase and this was mainly attributable to the continuous increase in the sales of own-branded business which has been driven by the clear brand positioning and the effective marketing strategies adopted by the Group. Besides, the commencement of the Nutrition Business in the fourth quarter of 2016 also contributed an increase in revenue by RMB64.3 million for the Year 2017.

As a higher portion of the Group's production capacity in the Netherlands has been allocated to serve the own-branded business during the year, the sale of the Private Label business dropped when compared with the Year 2016. With the completion of the Group's new factories in the Netherlands at the end of the Year 2017, the limited in the production capacity issue is expected to be relieved in the coming year.

Gross profit and gross profit margin

	Gross profit		**Gross profit margin**	
	2017	2016	**2017**	2016
	RMB'M	*RMB'M*	*%*	*%*
Own-branded formula milk powder products:				
Goat milk	**703.3**	437.2	**55.0**	54.7
Cow milk	**863.5**	559.2	**54.6**	54.9
	1,566.8	996.4	**54.7**	54.8
Others	**162.2**	178.0	**16.4**	19.5
Dairy and related products	**1,729.0**	1,174.4	**44.9**	43.0
Nutrition products*	**44.9**	5.6	**59.6**	50.9
	1,773.9	1,180.0	**45.1**	43.1
Less: provision for inventories	**(83.7)**	(55.1)	**(2.1)**	(2.0)
Total	**1,690.2**	1,124.9	**43.0**	41.1

* *New businesses commenced in the fourth quarter of 2016.*

The Group's gross profit for the Year 2017 was RMB1,690.2 million, representing an increase of RMB565.3 million, or 50.3%, when compared with the Year 2016. The increase in the gross profit margin of the Group from 41.1% for the Year 2016 to 43.0% for the Year 2017 was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded business as compared with other business sector. Overall contribution to revenue by the own-branded business increased to 72.9% for the Year 2017 (2016: 66.3%).

Other income and gains

An analysis of other income and gains is as follows:

	Notes	**2017** *RMB'M*	2016 *RMB'M*
Interest income on bank and other deposits	*(i)*	**33.9**	37.3
Foreign exchange gains	*(ii)*	**–**	11.7
Government grants	*(iii)*	**10.7**	3.7
Insurance claim for business interruption		**–**	2.5
Management fees income from an associate		**1.8**	1.0
Others		**11.1**	6.4
		57.5	62.6

Notes:

(i) Balance mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC. The decrease in interest income was mainly due to the decrease in bank deposit rate in the PRC and such decrease was partly compensated by the increase in the average bank balances during the Year 2017.

(ii) Balance for the Year 2016 mainly represented exchange gain derived from the translation of the bank loans of the Group that were denominated in EUR as at 31 December 2016.

(iii) Balance mainly represented incentive income received from the government of the Hunan province for the contribution made by Ausnutria China in the Hunan province during the Year 2017.

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 24.7% (2016: 23.6%) of the revenue for the Year 2017. The increase in the selling and distribution expenses to revenue ratio was mainly due to the increase in air-freight charges of approximately RMB89.1 million in order to shorten the delivery time of the products and to meet the market demand of the Group's own-branded products in the PRC. Excluding the impact of the additional freight charges incurred, the selling and distribution expenses to revenue ratio for the Year 2017 was 22.4% which remained fairly stable as compared with the prior year.

Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB7.6 million (2016: RMB11.8 million)), travelling expenses, auditors' remuneration, professional fees, depreciation and R&D costs. The increase in administrative expenses was primarily attributed to the continuous increase in the scale of operations of the Group. Besides, the commencement of the Nutrition Business in the fourth quarter of 2016 and the ADP Acquisition also accounted for an increase in administrative expenses by RMB16.6 million and RMB5.4 million for the Year 2017, respectively.

The administrative expenses accounted for 7.6% (2016: 7.9%) of the revenue of the Group for the Year 2017.

Other expenses

Other expenses mainly comprised exchange losses of RMB5.3 million (2016: Nil) arising from the foreign currency trading transactions, legal and professional fees incurred for the various acquisition projects of RMB8.8 million (2016: RMB8.2 million), bank charges and fees for the drawdown of finance leases for the new production lines installed in the Netherlands of RMB4.1 million (2016: Nil) and charitable contributions in cash of RMB2.0 million (2016: Nil).

Finance costs

The finance costs of the Group for the Year 2017 amounted to RMB22.1 million (2016: RMB17.8 million), representing mainly interest on bank loans raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

The increase in finance costs was mainly attributable to the drawdown of additional bank loans for the financing of the construction of the Hector Factory and the Pluto Factory.

Share of profit of a joint venture

Balance represented the share of profit of Ozfarm, which was acquired by the Group during the year. Ozfarm is principally engaged in the sale and marketing of nutrition products, particularly formula milk products for infants, children, pregnant mothers, and the elderly in Australia, Singapore and the PRC under its own brand name *Oz Farm*, and the marketing and export of other dairy, health care, and miscellaneous food products, such as honey.

Share of profits of associates

Balance mainly represented the share of profits of the Farmel Group for the Year 2017. The Farmel Group is principally engaged in the collection and trading of milk in Europe. The purpose for the investment in the Farmel Group is to secure the long-term milk supply for the Group's operations in the Netherlands.

Income tax expenses

The profits generated by the Group for the Year 2017 were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the CIT at a rate of 25%. Ausnutria China, a wholly-owned subsidiary of the Company, was designated as a High-tech Enterprise and was granted a preferential CIT rate of 15% for the Year 2017. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000. The standard CIT rates in Australia, New Zealand, United States, Canada and Taiwan are 30%, 28%, 34% (subsequent to the end of the reporting period, enterprises are subject to the CIT rate of 21% with effect from 1 January 2018), 26.5% and 17%, respectively.

The increase in the Group's effective tax rate from 21.4% for the Year 2016 to 23.7% for the Year 2017 was mainly due to the proportionate increase in profit contributed from the sale of *Kabrita* in the PRC which is subject to the CIT rate of 25%.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity owners of the Company for the Year 2017 amounted to RMB308.1 million, representing an increase of RMB95.4 million, or 44.9% when compared with the Year 2016.

The improvement in the Group's financial performance which results from the continuous growth in the sales of own-branded cow and goat milk formula products was mainly driven by the clear brand positioning, the effective business strategy implemented by the Group as well as the increasing market demands for the products of the Group.

Analysis on Consolidated Statement of Financial Position

As at 31 December 2017, the total assets and net asset value of the Group amounted to RMB5,621.1 million (31 December 2016: RMB3,923.6 million) and RMB1,947.0 million (31 December 2016: RMB1,589.7 million), respectively.

The increase in total assets of the Group as at 31 December 2017 was mainly contributed by:

(i) the ADP Acquisition and the Youluck Acquisition, which resulted in an increase in property, plant and equipment, goodwill and other intangible assets of RMB56.4 million, RMB14.9 million and RMB153.4 million, respectively;

(ii) the increase in construction in progress as a result of the investments in the Hector Factory, the Pluto Factory, the NZ Factory and the Smart Factory made during the year of a total of RMB636.0 million (2016: RMB185.4 million);

(iii) the increase in inventories of RMB283.1 million (2016: RMB248.6 million) as a result of the increase in the scale of operations of the Group; and

(iv) the increase in cash and cash equivalents and pledged deposits of a total of RMB279.5 million (2016: RMB61.6 million) derived mainly from cash generated from operating activities.

The increase in total assets of the Group as at 31 December 2017 was mainly financed by the drawdown of new bank loans of RMB999.3 million (2016: RMB331.7 million), internal working capital and the cash flows generated from operating activities of the Group of RMB512.5 million (2016: RMB294.4 million) during the year.

The increase in net assets of the Group as at 31 December 2017 was mainly contributed by the net profit generated for the year of RMB334.8 million (2016: RMB234.0 million).

Working Capital Cycle

As at 31 December 2017, the current assets to current liabilities ratio of the Group was 1.2 times (2016: 1.4 times). The decrease in current assets to current liabilities ratio when compared with the prior year was mainly due to the increase in current portion of interest-bearing bank loans and other borrowings for the financing of the Group's overseas operations.

An analysis of key working capital cycle is as follows:

	2017 Number of days	2016 Number of days	Change Number of days
Inventory turnover days	**154**	156	(2)
Debtors' turnover days	**21**	27	(6)
Creditors' turnover days	**35**	37	(2)

The turnover days of the Group's inventories and trade payables for the Year 2017 remained fairly stable when compared with the prior year.

The decrease in turnover days of the Group's trade and bills receivables was mainly due to the proportionate decrease in sale of the Private Label business as a result of the limited in the production capacity of the Group's factories in the Netherlands. The credit period granted to customers of the Private Label sector is on average longer than the own-branded sector.

Analysis on Consolidated Statement of Cash Flows

	2017 ***RMB'M***	2016 *RMB'M*
Net cash flows from operating activities	**512.5**	294.4
Net cash flows used in investing activities	**(722.1)**	(362.8)
Net cash flows from financing activities	**339.9**	256.4
Net increase in cash and cash equivalents	**130.3**	188.0

Net cash flows from operating activities

The net cash flows from operating activities of the Group for the Year 2017 amounted to RMB512.5 million (2016: RMB294.4 million). The improvement in cash flows from operating activities of the Group for the Year 2017 was mainly contributed by the increase in profit before tax generated for the Year 2017 of RMB438.5 million (2016: RMB297.8 million).

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2017 of RMB722.1 million (2016: RMB362.8 million) mainly represented (i) the net cash outflows for investments in the Youluck Acquisition, the ADP Acquisition and the Ozfarm Acquisition of a total of RMB107.2 million (2016: the investments in the Nutrition Business and the acquisition of the Changsha Land of a total of RMB143.1 million); (ii) the purchase of property, plant and equipment of RMB469.8 million (2016: RMB248.1 million) mainly for the construction of the factories; (iii) the purchase of intangible assets of RMB49.2 million (2016: RMB36.0 million) mainly for the purchase of trademarks, software and non-petent technology; and (iv) the net increase in time deposits of RMB92.0 million (2016: decrease of RMB79.0 million) as part of the Group's treasury arrangement.

Net cash flows from financing activities

The net cash flows from financing activities of the Group for the Year 2017 of RMB339.9 million (2016: RMB256.4 million) was primarily contributed by the net drawdown of the additional bank loans and other borrowings of a total of RMB383.8 million (2016: RMB258.7 million) for the financing of the investing activities mentioned above.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the Youluck Acquisition, the ADP Acquisition and the Ozfarm Acquisition, there were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Year 2017.

TREASURY POLICY

The Group has adopted a prudent treasury policy in respect of investments in financial products. Any surplus funds of the Group will only be invested in time deposits or low risk financial instruments from reputable commercial banks that can be redeemed within a short notice period, including primary bank-sponsored wealth management products, money market funds and interbank deposits.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGED OF ASSETS

A summary of liquidity and financial resources is set out below:

	As at 31 December	
	2017	2016
	RMB'M	*RMB'M*
Interest-bearing bank loans and borrowings	**(1,972.2)**	(1,212.6)
Less: Pledged deposits[1]	**968.7**	778.4
Cash and cash equivalents[2]	**635.7**	546.5
	(367.8)	112.3
Total assets	**5,621.1**	3,923.6
Shareholders' equity	**1,740.5**	1,468.1
Gearing ratio[3]	**6.5%**	N/A
Solvency ratio[4]	**31.0%**	37.4%

Notes:

(1) All denominated in RMB.

(2) 60.5% (2016: 75.1%) of which was denominated in RMB. The remaining 39.5% (2016: 24.9%) was mainly denominated in EUR, HK$ and AUD.

(3) Calculated as a percentage of net bank loans and other borrowings over total assets.

(4) Calculated as a percentage of shareholders' equity over total assets.

The Group is dedicated to maintain its overall liquidity by maximising the cashflows generated from operating activities and increasing the facilities with banks to reserve sufficient funding to support its business development, in particular to meet the Group's strategy of building the global supply chain by completing the construction of the new factories.

As at 31 December 2017, the Group had outstanding borrowings of RMB1,972.2 million (2016: RMB1,212.6 million), of which RMB1,158.0 million (2016: RMB761.5 million) was due within one year and the remaining RMB814.2 million (2016: RMB451.1 million) due over one year. As at 31 December 2017, except for (i) two bank loans of a total of RMB74.6 million which are denominated in RMB (2016: RMB48.7 million) and bear interest at 4.4% to 5.0% (2016: 5%) per annum; and (ii) two bank loans of a total of RMB27.1 million which are denominated in AUD (2016: Nil) and bear interest at 5.4% to 5.7% (2016: N/A) per annum, all borrowings of the Group were denominated in EUR and bear interest at floating rates with reference to London Interbank Offered Rate or The Euro Interbank Offered Rate.

As at 31 December 2017, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR221.8 million, equivalent to approximately RMB1,730.8 million (2016: EUR146.8 million, equivalent to approximately RMB1,072.4 million); (ii) the time deposits that were placed in the PRC of RMB968.7 million (2016: RMB778.4 million); and (iii) the land and building in Australia with a carrying value of AUD6.6 million, equivalent to approximately RMB33.6 million (2016: Nil) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the Year 2017, revenue, cost of sales and operating expenses of the Group are mainly denominated in RMB, Hong Kong dollars ("HK$"), EURO ("EUR"), United States dollars ("US$"), Australian dollars ("AUD") or New Zealand dollars ("NZD") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in RMB and EUR, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, EUR, US$, AUD or NZD against RMB.

The Group adopts a hedging policy to actively manage its currency risk exposure concerning non-RMB denominated indebtedness. Depending on the market circumstances, trend of currency rates and the cost of hedging, the Group will consider and enter into hedging arrangement to mitigate the impact of RMB fluctuation against other operating currencies.

As at 31 December 2017, the Group had a EUR against RMB capped forward contract of EUR5.0 million (2016: EUR5.0 million) to hedge certain of its EUR denominated indebtedness. The management monitors closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Group entered into interest rate swap contracts with bank, effective from 1 October 2007 and 30 September 2015, of a notional amount of EUR2.5 million and EUR16.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 4.45% and 2.77% per annum, respectively. The interest rate swap contract with a notional amount of EUR2.5 million has expired in October 2017 and another contract will expire in June 2020.

CREDIT RISK

The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk. As the Group's exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

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

COMMITMENTS

As at 31 December 2017, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to RMB18.5 million (2016: RMB19.1 million).

As at 31 December 2017, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of Land A and plant and machineries and the building of the factories of a total of RMB109.0 million (2016: RMB461.3 million).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (2016: Nil).

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
31 December 2017	2,373	5	495	121	98	3,092
31 December 2016	1,993	4	452	62	120	2,631

For the Year 2017, total employee costs, including Directors' emoluments, amounted to RMB484.4 million (2016: RMB364.5 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

SHARE OPTION SCHEME

On 19 September 2009, the Company adopted a share option 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.

During the Year 2016, a total of 46,815,000 share options were granted to certain eligible participants, among which 6,100,000 were granted to the Directors. Details of the share options granted are set out in the announcements of the Company dated 21 January 2016 and 6 July 2016.

DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK$0.10 (2016: HK$0.05) per Share for the Year 2017 to be distributed out of the Company's share premium account. Subject to the approval of the Shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on or about 27 June 2018. As at the date of this announcement, there was no arrangement with any Shareholders under which he/she/it has waived or agree to waive any dividends.

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 2017 and up to the date of this announcement.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company in Hong Kong will be closed for the following periods:

(a) Entitlement to attend and vote at the forthcoming AGM

For the purpose of determining the Shareholders who are eligible to attend and vote and the forthcoming AGM, the register of members of the Company will be closed from 8 May 2018 to 11 May 2018 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified to attend the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 7 May 2018.

(b) Entitlement for the proposed final dividend

For the purpose of determining the Shareholders who are qualified for the proposed final dividend, the register of members of the Company will be closed from 11 June 2018 to 13 June 2018 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 8 June 2018.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance within the Group at all times and believes that such practices help safeguard the interests of the Shareholders, enhance corporate value and accountability as well as 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 (the "Listing Rules") on the Stock Exchange as its own code of corporate governance practices. The Board also strives to implement the best practices embodies in the CG Code whenever feasible and as far as practicable.

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the Year 2017 and up to the date of this announcement. The Company will continue to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 Securities Transactions by Directors of Listed Issuers for the Year 2017 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Board comprises three independent non-executive Directors, namely, Mr. Lau Chun Fai Douglas, Ms. Ho Mei-Yueh and Mr. Jason Wan. The audit committee of the Board has reviewed the audited consolidated financial statements of the Group for the Year 2017 including the accounting principles and practices adopted by the Group and discussed with the management of the Company on matters relating to auditing, risk management and internal controls and financial reporting.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company for the Year 2017, which contains the detailed results and other information of the Company for the Year 2017 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

The PRC, 27 March 2018

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; two non-executive Directors, namely Mr. Tsai Chang-Hai and Mr. Zeng Xiaojun; and three independent non-executive Directors, namely Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas.