ANNUAL REPORT 2018

澳优
Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

NOURISHING
LIFE & GROWTH

Ausnutria Principles

Utmost Execution

Non-stop Innovation

Team Working

Internationalization

A u s n u t r i a

Accountable

Socially Responsible

Uncompromising to Quality

Respect

All for Nutrition

澳优 Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD
ANNUAL REPORT 2018

Contents

Mission

Nourishing Life & Growth

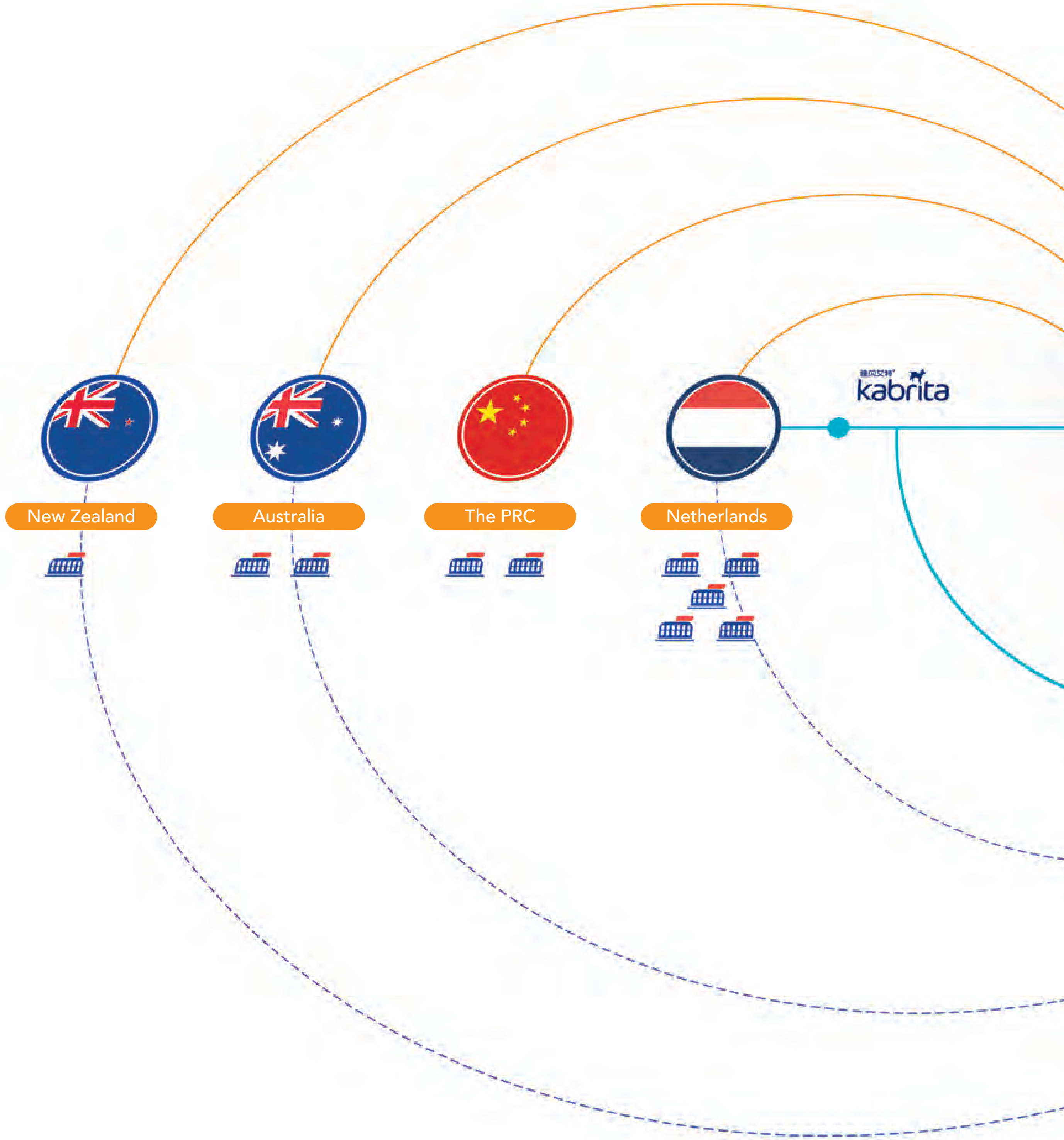
Vision

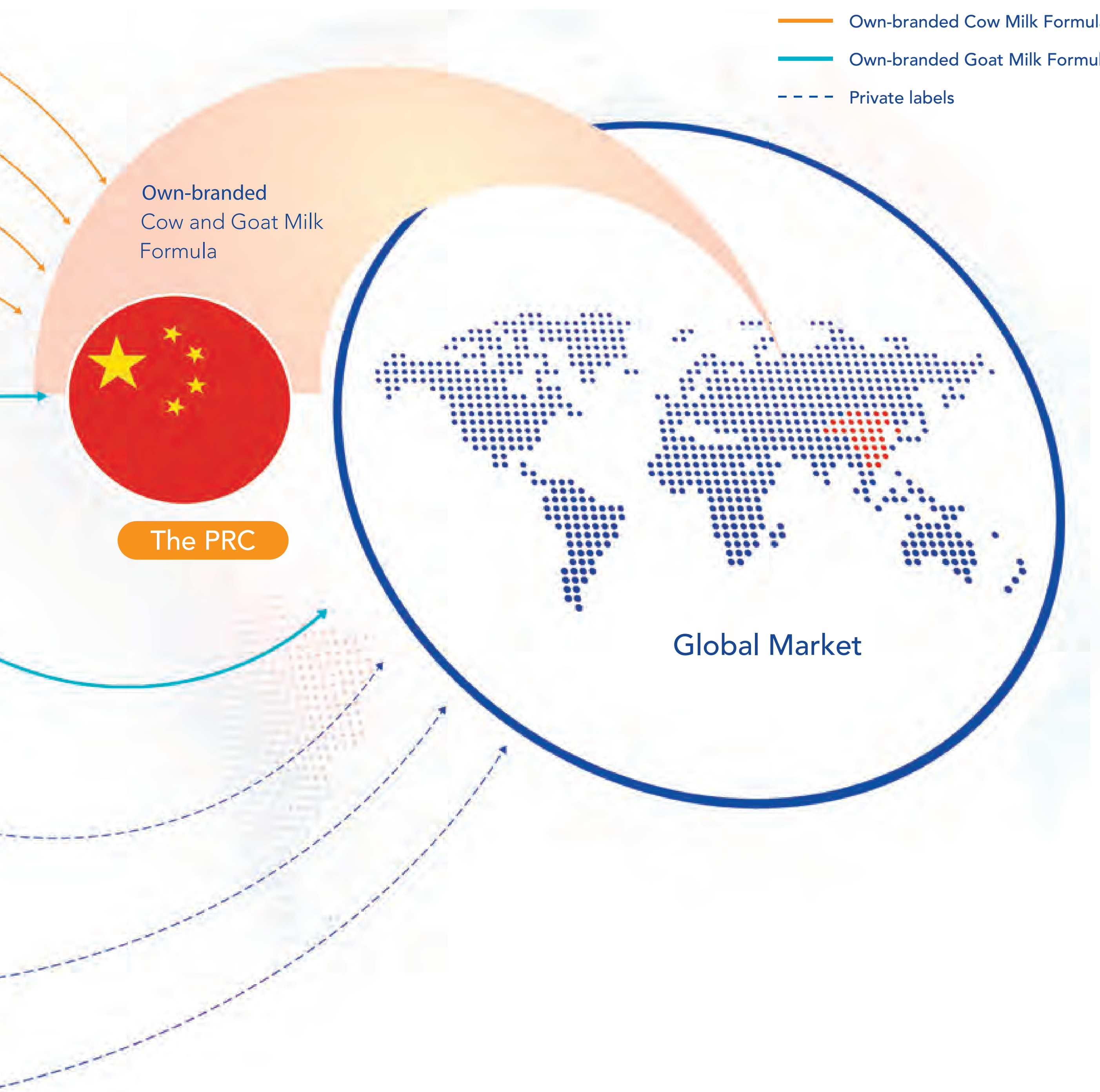
To become the most
trustworthy milk formula,
nutrition and health-care
enterprise in the world

Sustainability Vision

We strive to nourish life and growth by providing quality nutritional options to all on a global level. We are committed to creating value in a sustainable manner, and helping build a world in which everyone is empowered to have a healthy and prosperous life

Global Layout




Own-branded Cow Milk Formula
Own-branded Goat Milk Formula
Private labels
Own-branded
Cow and Goat Milk
Formula
The PRC
Global Market

Y2018

JANUARY

Two factories in **the Netherlands, Ausnutria Pluto and Ausnutria Hector**, commenced operation

FEBRUARY

Entered into an agreement with an independent property developer for the investment in **building the headquarter of the PRC region in Changsha, the PRC**

Completed the acquisition of the remaining **44% equity interest in HGM in the Netherlands** to secure the upstream supply of quality goat milk

MAY

Launched a comprehensive and customized operation management system **AOPEX** for a comprehensive and successful workforce, operation, and asset management

Completed the acquisition of the remaining **15% equity interest in HNC Group in Hong Kong and the PRC (i.e. *Kabrita*)** to create better synergy

JUNE

Completed the acquisition of the remaining **50% equity interest in Ozfarm in Australia** to further expand the markets

JULY

Completed acquisition of a **50% equity interest in AJM in the Netherlands** to expand the markets in Europe

SEPTEMBER

Established Ausnutria YOU-Foundation to advocate civic responsibility, dedicate to charity and promote social harmony and improvement

OCTOBER

Introduced CITIC Agri Fund Management Co., Ltd as the Company's single largest shareholder

DECEMBER

Entered into two separate share purchase deeds to acquire the remaining **25% equity interest in NCP** to expand the Nutrition Business, and the remaining **30% equity interest in ANC** to optimise the integration with production of infant milk formula, **both in Australia**

15 MARCH

Certificate of 100 Exemplary Enterprises on Quality and Integrity in China

BY

General Administration of Quality Supervision, Inspection and Quarantine of the PRC

11 APRIL

Outstanding Contribution Award for Chinese Enterprises Investing in the Netherlands

BY

Mark Rutte, prime minister of the Netherlands

21 AUGUST

2018 Annual Social Responsibility Contribution Award

BY

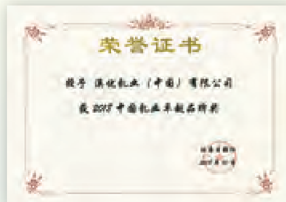
China Business

19 OCTOBER

2018 Outstanding Chinese Dairy Brands

BY

Securities Daily



26 OCTOBER

2018 Galaxy Awards: Annual Report / Print – Bronze

BY

MerComm, Inc.

14 NOVEMBER

2017-2018 Top 100 Trusted Brand for Food Safety

BY

Organising Committee of the China Food Safety Annual Conference

6 DECEMBER

2018 Most Excellent Corporate Universities in the PRC

BY

Overseas Education College of Shanghai Jiao Tong University

11 DECEMBER

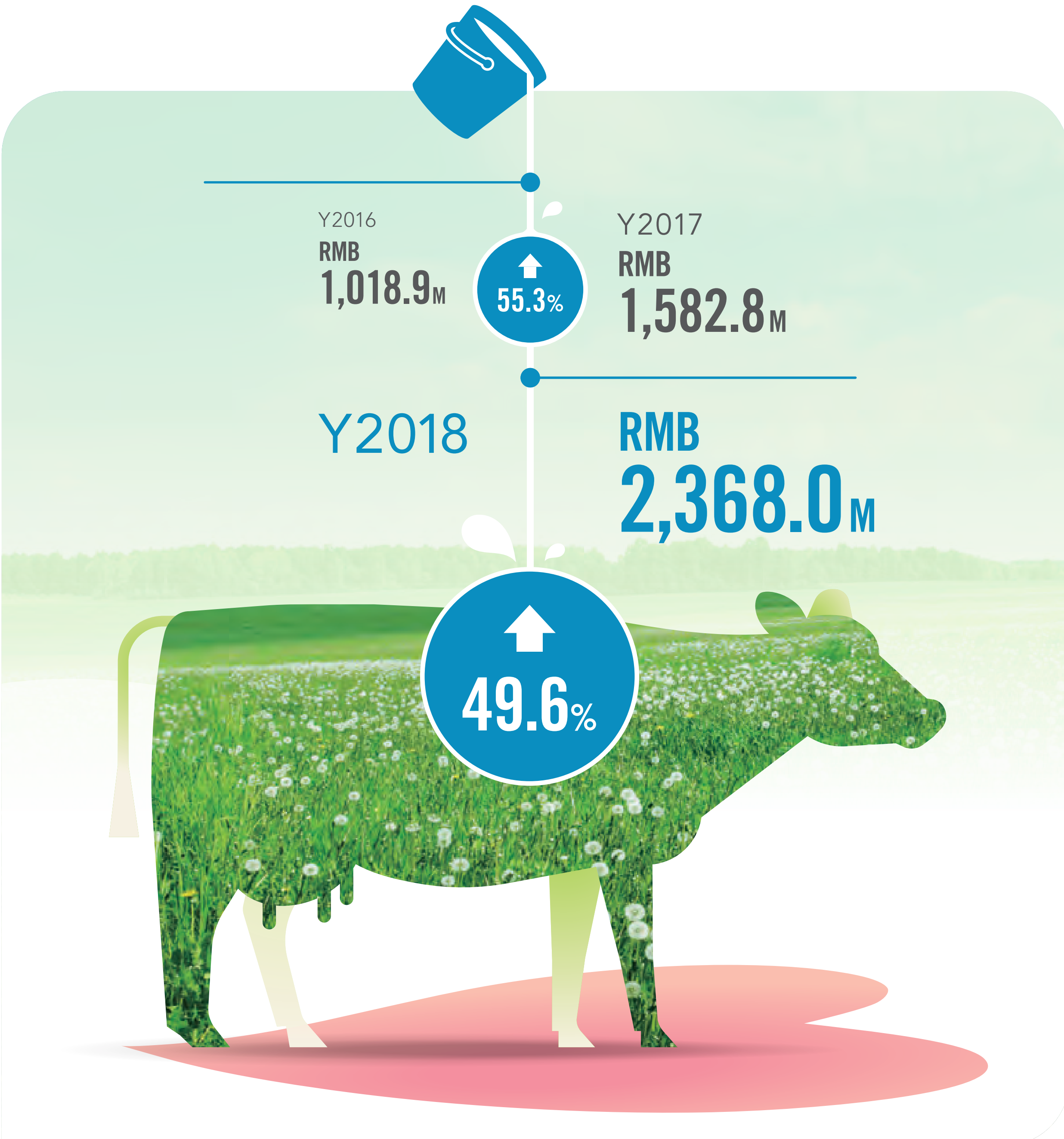
2018 China Business Annual Innovation Award

BY

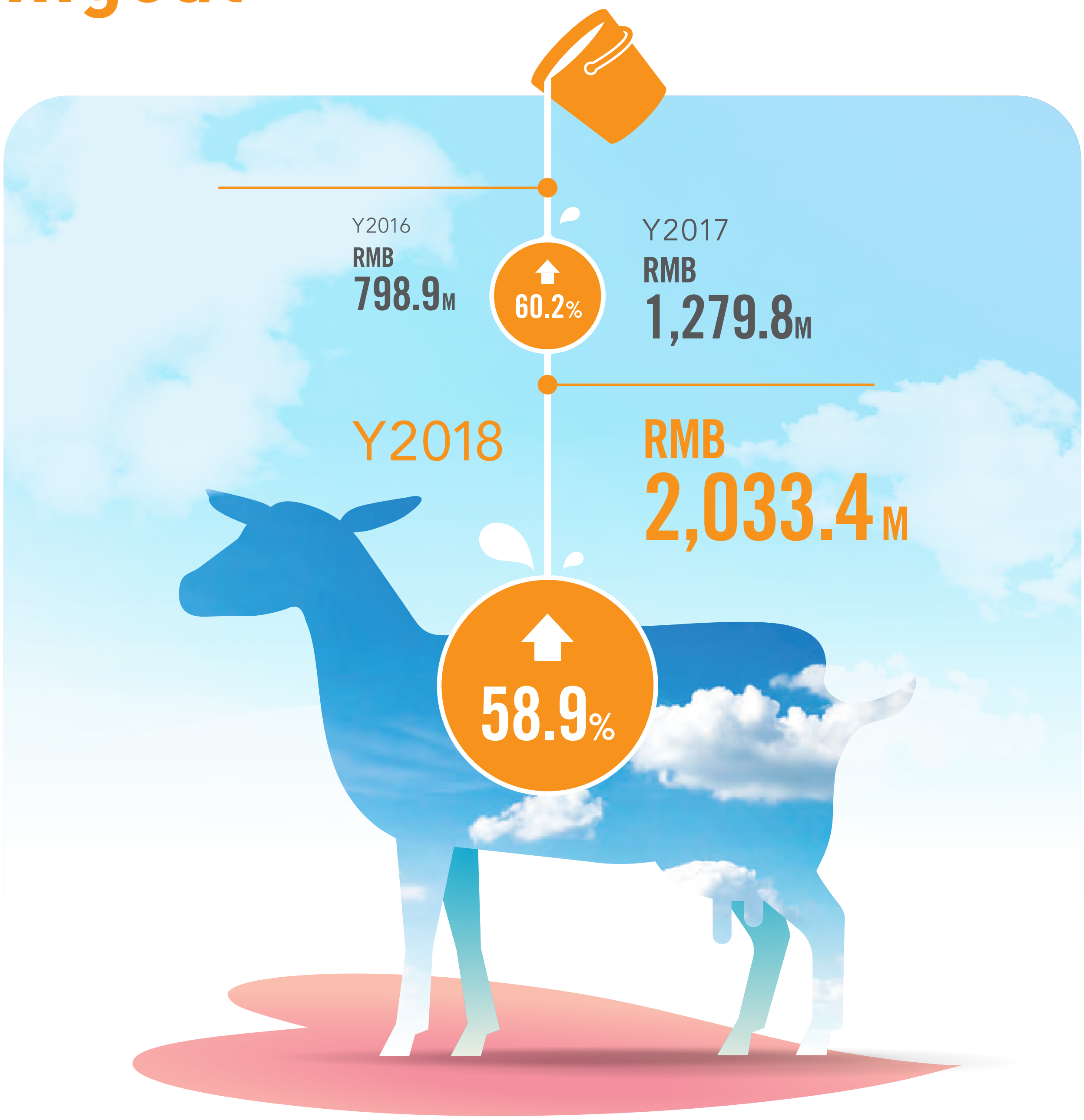
China Business Herald, Business China, Chinese Businessmen (中國商人雜誌) and Organising Committee of the China Business Innovation Conference

Sale of formula milk powder

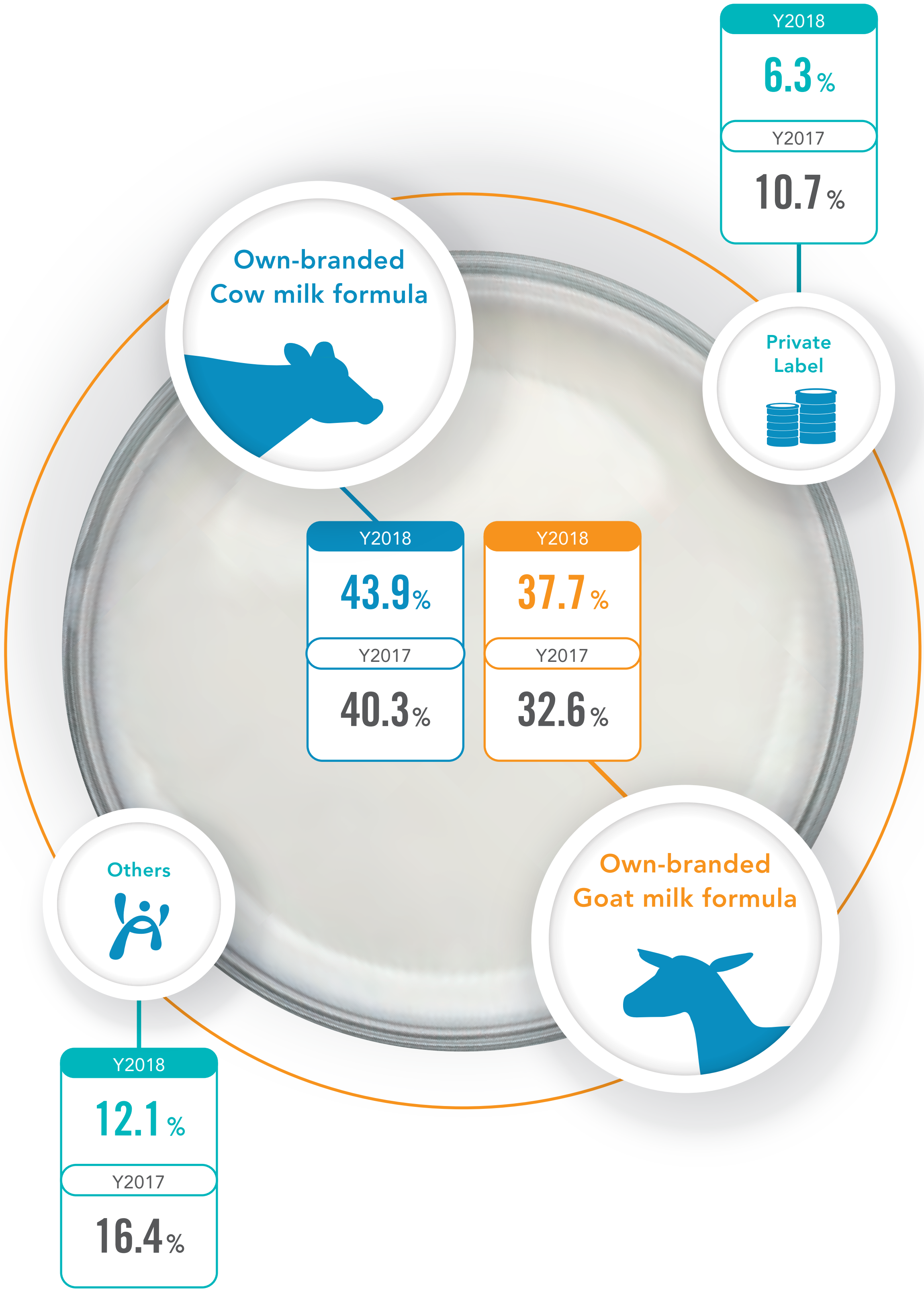
...cow



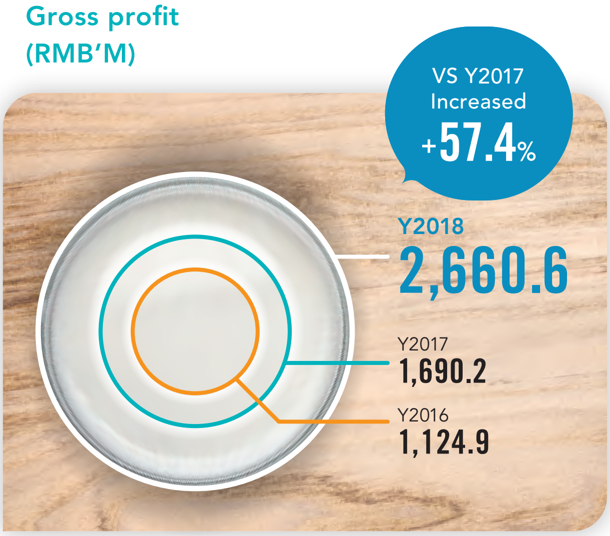
...goat



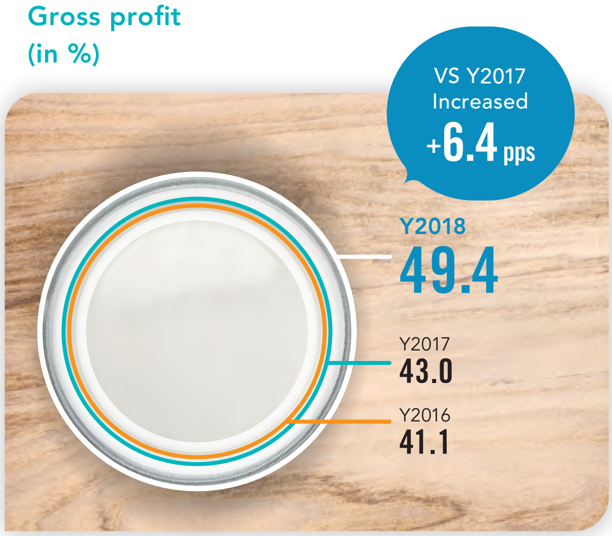
Revenue by Unit



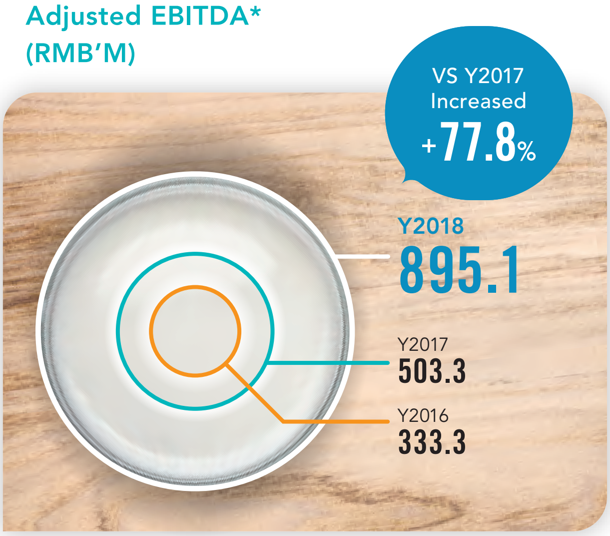
Gross profit (RMB'M)



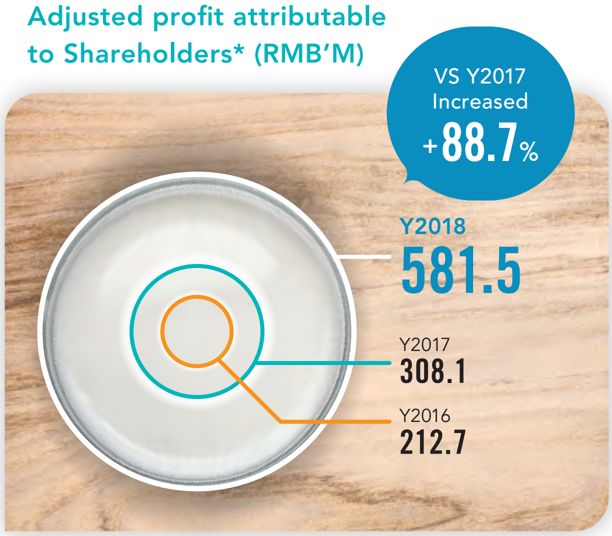
Gross profit (in %)



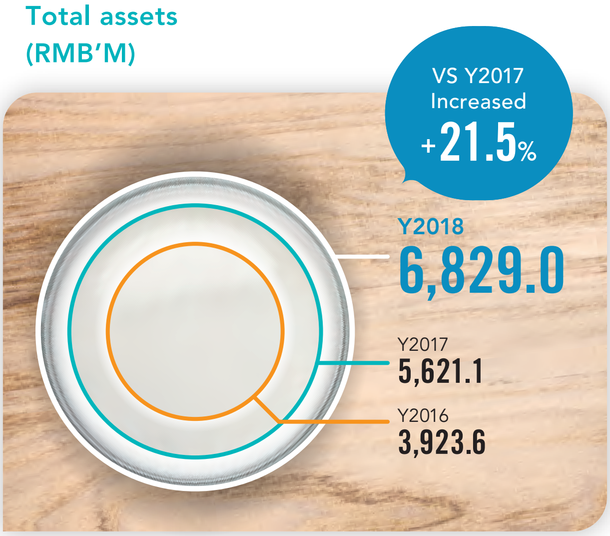
Adjusted EBITDA* (RMB'M)



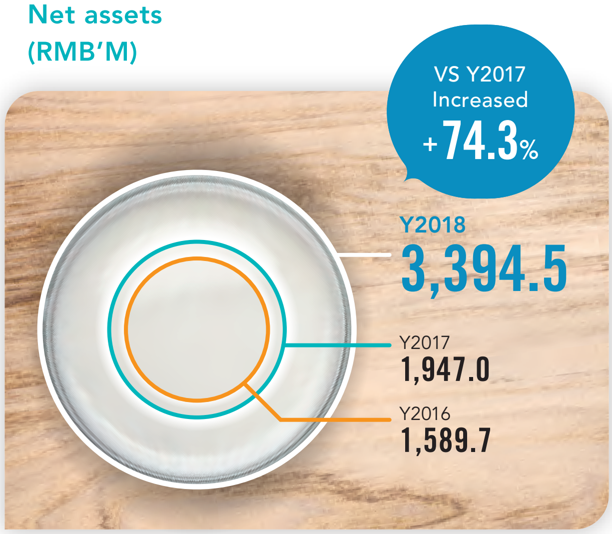
Adjusted profit attributable to Shareholders* (RMB'M)



Total assets (RMB'M)



Net assets (RMB'M)



* Adjusted for a one-off gain arising from the re-measurement of an asset and gain on the fair value change of a derivative financial instrument for the year 2018

(RMB'M)	2014	2015	2016	2017	2018
Revenue	1,966.0	2,103.5	2,740.3	3,926.5	5,389.6
Gross profit	567.2	590.0	1,124.9	1,690.2	2,660.6
Gross profit (in %)	28.9	28.0	41.1	43.0	49.4
EBITDA	168.3	33.4	333.3	503.3	948.7
Profit before tax	137.3	3.8	297.8	438.5	792.0
Profit attributable to Shareholders	90.2	50.6	212.7	308.1	635.1
EPS (in RMB cent)	9.1	4.9	17.0	24.6	47.2
Cash inflows/(outflow) from operating activities	85.9	(45.4)	294.4	512.5	531.8
Net assets	1,214.9	1,327.5	1,589.7	1,947.0	3,394.5
Total assets	2,433.3	3,030.5	3,923.6	5,621.1	6,829.0
Net cash	391.2	317.1	112.3	(367.8)	802.3

BOARD OF DIRECTORS

Executive Directors

Mr. Yan Weibin *(Chairman)*
Mr. Bartle van der Meer
(Chief Executive Officer)
Ms. Ng Siu Hung

Non-executive Directors

Mr. Shi Liang *(Vice-Chairman)*
Mr. Qiao Baijun
Mr. Tsai Chang-Hai

Independent Non-executive Directors

Mr. Jason Wan
Mr. Lau Chun Fai Douglas
Mr. Aidan Maurice Coleman

COMPANY SECRETARY

Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

Mr. Lau Chun Fai Douglas
(Chairman)
Mr. Jason Wan
Mr. Aidan Maurice Coleman

REMUNERATION COMMITTEE

Mr. Lau Chun Fai Douglas
(Chairman)
Mr. Yan Weibin
Mr. Shi Liang
Mr. Jason Wan
Mr. Aidan Maurice Coleman

NOMINATION COMMITTEE

Mr. Yan Weibin *(Chairman)*
Mr. Shi Liang
Mr. Jason Wan
Mr. Lau Chun Fai Douglas
Mr. Aidan Maurice Coleman

AUDITORS

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

Asian Capital Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACES OF BUSINESS

In Hong Kong

Unit 16, 36/F.,
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

In Mainland China

8th Floor, XinDaXin Building A
No. 168 Huangxing Middle Road
Changsha City, Hunan Province,
the PRC

In the Netherlands

Dokter van Deenweg 150
8025 BM Zwolle
The Netherlands

In Australia

25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company
(Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Rabobank
The Hongkong and Shanghai
Banking Corporation Limited
Bank of China

STOCK CODE

1717

COMPANY'S WEBSITE

www.ausnutria.com.hk

DEAR SHAREHOLDERS,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Ausnutria Dairy Corporation Ltd ("**Ausnutria**" or the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Year 2018**").

YEAR 2018, AN EVENTFUL AND PROSPEROUS YEAR

2018 witnessed the start on the implementation of a new policy on infant formula in the PRC. After more than a decade of development, Ausnutria has built up strengths in terms of its team work, business model, R&D, upstream supply, market servicing and logistics support. As such, we adopted a new slogan at the beginning of 2018: "2018, Better, Faster, Warmer, Let the Power of YOU Blossom! (2018，更優、更快、更溫暖，綻放U力量）". It demonstrated our vow to unleash our power accumulated over the years and turn that into concrete results and growth in 2018. Despite a host of adversities across the globe, all our employees have devoted their best efforts. We delivered rapid and continuous growth of our core business, further enhancement in our management efficiency, and a higher sense of duty and honour among our teams.

Continuous Growth of Core Business

In 2018, the Group recorded an annual sales of RMB5,389.6 million, representing an increase of 37.3% when compared with 2017. In particular, sales of our own-branded formula milk powder products was RMB4,401.4 million, representing a year-on-year growth of 53.8%. The Group's profit attributable to ordinary equity holders of the parent surged by 106.1% to 635.1 million.

Steady Implementation of Our Internationalisation Plan

One of our key tasks for 2018 was to ensure the smooth operation of our two new factories in the Netherlands which commenced operation in early 2018. We also fought for the completion and launch of our factory in New Zealand, as well as a second factory in Changsha, the PRC. We had also acquired the remaining shares in various non-wholly owned subsidiaries in the PRC, Hong Kong, Australia, and the Netherlands. In respect of distribution channels, another entity in the Netherlands was acquired in 2018. All the above investments and mergers have facilitated our internal integration, achieved better synergy, strengthened our global supply chain and product portfolio, and also further expanded our global sales and service network. Furthermore, our team is striving to develop other markets across the globe, in particular for *Kabrita*. As at the date hereof, we have ten factories across the globe, serving all age groups with products ranging from infant formula, toddler formula, adult formula, liquid milk, to nutrition products.

Ongoing Refinement of Quality Control

Product quality control has always been the Company's cornerstone. During the year, our quality control excellence system has been refined while the power of our quality control team and the capabilities of our quality control center have been strengthened. By ensuring the excellent quality of our products, the Company attained a 100% pass rate in the monthly sampling inspection conducted by the relevant regulators during the year.

In 2018, the Company was given, among other awards: the Certificate of Exemplary Enterprises on Integrity in Product and Service Quality in China by the China Association for Quality Inspection, and the Certificate of Excellent Enterprises for Dairy Quality and Safety Management by the China Dairy Industry Association and the Chinese National Committee of the International Dairy Federation. We were also certified by the General Office of the Ministry of Industry and Information Technology in the PRC as "State-level Green Factories". Such recognitions provide a strong guarantee in our products to consumers in the PRC, which is our key market.

Quantum Leap in Management and Operational Efficiency

Following the adoption of our Lean Production management model in 2017, we introduced "Ausnutria Operational Excellence System (AOPEX)" in 2018. It further reinforces our management systems like intelligent property management and FSSC22000, to enhance our general corporate management and boost our long-term development. With higher operational efficiency comes greater overall synergy. Thanks to the Company's achievement in AOPEX, I was given an individual prize in the first Mayor's Quality Awards (Changsha City, the PRC) in early 2018.

Well-Formed Shareholder Base

With the aim of strengthening its capital position and introducing high-calibre shareholders, the Group brought in CITIC Agri Fund Management Co., Ltd as the Company's single largest shareholder in 2018. The enlistment of CITIC Agri Fund has not only broadened the Company's shareholder base, but also provided additional stimulus to our long-term sustainable growth.

Accelerating Pace of Internal Innovation

After passing the inspection conducted by the China Hunan Provincial Science & Technology Department, we have been recognised as an International Dairy Science and Technology Innovation Co-operation Base in Hunan Province, the PRC. Many of our patents/products have won awards from government and associations in the PRC. At the Fortieth Anniversary Celebration of the Chinese Economic Reform and Opening and the Sixth China Business Innovation Conference, we obtained the 2018 China Business Annual Innovation Award. We had also organised different workshops and research programmes in the Netherlands to support ongoing enhancement in our infant formula, especially *Kabrita*.

Relentless Success in Team-building

To retain talent in the middle management and overseas operations and build up its human resources for the implementation of Ausnutria's "Golden Decade" strategic plan, Ausnutria University rolled out "Beginners in Management" and other key training programmes. Our university was given the "2018 Most Excellent Corporate Universities in the PRC", as selected by Shanghai Jiao Tong University, as well as a "Gold Award" in the third CSTD National Learning Design Competition.

Proudly Taking up Social Responsibility

The Ausnutria YOU-Foundation has been established to advocate civic responsibility, dedicate to charity and promote social harmony and improvement. Various business units of the Company in the PRC have launched philanthropic events for infants and their mothers. As a result, the Group was awarded the Annual Social Responsibility Contribution Award by China Business for capitalising on Ausnutria's excellent knowledge of and involvement in the infant industry. In the Netherlands, we had sponsored different foundations with the vision of better nutrition with innovation and better life development. For example, we sponsored a conference on food nutrition named Frisian Foodture, the objective of which is to increase knowledge sharing on the future development, innovations and production of food.

2019, A YEAR SET FOR DEVELOPMENT

In 2019, we continue to face external adversities, including higher expectations from consumers, intense competition from our peers, slower growth across the industry and the uncertainty of the macro-economy. The long-term success of a company hinges on its customers' satisfaction, team morale, and its partners' contentment. As the number of newborns is declining sooner than previously expected, we have to be more creative, intelligent, and decisive to win the infant formula market.

All these years, we have stressed Ausnutria's foundation for prosperity, including the importance of quality products and services, high customer satisfaction, and mutually beneficial partnerships in the industry. "We Strive, We Achieve（奮鬥依舊、成就一九）" is the motto we adopted for this new year. Sticking to our strategy and capitalising on our strengths, we will grow and prevail, together with our partners. In 2019, we will focus on achieving the business objectives set by the Board. The entire staff will pursue excellence by upholding our high quality and craftsmanship. We will make ourselves into an exemplary enterprise and an international leader in terms of customers' satisfaction, by prioritising our customers.

2019 signifies the tenth anniversary of Ausnutria's public listing. We are confident and determined to achieve structural growth, by staying true to our founding mission and fostering hard working spirit. Furthermore, as years of internationalisation and multi-brand development bear fruit, our team is optimistic about 2019. We are poised to accomplish all our tasks and get one solid step closer to becoming the most trustworthy milk formula, nutrition, and health-care enterprise in the world.

Lastly, on behalf of the Board, I would like to sincerely thank the customers, business associates, and shareholders of the Group for their continuous support, trust and help. Meanwhile, my heartfelt appreciation goes to the members of the Board and the senior management, as well as to all the staff, for their contributions and dedication throughout the year.

In 2019, let us work together steadily for long-term growth and advancement.

Yan Weibin
Chairman

The PRC
18 March 2019

CHANGE OF SINGLE LARGEST SHAREHOLDER

On 4 April 2018, CITIC Agri Fund Management Co., Ltd（中信農業產業基金管理有限公司）("**CITIC Agri Fund**") entered into a subscription agreement (the "**Subscription Agreement**") with the Company to subscribe an aggregate of 249,000,000 ordinary shares of the Company of HK$0.10 each (the "**Subscription Shares**") at the subscription price of HK$5.18 per Subscription Share (the "**CITIC Subscription**"), represents a discount of 20.67% to the closing price of HK$6.53 per Share as quoted on the Stock Exchange on 4 April 2018. The Subscription Shares represent approximately 15.74% of the total number of issued shares of the Company (the "**Shares**") as at the end of the reporting period. The aggregate nominal value of the Subscriptions Shares amounts to HK$24,900,000. The gross proceeds and net proceeds of the CITIC Subscription amount to HK$1,289,820,000 and HK$1,288,570,000 respectively, representing a net price of HK$5.17 per Subscription Share. The Company intends to apply the majority of the net proceeds for the repayment of bank loans and future investments.

Furthermore, on 4 April 2018, the Board was notified by Center Laboratories, Inc. that on the same date, CITIC Agri Fund entered into a sale and purchase agreement (the "**Transfer SPA**") with Center Laboratories, Inc. and two of its non-wholly owned subsidiaries, BioEngine Capital Inc. and BioEngine Technology Development Inc. (the "**Center Lab Group**") to purchase 130,000,000 Shares, representing approximately 8.21% of the total number of issued Shares as at the end of the reporting period, at a total consideration of HK$673,400,000 (i.e. HK$5.18 per Share) (the "**Transfer**"). Pursuant to the Transfer SPA, completion of the Transfer was conditional upon completion of the CITIC Subscription.

By virtue of Rule 14A.19 and 14A.20 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), CITIC Agri Fund was deemed to be a connected person to the Company, hence the CITIC Subscription constituted a connected transaction of the Company and accordingly was subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Subscription Agreement and the transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company on 10 October 2018 and were completed on 26 October 2018. Since then, CITIC Agri Fund has become the single largest shareholder of the Company and the Center Lab Group became the second largest shareholder of the Company. As at the end of the reporting period, CITIC Agri Fund and the Center Lab Group owned approximately 23.95% and 23.76% of the Company, respectively. Further details regarding the CITIC Subscription and the Transfer are set out in the announcement and circular of the Company dated 6 April 2018 and 17 September 2018, respectively.

CITIC Agri Fund is a professional investment institution jointly established by CITIC Agriculture Investment Co. Ltd（中信現代農業投資股份有限公司）, a non-wholly owned subsidiary of CITIC Group Corporation Ltd., and a number of renowned enterprise established in the People's Republic of China (the "**PRC**"). CITIC Agri Fund has a large state-owned conglomerate established in the PRC as its shareholder and is principally engaged in investment in agricultural biotechnology and branded consumer products sectors, it is also committed to improving the long-term interests of the shareholders of its invested companies.

The Board believes the CITIC Subscription would enlarge its shareholder base and significantly strengthen the shareholder profile of the Company by introducing a reputable investor, namely, CITIC Agri Fund. It is expected that the Company will benefit from the investment opportunities available to CITIC Group Corporation Ltd., which is a large state-owned conglomerate established in the PRC, since CITIC Agri Fund joined the shareholders of the Company (the "**Shareholders**"). The Board also considers the CITIC Subscription offered a good opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group so as to facilitate its future development.

THE GROUP'S OWN BRANDS

BUSINESS OVERVIEW

The Year 2018 was the third year of the "Golden Decade" strategic plan. The Company continued to implement its strategic plans, including (i) increasing its effort to streamline the supply chain for formula milk powder products with its overseas factories located in the Netherlands, Australia, and New Zealand; (ii) strengthening its global sales network, particularly in the PRC for its own-branded cow and goat milk infant formula products and overseas for its own-branded goat milk formula products; (iii) streamlining the operations of the overseas nutritional business to cater to the development in the PRC market; and (iv) increasing investment in research and development ("**R&D**"), team building, and human resources, in order to accommodate the long-term vision of the Group. The above steps continue paying off in terms of operation performance, improved product quality and diversification, and a strengthened business chain for the Group. In addition, the Group has achieved satisfactory results in expanding its global sourcing capability, developing its global market network and enhancing consumer services during the year.

For the Year 2018, the Group recorded a revenue of RMB5,389.6 million, representing an increase of RMB1,463.1 million, or 37.3%, when compared with the year ended 31 December 2017 (the "**Year 2017**"). The performance of the own-branded formula milk powder business, one of the Group's core operations, was particularly outstanding, with a recorded revenue of RMB4,401.4 million, representing an increase of RMB1,538.8 million, or 53.8% when compared with the Year 2017 and accounted for 81.6% (Year 2017: 72.9%) of the total revenue of the Group. The Group's profit attributable to ordinary equity holders of the Company increased by 106.1% to RMB635.1 million for the Year 2018. Excluding the Ozfarm One-Off Net Gain (as defined below) and the HNC FV Gain (as defined below) totaling RMB53.6 million, the adjusted profit attributable to ordinary equity holders of the Company amounted to RMB581.5 million, representing an increase of RMB273.4 million, or 88.7% when compared with the Year 2017.

The dairy industry continued to be challenging during the Year 2018, in the form of tightened rules and regulations from governments, and the lower-than-expected birth rate in the PRC, the Group's principal market. Nevertheless, the Group achieved a continuous growth in both revenue and operating results for the Year 2018. The growth was mainly driven by:

(i) the growing market recognition of the Group's own-branded formula milk powder products as a result of their quality, the persistent effort in building distribution channels and strong customer service;

(ii) the growing recognition for the high quality and nutritional value of the Group's own-branded goat milk formula products, *Kabrita*, from the consumers worldwide;

(iii) the effective "precise-marketing" strategies contributed by the "big data" and sophisticated information technology systems that have been built up over the years;

(iv) the increase in the Group's production capacity, following the commencement of production in the two new factories in the Netherlands, namely Ausnutria Hector and Ausnutria Pluto (collectively the "**Hector and Pluto Factories**") and the acquisition of a factory in Australia;

(v) the improvement in overall operation efficiency, such as improved production yield and factory efficiency in both the Netherlands and the PRC; and

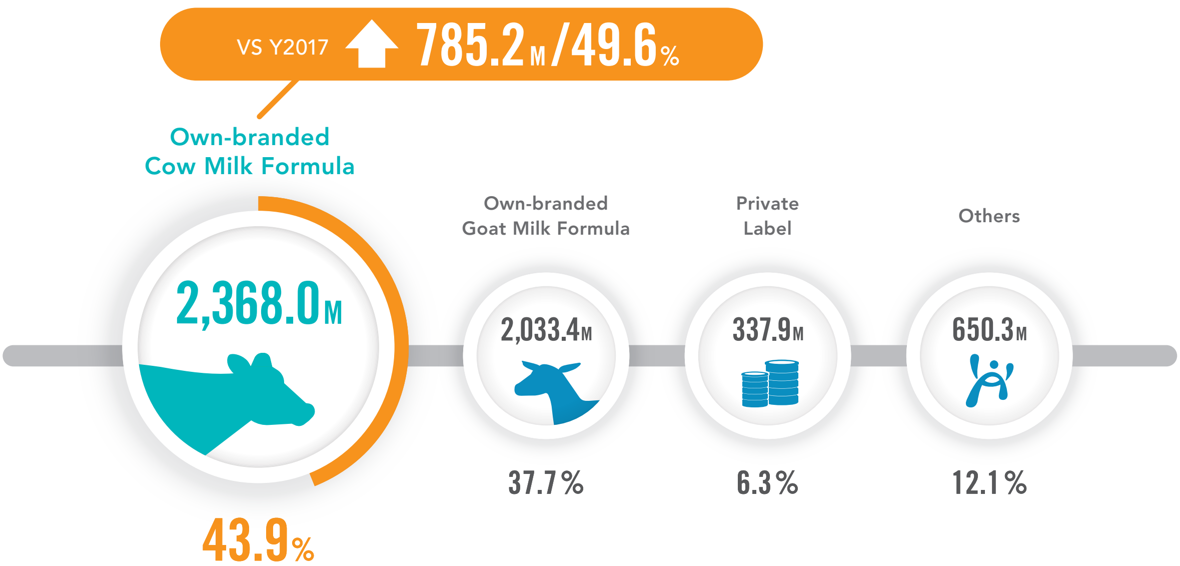
(vi) the progressive enhancement of the Group's planning in global logistics management.

Additionally, because of the increasingly high industry entry barriers that result from the PRC's new regulations, and the increasing high quality and service demands of the customers, the Company believes that the Group will continue to grow by leveraging the above strategies, and because of the stringent quality controls that has established and implemented over the years.

Formula Milk Powder Business

(A) Own-branded Cow Milk Formula

For the Year 2018, sales of own-branded cow milk formula products amounted to RMB2,368.0 million, representing an increase of RMB785.2 million, or 49.6% as compared with the Year 2017. Among which, sales of the Group's two organic cow milk formula products, which is marketed under the brand names of *Neolac* and *Extrapure*, amounted to a total of RMB298.6 million (Year 2017: RMB158.9 million).

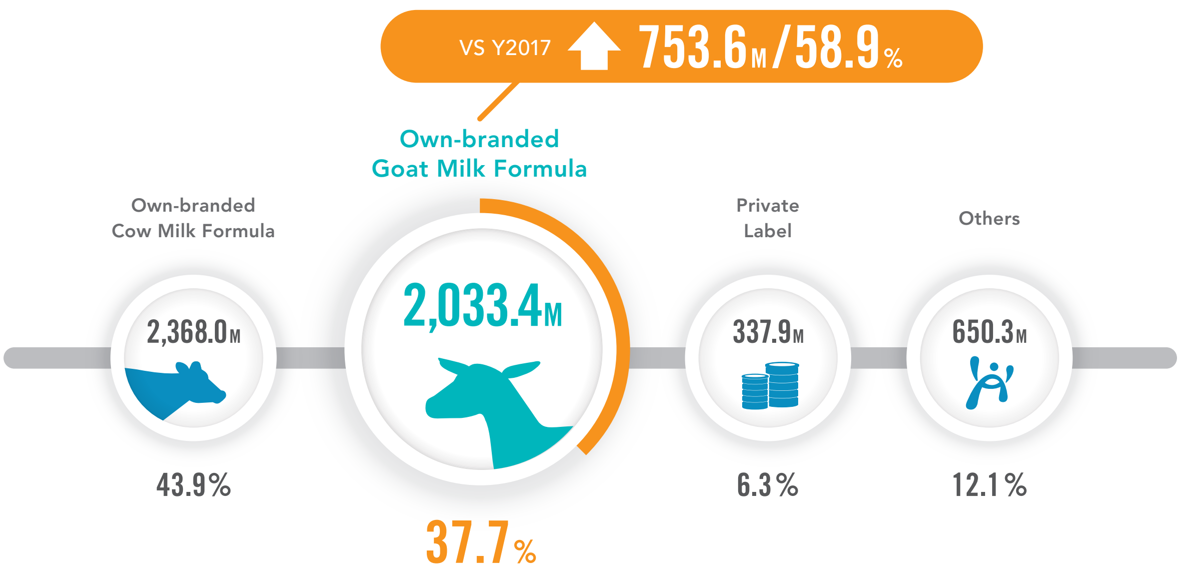


Since 2014, the Group has adopted multi-branding strategies by establishing a number of business units (the "**BUs**") for the marketing and distribution of formula milk powder products. They are produced with different formulas and milk sources, and hence vary in price, in order to meet the wide range of demands from the consumers in the PRC. Each of the BUs has its own unique vision and marketing strategy to effectively penetrate different market segments in the PRC. The Board believes that the above strategies will facilitate the steady, long-term growth of the Group.

Over the years, the Group invested significant amount of time and resources for the building of its global upstream production facilities. The Company believes that the Group is one of the few players in the PRC market that possesses an entire business chain: milk supply, R&D, overseas production facilities, and an extensive, firmly-established distribution network in the PRC. For the Year 2018, the formula milk powder products distributed by the Group in the PRC are mainly produced by the Group's factories located in the Netherlands, Australia and the PRC. The Group has evolved gradually from an asset-light enterprise to an organisation that owns over RMB1.6 billion in property, plant and equipment as at 31 December 2018, and with ten factories around the globe. The Company believes such strategic moves are important as they enable the Group to control the entire production process and hence to implement controls on the quality of its products. The Company believes effective internal quality control is crucial for its long-term success.

(B) Own-branded Goat Milk Formula

For the Year 2018, sales of *Kabrita* in the PRC and overseas amounted to RMB1,772.5 million and RMB260.9 million, representing an increase of RMB694.1 million, or 64.4% and RMB59.5 million, or 29.5%, respectively, when compared with the Year 2017.



The Group's goat milk formula products are marketed under the brand name of *Kabrita*. During the Year 2018, 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, accounting for 62.5% (Year 2017: 50.1%) of total imported volume of approximately 14,844 tons (Year 2017: 11,412 tons).

All *Kabrita* products have been 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) its effective and innovative marketing strategy (such as the precise-membership marketing system（會員精準行銷體系）) launched by the Group; (ii) excellent R&D, which are joint efforts of the Group and some renowned scientific institutions; (iii) the well-established distribution network built up by the Group over the years, in particular the increasing market penetration into first and second-tier cities in the PRC; (iv) increasing market recognition of the higher nutritional value of goat milk formula and it is considered to be more easily digested than cow milk formula; (v) the well-established supply network, which enables the Group to secure all the major ingredients (particularly goat whey) for the production of *Kabrita*; and (vi) the geographical location of the Group's manufacturing plants in the Netherlands, which enables ample supply of quality goat milk to support the unceasing growth of *Kabrita*.

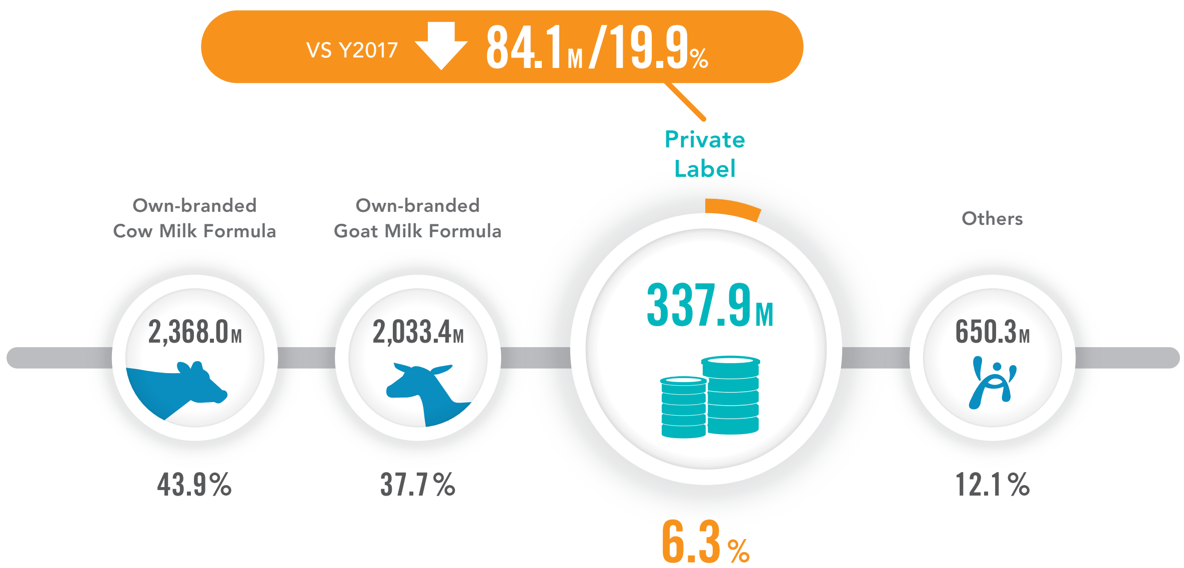
The presence of *Kabrita* has expanded to sixty-six countries and regions during the Year 2018. The Group will continue to launch *Kabrita* in other countries and aim to become a global leader in goat milk infant nutrition products. This ambition will be facilitated by (i) studies and clinical trials conducted by the medical school of Peking University and Jiangnan University; (ii) clinical studies in Europe; (iii) in-house R&D in the Netherlands and North America during the course of applying for US Food and Drug Administration (the "**US FDA**") approval; (iv) the continuous development and launch of upgraded new goat-milk-related nutrition products; and (v) participating in worldwide scientific board comprising top-notch industry experts. As it is anticipated that more markets will recognise the nutritional value and superior quality of *Kabrita*, the business of the Group is expected to expand.

In order to sustain the long-term growth and development of goat-milk-related nutrition products, in particular *Kabrita*, on 28 February 2018, the Group acquired the remaining 44% equity interest in Holland Goat Milk B.V. (formerly known as Hyproca Goat Milk B.V.) ("**HGM**") from Farmel Holding B.V. ("**Farmel**"), an associate of the Company, along with an independent third party, at a total consideration of EUR7.0 million (equivalent to approximately RMB53.9 million). The purpose of the acquisition is to further strengthen the control and strategic position of the Group on the supply of quality goat milk in the Netherlands. HGM was established in the Netherlands and was beneficially owned by the Group, Farmel, and an independent third party as to 56%, 22% and 22% respectively. The principal activity of HGM is souring goat milk, and all the goat milk consumed by the Group is provided by HGM. The above acquisition was completed on 28 February 2018 and since then, HGM became a wholly-owned subsidiary of the Company.

As at the end of the reporting period, HGM has entered into long-term supply contracts with fifty-three goat milk farmers in the Netherlands. The total goat milk delivered by these farmers was approximately sixty-five million kilograms, representing approximately 20% of the total goat milk produced in the Netherlands, for the Year 2018. The Group has also entered into sole distribution agreements with a number of reputable dairy or food factories in the Netherlands for the stable supply of certain key ingredients for the production of goat-milk-related nutrition products. The Company will continue to strive for a leading worldwide position on the development of goat-milk-related nutrition products.

(C) Private Label

Alongside the development of its own-branded formula milk powder business, the Group also produces formula milk powder products for other worldwide customers on an original equipment manufacturing basis (the "**Private Label**"). For the Year 2018, sales of the Private Label business, which represented 6.3% (Year 2017: 10.7%) of the total revenue of the Group, decreased by 19.9% to RMB337.9 million. The decrease in sales of the Private Label business was due mainly to a higher proportion of the production capacity and resources being allocated to serve the Group's own-branded dairy business, which recorded an increase in sales by 53.8% during the Year 2018.



Nevertheless, the Company believes that the Private Label business will continue to play an important role in the Group's growth. In particular, with the continuous ramping up of the output and efficiency of the Hector and Pluto Factories, which commenced operations in the beginning of 2018 and the anticipated start of production in the new factories in New Zealand (the "**PNL Factory**"), the Private Label business can help maximising the operation efficiency of production facilities, achieving economies of scale while simultaneously providing a reasonable return to the Group.

On 13 July 2018, the Group entered into a sale and purchase agreement with an independent third party (the "**AJM Vendor**") for the acquisition of a 50% equity interest in Ausnutria Joannusmolen B.V. (formerly Joannusmolen Nutirtion B.V.) ("**AJM**") at a consideration of EUR4.4 million (equivalent to approximately RMB33.9 million) (the "**AJM Acquisition**"). The AJM Vendor and its associates (the "**AJM Group**") were established in 1982 and have been one of the Private Label customers since 2011. The principal activities of the AJM Group are the sale and marketing of nutrition products, particularly formula milk powder products and cereals under the brand names of *Ekobaby* and *Biobim*, with principal markets in Europe and the PRC. The purpose of the AJM Acquisition is to facilitate the extension of the Group's sales and distribution network in Europe. The Company believes that it also provides an immediate and well-established platform for the Group to launch *Kabrita* and its other products, such as *Neolac*, the organic cow infant formula, in Europe.

The AJM Acquisition was completed on 13 July 2018. Since then, AJM is equally owned by the Group and the AJM Vendor, and became an associate of the Company.

Nutrition Business

The Group commenced its manufacturing, marketing and distribution of nutrition products through the acquisition of a nutrition business in Australia in October 2016. It includes the development, manufacturing, packaging, and distribution of complementary medicine, nutritional, and health products, under the brand names of *Nutrition Care* and *Brighthope*. It also includes the provision of contract manufacturing services in its facilities, which are certified by the Therapeutic Goods Administration (TGA) and located in Australia (the "**Nutrition Business**"). For the Year 2018, revenue and operating performance derived from this sector amounted to RMB136.1 million (Year 2017: RMB75.3 million) and the relevant loss attributable to the Company was RMB3.9 million (Year 2017: RMB16.4 million).

The Group has been actively streamlining the operations of the Nutrition Business and identifying the key and potential products to be launched in overseas markets, particularly the PRC. The Group has launched a number of nutrition products including Gut Relief, which has a beneficial effect on the gatrointestinal tract, in the PRC in late 2016 and in Hong Kong in late 2018 (*Nutrition Care* brand). Also launched 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 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 during the year amounted to RMB100.7 million (Year 2017: RMB30.7 million).

In the fourth quarter of 2018, the Group launched a series of supplements for children and pregnant women under the brand name of *Kidsbon* including Seaweed Powder（海藻鈣）, DHA Algal Oli（藻油 DHA）and Mushroom Powder（兒童蘑菇粉VD）. These products are now available for sale in the PRC through e-commerce platforms such as JD and Tmall.

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.

STRATEGIC STEPS TAKEN

In order to accommodate the Company's vision, the Group has executed the following strategic steps during the Year 2018:

HNC Group Acquisition

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 and Hyproca Nutrition Co., Ltd ("**HNC**") (collectively, the "**HNC Group**") (the "**HNC Group Acquisition**"). The HNC Group is principally engaged in the marketing and distribution of goat milk nutrition products, under the brand name of *Kabrita*, in Hong Kong, Macau, and the PRC. Pursuant to the HNC Purchase Agreement, the Group conditionally agreed to acquire and the vendors (the "**HNC Group Vendors**"), who are all existing employees of the HNC Group, 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 2017 (the "**Upfront HNC Consideration**"). The consideration is subject to certain adjustments, based on the financial performance for the HNC Group for the three years ending 31 December 2018, 2019, and 2020 (the "**Subsequent HNC Consideration**"). Both the Upfront HNC Consideration and the Subsequent HNC Consideration have been and will be settled by issue and allotment of Shares. In any case, the total consideration of the HNC Group Acquisition is capped at 80,174,000 Shares which is calculated at a maximum consideration amount of HK$400,870,000 at a price of HK$5.0 per Share pursuant to the HNC Purchase Agreement.

As two of the beneficial owners of the HNC Group are a director of HNC and a chief executive of the Company respectively, hence they are connected persons of the Company by virtue of Rule 14.A.07(1) of the Listing Rules, the entering into the HNC Purchase Agreement and the transactions contemplated thereunder constituted connected transactions for the Company. The HNC Group Acquisition was approved by the independent Shareholders at the extraordinary general meeting of the Company on 11 May 2018 and was completed on 30 May 2018. Since then, the HNC Group became a wholly-owned subsidiary of the Company. Further details regarding the HNC Group Acquisition are set out in the announcement and circular of the Company dated 14 February 2018 and 12 April 2018, respectively.

As the audited consolidated net profit of the HNC Group for the Year 2017 amounted to approximately HK$197.2 million, a total of 50,294,123 Shares were issued and allotted to the HNC Group Vendors to settle the Upfront HNC Consideration. The Subsequent HNC Consideration (if any) is therefore limited to 29,879,877 Shares (the "**Maximum Subsequent Consideration Shares**") accordingly and will be paid out no later than twenty business days following the date of the announcement of the Company's annual results for the year ending 31 December 2020, pursuant to the HNC Purchase Agreement. The Subsequent HNC Consideration is classified as a financial instrument and is measured at fair value through profit or loss. The gain arising from the change in fair value between the date of completion of the HNC Group Acquisition and the reporting date, RMB22.3 million (the "**HNC FV Gain**"), was included in "other income and gains" in the consolidated statement of profit or loss.

For the Year 2018, the turnover and profit after tax of the HNC Group continued to be promising and amounted to RMB1,772.5 million (Year 2017: RMB1,078.4 million) and RMB246.4 million (Year 2017: RMB158.1 million), respectively.

With the increasing recognition of the quality and high nutritional value of goat milk infant formula, *Kabrita* 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 five consecutive years since 2014. The Company is of the view that *Kabrita* will continue to grow steadily and contribute positively to the Group.

The Company believes that the HNC Group Acquisition 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 enables 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. It facilitates better implementation of the operating philosophies and strategies of the Company into the HNC Group for the vision of *Kabrita* to be ranked as the global number one brand of goat milk infant formula. It also facilitates internal integration and creates better synergy with the Group as a whole, and hence improves the operational efficiency.

Ozfarm Acquisition

Ozfarm Royal Pty Ltd ("**Ozfarm**") was founded in 1998 in Australia and is principally engaged in the infant formula and nutrition business. It operates on formula milk powder products for infant, children, pregnant mothers and elderlies under its own brand name *Oz Farm*®.

In July 2017, the Group completed the acquisition of the existing shares in Ozfarm from two independent parties (the "**Ozfarm Vendors**") and the subscription of the new shares in Ozfarm which, in aggregate, represent 50% of the enlarged share capital of Ozfarm (the "**First Ozfarm Acquisition**") for a total cash consideration of AUD11.0 million (equivalent to RMB56.4 million). Since then, Ozfarm was equally owned by the Group and the Ozfarm Vendors, and became a joint venture of the Company.

On 1 June 2018, the Group entered into a share purchase deed with the Ozfarm Vendors, pursuant to which the Group agreed to purchase and the Ozfarm Vendors agreed to sell the remaining 50% interest in Ozfarm at a consideration of HK$129.8 million (equivalent to approximately AUD21.8 million) by the issue and allotment of 12,980,000 Shares at a share price of HK$10.0 each by the Company to the Ozfarm Vendors, (the "**Upfront Ozfarm Consideration**"). Pursuant to the share purchase deed, the consideration is subject to an adjustment, to be determined based on the financial performance of Ozfarm for the two years ending 31 December 2020 and 2021 (the "**Subsequent Ozfarm Consideration**") (the "**Second Ozfarm Acquisition**"). In any case, the total consideration of the Second Ozfarm Acquisition shall not exceed AUD80.0 million. The Upfront Ozfarm Consideration was settled by the issue and allotment of 12,980,000 Shares to the Ozfarm Vendors. The Subsequent Ozfarm Consideration, if any, will be settled by cash or by the issue and allotment of Shares (or any combination) at the discretion of the Group. The Second Ozfarm Acquisition was completed on 29 June 2018 and since then, Ozfarm became a wholly-owned subsidiary of the Company. Further details regarding the Second Ozfarm Acquisition are set out in the announcement of the Company dated 1 June 2018.

For the Year 2017 and the period from 1 January 2018 to 28 June 2018 (being the date immediately prior to completion of the Second Ozfarm Acquisition), the share of profit of Ozfarm by the Group amounted to RMB0.9 million and RMB1.2 million, respectively.

In accordance with IFRS 3, the Group's previously held equity interest in Ozfarm shall be remeasured at its acquisition-date fair value and the resulting gain or loss shall be recognised in profit or loss. The gain arising from the re-measurement of the initial 50% equity interest in Ozfarm for the Year 2018 of RMB35.1 million (the "**Ozfarm Re-measurement Gain**") was included in "other income and gains" in the consolidated statement of profit or loss.

The Board is of the view that Ozfarm will continue to grow steadily and positively contribute to the Group because (i) there has been rapid growth in the nutrition product market in and outside the PRC; (ii) Ozfarm owns the number one maternal women's milk powder brand in Australia; and (iii) Ozfarm has obtained the registration of its infant formula with the State Administration for Market Regulation of the PRC (formerly the Chinese Food and Drug Administration) (the"**SAMR**").

As such, the Board believes that the Second Ozfarm Acquisition, which in turn made Ozfarm become a wholly-owned subsidiary of the Company, (i) enables the Group to own 100% of the brands and products of Ozfarm for better allocation of internal resources of the Group; (ii) enables the Group to further expand and develop its markets in Australia, the PRC and overseas by taking advantage of the reputation of Ozfarm; (iii) facilitates the perfection of the Group's current product range offered; and (iv) creates better synergy with the Group as a whole, and hence improve the operational efficiency.

NCP Acquisition

On 5 October 2016, the Group completed the acquisition of the 75% interest in the Nutrition Business together with the land and buildings (the "**NCP Properties**") from an independent third party who is the founder of the Nutrition Business (the "**NCP Vendor**") (the "**First NCP Transactions**"). The acquisition was conducted via Nutrition Care Pharmaceuticals Pty Ltd ("**NCP**"), a newly incorporated company in Australia which is beneficially owned as to 75% and 25% by the Group and the NCP Vendor respectively. The consideration for the above acquisition of the Nutrition Business and the NCP Properties amounted to AUD26.4 million (equivalent to approximately RMB134.7 million) and AUD5.2 million (equivalent to approximately RMB26.5 million), respectively.

On 17 December 2018, the Group entered into a share purchase deed with the NCP Vendor for the acquisition of the remaining 25% equity interest in NCP (the "**Second NCP Transaction**"). The consideration for the Second NCP Transaction amounted to AUD7.9 million (equivalent to approximately RMB45.19 million) (the "**NCP Consideration**") which is to be settled by the issue and allotment of 4,954,824 Shares at a share price of HK$9.12 each by the Company to the NCP Vendor. As of the date of this report, the Second NCP Transaction is still subject to the fulfillment of various conditions precedent. Further details regarding the Second NCP Transaction are set out in the announcement of the Company dated 17 December 2018.

The NCP Consideration is determined after arm's length negotiations between the Group and the NCP Vendor with reference to, among others, (i) the agreed valuation of NCP of AUD31.60 million under the First NCP Transactions; (ii) the growth in revenue of NCP since completion of the First NCP Transactions; and (iii) the profit contribution from the sale of NCP products conducted via a subsidiary of the Group established in the PRC.

After the First NCP Transactions completed in October 2016, the Group has expanded its business into nutrition and healthcare sectors. The Group launched two nutrition products, namely Gut Relief in late 2016 and Soforla in late 2017, in the PRC market via its subsidiary established in the PRC. 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 in its category on Tmall, a renowned e-commerce platform in the PRC. Revenue and operating performance derived from this sector have recorded continuous growth. For the Year 2018, revenue derived from the nutrition products sector amounted to RMB136.1 million (Year 2017: RMB75.3 million), which represented a significant growth when compared with that of the corresponding period. The acquisition of the remaining 25% equity interest in NCP is part of the Group's plan to strengthen its production capability in Australia.

ANC Acquisition

On 5 July 2017, the Group, through Ausnutrition Care Pty Ltd ("**ANC**"), completed the acquisition of the entire equity interest in ADP Holdings (Australia) Pty Ltd ("**ADP Holdings**") (the "**ADP Acquisition**") . The consideration for the ADP Acquisition amounted to AUD22.4 million (equivalent to approximately RMB115.6 million), 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 ANC (the "**ANC Shares**"), representing approximately 30% of the enlarged issued capital of ANC. Since then, ADP Holdings is wholly-owned by ANC and the Company's interest in ANC was diluted from 100% to 70%, as a result of the issue and allotment of the ANC Shares.

ANC is an investment holding company incorporated in Australia and is engaging in (i) the business of NCP; and (ii) the business of ADP Holdings and its subsidiaries which includes the manufacturing, packaging and the sale of dairy and milk powder products and related R&D activities.

On 17 December 2018, the Group entered into a share purchase deed with the ANC Vendor for the acquisition of the remaining 30% equity interest in ANC (the "**ANC Acquisition**"). The consideration for the acquisition of the remaining 30% equity interest in ANC amounted to AUD13.74 million (equivalent to approximately RMB78.59 million) (the "**ANC Consideration**") which is to be settled as to 50% by the issue and allotment of 4,149,567 Shares at a share price of HK$9.47 each by the Company to the ANC Vendor and as to the remaining 50% of AUD6.87 million (equivalent to approximately RMB39.30 million) by cash. As of the date of this report, the ANC Acquisition is still subject to the fulfillment of various conditions precedent. Further details regarding the ANC Acquisition are set out in the announcement of the Company dated 17 December 2018.

The ANC Consideration is determined after arm's length negotiations between the Group and the ANC Vendor with reference to, among others, (i) the agreed valuation of ADP of AUD23.3 million under the ADP Transaction and the agreed valuation of NCP of AUD31.6 million under the First NCP Transactions; (ii) the significant growth in revenue of ANC since the completion of the ADP Transaction and the First NCP Transactions; and (iii) the profit contribution from the sale of NCP products conducted via a subsidiary of the Group established in the PRC.

Australian Dairy Park Pty Ltd. ("**ADP**"), a wholly-owned subsidiary of ADP Holdings, owns one of the first two factories in Australia that has been granted the license by the PRC government for the import of infant formula (the "**ADP Factory**"). In addition, it has obtained the SAMR registrations for all the three brands (i.e. nine formulas) under its production after the ADP Transaction. Among which, one of the three brands is the only SAMR-approved organic infant milk formula in Australia, as of the date of this report. It is expected that having full control in ANC (and hence ADP) can better optimise the integration with the production of infant milk formula.

Research and Development

As of 31 December 2018, the Group has more than ninety R&D personnel, of which fourteen hold a doctoral degree. They are located in the PRC, the Netherlands, Australia, and New Zealand. The Group has also entered into strategic alliances with various universities, including The University of Groningen and Wageningen University & Research in the Netherlands, Technical University of Denmark, Peking University, China Agricultural University, Jiangnan University, Central South 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 powder.

As of the date of this report, the Group has a total of five infant formula blending and packaging factories duly registered with the Certification and Accreditation Administration of the PRC (the "**CNCA**"), and this is expected to increase to seven with the completion of the PNL Factory and the factory in Changsha City, the PRC (the "**Smart Factory**"). Among the seven, the Smart Factory was certified as a National Green Factory of the PRC. It has already submitted twenty series of infant formula applications to the SAMR, of which twelve have already been approved, with the remaining eight 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 applications will be approved as planned.

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 of the US FDA, for the sale of Stage 1 & 2, *Kabrita* in the United States. In 2016, the Group received the "Generally Recognised as Safe" (GRAS) status (GRN No. 644) for its non-fat dry goat milk and goat whey protein concentrate, for use in the goat milk infant formula. Thus these ingredients are permitted to be used as the source of protein in infant formula in the United States. During the year, the Group successfully completed the "Growth Monitoring" study, one of the key milestones of a New Infant Food Notification that is planned to be submitted to the US FDA in the first half of 2019.

Additionally, with the continuous effort to support the development of *Kabrita* with scientific measures, the R&D department in the Netherlands published its results on goat milk composition and suitability. It will be a key component for the development of nutritional products during the leading pediatrics conference European Society for Paediatric Gastroenterology, Hepatology and Nutrition (ESPGHAN) in Geneva.

During the year under review, the Group has submitted thirteen patent applications to the PRC's National Intellectual Property Administration and thirteen professional academic papers in the core journals of the PRC. One of the patents won the Second Prize of the Hunan Provincial Patent. "Ausnutria's Children Growing Up Formula (澳優兒童成長配方奶粉)" and "*Kabrita*'s JingYing for Children Formula (*佳貝艾特*睛瀅兒童配方羊奶粉)" were awarded the Excellent New Product Prize by the China Dairy Industry Association and The Chinese National Committee of International Dairy Federation. One academic paper was awarded Second Prize of Technology Progress by The Chinese National Committee of International Dairy Federation and China Dairy Industry Association.

Human Resources

As of 31 December 2018, the Group's total number of full-time employees was 3,803 (2017: 3,092), of which 2,984 (2017: 2,373), 568 (2017: 495), 126 (2017: 121) were located in the PRC, the Netherlands and Australia and New Zealand, respectively. The total staff costs incurred for the Year 2018 amounted to RMB671.0 million (2017:RMB484.4 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" strategy. The three core goals of Ausnutria University are (i) boosting staff quality; (ii) optimising organisational performance; and (iii) nurturing a culture of excellence.

The senior management has participated since the programs launched. Ausnutria 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 programs. Ausnutria University has achieved professional education for everyone in the Group, from general employees to senior management. The high-frequency, high-quality training offers the key talents of the Group a constructive path of continuous learning.

In 2018, Ausnutria University won a number of awards including "2018 Most Excellent Corporate Universities in the PRC," as selected by Shanghai Jiao Tong University, as well as a "Gold Award" in the third Chinese Society for Talent Development (CSTD) National Learning Design Competition.

In 2018, the Company launched the operational excellence project, namely Ausnutria Operations Excellence ("**AOPEX**"). AOPEX is a comprehensive and customised operation management system. It is results-oriented which pays attention to process and depends on the participation of all employees to drive change. The system eliminates defects and losses to continuously improve. It leverages the support of the information system platform to standardise, digitalise, and streamline operations.

The Company sees AOPEX as an opportunity to realise the comprehensive upgrade of Ausnutria. It will become the nerve center of the Company's unified thinking and action. Since the launch of the project, uniform language and standards of excellence have been developed within the Company. These standards include decentralised authority, employee development, regional team leadership, responsible operation teams, streamlined processes, and continuous improvement. AOPEX will create for the Company a comprehensive and successful workforce, operation, and asset management for an optimal customer experience and market competitiveness.

In 2019, the Group will, through the mission of Ausnutria University, continue to "enhance employee knowledge, improve team efficiency, and create a culture of excellence". The Group plans to extend these programs to cover employees overseas, particularly in the Netherlands, who are believed to play an important role in building corporate culture and implementing the strategies of the Company.

Building the Headquarter of the PRC region

In 2017, the Group, through its wholly-owned subsidiary (the "**HQ Development Company**"), purchased two adjacent plots of land in the PRC at a total consideration of RMB139.0 million, principally for the construction of the future headquarters of the PRC region. Their areas measure 34,424 square meters (the "**Land A**") and 6,922 square meters (the "**Land B**") respectively, and are located in Changsha City in the PRC (the "**HQ Land**").

On 12 February 2018, in order to facilitate the development of the HQ Land, the Group entered into an agreement with an independent property developer (the "**HQ Land Development Partner**") for the investment in the HQ Development Company. Pursuant to the agreement, the HQ Land Development Partner would contribute RMB100.0 million immediately after entering into the agreement. After the capital injection made by the HQ Land Development Partner on 25 May 2018, the HQ Development Company is owned by the Group and the HQ Land Development Partner as to 51% and 49%, respectively.

Further, 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 future management, daily operations, funding, and financing arrangements of the HQ Development Company. 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.

Pursuant to 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. In February and May 2018, the Group obtained the land use rights for the Land A and the Land B, respectively, and the development of the HQ Land has already commenced since July 2018. The construction of the headquarter is expected to be completed early 2021.

As a result of the above arrangement, the Group's interest in the HQ Development Company was reduced from 100% to 51% and the Group's investment for the headquarter was limited to the initial land costs. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company is accounted for as an associate of the Company.

Industry Overview

According to the National Bureau of Statistics of the PRC, the number of newborns in the PRC in 2018 and 2017 was 15.2 million and 17.2 million, respectively, representing a decline of approximately 11.6% when compared with 2017. It is believed the decline was mainly due to the decline in the willingness of parents to have children, economic changes, and the decline in the number of fertile women in the PRC.

Despite that, thank to the relaxation of the "one-child policy" and consumer premiumisation in the PRC, the market size of infant formula market continued to grow at a rate of approximately 9.3% in terms of retail sales in 2018 to approximately RMB162.6 billion. According to the market research reports, it is expected that the infant formula market in the PRC will continue to grow in the mid-single digit range during 2019-2022, slower than the 9.0% compound annual growth rate recorded during 2014-2018, as a result of the anticipated decrease in newborns. Goat milk formula, which is considered closer to breast milk, continues to be one of the fastest growing segments in recent years. According to the data from the General Administration of Customs of the PRC (the "**China Customs**"), the imported volume of goat milk formula recorded approximately 30% growth in 2018.

Following the Formulas Registration Requirement in the PRC which came 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 at the date of this report, there are approximately 400 series and 1,195 formulas duly approved by the SAMR.

Despite a declining trend of newborns in the PRC, the high industry entry barriers (as a result of the PRC government raising its industry regulatory standards), and the slower-than-expected granting of factory and formula registrations, the PRC dairy industry is expected to have a healthier growth in in the long run. This would benefit those industry participants who possess strong R&D and production capability.

OUTLOOK

Completion of the Factories and Brand Registration

The compound annual growth rate on the sales of the Group's own-branded formula milk powder products for the past three years ended 31 December 2018 was approximately 40.2%. In order to sustain the long-term growth of the Group and to realise the "Golden Decade" strategic plan, the Company has since 2014 approved a number of investment plans to increase the dry blending and packaging capacities of the Group. Such investments were made in various "golden milk zones" of the globe. The investments in the two dry blending and packaging facilities in the Netherlands, which were completed in 2017 and commenced production, succeeded in fulfilling the registration requirements of the CNCA in November 2017. The three existing dry blending and packaging factories that are located in the Netherlands, the PRC, and Australia (their respective registrations with CNCA granted in 2014) have already been granted an extension pursuant to Announcement No. 220 (2018) of the China Customs – Announcement on Issuing the List of Overseas Enterprises Producing Imported Infant Formula Dairy Products of which Renewal of Registration is Granted.

However, registration process for the PNL Factory (construction completed in mid-2018) and the Smart Factory (construction has now substantially been completed) is a bit behind schedule. This is due to more stringent procedures being adopted by respective regulators. The Company will endeavor to complete the factory registrations and thereafter the respective formulas registrations with the SAMR, by leveraging on its strong R&D capabilities, the experience that it has accumulated, and the stringent quality control systems that it has built over the years.

As of the date of this report, the Company has a total of five factories duly registered with the CNCA and a total of twelve series registered with the SAMR. The Company regards completion of the above registrations to be an important milestone for the Group in the coming year.

Secure of Upstream Resources

Upon completion of the PNL Factory and the Smart Factory, the annual dry blending and packaging capacities of the Group is expected to reach approximately 150,000 tons by 2022. Additionally, with the growth in demand of *Kabrita* following the anticipated successful registration of the US FDA, the ability to secure upstream resources is becoming more crucial to the Company. During the year, the global infant formula market experienced shortages on some of its key ingredients, such as Lactoferrin.

Other than the investments in upstream facilities, the Company has also from time to time reviewed its strategies to secure its raw materials resources, in order to ensure that the Company will meet the ongoing growth in demand. For examples, the acquisition of Farmel in 2014 to secure a stable supply of cow milk, the entering into long-term contracts with goat milk farmers via HGM to secure quality goat milk, the entering into long-term contracts and partnership with Westland Co-operative Dairy Company Limited for base powder, and some international goat cheese players for the securing of goat whey.

The Company will continue to formulate its long-term plan and strategies, including cooperation with industry pioneers and further investments in CAPEX, to ensure that there are sufficient raw materials and resources to support its long-term growth.

Expansion of Formula Milk Powder Market Share

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-branded formula milk powder products can then be further categorised into "cow" and "goat". Since 2014, the Group has established a number of BUs, namely the Kabrita BU for goat milk powder products, and the Hyproca Bio-Science BU, the Allnutria BU, the Puredo BU, Mygood BU and the Eurlate BU for cow milk powder products. Each BU has its own unique vision and marketing strategy in promoting its products in the PRC, to fulfill the different needs of millions of newborns every year.

The Group will continue to implement its innovative marketing strategies and launch new formula milk powder products, including goat-based adult formula, organic goat- and A2-based formula milk powder products, to meet the different demands in the market. It will leverage on its strong customer database, sophisticated membership IT platform, strong R&D and procurement capabilities, and well-established distribution networks. This will increase its market share in the PRC and hence maintain the growth momentum of the Group.

Global markets (except the PRC)

In past years, the Group experienced limits on production capacity and maintains a strategy to serve the own-branded sector in the PRC with priority. With the commencement of operation of the Hector and Pluto Factories, the Group will increase its efforts to promote *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 Mexico, India, Thailand, and the United States (as soon as the US FDA license has been granted). Meanwhile, It will continue to extend its coverage in existing markets, particularly the Middle East, Russia, the Commonwealth of Independent States (the "**CIS**") and Brazil in 2019.

As at the date of this report, the Group has over RMB800.0 million net cash (2017: net debt of RMB367.8 million). The Company will continue to explore potential investment opportunities with an aim to realise its "Golden Decade" strategic plan and its vision "To Become the Most Trustworthy Milk Formula, Nutrition and Health-care Enterprise in the World."

FINANCIAL REVIEW

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

Revenue

	Notes	2018 RMB'M	2017 RMB'M	Change %	Proportion to total revenue 2018 %	Proportion to total revenue 2017 %
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	2,368.0	1,582.8	49.6	43.9	40.3
Goat milk (in the PRC)	(i)	1,772.5	1,078.4	64.4	32.9	27.5
Goat milk (elsewhere)	(i)	260.9	201.4	29.5	4.8	5.1
Goat milk total		2,033.4	1,279.8	58.9	37.7	32.6
		4,401.4	2,862.6	53.8	81.6	72.9
Private Label	(ii)	337.9	422.0	(19.9)	6.3	10.7
Milk powder	(iii)	198.7	252.5	(21.3)	3.7	6.4
Butter	(iv)	160.7	172.0	(6.6)	3.0	4.4
Others	(v)	154.8	142.1	8.9	2.9	3.7
Dairy and related products		5,253.5	3,851.2	36.4	97.5	98.1
Nutrition products	(vi)	136.1	75.3	80.7	2.5	1.9
Total		5,389.6	3,926.5	37.3	100.0	100.0

Notes:

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

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

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

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

(v) Representing mainly the processing of condensed milk and the trading of fresh, liquid milk and other formula milk products ingredients, etc.

(vi) Representing the sale of nutrition products in the PRC and Australia which are mainly produced in Australia.

For the Year 2018, the Group recorded revenue of RMB5,389.6 million, representing an increase of RMB1,463.1 million, or 37.3%, from RMB3,926.5 million for the Year 2017. Despite the competition of the formula milk powder products market in the PRC continued to be intense during the Year 2018, revenue of the Group continued to increase and this was mainly attributable to the continuous increase in the sales of own-branded formula milk powder products which has been driven by the clear brand positioning and the effective marketing strategies adopted by the Group.

During the year, as higher portion of the Group's production capacity and resources in the Netherlands have been allocated to the own-branded formula milk powder products, the sale of the Private Label business dropped when compared with the Year 2017. With the completion of the Hector and Pluto Factories at the end of the Year 2017, the production capacity limitation issue is expected to be gradually relieved in the coming years. Besides, as more milk powder was consumed for the production of own-branded formula milk powder products, sale derived from the trading of milk powder for the year decreased accordingly.

Gross profit and gross profit margin

	Gross profit		Gross profit margin	
	2018 RMB'M	2017 RMB'M	2018 %	2017 %
Own-branded formula milk powder products:				
Cow milk	1,296.7	863.5	54.8	54.6
Goat milk	1,104.8	703.3	54.3	55.0
	2,401.5	1,566.8	54.6	54.7
Others	233.0	162.2	27.3	16.4
Dairy and related products	2,634.5	1,729.0	50.1	44.9
Nutrition products	78.7	44.9	57.8	59.6
	2,713.2	1,773.9	50.4	45.1
Less: provision for inventories	(52.6)	(83.7)		
Total	2,660.6	1,690.2	49.4	43.0

The Group's gross profit for the Year 2018 was RMB2,660.6 million, representing an increase of RMB970.4 million, or 57.4%, when compared with the Year 2017. The increase in the gross profit margin of the Group from 43.0% for the Year 2017 to 49.4% for the Year 2018 was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded formula milk powder products business, particularly those products that are in the super premium segment, as compared with the other business sectors. Overall contribution to revenue by the own-branded formula milk powder products increased to 81.6% for the Year 2018 (Year 2017: 72.9%). The decrease in provision for inventories for the year also contributed an increase in gross profit margin by 1.1 percentage points.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2018 RMB'M	2017 RMB'M
Interest income on bank and other deposits	(i)	26.3	33.9
Government grants	(ii)	16.0	10.7
The HNC FV Gain	(iii)	22.3	–
The Ozfarm Re-measurement Gain	(iv)	35.0	–
Management fees income from an associate		0.2	1.8
Others		14.3	11.1
		114.1	57.5

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 the average bank balances and average bank deposit rate during the Year 2018.

(ii) Balance mainly represented incentive income received from the government of the Hunan province, the PRC for the contribution made by Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**") in the Hunan province, the PRC during the Year 2018.

(iii) On 30 May 2018, the Group completed the HNC Group Acquisition. The consideration for the HNC Group Acquisition included the Upfront HNC Consideration, and the Subsequent HNC Consideration which will be settled by issue and allotment of the Shares in 2022 pursuant to the HNC Purchase Agreement. The Subsequent HNC Consideration is classified as financial instrument and is measured at fair value through profit or loss. Balance represented the gain arising from the change in fair value between the date of completion of the HNC Group Acquisition and the reporting date. Further details regarding the HNC Group Acquisition are set out in the "Business Review and Outlook – Strategic Steps Taken" section of this report.

(iv) On 29 June 2018, the Group completed the Second Ozfarm Acquisition, before which Ozfarm was accounted for as a joint venture of the Company. Balance represented the gain on re-measurement of previously held 50% equity interest in Ozfarm as a result of the Second Ozfarm Acquisition. Further details regarding the Second Ozfarm Acquisition are set out in the "Business Review and Outlook – Strategic Steps Taken" section of this report.

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 26.8% (Year 2017: 24.7%) of the revenue for the Year 2018. The increase in the selling and distribution expenses to revenue ratio was mainly due to the proportionate increase in the sales of the higher profit margin own-branded formula milk powder business which incurred on average a higher selling and distribution expenses to revenue ratio when compared with the other sectors.

Administrative expenses

The administrative expenses accounted for 8.6% (Year 2017: 7.6%) of the revenue of the Group for the Year 2018.

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB2.9 million (Year 2017: RMB7.6 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 and the increase in R&D costs of RMB62.2 million, from RMB37.9 million for the Year 2017 to RMB100.1 million for the Year 2018, for the R&D of new products.

Other expenses

Other expenses mainly comprised (i) net foreign currency exchange losses of RMB30.8 million (Year 2017: RMB3.5 million) arising from the foreign currency transactions, mainly between EUR and RMB, and revaluation of year end foreign currency balances; (ii) compensation to a customer in relation to the termination of a sales contract of RMB8.6 million (Year 2017: Nil); and (iii) loss on fair value change of derivative financial instrument in relation to a call option granted by the Ozfarm Vendors upon completion of the First Ozfarm Acquisition of RMB3.7 million (the "**Ozfarm FV Loss**") (Year 2017: Nil) and such call option is lapsed upon completion of the Second Ozfarm Acquisition.

Finance costs

The finance costs of the Group for the Year 2018 amounted to RMB29.8 million (Year 2017: RMB22.1 million), representing mainly interest on bank loans and other borrowings 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 (i) the increase in average bank loans as a result of additional bank loans drawdown during the year; and (ii) the cessation of capitalisation of loan interest upon completion of the construction of the Hector and Pluto Factories at the end of 2017. On 26 October 2018, the Company completed the CITIC Subscription and part of the proceeds raised was used to repay bank loans in the fourth quarter of 2018. The Group has turned from a net debt position of RMB367.8 million as at 31 December 2017 to a net cash position of RMB802.3 million as at 31 December 2018 following the completion of the CITIC Subscription.

Share of profit of a joint venture

Balance represented the share of profit of Ozfarm, which was acquired by the Group in July 2017. Ozfarm is principally engaged in the sale and marketing of nutrition products, particularly formula milk powder products for infants, children, pregnant mothers and elderlies 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.

Ozfarm became a wholly-owned subsidiary of the Company on 29 June 2018. Further details regarding the Second Ozfarm Acquisition are set out in the "Business Review and Outlook" section of this report.

Share of profits and losses of associates

Balance mainly represented income arising from the share of profits of Farmel and its subsidiaries (the "**Farmel Group**") for the Year 2018. 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 2018 were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria China and HNC, wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the Year 2018. 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, the United States, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 17%, respectively.

The decrease in the Group's effective tax rate from 23.7% for the Year 2017 to 20.0% (excluding the Ozfarm Re-measurement Gain, the Ozfarm FV Loss (collectively the "**Ozfarm One-Off Net Gain**") and the HNC FV Gain of a total of RMB53.6 million) for the Year 2018 was mainly due to the granting of a preferential CIT rate to HNC of 15% (Year 2017: 25%) as HNC is designated as a High-tech Enterprise during the year. The profit before tax derived from HNC has accounted for 45.2% (Year 2017: 49.2%) of the Group's adjusted profit before tax for the Year 2018.

Profit attributable to ordinary equity holders of the Company

The Group's profit attributable to ordinary equity holders of the Company for the Year 2018 amounted to RMB635.1 million, representing an increase of RMB327.0 million, or 106.1% when compared with the Year 2017.

Excluding the Ozfarm One-Off Net Gain and the HNC FV Gain of a total of RMB53.6 million, the adjusted profit attributable to ordinary equity holders of the Company amounted to RMB581.5 million, representing an increase of RMB273.4 million, or 88.7% when compared with the Year 2017.

The continuous 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 strategies 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 2018, the total assets and net asset value of the Group amounted to RMB6,829.0 million (2017: RMB5,621.1 million) and RMB3,394.5 million (2017: RMB1,947.0 million), respectively.

The increase in total assets of the Group as at 31 December 2018 was mainly contributed by:

(i) the Second Ozfarm Acquisition which resulted in a net increase in total assets (mainly goodwill and other intangible assets) of RMB204.3 million;

(ii) the increase in interest in the HQ Development Company with the carrying value of RMB153.9 million included in investments in associates (2017: included in deposit paid of RMB58.5 million) as at 31 December 2018. During the year, the Group's interest in the HQ Development Company was diluted from 100% to 51% subsequent to the subscription of 49% interest in the HQ Development Company by the HQ Land Development Partner. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company was then accounted for as an associate of the Company. Further details regarding the interest in the HQ Development Company are set out in the "Business Review and Outlook – Building the Headquarter of the PRC region" section of this report;

(iii) the increase in inventories of RMB460.9 million as a result of the scale up of operations of the Group following completion of the Hector and Pluto Factories; and

(iv) the net increase in cash and cash equivalent and pledged deposits of a total of RMB273.3 million derived mainly from the CITIC Subscription and cash generated from operating activities.

The increase in total assets of the Group as at 31 December 2018 was mainly financed by the issue of new Shares for the CITIC Subscription, internal working capital and the cash flows generated from operating activities of the Group of RMB531.8 million (Year 2017: RMB512.5 million) during the year.

The increase in net assets of the Group as at 31 December 2018 was mainly a result of the net effect of (i) the net profit of the Group generated for the year of RMB644.6 million; (ii) the increase in the share capital and share premium of the Company of a total of RMB1,565.1 million mainly derived from as a result of the CITIC Subscription; and (iii) the decrease in capital reserve arising from the elimination of the goodwill for the acquisition of the minority interests in the HNC Group and HGM during the year of a total of RMB655.6 million.

Working Capital Cycle

As at 31 December 2018, the current assets to current liabilities ratio of the Group was 1.6 times (2017: 1.2 times). The improvement in current assets to current liabilities ratio when compared with the prior year was mainly due to the cash inflows contributed by the CITIC Subscription as well as from the operating activities.

An analysis of key working capital cycle is as follows:

	2018 Number of days	2017 Number of days	Change Number of days
Inventory turnover days	176	154	22
Debtors' turnover days	20	21	(1)
Creditors' turnover days	37	35	2

In March 2018, the Group commenced the delivery of formula milk powder products from the Netherlands to the PRC via railway. In order to further control the transportation costs following the ramping up of the productivity of the Hector and Pluto Factories, the Group continues to optimise its logistic arrangements by increasing the delivery of goods via railway which such logistic arrangement is considered to be more cost effective based on the trial experience in the past months. In particular, in the fourth quarter of 2018, the Group has arranged four trains fully loaded with 100% Ausnutria products for the delivery of formula milk powder products from the Netherlands to cater for the anticipated increase in demand in the first quarter of 2019. The goods in transit increased from RMB84.9 million as at 31 December 2017 to RMB141.0 million as at 31 December 2018. Besides, in order to secure some of the key ingredients, particularly those for the production of specialty formula such as organic, the Group has increased the safety stock level on some of the key raw materials during the year. As a result of the change in the above two strategies, the Group's inventory turnover days for the Year 2018 has been temporarily affected and increased by 22 days to 176 days.

The turnover days of the Group's trade and bills receivables and trade payables for the Year 2018 remained fairly stable when compared with the prior year.

Analysis on Consolidated Statement of Cash Flows

	2018 RMB'M	2017 RMB'M
Net cash flows from operating activities	531.8	512.5
Net cash flows from/(used in) investing activities	227.6	(722.1)
Net cash flows from financing activities	105.0	339.9
Net increase in cash and cash equivalents	864.4	130.3

Net cash flows from operating activities

The net cash flows from operating activities of the Group for the Year 2018 amounted to RMB531.8 million (Year 2017: RMB512.5 million). The improvement in cash flows from operating activities of the Group for the Year 2018 was mainly contributed by the increase in profit before tax from RMB438.5 million for the Year 2017 to RMB792.0 million for the Year 2018.

Net cash flows from investing activities

The net cash flows from investing activities of the Group for the Year 2018 of RMB227.6 million (Year 2017: net cash outflows of RMB722.1 million) mainly represented the net effect of (i) the purchase of property, plant and equipment of RMB307.0 million (Year 2017: RMB469.8 million) mainly for the construction of the factories; (ii) the purchase of intangible assets of RMB54.2 million (Year 2017: RMB49.2 million) mainly for the purchase of trademarks, software and non-patent technology; (iii) cash outflow for the AJM Acquisition of RMB33.9 million (Year 2017: Nil); and (iv) the net decrease in time deposits of RMB540.9 million (Year 2017: net increase of RMB92.0 million) according to the Group's treasury policy.

Net cash flows from financing activities

The net cash flows from financing activities of the Group for the Year 2018 of RMB105.0 million (Year 2017: RMB339.9 million) was primarily contributed by the net effect of (i) proceeds from issue of shares of RMB1,172.5 million (Year 2017: RMB17.6 million) mainly resulted from the proceeds from the CITIC Subscription of RMB1,144.8 million (Year 2017: Nil); (ii) the net repayment of bank loans and other borrowings of a total of RMB854.4 million (Year 2017: net drawdown of RMB383.8 million); and (iii) dividends paid during the year of RMB106.9 million (Year 2017: RMB53.9 million).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the acquisitions as detailed in the section headed "Business Review and Outlook", there were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Year 2018.

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	
	2018 RMB'M	2017 RMB'M
Interest-bearing bank loans and borrowings	(1,075.4)	(1,972.2)
Less: Pledged deposits[1]	427.8	968.7
Cash and cash equivalents[2]	1,449.9	635.7
	802.3	(367.8)
Total assets	6,829.0	5,621.1
Shareholders' equity	3,253.7	1,740.5
Gearing ratio[3]	N/A	6.5%
Solvency ratio[4]	47.6%	31.0%

Notes:

(1) All denominated in RMB.

(2) An analysis of cash and cash equivalents by currency is shown below:

	2018		2017	
Currency	RMB'M	%	RMB'M	%
RMB	630.4	43.5	384.2	60.4
HK$	448.4	30.9	6.9	1.1
EUR	198.5	13.7	156.6	24.6
AUD	81.9	5.6	12.8	2.0
US$	54.4	3.8	30.1	4.7
TWD	13.6	0.9	13.5	2.1
NZD	4.3	0.3	11.4	1.8
Others	18.4	1.3	20.2	3.3
Total	1,449.9	100.0	635.7	100.0

(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 2018, the Group had outstanding borrowings of RMB1,075.4 million (2017: RMB1,972.2 million), of which RMB659.0 million (2017: RMB1,158.0 million) was due within one year and the remaining RMB416.4 million (2017: RMB814.2 million) due over one year. As at 31 December 2018, except for (i) a bank loan of RMB3.0 million which is denominated in RMB (2017: two bank loans of a total of RMB74.6 million) and bears interest at 5.0% (2017: 4.4% to 5.0%) per annum; (ii) two bank loans of RMB11.8 million (2017: RMB5.3 million) which are denominated in TWD and bear interest at 2.3% to 2.7% (2017: 2.7%) per annum; and (iii) a loan of RMB9.2 million (2017: Nil) which is denominated in NZD and bears interest at 4.22% (2017: Nil) per annum, all borrowings of the Group are 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, other than the borrowings denominated in RMB, EUR and TWD, the Group had two bank loans of a total of RMB27.1 million which were denominated in AUD and bore interest at rates ranging from 5.4% to 5.7% per annum which were fully repaid during the year.

As at 31 December 2018, 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 EUR239.9 million, equivalent to approximately RMB1,882.6 million (2017: EUR221.8 million, equivalent to approximately RMB1,730.8 million); and (ii) the time deposits that were placed in the PRC of RMB427.8 million (2017: RMB968.7 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans. As at 31 December 2017, the Group had also pledged the land and buildings in Australia with a carrying value of AUD6.6 million, equivalent to approximately RMB33.6 million, for the banking facilities granted to the operations of the Group in Australia. Such bank loans were repaid during the year and the corresponding pledge of the land and buildings in Australia was released during the year accordingly.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the Year 2018, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), EURO ("**EUR**"), United States dollars ("**US$**"), Australian dollars ("**AUD**"), New Zealand dollars ("**NZD**") or Taiwan dollars ("**TWD**") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in HK$, RMB and EUR, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, 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 2018, the Group had a EUR against RMB capped forward contract of EUR10.0 million (2017: EUR5.0 million) to hedge certain of its EUR denominated transactions. 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 30 September 2015, of a notional amount of EUR14.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 2.77% per annum. The interest rate swap 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 2018, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to RMB30.7 million (2017: RMB18.5 million).

As at 31 December 2018, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries and intangible assets of a total of RMB13.9 million (2017: RMB109.0 million).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (2017: Nil).

USE OF PROCEEDS FROM THE CITIC SUBSCRIPTION

The gross and net proceeds raised from the CITIC Subscription which was completed on 26 October 2018 amounted to approximately HK$1,289.8 million and HK$1,288.6 million, respectively. The utilisation of the net proceeds from the CITIC Subscription as at 31 December 2018 was summarised as follows:

	Net proceeds from the CITIC Subscription HK$'M	Utilised during the year (1) HK$'M	Unutilised balance as at 31 December 2018 (2) HK$'M
Repayment of bank loans and revolving facilities	902.0	(662.2)	239.8
Investment in the Group's infant formula and nutrition businesses	257.7	–	257.7
General working capital:			
(a) R&D of infant formula and nutrition products	38.7	–	38.7
(b) Branding and marketing expenses	38.7	(38.7)	–
(c) Advertisement and promotion of own-branded dairy business	38.7	(38.7)	–
(d) Working capital	12.8	(12.8)	–
General working capital total	128.9	(90.2)	38.7
	1,288.6	(752.4)	536.2

Notes:

(1) The net proceeds from the CITIC Subscription were used according to the intentions previously disclosed in the circular of the Company dated 17 September 2018.

(2) The unutilised balance is expected to be fully utilised by 2019.

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
31 December 2018	2,984	6	568	126	119	3,803
31 December 2017	2,373	5	495	121	98	3,092

For the Year 2018, total employee costs, including Directors' emoluments, amounted to RMB671.0 million (Year 2017: RMB484.4 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.

The Directors are pleased to present the corporate governance report (the "**Corporate Governance Report**") for the Year 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 Listing Rules 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 2018 and up to the date of this report. 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.

MODEL CODE FOR TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2018 and up to the date of this report.

The Group has a written guideline "Employees' Code of Dealing the Securities of the Company" on terms no less exacting than the Model Code and the Guidelines on Disclosure of Inside Information of the Securities and Futures Ordinance (the "**SFO**") by senior management and employees who are likely to be in possession of unpublished inside information of the Company.

THE BOARD

Board Composition

The Board currently comprised nine members, including three executive Directors (the "**EDs**"), three non-executive Directors (the "**NEDs**") and three independent non-executive Directors (the "**INEDs**") as at the date of this report. Save for Mr. Shi Liang and Mr. Qiao Baijun, both working in CITIC Agri Fund, a substantial Shareholder, the Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure that a strong independence exists across the Board, with diversity in skills, expertise, experience and qualifications concerning the Directors. The biographies of the Directors including, the relationship between the members, if any, are set out in the section headed "Management Profiles" on pages 81 to 88 of this report.

The Board is dedicated to make decisions objectively in the best interests of the Group. Each of the Directors has a wide spectrum of valuable business experience, knowledge and professionalism, which enables the Board to be efficient and effective.

The Board currently comprises the following members:

	Board Committees		
	Audit Committee	Remuneration Committee	Nomination Committee
Director			
Executive Directors:			
Yan Weibin *(Chairman)*		Member	Chairman
Bartle van der Meer *(Chief Executive Officer)*			
Ng Siu Hung			
Non-Executive Directors:			
Shi Liang* *(Vice-Chairman)*		Member	Member
Qiao Baijun*			
Tsai Chang-Hai			
Independent Non-Executive Directors:			
Jason Wan	Member	Member	Member
Lau Chun Fai Douglas	Chairman	Chairman	Member
Aidan Maurice Coleman*	Member	Member	Member

* appointed on 6 December 2018

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the Year 2018, the Board at all times met the requirements of the Listing Rules of appointing at least three INEDs representing one-third of the Board with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise.

Board Responsibilities

The Board is responsible for leading, directing and supervising the Group's affairs to enable its long term sustainability as well as setting strategic objectives focusing on value creation and risk management. The Board is also responsible for ensuring adequacy of resources, staff qualifications and experience, especially for the Group's accounting, internal audit and financial reporting function.

All the Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times. In order to ensure that their duties can be properly discharged, the Directors are entitled to seek advice from independent professional advisers whenever deemed necessary by them at the expense of the Company.

The Directors shall disclose the Company details of other offices they held and the Board regularly reviews each of the Directors' required contribution to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board's Responsibilities for Financial Reporting in respect of Financial Statements

The Board acknowledges its responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2018, the Board ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Board is also responsible for the timely publication of the consolidated financial statements of the Group.

The Directors confirm that, having made all reasonable enquiries, that to the best of their knowledge, information and belief, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement made by Ernst & Young, the independent auditors of the Company, about their reporting responsibilities on the consolidated financial statements of the Group as well as their opinion are set out in the "Independent Auditors' Report" of this report.

Executive Directors

All the EDs have entered into service agreements with the Company for a term of 3 years and are subject to retirement by rotation and re-election at the annual general meeting of the Company (the "**AGM**") in accordance with the provisions of the articles of association of the Company (the "**Articles of Association**"). Their emoluments are determined with reference to his/her experience and contributions to the Group, the Group's performance and profitability, as well as the prevailing market conditions. An ED shall not vote on any Board's resolution regarding the amount of his/her emolument and/or bonus (if any).

Non-Executive Directors

The NEDs have the same duties of care and skill and fiduciary duties as the EDs. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The NEDs bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all NEDs make various contributions to the effective direction of the Company.

All the NEDs have entered into service agreements with the Company for a term of 2 years and are subject to retirement by rotation and eligible for re-election in accordance with the provisions of the Articles of Association.

Independent Non-Executive Directors

The INEDs have the same duties of care and skill and fiduciary duties as the EDs. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs are experienced professionals with expertise in respective areas of dairy industry and related technical know-how, accounting and finance. With their professional knowledge and experience, the INEDs advise the Company on its operation and management; provide independent opinion on the Company's connected transactions; and participate in various committees' meetings of the Board. The INEDs also provide adequate checks and balance to protect the interests of the Group and the Shareholders as a whole, and to promote the development of the Group. Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has three INEDs of whom Mr. Lau Chun Fai Douglas is a fellow member of the Hong Kong Institute of Certified Public Accountants.

All the INEDs have entered into service agreements with the Company for a term of 2 years and are subject to retirement by rotation and eligible for re-election in accordance with the provisions of the Articles of Association.

Each INED is required to inform the Stock Exchange as soon as practicable if there is any change of his or her own personal particulars that may affect his or her independence. No such notification was received during the Year 2018.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers all INEDs are independent in accordance with the definition of the Listing Rules for the Year 2018.

Notwithstanding that Mr. Jason Wan ("**Mr. Wan**") has served as an INED for more than nine years, the Board has (i) assessed and reviewed the annual confirmation of independence from Mr. Wan and affirmed that Mr. Wan remains independent; (ii) the nomination committee of the Company (the "**Nomination Committeee**") has assessed and is satisfied of the independence of Mr. Wan; and (iii) the Board considers that Mr. Wan remains independent of management and free of any relationship which could materially interfere with the exercise of his independent judgement. Notwithstanding the length of his service, the Company believes that Mr. Wan's valuable knowledge and experience in processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products will continue to benefit the Company and the Shareholders as a whole.

Appointment, Re-election and Removal of Directors

The Company has established a formal and transparent procedures for the appointment of the Directors. The Company has adopted the procedures for the Shareholders to propose a person for election as a Director which are available and accessible on the Company's website under the section of "Governance" at www.ausnutria.com.hk.

Article 84 of the Articles of Association provides that all the Directors, including the chairman of the Board (the "**Chairman**"), are subject to retirement from office at least once every 3 years at each AGM and shall be eligible for re-election. Under Article 83 of the Articles of Association, the office of a Director is liable to be vacated in certain circumstances and the Company may remove any Director by an ordinary resolution at a general meeting as prescribed in Article 83 of the Articles of Association.

The procedures and process of appointment, re-election and removal of the Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of the Directors, monitoring the appointment and succession planning of the Directors and assessing the independence of the INEDs.

Chairman of the Board and Chief Executive Officer

Since the early stage of its incorporation, the Company has segregated the duties of the Chairman and the chief executive officer of the Company (the "**CEO**"). The Chairman and the CEO are separately held by different Board members in order to ensure a balance of power and authority, independence and a balanced judgment of views. The Chairman is responsible for overseeing and leading the Board, making sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The CEO is responsible for managing and executing the Group's overall business directions and corporate operation decisions. In addition, the Board also comprises INEDs who can provide the Board with independent judgments, knowledge and experience.

Directors' Liability Insurance

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against the Directors arising out of corporate activities. The coverage and the sum insured under the policy are reviewed and renewed on an annual basis. The insurance coverage was renewed on 7 January 2019.

Induction and Continuous Professional Development

All Directors keep abreast of their responsibilities as a Director and of the conduct, business activities and development of the Company. Each newly appointed Director receives a comprehensive, formal and tailored induction on his/her first occasion of appointment to ensure his/her understanding of the business, operations and corporate governance structure of the Company, awareness of a Director's responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. To facilitate the Directors to discharge their responsibilities, the Directors are updated from time to time on the latest legislative and regulatory developments to ensure that they are fully aware of their responsibilities under the Listing Rules as well as the applicable legal and regulatory requirements in the industry. All Directors are encouraged to attend relevant training courses at the expense of the Company.

Based on the training records as provided to the Company by the Directors, the Directors have participated in the following training during the Year 2018:

	Types of training
Executive Directors:	
Mr. Yan Weibin	B
Mr. Bartle van der Meer	B
Ms. Ng Siu Hung	B
Non-executive Directors:	
Mr. Shi Liang*	C
Mr. Qiao Baijun*	C
Mr. Tsai Chang-Hai	B
Mr. Zeng Xiaojun#	B
Independent Non-executive Directors:	
Mr. Jason Wan	B
Mr. Lau Chun Fai Douglas	A, B
Mr. Aidan Maurice Coleman*	C
Ms. Ho Mei-Yueh#	A, B

A: trainings and seminars

B: read newspapers, journals and updates relating to the Group's business and regulatory requirements, and materials relating to the Listing Rules and relevant laws

C: induction training by Hong Kong lawyer for newly appointed Directors

*: appointed on 6 December 2018

#: resigned on 6 December 2018

Board's Corporate Governance Functions

The Board is responsible for determining the policy for corporate governance of the Company and performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Company;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and Directors; and

(e) to review the Company's compliance with Appendix 14 to the Listing Rules (the CG Code and Corporate Governance Report).

During the Year 2018, the Board has reviewed (i) the Company's corporate governance policies and practices; (ii) training and continuous professional development of the Directors and senior management; and (iii) the Company's policies and practices on compliance with legal and regulatory requirements.

Board meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications. The schedule for the regular meetings of the Board and the Board committees was prepared and approved by the Board at the end of the previous year. Formal notices were sent to the Directors at least 14 days before the respective meetings shall be held officially.

All Directors are provided with appropriate, complete and reliable materials for their review at least 3 working days prior to respective meetings. The agenda for each meeting is prepared and circulated after sufficient consultation with the Board/Board committee members and approved by the respective chairmen. The company secretary department is responsible for circulating the papers of the Board meetings and relevant information to the Directors. The Directors have separate and independent access to the company secretary of the Company (the "**Company Secretary**") and the senior management at all times and may seek independent professional advice at the expense of the Company. Where queries are raised by the Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for the Board meetings.

Board minutes are kept by the Company Secretary, draft versions of minutes are circulated to the Directors for their comments within a reasonable time after each meeting. Final versions will be sent to the Directors for their records respectively and are open for inspection by the Directors.

BOARD COMMITTEES

The Board has established four Board committees of the Company, namely, audit committee (the "**Audit Committee**"), the Nomination Committee, remuneration committee (the "**Remuneration Committee**") and executive committee (the "**Executive Committee**").

Audit Committee

The Audit Committee comprises all the three INEDs. The primary duties of the Audit Committee are to monitor the integrity of the Company's financial statements, annual and interim reports and account, risk management and internal control as well as maintain an appropriate relationship with the Company's external auditors, to give material advice in respect of financial reporting, internal control and risk management systems and the effectiveness of internal audit function of the Company, to make recommendations to the Board on the appointment and removal of external auditors, and to review arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee is also responsible for ensuring the internal audit function is staffed by employees with appropriate qualification, experience, integrity and independence of mind, has appropriate standing within the Company, and reviewing and monitoring its effectiveness. The written terms of reference of the Audit Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2018, the annual results for the Year 2018, risk management and internal control systems of the Group as well as considered and discussed with the external auditors regarding their re-appointment and independence. All issues raised by the external auditors and the Audit Committee have been addressed by the Board. During the Year 2018, no issues brought to the attention of the Board were of sufficient significance for disclosure in this report.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

Nomination Committee

The Nomination Committee comprises an ED, a NED and all the three INEDs. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and to review the nomination policy and diversity policy of the Board or the Nomination Committee on a regular basis, to recommend to the Board suitable candidates for directorship after considering the nominees' independence and quality in order to ensure the fairness and transparency of all nominations and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors if necessary. In the selection process of a candidate to act as a Director, the Nomination Committee makes reference to criteria including but not limited to, reputation for integrity, accomplishment and experience in the industry, professional and educational background, commitment in respect of available time and assesses the independence of the INEDs. The written terms of reference of the Nomination Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

The Board adopted a board diversity policy which recognises and embraces the benefits of having a diverse and inclusive Board, and agrees to increase diversity at Board level continuously, in order to achieve and maintain good corporate governance, a sustainable development and a competitive advantage. Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining the optimum composition of the Board and should be balanced appropriately when possible and necessary. The Board believes a diversified board promotes board effectiveness and enables better decisions to be made due to the lessened risk of groupthink. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendation of candidates for appointment to the Board.

During the Year 2018, the Nomination Committee reviewed the board diversity policy, the procedure for the selection, appointment and reappointment of directors, the structure, size and composition of the Board, the independence of the INEDs and considered the qualifications of the retiring Directors standing for re-election at the AGM.

Full minutes of the Nomination Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Nomination Committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

Remuneration Committee

The Remuneration Committee comprises of an ED, a NED and all the three INEDs. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance-based remuneration, and ensure none of the Directors determine their own remuneration. The written terms of reference of the Remuneration Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, the share option plan, the remuneration packages as well as the annual bonuses of the Directors and the senior management.

Full minutes of Remuneration Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Remuneration Committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

Executive Committee

The Executive Committee was established in 2015 and comprises three members: Mr. Yan Weibin (the Chairman), Mr. Bartle van der Meer (the CEO) and Mr. Wong Wei Hua, Derek (chief financial officer and the Company Secretary). The primary duty of the Executive Committee is to execute and monitor significant business and operation decisions approved by the Board. Upon delegation by the Board, the Executive Committee also assist the Board to formulate business development strategies to ensure that the Group's business objectives, business development plans and annual budget are properly managed.

Attendances of the Directors at various Board meetings, Board committee meetings and general meetings during the Year 2018

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meeting	Year 2017 AGM	Extraordinary general meetings
Executive Directors:						
Mr. Yan Weibin[(1)]	7/7	2/3	2/2	2/2	1/1	2/2
Mr. Bartle van der Meer	6/7	N/A	N/A	N/A	1/1	2/2
Ms. Ng Siu Hung	6/7	N/A	N/A	N/A	1/1	2/2
Non-executive Directors:						
Mr. Shi Liang[(3)]	1/1	N/A	N/A	N/A	N/A	N/A
Mr. Qiao Baijun[(3)]	1/1	N/A	N/A	N/A	N/A	N/A
Mr. Tsai Chang-Hai	6/7	N/A	N/A	N/A	1/1	2/2
Mr. Zeng Xiaojun[(4)]	6/7	N/A	N/A	N/A	1/1	2/2
Independent Non-executive Directors:						
Mr. Jason Wan	7/7	3/3	2/2	2/2	1/1	2/2
Mr. Lau Chun Fai Douglas[(2)]	6/7	3/3	2/2	2/2	1/1	1/2
Mr. Aidan Maurice Coleman[(3)]	1/1	N/A	N/A	N/A	N/A	N/A
Ms. Ho Mei-Yueh[(4)]	5/7	3/3	2/2	2/2	1/1	2/2

1. Chairman of the Board and the Nomination Committee.
2. Chairman of the Audit Committee and the Remuneration Committee.
3. Appointed on 6 December 2018.
4. Resigned on 6 December 2018.

None of the meetings set out above was attended by any alternate Director.

Delegation by the Board

The Board reserves for its decision for all major matters of the Group, including but not limited to, monitor and approval of material transactions, reviews and approval of annual business plan and financial budget, matters involving a conflict of interest for a substantial Shareholder or Director, approval of the quarterly, interim and annual results, environmental, social and governance ("**ESG**") report and other disclosures to the public or regulators.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The Board delegated various responsibilities to the Board committees and other committees the responsibility for overseeing particular aspects of affairs of the Group. The Board committees should report to the Board on the decisions or recommendations they made.

The Board has delegated to the Executive Committee and the senior management of the Group the authority and responsibility for the day-to-day management and operation of the Group and has the full support of them for discharge of their responsibilities. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the Executive Committee and the senior management of the Group.

Remuneration of Directors and Senior Management

The remuneration of Directors and the senior management by band for the Year 2018 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	7
1,000,001 – 1,500,000	4
1,500,001 – 2,000,000	6
2,000,001 – 2,500,000	3
2,500,001 – 3,000,000	2
3,000,001 – 3,500,000	1
	23

Further particulars regarding Directors' and chief executive' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for facilitating the Board process, as well as communication among Board members, with the Shareholders and management. For the Year 2018, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out on page 85 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITORS' REMUNERATION

During the Year 2018, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	RMB'000
Annual audit services	5,520
Review of quarterly results and other assurance services	2,560
Non-audit services	400
Total	8,480

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Anti-fraud and whistleblowing procedures are also in place to facilitate employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. External consultants will be appointed when considered appropriate, to review the Group's internal control, working systems and workflows, as well as the management systems, and to make suggestions on system enhancement.

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems on an annual basis covering the Year 2018, among others, the financial, operational and compliance controls. The Board considered the risk management and internal control systems of the Group are effective and adequate. No material deficiencies nor significant areas of concern that might affect the Shareholders were identified during the review. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders, investors and potential investors. To the best belief of the Board, the Company has published all of its announcements in time in accordance with the Listing Rules. The Company also commenced the voluntarily publishing of its quarterly results since 2015. All these information are available for public access on the Company's website and the website of the Stock Exchange.

Besides, the Board maintains regular dialogues with institutional investors and analysts and participates in media interviews and specialist industry forums to keep the Shareholders and investors timely informed of the Group's strategy, operations, management and plans. The Directors and members of the various Board committees would attend and answer questions raised at the AGM, and significant issues will be put as separate proposed resolutions.

The Company encourages the Shareholders to attend the AGM and other general meetings to communicate their views and concerns to the Board directly to ensure a high level of accountability. The Directors acknowledge their responsibility for the timely holding of AGMs. The last Shareholder's meeting was the extraordinary general meeting held on 10 October 2018 at 8th Floor, Xin Da Xin Building A, No. 168 Huangxing Middle Road, Changsha City, Hunan Province, the PRC for approval of, among other things, the connected transaction in relation to subscription of new Shares under specific mandate, increase in authorised share capital and amendments to the memorandum of association of the Company. Particulars of the major items considered at the meeting are set out in the circular of the Company dated 17 September 2018. All proposed ordinary resolutions and special resolution were passed by way of poll at the meeting.

The AGM for the Year 2018 will be held on 14 May 2019. The notice of AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.ausnutria.com.hk where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices, press release and other information are posted and available for public access. Investors may write directly to the Company or via email to info@ausnutria.com for any enquiries.

Dividend Policy

According to the dividend policy of the Company (the "**Dividend Policy**"), the declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the Articles of Associations. In accordance with the Articles of Associaton, the Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders, but no dividend shall be declared in excess of the amount recommended by the Board. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with relevant laws, rules and regulations.

Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the earnings, losses and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company.

The Board will review the Dividend Policy from time to time and reserves its right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy. There can be no assurance that dividends will be paid in any particular amount for any given period.

Constitutional Documents

During the Year 2018, the Shareholders' approved amendments in the Articles of Associations on 10 October 2018. The amended Articles of Association is available on the websites of the Company and the Stock Exchange. Save as disclosed aforesaid, there had been no significant change in the Company's constitutional documents.

Shareholders' Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Stock Exchange and the Company after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association for Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
For the attention of the Board of Directors

Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communication.

The Directors hereby present their report and the audited financial statements for the Year 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in

(i) the dairy industry with activities ranging from R&D, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands, Australia and other overseas countries; and

(ii) R&D, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia.

Details of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

An analysis of the Group's performance for the Year 2018 by operating segment is set out in note 4 to the financial statements of this report.

BUSINESS REVIEW

A fair review of the business of the Group during the Year 2018 and the Group's future business development are provided in the section headed "Business Review and Outlook" on pages 22 to 38 of this report. A discussion of the principal risks and uncertainties facing the Group and an analysis of the Group's performance using key performance indicators are included in the section headed "Management Discussion and Analysis" on pages 39 to 50 of this report. In addition, a discussion on relationships with the Company's stakeholders are included in the section headed "Communication with Shareholders and Investors" on pages 63 to 65 of this report. The reviews form part of this directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environmental protection and has not noted any material non-compliance with any relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. During the production process, the Group has implemented environmental protection measures, including procedures related to energy use control, waste water and waste air discharge management and recycling of packaging materials. The Group has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimise unnecessary waste.

In accordance with Rule 13.91 of the Listing Rules, the Company will publish an ESG Report within three months after the publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

RESULTS AND DIVIDENDS

The Group's results for the Year 2018 and the Group's financial position at that date are set out in the financial statements on pages 94 to 219 of this report.

The Board is pleased to recommend the payment of a final dividend of HK$0.15 (2017: HK$0.10) per Share for the Year 2018 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 around 27 June 2019. As at the date of this report, there was no arrangement with any Shareholders under which he/she/it has waived or agree to waive any dividends.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 220 of this report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2018 are set out in note 13 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year 2018 are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to the Shareholders.

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 2018 and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2018 are set out in note 46 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's accumulated losses amounted to RMB142,677,000 (31 December 2017: RMB118,306,000). As at 31 December 2018, the Company's share premium account available for distribution under certain conditions amounted to RMB2,412,889,000 (31 December 2017: RMB876,049,000), of which RMB207,942,000 (31 December 2017: RMB104,995,000) has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the Year 2018, the Group made charitable contributions in cash totaling RMB2,174,000 (2017: RMB2,047,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2018, sales to the Group's five largest customers accounted for approximately 11.0% (2017: approximately 10.8%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 4.0% (2017: approximately 3.6%). Purchases from the Group's five largest suppliers accounted for approximately 31.1% (2017: approximately 33.1%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 10.7% (2017: approximately 11.6%).

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers or the five largest suppliers.

DIRECTORS

The Directors who were in the office during the Year 2018 and up to the date of this report were as follows:

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

Non-executive Directors:
Mr. Shi Liang* *(Vice-Chairman)*
Mr. Qiao Baijun*
Mr. Tsai Chang-Hai
Mr. Zeng Xiaojun#

Independent Non-executive Directors:
Mr. Jason Wan
Mr. Lau Chun Fai Douglas
Mr. Aidan Maurice Coleman*
Ms. Ho Mei-Yueh#

* Appointed on 6 December 2018.

Resigned on 6 December 2018 due to personal reasons, details of which are set out in the announcement of the Company dated 6 December 2018.

In accordance with Article 84 of the Articles of Association, Mr. Bartle van der Meer, Ms. Ng Siu Hung and Mr. Jason Wan will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. Furthermore, in accordance with Article 83(3) of the Articles of Association, the newly appointed Directors, namely, Mr. Shi Liang, Mr. Qiao Baijun and Mr. Aidan Maurice Coleman, will also retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received annual confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2018. The Company considers all of the INEDs to be independent. The Company has also assessed the independence of Mr. Wan, who has served as an INED for more than nine years, details of which are set out in the session headed "The Board – Independent Non-Executive Directors" on pages 54 to 55 of this report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Management Profiles" on pages 81 to 88 of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the Year 2018.

DIRECTORS' SERVICE CONTRACTS

Each of the EDs, NEDs and INEDs has entered into a service contract with the Company for a term of 3 years, 2 years and 2 years, respectively, which will continue thereafter unless otherwise terminated in accordance with the terms of the service contract.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' remuneration is determined by the Board, as authorised by the Shareholders at general meeting, with reference to the recommendation by the Remuneration Committee after taking into consideration the Directors' duties, responsibilities and performance and the results of the Group as well as the prevailing market conditions. Details of remuneration of the Directors during the Year 2018 are set out in note 8 to the financial statements.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the transactions as disclosed in the section headed "Connected Transactions" and the related party transactions as disclosed in note 42 to the financial statements (which are not defined as "connected transactions" or "continuing connected transactions" under the Listing Rules), no Director or an entity connected with the Director or the controlling Shareholders had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2018.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Number of Shares or underlying Shares [(1)]	Nature of interest	Approximate percentage of issued share capital [(5)]
Mr. Yan Weibin	800,000 (L)	Beneficial owner	0.05%
	400,000 (L)	Beneficial owner [(2)]	0.03%
	118,539,085 (L)	Interest of a controlled corporation [(3)]	7.49%
Mr. Bartle van der Meer	800,000 (L)	Beneficial owner	0.05%
	400,000 (L)	Beneficial owner [(2)]	0.03%
	124,205,230 (L)	Interest of a controlled corporation [(4)]	7.85%
Ms. Ng Siu Hung	666,000 (L)	Beneficial owner	0.04%
	334,000 (L)	Beneficial owner [(2)]	0.02%
Mr. Tsai Chang-Hai	200,000 (L)	Beneficial owner	0.01%
	100,000 (L)	Beneficial owner [(2)]	0.01%
Mr. Jason Wan	200,000 (L)	Beneficial owner	0.01%
	100,000 (L)	Beneficial owner [(2)]	0.01%
Mr. Lau Chun Fai Douglas	200,000 (L)	Beneficial owner	0.01%
	100,000 (L)	Beneficial owner [(2)]	0.01%

Notes:

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

2. These are the Shares subject to the exercise of the share options granted by the Company to the Directors on 21 January 2016 under the Share Option Scheme (as defined below). Details of the Share Option Scheme are set out in the section headed "Share Option Scheme".

3. The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan Weibin ("**Mr. Yan**"). Mr. Yan is therefore deemed to be interested in 118,539,085 Shares held by Ausnutria BVI under the SFO.

4. The Shares are held by Dutch Dairy Investments HK Limited ("**DDIHK**"), which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer ("**Mr. van der Meer**"). Mr. van der Meer is therefore deemed to be interested in 124,205,230 Shares held by DDIHK under the SFO.

5. As at 31 December 2018, the total number of the issued Shares of the Company was 1,582,150,653.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the grant of share options on 15 January 2019 as set out under the Share Option Scheme (as defined below) and as disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", at no time during the year and up to the date of this report were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2018, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	Notes	Number of Shares (1)	Nature of interest	Approximate percentage of issued share capital (13)
Citagri Easter Ltd.	2	379,000,000 (L)	Beneficial owner	23.95%
Changsha Kunxin Xin'Ao Investment LP	3	379,000,000 (L)	Interest of controlled corporation	23.95%
Chengtong CITIC Agriculture Investment Fund	3	379,000,000 (L)	Interest of controlled corporation	23.95%
CITIC Agri Fund	4	379,000,000 (L)	Interest of controlled corporation	23.95%
CITIC Agriculture Technology Co., Ltd.	4	379,000,000 (L)	Interest of controlled corporation	23.95%
CITIC Limited	5	379,000,000 (L)	Interest of controlled corporation	23.95%
CITIC Group Corporation	5	379,000,000 (L)	Interest of controlled corporation	23.95%
China Structural Reform Fund Co., Ltd*	6	379,000,000 (L)	Interest of controlled corporation	23.95%
CCB (Beijing) Investment Funds Management Co., Ltd.*	6	379,000,000 (L)	Interest of controlled corporation	23.95%
CCB Trust Co., Ltd.*	6	379,000,000 (L)	Interest of controlled corporation	23.95%
Postal Savings Bank of China*	7	379,000,000 (L)	Beneficiary of a trust (other than a discretionary interest)	23.95%
Center Laboratories, Inc.	8	327,940,089 (L) 47,991,683 (L)	Beneficial owner Interest of a controlled corporation	20.73% 3.03%
China Securities (International) Finance Company Limited	9	124,205,230 (L)	Beneficial owner	7.85%
China Securities (International) Finance Holding Company Limited	9	124,205,230 (L)	Interest of a controlled corporation	7.85%

Name	Notes	Number of Shares (1)	Nature of interest	Approximate percentage of issued share capital (13)
CSC Financial Co. Ltd.	9	124,205,230 (L)	Interest of a controlled corporation	7.85%
Beijing State-owned Capital Operations & Management Center	9	124,205,230 (L)	Interest of a controlled corporation	7.85%
DDIHK	10	124,205,230 (L)	Beneficial owner	7.85%
DDI	10	124,205,230 (L)	Interest of a controlled corporation	7.85%
Fan Deming BV	10	124,205,230 (L)	Interest of a controlled corporation	7.85%
Ms. Chen Miaoyuan	11	119,739,085 (L)	Interest of spouse	7.57%
Ausnutria BVI	12	118,539,085 (L)	Beneficial owner	7.49%

Notes:

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
2. Citagri Easter Ltd. ("**Citagri Easter**") is owned as to approximately 53.14% by Changsha Kunxin Xin'Ao Investment LP*（長沙鯤信信澳股權投資合夥企業（有限合伙））("**Kunxin Xin'Ao**").
3. Kunxin Xin'Ao is owned as to 91.17% by Chengtong CITIC Agriculture Investment Fund (formerly known as Guotiao CITIC Modern Agriculture Investment LP), which is owned as to 34.9% by China Structural Reform Fund Co., Ltd.*（中國國有企業結構調整基金股份有限公司）and indirectly owned as to 37.2% by CITIC Limited respectively.
4. CITIC Agri Fund, who is the GP of Kunxin Xin'Ao, is owned as to 40.41% by CITIC Agriculture Technology Co., Ltd., an indirect wholly-owned company of CITIC Limited (formerly known as CITIC Agriculture Investment Co., Ltd.).
5. CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.
6. China Structural Reform Fund Co., Ltd* is owned as to 38.20% by CCB (Beijing) Investment Funds Management Co., Ltd.*（建信（北京）投資基金管理有限責任公司）, being a wholly-owned subsidiary of CCB Trust Co., Ltd.*（建信信託有限責任公司）.
7. Postal Savings Bank of China*（中國郵政儲蓄銀行股份有限公司）is the beneficiary of CCB Trust Co., Ltd.*.
8. BioEngine Capital Inc.is a non-wholly-owned subsidiary of Center Laboratories, Inc. ("**Center Lab**"). Center Lab is therefore deemed to be interested in 47,991,683 Shares held by BioEngine Capital Inc. under the SFO.
9. China Securities (International) Finance Company Limited is wholly-owned by China Securities (International) Finance Holding Company Limited. China Securities (International) Finance Holding Company Limited is wholly-owned by CSC Financial Co. Ltd. CSC Financial Co. Ltd is listed on the Main Board of the Stock Exchange (stock code: 6066) and owned as to 37.04% by Beijing State-owned Capital Operations & Management Center.
10. DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. van der Meer.
11. Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 119,739,085 Shares held by Mr. Yan (himself and through Ausnutria BVI) under the SFO.
12. Ausnutria BVI is wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 118,539,085 Shares held by Ausnutria BVI under the SFO.
13. As at 31 December 2018, the total number of the issued Shares of the Company was 1,582,150,653.

* *For identification purpose only*

Save as disclosed above, as at 31 December 2018, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the share option scheme conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009 (the "**Share Option Scheme**"):

(a) Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company.

(b) The participants

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for the Shares at a price calculated in accordance with subparagraph (f) below:

i. any employee or proposed employee (whether full-time or part-time and including any ED), consultants or advisers of or to the Company, any of the subsidiaries or any entity (the "**Invested Entity**") in which the Company holds an equity interest;

ii. any NEDs (including the INEDs), any of the subsidiaries or any Invested Entity;

iii. any supplier of goods or services to the Company or any of the subsidiaries or any Invested Entity;

iv. any customer of the Company or any Invested Entity;

v. any person or entity that provides research, development or other technological support to the Company or any Invested Entity; and

vi. any Shareholder or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Company to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Company.

(c) *Maximum number of Shares*

i. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time. No options may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded.

ii. The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme) to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 100,000,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option as defined in the prospectus of the Company dated 24 September 2009) (the "**General Mandate Limit**").

iii. Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Mandate Limit. However, the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the Shares in issue as of the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme and other share option schemes of the Company or exercised options) will not be counted for the purpose of calculating the limit as "refreshed". The Company will send a circular to the Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

iv. Subject to (i) above and without prejudice to (iii) above, the Company may seek separate approval of the Shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. The Company will issue a circular to the Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

(d) Maximum entitlement of each participant and connected persons

i. Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (the "**Individual Limit**").

ii. Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of the Shareholders in general meeting with such participant and his close associates (or his associates if the participant is a connected person (as defined in the Listing Rules)) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

iii. In addition to the Shareholders' approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or substantial Shareholder or any of their respective associates must be approved by the INEDs (excluding any INED who is the grantee of the options).

iv. Where any grant of options to a substantial Shareholder or an INED or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme or any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate more than 0.1% of the Shares in issue; and

(2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders. The grantee, his associate and all of the connected persons of the Company must abstain from voting in favour at such general meeting.

(e) Minimum period of holding an option and performance target

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) Subscription price for Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the nominal value of the Shares; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the option; and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day). A consideration of HK$1.00 is payable on acceptance of the offer of the grant of an option.

(g) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms and conditions of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(h) Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional (i.e. valid till 20 January 2026).

Status of the Share Option Scheme

On 21 January 2016 and 6 July 2016, share options to subscribe respectively for 34,800,000 Shares and 12,015,000 Shares of HK$0.10 each at an exercise price of HK$2.45 per Share were granted to certain eligible participants pursuant to the Share Option Scheme. The closing prices of the Shares immediately before the dates of grant were HK$2.32 and HK$2.25 per Share respectively. Further details of these two batches of share options granted are set out in the announcements of the Company dated 21 January 2016 and 6 July 2016 respectively.

No share option has been granted under the Share Option Scheme during the Year 2018.

Particulars and movements of share options under the Share Option Scheme during the Year 2018 were as follows:

			Number of options			
Grantees	Date of grant	Exercise price per share option	Outstanding as at 2018.01.01	Exercised during the Year 2018	Lapsed during the Year 2018	Outstanding as at 2018.12.31
Directors						
Mr. Yan Weibin	2016.01.21	HK$2.45	800,000	(400,000) (1)	–	400,000
Mr. Bartle van der Meer	2016.01.21	HK$2.45	800,000	(400,000) (1)	–	400,000
Ms. Ng Siu Hung	2016.01.21	HK$2.45	667,000	(333,000) (1)	–	334,000
Mr. Tsai Chang-Hai	2016.01.21	HK$2.45	200,000	(100,000) (1)	–	100,000
Mr. Zeng Xiaojun	2016.01.21	HK$2.45	200,000	(100,000) (1)	(100,000)	–
Ms. Ho Mei-Yueh	2016.01.21	HK$2.45	200,000	(100,000) (1)	(100,000)	–
Mr. Jason Wan	2016.01.21	HK$2.45	200,000	(100,000) (1)	–	100,000
Mr. Lau Chun Fai Douglas	2016.01.21	HK$2.45	200,000	(100,000) (1)	–	100,000
Sub-total			3,267,000	(1,633,000)	(200,000)	1,434,000
Other						
Employees and others	2016.01.21	HK$2.45	22,204,000	(11,048,000) (2)	–	11,156,000
Employees and others	2016.07.06	HK$2.45	12,015,000	(1,134,000) (3)	–	10,881,000
Total			37,486,000	(13,815,000)	(200,000)	23,471,000

Note:

1. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$9.16.

2. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$9.75.

3. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$9.29.

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

Share options granted on 21 January 2016
- One-third was vested on 21 January 2017;
- One-third was vested on 21 January 2018;
- One-third was vested on 21 January 2019; and
- Exercise period started on 21 January 2017 and shall end on 20 January 2021.

Share options granted on 6 July 2016
- One-third was vested on 6 July 2017;
- One-third was vested on 6 July 2018;
- One-third shall be vested on 6 July 2019; and
- Exercise period started on 6 July 2017 and shall end on 20 January 2021.

During the Year 2018, 200,000 (2017: 800,000) share options granted under the Share Option Scheme were lapsed.

As at the date of this report, the total number of share options granted and available for issue under the Share Option Scheme is 18,110,000, representing approximately 1.13% of the issued Shares.

Subsequent to 31 December 2018, on 15 January 2019, share options to subscribe for a total of 40,000,000 Shares of HK$0.10 each at an exercise price of HK$10.0 per Share were granted to certain eligible participants pursuant to the Share Option Scheme. The closing price of the Shares immediately before the date of grant was HK$7.80 per Share. Further details of the aforementioned share options granted are set out in the announcement of the Company dated 15 January 2019.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Company during the Year 2018 are provided in the section headed "Overview of 2018 – Change of single largest Shareholder" and "Business Review and Outlook – Strategic Steps Taken" on pages 21 and 29 to 30 respectively of this report.

COMPLIANCE ADVISORS' INTEREST

The Company extended the appointment of Asian Capital Limited as the Company's compliance advisor on an on-going basis for consultation on compliance with the Listing Rules for a period of one year commencing from 24 August 2018 (which the Company is entitled to terminate the appointment by serving two months prior notice in writing). During the term of the appointment, Asian Capital Limited will be accountable to the Audit Committee. As notified by Asian Capital Limited, during the Year 2018 and up to the date of this report, neither Asian Capital Limited nor any of its directors, employees or associates had any interests in the Shares or shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares or shares of any member of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public during the Year 2018 and up to the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 51 to 65 of this report.

PERMITTED INDEMNITY PROVISION

The Company has subscribed appropriate and sufficient insurance coverage on directors' and officers' liability insurance throughout the Year 2018, which provides appropriate cover for the Directors and officers of the Company.

AUDITORS

The consolidated financial statements for the Year 2018 have been audited by Ernst & Young who shall retire at the forthcoming AGM. A resolution for their re-appointment as external auditors of the Company will be proposed at the forthcoming AGM. There has been no change in the Company's auditors in the preceding three years.

On behalf of the Board

Yan Weibin
Chairman

The PRC
18 March 2019

Biographical details of the Directors and the senior management of the Group for the Year 2018 and up to the date of this report are set out below:

DIRECTORS

Executive Directors

Mr. YAN Weibin ("Mr. Yan"), Chairman

Mr. Yan, aged 53, was appointed as an ED on 8 June 2009 and elected as the Chairman on 7 June 2013. Mr. Yan is the sole shareholder and director of Ausnutria Holding, one of the substantial Shareholders, and also a director of a number of the Company's subsidiaries (including Ausnutria China). He joined the Group in September 2003 when Ausnutria China was established. Mr. Yan is responsible for leading the Board and ensuring that it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Yan is also primarily responsible for the overall corporate strategy, planning and business development of the Group. He also acts as Chancellor of Ausnutria University. Mr. Yan was elected as a member of the twelfth Hunan committee of the Chinese People's Political Consultative Conference in January 2018. Mr. Yan graduated from Hunan University with a bachelor's degree in engineering and a master's degree in business administration. Mr. Yan was a director of Yuan Longping High-tech Agriculture Co., Ltd*（袁隆平農業高科技股份有限公司）("**Longping High-tech**"), a company listed on the Shenzhen Stock Exchange, from 2004 to January 2016. At Longping High-tech, he served as chief executive officer from 2004 to April 2010, vice chairman and chief financial officer from April 2010 to December 2011, chief executive officer and chief financial officer from December 2011 to June 2012 and vice president from June 2012 to January 2016. Mr. Yan resigned all his duties in Longping High-tech in January 2016. Mr. Yan has been an independent non-executive director of Origin Agritech Ltd., a company listed on the Nasdaq Stock Market, since August 2017.

Mr. Bartle VAN DER MEER ("Mr. van der Meer"), CEO

Mr. van der Meer, aged 73, was appointed as an ED and the CEO on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria B.V. and has been involved in the strategic management since the establishment of Ausnutria B.V. in 1994. He was also a member of the board of directors and chief executive officer of Ausnutria B.V. since 2012 to April 2015 and from August 2016 until now, Mr. van der Meer is primarily responsible for managing and executing the Group's overall business directions and corporate operation decisions. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of Fan Deming B.V., a private equity company which owned 100% equity interests in DDI, a substantial Shareholder, since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998.

Ms. NG Siu Hung ("Ms. Ng")

Ms. Ng, aged 50, was appointed as an ED on 19 September 2009. Ms. Ng is also an executive director of Ausnutria China and oversees the brand and public relations division, primarily responsible for the brand building, and public relations affairs of the Group in the PRC region. She graduated at University of Westminster, the United Kingdom with a master of arts degree in human resource management. Ms. Ng has been a director of Hunan Yukai Real Estate Co., Ltd*（湖南宇凱房地產有限公司）since 2004.

Non-executive Directors

Mr. SHI Liang ("Mr. Shi"), Vice-Chairman

Mr. Shi, aged 35, was appointed as a NED and elected as the vice-Chairman on 6 December 2018. Mr. Shi graduated with a bachelor's degree and a master's degree in management science and engineering from China Agricultural University in 2005 and 2008 respectively. He is currently a director, general manager and a member of the fund investment committee of the CITIC Agri Fund. Mr. Shi joined CITIC Securities Company Limited ("**CITIC Securities**"), a company listed on both the Stock Exchange (stock code: 6030.HK) and the Shanghai Stock Exchange (stock code: 600030.SH) in 2008. He once served as the senior manager of the research department, the chief analyst in agriculture, forestry, animal husbandry and fishery industries and the director of the research department of CITIC Securities. Mr. Shi was awarded the number one of the best analyst in agriculture, forestry, animal husbandry and fishery industries by The New Fortune（新財富）in 2010, 2011 and 2014. Mr. Shi was also awarded "China Securities Analyst – Golden Bull Award" by the China Securities Journal（中國證券報）from 2010 to 2014 consecutively.

Mr. QIAO Baijun ("Mr. Qiao")

Mr. Qiao, aged 48, was appointed as a NED on 6 December 2018. Mr. Qiao graduated with a Bachelor of Science degree from the Faculty of Biology of China Agricultural University in 1993 and graduated with a master of economics degree from the Faculty of Agriculture and Economics from Renmin University of China in 1999. He is currently the deputy general manager and chairman of the investment committee of CITIC Agri Fund. Mr. Qiao joined COFCO Corporation in 2006 and once served as the senior manager of the strategic investment management department, the head of the research department, the general manager of the strategic management department. Prior to joining COFCO Corporation, Mr. Qiao was engaged in the research in agriculture, food and beverage industry in China Galaxy Securities Co Ltd (stock code: 6881.HK) and CITIC Securities.

Mr. TSAI Chang-Hai ("Mr. Tsai")

Mr. Tsai, aged 69, was appointed as a NED on 19 January 2016. Mr. Tsai graduated with a bachelor's degree in medicine from China Medical University and holds a doctorate of medical science from The University of Tokyo. Mr. Tsai has extensive knowledge and expertise in biomedicine. Mr. Tsai is the founder and chairman of Asia University and its affiliated hospital. He is also a professor and chairman of China Medical University. Mr. Tsai serves the role of chairman of the board of directors of Lumosa Therapeutics Co., Ltd., a company listed on the Taiwan Stock Exchange. Mr. Tsai is also a director of BioEngine Capital. Mr. Tsai was a member of Supervisory Committee（監理委員會）of the National Health Insurance Administration of the Ministry of Health and Welfare of Taiwan, deputy convener of the Central Medical Review Committee（中區醫療審查委員會）, a counsellor of the Ministry of Health and Welfare, a director of the board of directors of the National Health Research Institutes and chairman of Taiwan Hospital Association.

Independent Non-executive Directors

Mr. Jason WAN

Mr. Wan, aged 55, was appointed as an INED on 19 September 2009. Mr. Wan is currently a tenured full professor, Associate Chair for the Department of Food Science and Nutrition, and Associate Director for the Institute for Food Safety and Health, Illinois Institute of Technology, the United States. Mr. Wan completed a PhD at Deakin University, Australia in 1992. Prior to that, he graduated with a bachelor of science degree from Hunan Agricultural University in 1983 and a master of science degree in dairy science and processing from Northeast Agricultural University in 1986. Mr. Wan was a lecturer in the Department of Food Science and Technology at Northeast Agricultural University from 1986 to 1988 and a visiting scientist at the Food Research Institute of the Department of Agriculture in Victoria, Australia in 1989. Mr. Wan was a post-doctoral researcher in the Department of Biochemistry at the University of Melbourne from 1992 to 1995 and a senior research scientist at CSIRO Food Science Australia from 1995 to 2009. Prior to his current position, Mr. Wan was a research professor in food microbiology and biotechnology at Illinois Institute of Technology, the United States from 2009 to 2015. Mr. Wan has extensive knowledge and expertise in the area of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. He has written many articles over the years on various subjects, including microbiology and biotechnology, and continues to develop his expertise in these subjects. Mr. Wan has also received numerous scholarships and research grants, including those supporting a number of PhD scholars relating to whey proteins and biological properties, as well as major research grants for research relating to dairy processing.

Mr. LAU Chun Fai Douglas ("Mr. Lau")

Mr. Lau, aged 46, was appointed as an INED on 2 January 2015. Mr. Lau has over 19 years of experience in auditing, accounting and financial and corporate management. Mr. Lau graduated from the University of New South Wales with a bachelor of commerce degree in accounting and finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, Chartered Accountants Australia and New Zealand and CPA Australia and a founding member of the Institute of Accountants Exchange. Before joining the Group, Mr. Lau was a partner at Ernst & Young (Assurance and Advisory Business Services) Hong Kong and Beijing and a regional director (China and Hong Kong) of the Institute of Chartered Accountants in English and Wales. Mr. Lau is an independent non-executive director of Chanjet Information Technology Company Limited (Stock code: 1588) since 2011, and GME Group Holdings Limited (Stock code: 8188) since February 2017.

Mr. Aidan Maurice COLEMAN ("Mr. Coleman")

Mr. Coleman, aged 63, was appointed as an INED on 6 December 2018. Mr. Coleman graduated with a Bachelor of Arts degree in Economics and Psychology from The University of Auckland in 1978 and a Bachelor of Business Studies degree in marketing from The Massey University of New Zealand in 1991. He is a founder and currently the managing director of Longpoint Consulting Pty. Ltd., which provides private consulting and advisory services to various companies in Australia and New Zealand including retailers, dairy trading companies and FMCG marketing businesses. He has over 30 years of extensive experience in the manufacturing and marketing of consumer and food-service food and agricultural product. Prior to joining Longpoint Consulting Pty. Ltd., Mr. Coleman was the chief executive officer of Bega Cheese Limited (stock code: BGA.ASX), a company listed on the Australian Securities Exchange, until 2017. He was also the chief executive officer of Tatura Milk Industries Ltd. ("Tatura"), a wholly owned subsidiary of Bega Cheese Limited, from 2008 to 2011 and an executive director of Tatura from 2011 to 2017. Prior to joining Tatura, he was the managing director of Fonterra Brands (Australia) Pty. Ltd from 2005 to 2007, an Australian company which manufactures, markets and distributes dairy and non-dairy products.

SENIOR MANAGEMENT

Mr. WONG Wei Hua Derek ("Mr. Wong")

Mr. Wong, aged 46, is the chief financial officer of the Company (the "**CFO**") and the Company Secretary. Mr. Wong joined the Group as the deputy CFO in July 2011 and was appointed as joint Company Secretary (later redesignated as the Company Secretary on 3 December 2012) and the CFO on 26 September 2011. Mr. Wong has over 20 years of experience in auditing and financial and corporate management. Mr. Wong graduated from York University with a bachelor's degree in accounting and a bachelor's degree in mathematics. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in July 2011, he was an audit manager with an international accounting firm, the financial controller of a manufacturing group of companies and the general manager of an investment company principally engaged in mining business in Indonesia.

Mr. DAI Zhiyong ("Mr. Dai")

Mr. Dai, aged 44, is an executive director of Ausnutria China and the vice chairman, chief quality officer, general manager of the upstream supply and principal of Ausnutria Institution of Food and Nutrition（澳優研究院（亞太區））of the Group in the PRC region. He is also the director of Ausnutria Institute of Food and Nutrition. Shortly after the establishment of Ausnutria China, he joined the Group in 2003. Mr. Dai has a bachelor of chemistry degree and a master degree in food processing and safety. Mr. Dai held a management position in a dairy company for a number of years and has over 20 years of experience in the industry. Mr. Dai served Hunan Ava Nanshan Dairy Products Company Limited*（湖南亞華南山乳品行銷有限公司）("**Hunan Ava Nanshan Dairy**") as vice factory manager and person in charge of the R&D department of Inner Mongolia Ya Ke Shi Ru Factory*（內蒙古牙克石乳品廠）and was engaged in milk powder R&D works. Mr. Dai is primarily responsible for the R&D, quality control, factory operation and supply chain management of the Group in the PRC region.

Mr. DENG Shenhui ("Mr. Deng")

Mr. Deng, aged 45, is the chief operation officer of the Group in the PRC region. He joined the Group in 2011. Mr. Deng graduated from Central South University, majoring in computer science. Mr. Deng held positions at multiple foreign computer software consulting companies and has over ten years of experience in the industry. Mr. Deng served as department manager of the PRC region of the Asia Pacific Sales Services Department at Oracle Corp. Mr. Deng is mainly responsible for the budgeting and daily operation management in the PRC region, providing technical support to the BUs and departments at the headquarters and along the supply chain. He also jointly manages the information technology research centre and the sale management department.

Ms. Froukje DIJKSTRA ("Ms. Dijkstra")

Ms. Dijkstra, aged 49, is the director of supply chain, procurement, technology and quality assurance of Ausnutria B.V. She joined the Group since 2012. Ms. Dijkstra graduated in business administration. Before joining Ausnutria B.V., Ms. Dijkstra had over 20 years of experience in the chemical industry with different positions.

Dr. Alfred HAANDRIKMAN ("Dr. Haandrikman")

Dr. Haandrikman, aged 61, is the global chief scientific officer of Ausnutria B.V. He joined the Group in 2012. Dr. Haandrikman graduated with a doctorate degree in molecular biology from the Rijksuniversiteit Groningen in the Netherlands. From 1994 to 2006, he worked as a senior scientist and R&D manager in Hercules European Research Centre, the Netherlands. From 2006 onwards and before joining the Group, he was appointed as the global R&D director in Lipid Nutrition B.V. and IOI-Loders Croklaan group, a leading company in development of lipids for infant nutrition.

Ms. HONG Haoru ("Ms. Hong")

Ms. Hong, aged 37, is the assistant of the chief executive officer of Ausnutria China and secretary of the management committee（中國區管理委員會）of the Group in the PRC region. Ms. Hong joined the Group in 2011 as supervisor of the office of the board of directors of Ausnutria China and was later appointed as secretary of the board of directors of Ausnutria China in January 2016. Prior to joining the Group in 2011, she served as secretary to president at Longping High-tech. Ms. Hong graduated from Hunan Agricultural University with a bachelor of arts degree. Ms. Hong is mainly responsible for assisting the Chairman/chief executive officer in the PRC region in his daily work, and oversees the Executive Administrative Center（董秘辦及行政服務中心）of Ausnutria China.

Mr. HU Fangming ("Mr. Hu")

Mr. Hu, aged 43, joined the Group in October 2016 and stationed in the Netherlands as the project manager responsible for the new production plant project in the Netherlands. Subsequent to the completion of the project in December 2017, he returned to the PRC and has been serving as the director of global supply chain responsible for the management of the Group's global supply chain and overseas the global supply chain center in the PRC region. Mr. Hu served as a utility engineer, project manager and production manager of Mars Foods (China) Co., Ltd.（瑪氏食品（中國）有限公司）from August 1998 to September 2009. From October 2009 to June 2014, he served as the manager of the engineering department and a plant manager of Dumex Baby Food Co., Ltd.（多美滋嬰幼兒食品有限公司）under Danone. He joined Biostime (Guangzhou) Health Products Limited in July 2014 as the director of global production until his resignation from all his positions in Biostime in August 2016. In 1998, Mr. Hu was awarded a bachelor's degree in electrical system and automation by Nanjing University of Science and Technology. Having worked in the food production industry ever since, he has extensive experience in operation management.

Ms. LI Yimin ("Ms. Li")

Ms. Li, aged 44, is a vice president of the Group in the PRC region and the general manager of HNC. She joined the Group in February 2011. Ms. Li graduated from Sichuan University with a master's degree in business administration and held managerial positions at various enterprises. Ms. Li is mainly responsible for coordinating the strategy, business and other overseas market affairs of HNC and the goat milk business in the PRC. She is also the chief human resources officer in the PRC region jointly managing the human resources department.

Mr. LIU Yubiao

Mr. Liu Yubiao, aged 46, is a vice president of the Group in the PRC region and the general manager of Hyproca Bio-science Co., Ltd.*（海普諾凱生物科技有限公司）, a non-wholly-owned subsidiary of the Company. He joined the Group upon the establishment of Ausnutria China and served as regional manager of Hunan province, manager of the Central China region (covering five provinces) and deputy general manager（常務副總經理）of the Allnutria BU. Mr. Liu Yubiao has over 17 years of experience in sales management in the dairy industry. He is mainly responsible for the overall operations of Hyproca Bio-science Co., Ltd.

Mr. LIU Yuehui

Mr. Liu Yuehui, aged 55 is the chief supervisor, party secretary and chairman of the labour union of the Group in the PRC region. He joined the Group shortly after the establishment of Ausnutria China in 2003. Mr. Liu Yuehui studied dairy techniques at the Inner Mongolia Light Manufacturing School*（內蒙古輕工業學校）. He has held management positions in various dairy factories and has over 30 years of experience in the industry. Mr. Liu Yuehui was the assistant to the chief executive officer of Hunan Ava Nanshan Dairy. He is primarily responsible for Ausnutria China's affairs in relation to the party committee, auditing, labour unions and Provincial China Nutrition and Health Food Association*（省營養保健食品協會）. He jointly manages audit department and party working committee*（黨工辦）in the PRC region.

Mr. QU Zhishao ("Mr. Qu")

Mr. Qu, aged 41, is a vice president of the Group in the PRC region, the general manager of Puredo Health Service (Changsha) Co., Ltd.*（美納多健康服務（長沙）有限公司）, a non-wholly-owned subsidiary of Ausnutria China. He joined the Group upon the establishment of Ausnutria China and was head of the marketing department, regional manager, assistant to the chief executive officer and sales director for the southern region in the PRC, chief marketing officer and general manager of the marketing BU. Mr. Qu holds a bachelor's degree in arts from Xiangtan University and has engaged in dairy advertising strategy, sales planning, and marketing and sales management since 2001. He has over 18 years of experience in the industry.

Ms. Melinda VLASKAMP ("Ms. Vlaskamp")

Ms. Vlaskamp, aged 49, is the human resource director of Ausnutria B.V. She joined the Group since 2017. Ms. Vlaskamp graduated in education science at the University of Groningen in Groningen. Before joining Ausnutria B.V., Ms. Vlaskamp had several years of experience in international human resource latest at Pentair Inc. as human resource director in Hygienic Process Solutions.

Mr. ZHAO Li ("Mr. Zhao")

Mr. Zhao, aged 50, joined the Group in April 2016 as vice president of the Group in the PRC region, general manager of the Allnutria BU, and general manager of Nutriunion (Guangzhou) Interconnection Technology Co., Ltd.（廣州雲養邦互聯科技有限公司）("**Nutriunion GZ**"). He is responsible for overseeing the development of Nutriunion GZ and the Nutrition Care branded business in the PRC. Mr. Zhao worked at Biostime Inc. (Guangzhou)* ("**Biostime**")（廣州市合生元生物製品有限公司）during the period between October 2004 and February 2016 and held various positions including general manager of the sales centre of the Biostime group from October 2004 to December 2013, group chief sales officer of the brand development division of the Biostime group from January to September 2014, general manager and group vice president of the brand development division of the Biostime group from October 2014 to March 2015 and chief executive officer and chief experience officer of the Mama100 office of the Biostime group from April 2015 to February 2016 when he resigned all his positions in Biostime. Mr. Zhao obtained a bachelor's degree in Chinese medicine from 湖南中醫學院 in July 1991 and studied the Executive Master of Business Administration programme of South China University of Technology in 2009. He has extensive experience in sales and marketing.

* *For identification purpose only*

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To the shareholders of Ausnutria Dairy Corporation Ltd
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 94 to 219, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
Under IFRSs, the Group is required to at least annually perform the impairment test for goodwill. The carrying value of goodwill amounted to approximately RMB287.5 million as at 31 December 2018. The impairment test is based on the recoverable values of the respective cash-generating units ("**CGUs**") to which the goodwill is assigned. Management's assessment process is complex and highly judgmental, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate. The accounting policies, significant estimates and related disclosures are included in note 2.4 *Business combinations and goodwill*, note 3 *Impairment of goodwill* and note 15 *Goodwill* to the financial statements.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and long-term growth rates, with the assistance of our valuation specialists. We paid specific attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGUs and the business development plan. We also focused on the adequacy of the Group's disclosures of goodwill impairment.
Accounting for the customer loyalty program and the distributor incentive program	
The Group awards end-customers points for their consumptions, and grants distributors incentives based on their fulfilment of purchase targets. The end-customers then can exchange the award points for free products within one year, and the distributors can redeem free products in the next purchase. Under both programs, management allocates the revenue into two parts, the current sales and the deferred income for award points and incentives. The allocation and measurement of revenue are complex and require significant management judgement and estimates of relative fair values. The accounting policies, significant estimates and related disclosures are included in note 2.2(c) *IFRS 15* and *Amendments to IFRS 15*, note 2.4 *Revenue recognition* and *Contract liabilities*, note 3 *Judgement* and note 5 *Revenue, other income and gains* to the financial statements.	We assessed and tested the design and operation of the controls over revenue allocation including the quality of underlying data and systems. We obtained the computation schedule, checked the calculation, and evaluated the allocation based on the relative fair values and the key estimates, such as values of free products and percentage of award points redeemed by end-customers, with reference to the historical information, market practice and the subsequent settlement of award points and incentives as at 31 December 2018. We also compared the actual purchase with the target amount for selected distributors to assess whether the calculation of incentives was in accordance with the incentive scheme. We also focused on the adequacy of the Group's disclosures of the customer loyalty program and the distributor incentive program.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young
Certified Public Accountants
Hong Kong
18 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	5,389,568	3,926,466
Cost of sales		(2,728,933)	(2,236,267)
Gross profit		2,660,635	1,690,199
Other income and gains	5	114,109	57,463
Selling and distribution expenses		(1,444,237)	(969,127)
Administrative expenses		(461,853)	(298,025)
Other expenses		(59,621)	(28,466)
Finance costs	7	(29,753)	(22,110)
Share of profits and losses of:			
A joint venture		1,159	940
Associates		11,553	7,671
Profit before tax	6	791,992	438,545
Income tax expense	10	(147,440)	(103,765)
PROFIT FOR THE YEAR		644,552	334,780
Attributable to:			
Owners of the parent		635,100	308,133
Non-controlling interests		9,452	26,647
		644,552	334,780
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	12		
Basic			
– For profit for the year (RMB cents)		47.20	24.61
Diluted			
– For profit for the year (RMB cents)		46.63	24.37

	Notes	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR		644,552	334,780
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		(27,976)	(10,495)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(27,976)	(10,495)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gains on the defined benefit plan, net of tax		137	7
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		137	7
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(27,839)	(10,488)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		616,713	324,292
Attributable to:			
Owners of the parent		607,839	301,365
Non-controlling interests		8,874	22,927
		616,713	324,292

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,580,523	1,537,068
Prepaid land lease payments	14	27,112	27,960
Goodwill	15	287,522	155,596
Other intangible assets	16	380,587	330,027
Investment in a joint venture	17	–	43,122
Investments in associates	18	262,203	65,183
Deposit paid	21	–	58,543
Derivative financial instruments	25	–	13,856
Deferred tax assets	29	152,508	170,692
Total non-current assets		2,690,455	2,402,047
CURRENT ASSETS			
Inventories	19	1,544,321	1,083,385
Trade and bills receivables	20	352,617	225,412
Prepayments, other receivables and other assets	21	363,961	305,206
Derivative financial instruments	25	–	729
Pledged deposits	22	427,791	968,701
Cash and cash equivalents	22	1,449,861	635,650
Total current assets		4,138,551	3,219,083
CURRENT LIABILITIES			
Trade and bills payables	23	283,584	271,925
Other payables and accruals	24	1,571,186	1,201,078
Derivative financial instruments	25	1,858	1,592
Interest-bearing bank loans and other borrowings	26	659,042	1,158,040
Tax payable		137,485	130,605
Total current liabilities		2,653,155	2,763,240
NET CURRENT ASSETS		1,485,396	455,843
TOTAL ASSETS LESS CURRENT LIABILITIES		4,175,851	2,857,890

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		4,175,851	2,857,890
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	26	416,400	814,144
Defined benefit plan	27	5,940	6,374
Derivative financial instruments	25	236,227	–
Deferred revenue	28	34,158	–
Deferred tax liabilities	29	88,578	90,366
Total non-current liabilities		781,303	910,884
Net assets		3,394,548	1,947,006
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	137,421	109,172
Reserves	33	3,116,317	1,631,319
		3,253,738	1,740,491
Non-controlling interests		140,810	206,515
Total equity		3,394,548	1,947,006

Mr. Yan Weibin	Mr. Bartle van der Meer
Director	*Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent									
	Share capital RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000 (note 33(i))	Share option reserves RMB'000	Statutory surplus reserve RMB'000 (note 33(ii))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	109,172	876,049	(317,246)	17,658	120,064	(98,293)	1,033,087	1,740,491	206,515	1,947,006
Profit for the year	–	–	–	–	–	–	635,100	635,100	9,452	644,552
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(28,120)	722	(27,398)	(578)	(27,976)
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	–	137	137	–	137
Total comprehensive income for the year	–	–	–	–	–	(28,120)	635,959	607,839	8,874	616,713
Issues of shares	21,908	1,122,882	–	–	–	–	–	1,144,790	–	1,144,790
Exercise of share option	1,131	33,585	–	(6,979)	–	–	–	27,737	–	27,737
Acquisition of Ozfarm (note 35)	1,094	92,800	–	–	–	–	–	93,894	10,559	104,453
Acquisition of non-controlling interests	4,116	394,315	(655,636)	–	–	–	–	(257,205)	(18,635)	(275,840)
Final 2017 dividend declared	–	(106,742)	–	–	–	–	–	(106,742)	–	(106,742)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(66,503)	(66,503)
Equity-settled share option arrangements	–	–	–	2,934	–	–	–	2,934	–	2,934
Transfer from retained profits	–	–	–	–	376	–	(376)	–	–	–
At 31 December 2018	137,421	2,412,889*	(972,882)*	13,613*	120,440*	(126,413)*	1,668,670*	3,253,738	140,810	3,394,548

	Attributable to owners of the parent									
	Share capital RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000 (note 33(i))	Share option reserves RMB'000	Statutory surplus reserve RMB'000 (note 33(ii))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	108,455	911,574	(317,246)	11,793	84,243	(91,518)	760,768	1,468,069	121,582	1,589,651
Profit for the year	–	–	–	–	–	–	308,133	308,133	26,647	334,780
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(6,775)	–	(6,775)	(3,720)	(10,495)
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	–	7	7	–	7
Total comprehensive income for the year	–	–	–	–	–	(6,775)	308,140	301,365	22,927	324,292
Exercise of share option	717	18,584	–	(1,720)	–	–	–	17,581	–	17,581
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	5,156	5,156
Deemed disposal of interest in a subsidiary upon acquisition of another subsidiary	–	–	–	–	–	–	–	–	63,867	63,867
Final 2016 dividend declared	–	(54,109)	–	–	–	–	–	(54,109)	–	(54,109)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(7,592)	(7,592)
Equity-settled share option arrangements	–	–	–	7,585	–	–	–	7,585	–	7,585
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	575	575
Transfer from retained profits	–	–	–	–	35,821	–	(35,821)	–	–	–
At 31 December 2017	109,172	876,049*	(317,246)*	17,658*	120,064*	(98,293)*	1,033,087*	1,740,491	206,515	1,947,006

* These components of equity comprise the consolidated reserves of RMB3,116,317,000 (2017: RMB1,631,319,000) as at 31 December 2018 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		791,992	438,545
Adjustments for:			
Finance costs	7	29,753	22,110
Share of profits and losses of a joint venture and associates		(12,712)	(8,611)
Interest income	5	(26,318)	(33,863)
Gain on re-measurement of the previously held interest in a joint venture	5	(35,060)	–
Depreciation	6	107,200	56,136
Amortisation of other intangible assets	6	45,244	19,502
Amortisation of prepaid land lease payments	6	848	848
Write-down of inventories to net realisable value	6	52,591	83,719
Loss on disposal of items of property, plant and equipment	6	3,696	–
Loss on disposal of items of other intangible assets	6	101	–
Gain arising upon dilution of interest in a subsidiary to an associate	36	(196)	–
Equity-settled share option arrangements	6	2,934	7,585
Fair value losses/(gains) on derivative instruments			
– transactions not qualifying as hedges	6	2,620	(715)
– subsequent consideration	5	(22,256)	–
		940,437	585,256
Increase in inventories		(509,682)	(368,713)
Increase in trade and bills receivables		(115,059)	(6,773)
Increase in prepayments, other receivables and other assets		(4,552)	(128,757)
(Decrease)/increase in trade payables		(3,692)	118,859
Decrease in derivative financial assets		1,050	–
Increase in other payables and accruals		370,585	387,261
Cash generated from operations		679,087	587,133
Interest received		29,641	53,129
Interest paid		(29,740)	(22,618)
Mainland China corporate income tax paid		(140,840)	(96,019)
Overseas tax paid		(6,340)	(9,163)
Net cash flows from operating activities		531,808	512,462

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities		531,808	512,462
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(307,026)	(469,843)
Proceeds from disposal of items of property, plant and equipment		3	374
Receipt of government grants for the HQ land		34,158	–
Additions to other intangible assets		(54,240)	(49,192)
Acquisition of subsidiaries	35	48,146	(50,612)
Dilution of interest in a subsidiary to an associate	36	(422)	–
Decrease/(increase) in pledged time deposits		540,911	(190,274)
Maturity of time deposits		–	98,270
Investment in an associate		(33,896)	(4,260)
Investment in a joint venture		–	(56,585)
Net cash flows from/(used in) investing activities		227,634	(722,122)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares			
– upon allot and issue of shares to CITIC Agri Fund	31	1,144,790	–
– upon exercise of the share options	31	27,737	17,581
New bank loans and other borrowings		536,998	999,257
Repayments of bank loans		(1,380,798)	(607,093)
Repayments of other loans		(10,647)	(8,393)
Acquisition of non-controlling interests		(39,131)	–
Contributions from non-controlling shareholders		–	575
Dividends paid		(106,920)	(53,858)
Dividends paid to non-controlling shareholders		(66,503)	(7,592)
Interest element of finance lease rental payments		(541)	(530)
Net cash flows from financing activities		104,985	339,947
NET INCREASE IN CASH AND CASH EQUIVALENTS		864,427	130,287
Cash and cash equivalents at beginning of year		635,650	448,262
Effect of foreign exchange rate changes, net		(50,216)	57,101
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,449,861	635,650

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,115,828	398,361
Non-pledged time deposits with original maturity of less than three months when acquired		334,033	237,289
Non-pledged time deposits with original maturity of more than three months when acquired		–	–
Cash and cash equivalents as stated in the consolidated statement of financial position		1,449,861	635,650
Non-pledged time deposits with original maturity of more than three months when acquired		–	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,449,861	635,650

1. CORPORATE AND GROUP INFORMATION

Ausnutria Dairy Corporation Ltd. (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, production, marketing and distribution of dairy and related products and nutrition products to its worldwide customers, particularly in the PRC.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Spring Choice Limited	British Virgin Islands	US$200	100	–	Investment holding
Ausnutria Dairy Company Limited	Hong Kong	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty. Ltd.	Australia	AUD$500,000	–	100	Investment holding
Ausnutria Dairy (China) Co., Ltd.[(1)] ("**Ausnutria China**")	PRC/ Mainland China	RMB68,633,832	–	100	Production, marketing and distribution of dairy and related products in Mainland China
Ausnutria Dairy (Dutch) Coöperatief U.A	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria B.V.[(3)] (formerly Ausnutria (Dutch) Holding B.V.)	The Netherlands	EUR10,465,000	–	100	Investment holding
Ausnutria Operations B.V.[(4)] (formerly Ausnutria Hyproca B.V.)	The Netherlands	EUR10,215,000	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ausnutria Ommen B.V.[4] (formerly Hyproca Dairy B.V.)	The Netherlands	EUR18,200	–	100	Manufacturing of dairy and related products
Ausnutria Kampen B.V.[4] (formerly Lyempf Kampen B.V.)	The Netherlands	EUR21,500	–	100	Manufacturing of dairy and related products
Lypack Leeuwarden B.V.	The Netherlands	EUR18,151	–	100	Processing and packaging of dairy and related products
Ausnutria Heerenveen Hector B.V.	The Netherlands	EUR1,000	–	100	Processing and packing of dairy and related products
Ausnutria Heerenveen Pluto B.V.	The Netherlands	EUR1,000	–	100	Processing and packing of dairy and related products
Ausnutria Nutrition B.V.[4] (formerly Hyproca Nutrition B.V.)	The Netherlands	EUR18,000	–	100	Marketing and distribution of goat milk nutrition products
Hyproca Nutrition Co. Ltd.[1] ("**HNC**")	PRC/ Mainland China	RMB10,000,000	–	100[6]	Marketing and distribution of goat milk nutrition products in Mainland China
Ausnutria Private Label B.V.[4] (formerly Hyproca Lypack B.V.)	The Netherlands	EUR30,403	–	100	Marketing and distribution of dairy products under private label
Ausnutria Diary Ingredients B.V.[4] (formerly Hyproca Dairy Products B.V.)	The Netherlands	EUR18,200	–	100	Marketing and distribution of dairy and related products
Holland Goat Milk B.V.[5] (formerly Hyproca Goat Milk B.V.)	The Netherlands	EUR12,953	–	100[7]	Collection of (Dutch) goat milk
Ausnutria Nutrition Europe B.V.[4] (formerly Hyproca Nutrition Europe B.V.)	The Netherlands	EUR18,000	–	100	Marketing and distribution of dairy products in Europe

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hyproca Nutrition East Limited	Hong Kong/ Russia	HK$4,000,000	–	51	Marketing and distribution of dairy products in Russia
Hyproca Nutrition Middle East FZCO	Dubai	AED1,500,000	–	87	Marketing and distribution of dairy products in the Middle East
Hyproca Nutrition USA Inc.	United States	US$1	–	100	Marketing and distribution of dairy products in the United States
Hyproca Nutrition Canada Inc.	Canada	CAD100	–	100	Marketing and distribution of dairy products in Canada
Hyproca Bio-Science Co. Ltd.[1]	PRC/ Mainland China	RMB10,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Puredo Health Service (Changsha) Co. Ltd.[2]	PRC/ Mainland China	RMB20,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Neolac (Shanghai) Nutrition Co. Ltd.[1]	PRC/ Mainland China	RMB10,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Globlait Nutrition (Changsha) Co. Ltd.[2]	PRC/ Mainland China	RMB20,000,000	–	71	Marketing and distribution of dairy and related products in Mainland China
Mornring Nutrition Technology (Changsha) Co. Ltd.[2]	PRC/ Mainland China	RMB27,400,000	–	100	Manufacturing and distribution of dairy and related products
Ausnutrition Care Pty. Ltd. ("**ACP**")	Australia	AUD46,428,571	–	70	Investment holding
ADP Holdings (Australia) Pty Ltd. ("**ADP**")	Australia	AUD4,002,000	–	70	Investment holding
Australian Dairy Park Pty Ltd.	Australia	AUD4,000,000	–	70	Manufacturing and distribution of dairy and related products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nutrition Care Pharmaceuticals Pty Ltd. ("**NCP**")	Australia	AUD30,000,000	–	52.5	Manufacturing and distribution of nutrition products
Ozfarm Royal Pty Ltd. ("**Ozfarm**")	Australia	AUD3,000,100	–	100[8]	Marketing and distribution of dairy and related products in Australia
Pure Nutrition Limited	New Zealand	NZD7,500,000	–	60	Manufacturing and distribution of dairy and related products
Nutriunion (Hong Kong) Company Limited	Hong Kong/ Mainland China	HK$100	–	60	Marketing and distribution of nutrition products in Mainland China
Nutriunion (Guangzhou) Interconnection Technology Co. Ltd.[2]	PRC/ Mainland China	RMB50,000,000	–	60	Marketing and distribution of nutrition products in Mainland China

(1) These companies are registered as wholly-foreign-owned enterprises with limited liability under PRC law.

(2) These companies are registered as companies with limited liability under PRC law.

(3) The former name of the company was changed to the current one with effect from 2 February 2018.

(4) The former names of these companies were changed to the current one with effect from 3 March 2018.

(5) The former name of the company was changed to the current one with effect from 1 May 2018.

(6) The percentage of equity attributable to the Company change from 85 to 100 due to the acquisition of non-controlling interest.

(7) The percentage of equity attributable to the Company change from 56 to 100 due to the acquisition of non-controlling interest.

(8) The percentage of equity attributable to the Company change from 50 to 100 due to the acquisition of the remaining 50% equity interest in Ozfarm from the joint venture partner.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 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 (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018. 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendments to IFRS 4 and IAS 40 and Annual Improvements to *IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments*: *Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement		Re-classification	IFRS 9 measurement	
	Category	Amount		Amount	Category
		RMB'000	RMB'000	RMB'000	
Financial assets					
Trade and bills receivables	L&R[1]	225,412	–	225,412	AC[2]
Financial assets included in prepayments, other receivables and other assets	L&R	12,086	–	12,086	AC
Derivative financial instruments	FVPL[3]	14,585	–	14,585	FVPL (mandatory)
Pledged deposits	L&R	968,701	–	968,701	AC
Cash and cash equivalents	L&R	635,650	–	635,650	AC
		1,856,434	–	1,856,434	
Other assets					
Deferred tax assets		170,692	–	170,692	
		2,027,126	–	2,027,126	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

	IAS 39 measurement		Re-classification	IFRS 9 measurement	
	Category	Amount		Amount	Category
		RMB'000	RMB'000	RMB'000	
Financial liabilities					
Trade and bills payables	AC	271,925	–	271,925	AC
Financial liabilities included in other payables and accruals	AC	97,970	–	97,970	AC
Derivative financial instruments	FVPL	1,592	–	1,592	FVPL
Interest-bearing bank and and other borrowings	AC	1,972,184	–	1,972,184	AC
Defined benefit plan	FVOCI[4]	6,374	–	6,374	FVOCI
Tax payable	AC	130,605	–	130,605	AC
		2,480,650	–	2,480,650	
Other liabilities					
Deferred tax liabilities		90,366	–	90,366	
		2,571,016	–	2,571,016	

1 L&R: Loans and receivables
2 AC: Financial assets or financial liabilities at amortised cost
3 FVPL: Financial assets at fair value through profit or loss
4 FVOCI: Financial assets at fair value through other comprehensive income

Impairment

i) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group of receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information. Management has closely monitored the credit qualities and the collectability of the trade receivables. Trade receivables in dispute are assessed individually for impairment to determine whether specific loss allowance provisions are required. The adoption of the simplified expected credit loss approach under IFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impairment (continued)

ii) *Other financial assets carried at amortised cost*

For other financial assets carried at amortised cost, including pledged deposit, bills receivable, financial assets included in prepayments, other receivables and other assets, the Group applies the general approach to provide for expected credit losses, that is based on the 12-month expected credit loss. This represents the portion of lifetime expected credit loss that resulted from default events on the financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of other financial assets at amortised cost and considers that the expected credit loss is immaterial.

Impact on reserves and retained profits

There is no impact of the transition to IFRS 9 on reserves and retained profits.

As a result of the application of IFRS 9, the Company has changed its accounting policies with respect to financial instruments, as further explained in note 2.4 to the financial statements

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

The Group has adopted IFRS 15 using the full retrospective method of adoption. Under this method, the standard is applied to all contracts at the date of initial application and the comparative information is reclassified accordingly. The effect of adopting IFRS 15 is as follows:

There is no impact on the statement of financial position, but only reclassification impact within other payables and accruals (increase/(decrease)):

	Adjustments	31 December 2017 RMB'000	1 January 2017 RMB'000
Liabilities			
Other payables and accruals			
– contract liabilities	(i), (ii)	629,284	378,607
Other payables and accruals			
– advances from customers	(i), (ii)	(346,885)	(206,969)
Other payables and accruals			
– deferred income	(i), (ii)	(282,399)	(171,638)
Total equity and liabilities		–	–

The adoption of IFRS 15 has also had no impact on the statement of profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. The Group's principal activities consist of the production and distribution of dairy and related products and nutrition products to its worldwide customers.

(i) Sale of goods

The Group's contracts with customers for the sale of dairy and related products and nutrition products generally include one performance obligation. The Group has concluded that revenue from sale of dairy and related products and nutrition products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the dairy and related products and nutrition products. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

(i) Sale of goods (continued)

Customer loyalty programs

The Group operates customer loyalty programs in Mainland China, which allows customers to accumulate award points when they purchase the Group's products. The award points can be redeemed for free products, subject to a minimum number of award points obtained. Prior to adoption of IFRS 15, the customer loyalty programs offered by the Group resulted in the allocation of a portion of the transaction price to the customer loyalty programs using the fair value of award points issued and recognition of the deferred income in relation to award points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the award points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the customer loyalty programs under IFRS 15 should be the same as compared to the amount allocated under previous accounting policy. The deferred income related to these award points was reclassified to contract liabilities within other payables and accruals.

Distributor incentive programs

The Group operates distributor incentive programs in Mainland China, which grants distributors free goods who have fulfilled the target of purchase amount. Prior to adoption of IFRS 15, the distributor incentive programs offered by the Group resulted in the allocation of a portion of the transaction price to the distributor incentive programs using the fair value of free goods granted and recognition of the deferred income in relation to free goods granted but not yet redeemed. The Group concluded that under IFRS 15 the free goods granted gives rise to a separate performance obligation because they provide a material right to the distributor and allocated a portion of the transaction price to the free goods granted to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the distributor incentive programs under IFRS 15 should be the same as compared to the amount allocated under previous accounting policy. The deferred income related to these free goods granted was reclassified to contract liabilities within other payables and accruals.

There is no impact on the statement of profit or loss for the year ended 31 December 2017. The statement of financial position as at 31 December 2017 was reclassified, resulting in an increase in contract liabilities within other payables and accruals of RMB282,399,000 and a decrease in deferred income within other payables and accruals of RMB282,399,000.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

(ii) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as advances from customers included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which is also included in other payables and accruals.

There is no impact on the statement of profit or loss for the year ended 31 December 2017. The statement of financial position as at 31 December 2017 was reclassified, resulting in an increase in contract liabilities within other payables and accruals of RMB346,885,000 and a decrease in advances from customers within other payables and accruals of RMB346,885,000.

(d) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements to 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 22 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB26,980,000 and lease liabilities of RMB26,980,000 will be recognised at 1 January 2019 with no adjustment to the opening balance of retained earnings.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies: (continued)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Land and buildings	25 years
Leasehold improvements	5 – 8 years
Plant and machinery	5 – 10 years
Motor vehicles	5 – 10 years
Office equipment	5 – 10 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Non-patent technology and licence

Acquired non-patent technology is capitalised on a basis of the costs incurred to acquire and bring to use the specific technology. Licence acquired in a business combination is recognized at fair value at the acquisition date. Non-patent technology and licence are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five to ten years.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five to ten years.

Software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five to ten years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Milk collection right

Milk collection right is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of ten years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank loans and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group's derivative financial instruments include interest rate swaps, a forward currency contract and contingent considerations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of interest rate swaps and a forward currency contract are determined using the rates quoted by the Group's bankers to terminate the contracts, and the fair value of contingent consideration is determined by the valuation performed by the valuer and the stock price of the Company at the end of the reporting period.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Current versus non-current classification (continued)

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants (continued)

Where the grant relates to an asset, the fair value is credited to a deferred revenue account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sales of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products. The Group operates the customer loyalty program and the distributor incentive program to provide additional incentive to customer and distributor that give rise to variable consideration.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Customer loyalty program and distributor incentive program

The Group operates customer loyalty programs which allow customers to earn points when they purchase products of the Group and distributor incentive programs which allows distributors to earn incentive when they purchase products of the Group. The points and incentives can then be redeemed for free products, subject to a minimum number of points and incentives being obtained. The consideration received or receivable from the products sold is allocated among the points earned by the customer loyalty program members, the incentives earned by the distributor incentive program members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty program members and allocated to the incentives earned by the distributor incentive program members are deferred until the points and the incentives are redeemed when the Group fulfils its obligations to supply products or when the points expire.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Defined contribution plan

Most of the Group's subsidiaries in the Netherlands operate the defined contribution pension plan for certain of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the pension plan. The assets of the defined contribution pension plan are held separately from those of the Group in an independently administered fund. The Group's employer contribution rests fully with the employees when contributed into the defined contribution pension plan.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's subsidiaries in the Australia and New Zealand operate a defined contribution Superannuation Fund retirement benefit scheme (the "**SF Scheme**") under the Superannuation Fund Schemes for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the SF Scheme. The assets of the SF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contribution vest fully with the employees when contributed into the SF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension scheme (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the relevant authorities of the provinces or the local municipal governments in Mainland China in which the Group's subsidiaries are located. Contributions are made based on a percentage of the companies' payroll costs and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Defined benefit plan

One of the Group's subsidiaries in the Netherlands operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the defined benefit pension plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in the statement of profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the statement of profit or loss by function:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is different from the functional currency of the Company of the Hong Kong dollars. The Group's consolidated financial statements are presented in RMB because the management consider that a substantial majority of the group's companies are in the PRC and the Group primarily generates and expands cash in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Determining whether the customer loyalty programs provide material rights to customers

The Group operates customer loyalty programs in Mainland China, which allows customers to accumulate award points when they purchase the Group's products. The points can be redeemed for free products, subject to a minimum number of points obtained. The Group assessed whether the loyalty points provide a material right to the customer that needs to be accounted for as a separate performance obligation.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgement (continued)

Determining whether the customer loyalty programs provide material rights to customers (continued)

The Group determined that the award points provide a material right that the customer would not receive without entering into the contract. The free products the customer would receive by exercising the award points do not reflect the stand-alone selling price that a customer without an existing relationship with the Group would pay for those products. The customers' right also accumulates as they purchase additional products.

Determining whether the distributor incentive programs provide material rights to distributors

The Group operates distributor incentive programs in Mainland China, which grants distributors free goods who have fulfilled the target of purchase amount. The Group assessed whether the incentive programs provide a material right to the distributors that needs to be accounted for as a separate performance obligation.

The Group determined that the incentive programs provide a material right that the distributors would not receive without entering into the contract. The free products the distributors would receive by exercising the incentive programs do not reflect the stand-alone selling price that a distributors without an existing relationship with the Group would pay for those products. The distributors' right also accumulates as they purchase additional products.

Finance lease – Group as lessee

The Group has entered into certain lease agreements on production machinery. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it transfers substantially all the rewards and risks of ownership of assets which are leased out on finance leases.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Purchase price allocation

The valuation of the assets and liabilities identified in the purchase price allocation have been estimated using valuation techniques. The valuation required the Group to make estimates about expected future revenue growth, long term growth rate for revenue and suitable discount rates, and hence they are subject to uncertainty. The fair value of the assets and liabilities identified in the purchase price allocation are included in note 35 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB287,522,000 (2017: RMB155,596,000). Further details are given in note 15.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2018 was RMB107,200,000 (2017: RMB56,136,000). Further details are provided in note 13.

Defined benefit plan

One of the Group's subsidiaries in the Netherlands operates a defined benefit plan. Pension costs for the defined benefit plan are assessed using the projected unit credit method in accordance with IAS 19 *Employee Benefits*. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. In calculating the Group's obligations in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets, that portion is recognised in the statement of profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Management appointed actuaries to carry out a full valuation of the pension plan to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the IFRS requirements.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit retirement plan and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

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 2018 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 and related products) to its customers principally in the PRC and Australia.

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 expenses 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 loans and other borrowings as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue (note 5)			
Sales to external customers	5,253,460	136,108	5,389,568
Intersegment sales	–	–	–
	5,253,460	136,108	5,389,568
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			5,389,568
Segment results	838,271	(15,593)	822,678
Reconciliation:			
Interest income			26,318
Finance costs			(29,753)
Corporate and other unallocated expenses			(27,251)
Profit before tax			791,992
Segment assets	4,852,709	261,426	5,114,135
Reconciliation:			
Elimination of intersegment receivables			(162,781)
Corporate and other unallocated assets			1,877,652
Total assets			6,829,006
Segment liabilities	2,374,302	147,495	2,521,797
Reconciliation:			
Elimination of intersegment payables			(162,781)
Corporate and other unallocated liabilities			1,075,442
Total liabilities			3,434,458
Other segment information			
Impairment losses recognised in the statement of profit or loss	52,591	–	52,591
Share of profits and losses of a joint venture	1,159	–	1,159
Share of profits and losses of associates	11,553	–	11,553
Investments in associates	262,203	–	262,203
Depreciation and amortisation	142,603	10,689	153,292
Capital expenditure*	354,741	6,525	361,266

4. OPERATING SEGMENT INFORMATION (continued)

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 the statement of 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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
The PRC	4,299,028	2,763,413
European Union	530,422	701,248
Middle East	111,465	117,253
North and South America	137,075	95,218
Australia	135,349	114,384
New Zealand	22,486	13,544
Others	153,743	121,406
	5,389,568	3,926,466

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
The PRC	468,551	343,055
The Netherlands	1,390,705	1,352,371
Australia	506,025	365,646
New Zealand	172,666	170,283
	2,537,947	2,231,355

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 (2017: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	5,389,568	3,926,466

Revenue from contracts with customers

(i) Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the year ended 31 December 2018		
Segments	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or service			
Sale of goods	5,253,460	136,108	5,389,568
Total revenue from contracts with customers	5,253,460	136,108	5,389,568
Geographical markets			
The PRC	4,212,844	86,184	4,299,028
European Union	530,422	–	530,422
Middle East	111,465	–	111,465
North and South America	137,075	–	137,075
Australia	85,425	49,924	135,349
New Zealand	22,486	–	22,486
Others	153,743	–	153,743
Total revenue from contracts with customers	5,253,460	136,108	5,389,568
Timing of revenue recognition			
Goods transferred at a point in time	5,253,460	136,108	5,389,568
Total revenue from contracts with customers	5,253,460	136,108	5,389,568

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

	For the year ended 31 December 2017		
Segments	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or service			
Sale of goods	3,851,131	75,335	3,926,466
Total revenue from contracts with customers	3,851,131	75,335	3,926,466
Geographical markets			
The PRC	2,721,950	41,463	2,763,413
European Union	701,248	–	701,248
Middle East	117,253	–	117,253
North and South America	95,218	–	95,218
Australia	80,512	33,872	114,384
New Zealand	13,544	–	13,544
Others	121,406	–	121,406
Total revenue from contracts with customers	3,851,131	75,335	3,926,466
Timing of revenue recognition			
Goods transferred at a point in time	3,851,131	75,335	3,926,466
Total revenue from contracts with customers	3,851,131	75,335	3,926,466

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended 31 December			
	2018		2017	
	Dairy and related products RMB'000	Nutrition products RMB'000	Dairy and related products RMB'000	Nutrition products RMB'000
Revenue				
External customers	5,263,460	136,108	3,851,131	75,335
Inter-segment	–	–	–	2,841
	5,263,460	136,108	3,851,131	78,176
Inter-segment adjustments and eliminations	–	–	–	(2,841)
Total revenue from contracts with customers	5,263,460	136,108	3,851,131	75,335

(ii) Contract balances

	31 December 2018 RMB'000	31 December 2017 RMB'000 Reclassified	1 January 2017 RMB'000 Reclassified
Other payables and accruals – contract liabilities (Note 24)	820,368	629,284	378,607

Contract liabilities included in other payables and accruals include consideration received from customers in advance and the fair value of award points and free goods not yet redeemed.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Contract balances (continued)

Set out below is the amount of revenue recognised from:

	2018 RMB'000	2017 RMB'000
Amounts included in contract liabilities at the beginning of the year	629,284	378,607

(iii) Performance obligations

Information about the Group's performance obligation is summarised below:

Sales of goods

The performance obligation is satisfied upon delivery of the goods where payment in advance is normally required.

Customers are entitled to award points according to the customer loyalty program which results in allocation of a portion of the transaction price to the award points entitled by customers. Revenue is recognised when the award points are redeemed.

Distributors are entitled to free goods according to the distributor incentive program which results in allocation of a portion of the transaction price to free foods entitled by distributors. Revenue is recognised when the free goods are redeemed.

In addition, the Group updates its estimates of the award points and the free goods that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December is as follows:

	2018 RMB'000	2017 RMB'000
Within one year	408,155	282,399

All remaining performance obligations are expected to be recognised within one year.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains

	Notes	2018 RMB'000	2017 RMB'000
Other income and gains			
Interest income		26,318	33,863
Government grants	(i)	15,984	10,675
Gain on re-measurement of the previously held interest in a joint venture		35,060	–
Gain on fair value changes of derivative financial instrument – subsequent consideration	25(iv)(a)	22,256	–
Management fees income from an associate		162	1,833
Others		14,329	11,092
Total other income and gains		114,109	57,463

(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):

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		2,676,342	2,152,548
Write-down of inventories to net realisable value		52,591	83,719
Cost of sales		2,728,933	2,236,267
Depreciation	13	107,200	56,136
Amortisation of prepaid land lease payments	14	848	848
Amortisation of other intangible assets	16	45,244	19,502
Research and development costs		100,092	37,908
Minimum lease payments under operating leases		12,025	11,436
Foreign exchange differences, net		30,822	3,488
Loss on disposal of items of property, plant and equipment		3,696	–
Loss on disposal of items of other intangible assets		101	–
Fair value losses/(gains), net:			
Derivative instruments			
– transactions not qualifying as hedges		2,620	(715)
Auditor's remuneration		8,080	7,220
Advertising and promotion expenses		731,220	408,358
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		619,819	445,092
Equity share option expense		2,934	7,585
Pension scheme contributions*		48,223	31,707
		670,976	484,384

* At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans, overdrafts and other loans	25,175	26,185
Interest on finance leases	6,721	530
Total interest expense on financial liabilities not at fair value through profit or loss	31,896	26,715
Less: Interest capitalised	(1,616)	(3,567)
	30,280	23,148
Other finance costs:		
Unrealised gain on an interest rate swap (note 25(iii))	(527)	(1,038)
	29,753	22,110

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2018 RMB'000	2017 RMB'000
Fees	1,820	1,872
Other emoluments:		
Salaries, allowances and benefits in kind	4,147	4,153
Equity-settled share option expense	379	937
Pension scheme contributions	61	75
	4,587	5,165
	6,407	7,037

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

On 21 January 2016, all the directors of the Company were granted with share options in respect of their services provided to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

Executive directors, non-executive directors and independent non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive directors:					
Yan Weibin	216	1,609	94	23	1,942
Bartle van der Meer	216	1,403	94	–	1,713
Ng Siu Hung	216	1,135	78	38	1,467
	648	4,147	266	61	5,122
Non-executive directors:					
Shi Liang*	18	–	–	–	18
Qiao Baijun*	18	–	–	–	18
Tsai Chang Hai	216	–	23	–	239
Zeng Xiaojun**	199	–	22	–	221
	451	–	45	–	496
Independent non-executive directors:					
Aidan Maurice Coleman*	21	–	–	–	21
Jason Wan	226	–	23	–	249
Lau Chun Fai Douglas	275	–	23	–	298
Ho Mei-Yueh**	199	–	22	–	221
	721	–	68	–	789
	1,820	4,147	379	61	6,407

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

Executive directors, non-executive directors and independent non-executive directors (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors:					
Yan Weibin	208	1,575	194	26	2,003
Bartle van der Meer	208	1,433	194	–	1,835
Ng Siu Hung	208	953	162	49	1,372
Lin Jung-Chin***	156	192	147	–	495
	780	4,153	697	75	5,705
Non-executive directors:					
Tsai Chang Hai	208	–	48	–	256
Zeng Xiaojun	208	–	48	–	256
	416	–	96	–	512
Independent non-executive directors:					
Ho Mei-Yueh	208	–	48	–	256
Jason Wan	208	–	48	–	256
Lau Chun Fai Douglas	260	–	48	–	308
	676	–	144	–	820
	1,872	4,153	937	75	7,037

* Appointed on 6 December 2018
** Resigned on 6 December 2018
*** Resigned on 5 October 2017

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one (2017: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2017: three) non-director highest paid employees of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	8,461	5,043
Equity-settled share option expense	467	1,465
Pension scheme contributions	233	112
	9,161	6,620

The number of non-director highest paid employees whose remuneration fell with the following bands is as follows:

	Number of employees	
	2018	2017
HK$2,000,001 to HK$2,500,000	1	2
HK$2,500,001 to HK$3,000,000	2	–
HK$3,000,001 to HK$3,500,000	1	1
Total	4	3

In the year of 2016, share options were granted to four (2017: three) non-director highest paid employees in respect of their services provided to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been recognized in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. 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.

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 21%. 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 China and HNC were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the three years ending 31 December 2019 and the three years ending 31 December 2020, respectively.

	2018 RMB'000	2017 RMB'000
Current charge for the year – Mainland China		
Charge for the year	130,122	114,428
Current charge for the year – The Netherlands		
Charge for the year	–	3,004
Underprovision in prior years	–	1,034
Current charge for the year – Hong Kong		
Charge for the year	8,609	1,022
Underprovision in prior years	–	653
Current charge for the year – Taiwan		
Charge for the year	486	464
Current charge for the year – Australia		
Charge for the year	8,887	–
Overprovision in prior years	(2,793)	–
Deferred income tax (note 29)	2,129	(16,840)
Total tax charge for the year	147,440	103,765

10. INCOME TAX (continued)

A reconciliation of tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Group and the majority of its subsidiaries are domiciled to tax expense at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

2018

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Australia		New Zealand		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	12,938		189,258		614,206		(7,725)		(258)		(13,490)		(43,115)		40,178		791,992	
Income tax at the statutory income tax rate	2,135	16.5	47,314	25.0	153,551	25.0	(2,047)	26.5	(54)	21.0	(4,046)	30.0	(12,073)	28.0	272	0.7	185,052	23.4
Tax effects on preferential tax rates	–	–	–	–	(54,596)	(8.8)	–	–	–	–	–	–	–	–	–	–	(54,596)	(6.9)
Adjustments in respect of current tax in previous periods	–	–	–	–	–	–	–	–	–	–	(2,793)	20.7	–	–	–	–	(2,793)	(0.4)
Tax losses previously recognised, now reversed	–	–	–	–	5,773	0.9	–	–	–	–	–	–	–	–	–	–	5,773	0.9
Effect on opening deferred tax of decrease in rates	–	–	–	–	23,878	3.9	–	–	–	–	–	–	–	–	–	–	23,878	3.0
Non-deductible items and others, net	–	–	–	–	5,814	0.9	–	–	–	–	748	(5.5)	925	(2.2)	–	–	7,487	0.9
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	15,311	2.5	–	–	–	–	–	–	–	–	–	–	15,311	1.9
Profits and losses attributable to associates	–	–	(4,686)	(2.4)	–	–	–	–	–	–	–	–	–	–	–	–	(4,686)	(0.6)
Additional deduction of expenses	–	–	–	–	(11,589)	(1.9)	–	–	–	–	–	–	–	–	–	–	(11,589)	(1.5)
Tax losses not recognised	12	0.1	214	0.1	2,207	0.4	–	–	–	–	375	(2.8)	–	–	3,786	9.4	6,594	0.8
Income not subject to tax	(33)	(0.3)	(16,753)	(8.9)	(5,845)	(1.0)	–	–	–	–	–	–	(113)	0.3	(247)	(0.6)	(22,991)	(2.9)
Tax charge at the Group's effective rate	2,114	16.3	26,089	13.8	134,504	21.9	(2,047)	26.5	(54)	21.0	(5,716)	42.4	(11,261)	26.1	3,811	9.5	147,440	18.6

2017

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Australia		New Zealand		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	277		35,253		466,082		(4,743)		(3,890)		(32,248)		(8,486)		(13,700)		438,545	
Income tax at the statutory income tax rate	46	16.6	8,813	25.0	116,520	25.0	(1,257)	26.5	(1,323)	34.0	(9,677)	30.0	(2,376)	28.0	(441)	3.2	110,305	25.2
Tax effects on preferential tax rates	–	–	–	–	(21,595)	(4.6)	–	–	–	–	–	–	–	–	–	–	(21,595)	(4.9)
Adjustments in respect of current tax in previous periods	653	235.7	1,034	2.9	–	–	–	–	–	–	–	–	–	–	–	–	1,687	0.4
Effect on opening deferred tax of decrease in rates	–	–	–	–	–	–	–	–	7,516	(193.2)	–	–	–	–	–	–	7,516	1.7
Non-deductible items and others, net	–	–	–	–	1,168	0.3	–	–	–	–	2,524	(7.8)	422	(5.0)	–	–	4,114	0.9
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	5,018	1.1	–	–	–	–	–	–	–	–	–	–	5,018	1.1
Profits and losses attributable to associates	35	12.6	(1,966)	(5.6)	–	–	–	–	–	–	(3)	–	–	–	–	–	(1,934)	(0.4)
Profits attributable to a joint venture	–	–	–	–	–	–	–	–	–	–	(282)	0.9	–	–	–	–	(282)	(0.1)
Additional deduction of expenses	–	–	(95)	(0.3)	(2,231)	(0.5)	–	–	–	–	(94)	0.3	–	–	–	–	(2,420)	(0.6)
Tax losses utilised from previous periods	(74)	(26.7)	–	–	–	–	–	–	–	–	(1,008)	3.1	–	–	–	–	(1,082)	(0.2)
Tax losses not recognised	973	351.3	1,204	3.4	–	–	–	–	506	(13.0)	1,724	(5.3)	21	(0.2)	843	(6.2)	5,271	1.2
Income not subject to tax	–	–	(2,812)	(8.0)	(21)	–	–	–	–	–	–	–	–	–	–	–	(2,833)	(0.6)
Tax charge at the Group's effective rate	1,633	589.5	6,178	17.4	98,859	21.3	(1,257)	26.5	6,699	(172.2)	(6,816)	21.2	(1,933)	22.8	402	(3.0)	103,765	23.7

The share of tax attributable to associates and a joint venture totally amounting to RMB7,690,000 (2017: RMB1,817,000) is included in "Share of profits and losses of associates and a joint venture" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final dividend – HK15 cents (2017: HK10 cents) per ordinary share	207,942	104,995

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

12. 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 1,345,608,016 (2017: 1,251,839,982) 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

	2018 RMB'000	2017 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	635,100	308,133

Shares

	Number of shares	
	2018	2017
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,345,608,016	1,251,839,982
Effect of dilution – weighted average number of ordinary shares:		
Share options	16,307,286	12,748,442
	1,361,915,302	1,264,588,424

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 31 December 2017 and 1 January 2018:							
Cost	369,665	271,359	8,388	51,661	31,497	1,029,976	1,762,546
Accumulated depreciation and impairment	(73,893)	(112,060)	(6,147)	(18,663)	(14,715)	–	(225,478)
Net carrying amount	295,772	159,299	2,241	32,998	16,782	1,029,976	1,537,068
At 1 January 2018, net of accumulated depreciation and impairment	295,772	159,299	2,241	32,998	16,782	1,029,976	1,537,068
Additions	36,786	21,618	950	18,627	9,186	219,859	307,026
Acquisition of Ozfarm (note 35)	–	–	907	65	–	–	972
Disposals	(1,175)	(23)	(283)	(18)	(2,200)	–	(3,699)
Dilution of interest in a subsidiary to an associate (note 36)	–	–	–	(10)	–	(152,358)	(152,368)
Depreciation provided during the year	(39,307)	(57,363)	(2,909)	(4,332)	(3,289)	–	(107,200)
Transfers	521,012	289,420	–	153,655	6,744	(974,252)	(3,421)
Exchange realignment	(190)	2,475	(5)	727	(255)	(607)	2,145
At 31 December 2018, net of accumulated depreciation and impairment	812,898	415,426	901	201,712	26,968	122,618	1,580,523
At 31 December 2018:							
Cost	927,023	586,565	8,614	224,745	42,161	122,618	1,911,726
Accumulated depreciation and impairment	(114,125)	(171,139)	(7,713)	(23,033)	(15,193)	–	(331,203)
Net carrying amount	812,898	415,426	901	201,712	26,968	122,618	1,580,523

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and 1 January 2017:							
Cost	298,778	212,504	6,467	34,956	26,174	406,354	985,233
Accumulated depreciation and impairment	(58,598)	(67,792)	(5,237)	(11,660)	(11,055)	–	(154,342)
Net carrying amount	240,180	144,712	1,230	23,296	15,119	406,354	830,891
At 1 January 2017, net of accumulated depreciation and impairment	240,180	144,712	1,230	23,296	15,119	406,354	830,891
Additions	14,273	12,433	1,818	9,398	3,779	636,045	677,746
Acquisition of Youluck and ADP Group	34,327	20,009	27	1,198	790	–	56,351
Disposals	(137)	(17,337)	(3)	(185)	(48)	–	(17,710)
Depreciation provided during the year	(12,082)	(33,163)	(839)	(6,566)	(3,486)	–	(56,136)
Transfers	9,621	24,646	–	4,750	672	(39,732)	(43)
Exchange realignment	9,591	7,999	8	1,106	(44)	27,309	45,969
At 31 December 2017, net of accumulated depreciation and impairment	295,773	159,299	2,241	32,997	16,782	1,029,976	1,537,068
At 31 December 2017:							
Cost	369,665	271,359	8,388	51,661	31,497	1,029,976	1,762,546
Accumulated depreciation and impairment	(73,892)	(112,060)	(6,147)	(18,664)	(14,715)	–	(225,478)
Net carrying amount	295,773	159,299	2,241	32,997	16,782	1,029,976	1,537,068

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2018 was EUR26,266,000 (equivalent to approximately RMB206,119,000) (2017: EUR30,875,000, equivalent to approximately RMB240,896,000).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2018, the Group had pledged (i) the land and buildings and machineries that were attributed to Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") and located in the Netherlands with net carrying amounts of EUR87,495,000 (equivalent to approximately RMB686,600,000) (2017: EUR20,216,000, equivalent to approximately RMB157,731,000) and EUR50,534,000 (equivalent to approximately RMB396,555,000) (2017: EUR104,178,000, equivalent to approximately RMB812,828,000), respectively (note 26(b)(i)(ii)); and (ii) the land and buildings in Australia with an aggregate carrying amount of nil (2017: AUD6,600,000, equivalent to approximately RMB33,612,000) for the banking facilities granted to the Group for financing the Group's daily working capital and capital expenditure plans.

The Group's land included in property, plant and equipment with net carrying amount of EUR7,443,000 (equivalent to approximately RMB58,407,000) (2017: EUR7,354,000, equivalent to approximately RMB57,378,000), AUD4,430,000 (equivalent to approximately RMB21,375,000) (2017: AUD4,430,000, equivalent to approximately RMB22,561,000) and NZD3,000,000 (equivalent to approximately RMB13,786,000) (2017: NZD3,000,000, equivalent to approximately RMB12,981,000) are situated in the Netherlands, Australia and New Zealand, held as freehold land.

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	28,808	29,656
Amortised during the year	(848)	(848)
Carrying amount at 31 December	27,960	28,808
Current portion included in prepayments, other receivables and other assets	(848)	(848)
Non-current portion	27,112	27,960

15. GOODWILL

	RMB'000
At 1 January 2017:	
Cost	135,069
Accumulated impairment	–
Net carrying amount	135,069
Cost at 1 January 2017, net of accumulated impairment	135,069
Acquisition of subsidiaries	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
Cost at 1 January 2018, net of accumulated impairment	155,596
Acquisition of Ozfarm (note 35)	136,352
Exchange realignment	(4,426)
Cost and net carrying amount at 31 December 2018	287,522
At 31 December 2018:	
Cost	287,522
Accumulated impairment	–
Net carrying amount	287,522

15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the product cash-generating unit for impairment testing:

- Ausnutria B.V. cash-generating unit;
- Nutrition Business cash-generating unit;
- Youluck cash-generating unit;
- ADP cash-generating unit; and
- Ozfarm cash-generating unit;

Ausnutria B.V. cash-generating unit

The recoverable amount of the Ausnutria B.V. cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12% (2017:12%). The growth rate used to extrapolate the cash flows of the Ausnutria B.V. unit beyond the five-year period is 3% (2017: 3%).

Nutrition Business cash-generating unit

The recoverable amount of the Nutrition Business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18.6% (2017: 17.5%). The growth rate used to extrapolate the cash flows of the Nutrition Business unit beyond the five-year period is 3% (2017: 3%).

Youluck cash-generating unit

The recoverable amount of the Youluck cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14% (2017: 14%). The growth rate used to extrapolate the cash flows of the Youluck unit beyond the five-year period is 3% (2017: 3%).

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

ADP cash-generating unit

The recoverable amount of the ADP cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17.5% (2017: 17.5%). The growth rate used to extrapolate the cash flows of the ADP unit beyond the five-year period is 3% (2017: 3%).

Ozfarm cash-generating unit

The recoverable amount of the Ozfarm cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14%. The growth rate used to extrapolate the cash flows of the Ozfarm unit beyond the five-year period is 3%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

Cash-generating units	Carrying amount of goodwill	
	2018 RMB'000	2017 RMB'000
Ausnutria B.V.	79,690	79,233
Nutrition Business	58,553	61,803
Youluck	2,591	2,518
ADP	11,409	12,042
Ozfarm	135,279	–
	287,522	155,596

Assumptions were used in the value in use calculation of the Ausnutria B.V., Nutrition Business, Youluck, ADP and Ozfarm cash-generating units for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are post tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of Ausnutria B.V., Nutrition Business, Youluck, ADP and Ozfarm, and discount rates are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2018						
Cost at 1 January 2018, net of accumulated amortisation	209,515	56,192	49,463	10,124	4,733	330,027
Additions	7,147	15,985	30,527	–	581	54,240
Disposal	–	–	(101)	–	–	(101)
Acquisition of Ozfarm (note 35)	–	38,785	12	–	9,240	48,037
Transfers	–	–	3,421	–	–	3,421
Amortisation provided during the year	(22,729)	(11,648)	(8,222)	(1,505)	(1,140)	(45,244)
Exchange realignment	(8,020)	(2,072)	243	52	4	(9,793)
At 31 December 2018	185,913	97,242	75,343	8,671	13,418	380,587
At 31 December 2018:						
Cost	221,673	115,623	101,930	27,752	15,937	482,915
Accumulated amortisation	(35,760)	(18,381)	(26,587)	(19,081)	(2,519)	(102,328)
Net carrying amount	185,913	97,242	75,343	8,671	13,418	380,587

16. OTHER INTANGIBLE ASSETS (continued)

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2017						
Cost at 1 January 2017, net of accumulated amortisation	64,465	40,779	28,811	15,697	896	150,648
Additions	9,438	18,464	21,290	–	–	49,192
Acquisition of Youluck and ADP (note 35)	148,796	–	–	–	4,622	153,418
Transfers	–	271	43	–	(271)	43
Amortisation provided during the year	(11,958)	(4,358)	(2,269)	(383)	(534)	(19,502)
Exchange realignment	(1,226)	1,036	1,588	(5,190)	20	(3,772)
At 31 December 2017	209,515	56,192	49,463	10,124	4,733	330,027
At 31 December 2017:						
Cost	223,620	63,277	67,739	27,593	6,252	388,481
Accumulated amortisation	(14,105)	(7,085)	(18,276)	(17,469)	(1,519)	(58,454)
Net carrying amount	209,515	56,192	49,463	10,124	4,733	330,027

17. INVESTMENT IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Share of net assets	–	30,349
Goodwill on acquisition	–	12,773
	–	43,122

The Group's trade receivable and payable balances with the joint venture at 31 December 2017 are disclosed in notes 20 and 23 to the financial statements, respectively.

Balance as at 31 December 2017 represented the Group's 50% equity interest in Ozfarm. During the year, the Group acquired the remaining 50% equity interest in Ozfarm and Ozfarm is accounted for as a wholly-owned subsidiary of the Company thereafter. Further details are set out in note 35 to the financial statements.

18. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	103,526	55,498
Goodwill on acquisitions	25,129	9,685
	128,655	65,183
Loan to an associate	133,548	–
	262,203	65,183

The loan to an associate is unsecured, interest-free and repayable on demand. In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the associates.

The Group's receivable and payable balances with the associates are disclosed in notes 20, 21, 23 and 24 to the financial statements, respectively.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' profit for the year	11,553	8,775
Share of the associates' total comprehensive income	11,553	8,775
Aggregate carrying amounts of the Group's investments in the associates	262,203	65,183

During the year, the Group's interest in a wholly-owned subsidiary (the "**HQ Development Company**") was diluted to 51% subsequent to the subscription of 49% interest in the HQ Development Company by an independent property developer (the "**HQ Land Development Partner**"). The HQ Development Company is principally engaged in the development of two plots of land (the "**HQ Land**") for the future headquarter of the PRC region. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company was then accounted for as an associate of the Company. The increase in balance was mainly due to the inclusion of the interest in the HQ Development Company with the carrying value of RMB153,948,000 (2017: Nil) as at 31 December 2018. Further details are set out in note 36 to the financial statements.

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	517,525	325,145
Finished goods	858,927	662,764
Goods in transit	140,952	84,935
Others	26,917	10,541
Total	1,544,321	1,083,385

At 31 December 2018, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR85,150,000 (equivalent to approximately RMB668,198,000) (2017: EUR84,741,000, equivalent to approximately RMB661,175,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group (note 26(b)(iii)).

20. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	329,444	200,855
Bills receivable	23,173	24,557
Total	352,617	225,412

The Group normally allows a credit period from 1 to 12 months (2017: 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's trade receivables are amounts due from associates of EUR4,706,000 (equivalent to approximately RMB36,929,000) (2017: EUR1,450,000, equivalent to approximately RMB11,313,000) and amount due from a joint venture is nil (2017: AUD811,000, equivalent to approximately RMB4,130,000) respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

20. TRADE AND BILLS RECEIVABLES (continued)

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

	2018 RMB'000	2017 RMB'000
Within 3 months	317,179	187,246
3 to 6 months	7,807	7,413
6 months to 1 year	4,320	3,298
Over 1 year	138	2,898
Total	329,444	200,855

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

There was no provision for impairment as at 31 December 2018 (2017: Nil). The carrying amounts of the trade and bills receivables approximate their fair values.

20. TRADE AND BILLS RECEIVABLES (continued)

Impairment under IAS 39 for the year ended 31 December 2017

There was no provision for impairment based on incurred credit losses under IAS 39 as at 31 December 2017. The carrying amounts of the trade and bills receivables approximate their fair values.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually or collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	186,043
Within 3 months past due	5,792
3 months to 1 year past due	9,020
Total	200,855

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

Receivables that were past due but not impaired relate to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances at this stage because there had not been a significant change in the credit quality of the individual debtors and the balances were considered fully recoverable.

At 31 December 2018, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR16,719,000 (equivalent to approximately RMB131,199,000) (2017: EUR12,694,000, equivalent to approximately RMB99,042,000) were pledged to secure general bank loans and overdraft facilities granted to the Ausnutria B.V. Group (note 26(b)(iv)).

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments and deposits paid	212,364	211,435
Interest income receivable	5,839	9,163
Other tax recoverable	71,262	31,110
Others	74,496	112,041
	363,961	363,749
Less: Non-current portion of:		
Deposit paid	–	58,543
	363,961	305,206

Included in other receivables are amounts due from associates of EUR750,000 (equivalent to approximately RMB5,885,000) (2017: EUR2,543,000, equivalent to approximately RMB19,840,000).

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to entities which have no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	1,115,828	398,361
Time deposits	761,824	1,205,990
	1,877,652	1,604,351
Less: Pledged deposits (note 26(b)(v))	(427,791)	(968,701)
Cash and cash equivalents	1,449,861	635,650

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB296,406,000 (2017: RMB147,600,000). In addition, time deposits of the Group denominated in RMB amounted to RMB761,824,000 (2017: RMB1,205,271,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

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

	2018 RMB'000	2017 RMB'000
Within 12 months	282,400	271,326
Over 12 months	1,184	599
	283,584	271,925

Included in the trade and bills payables are amounts due to associates of EUR5,258,000 (equivalent to approximately RMB41,259,000) (2017: EUR3,072,000, equivalent to approximately RMB23,972,000) which are repayable within 60 days, and an amount due to a joint venture of nil (2017: AUD19,000, equivalent to approximately RMB97,000).

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

24. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Contract liabilities	(i)	820,368	629,284
Deposits		31,736	28,443
Accrued salaries and welfare		155,400	108,391
Other tax payables		16,772	42,351
Other payables	(ii)	136,968	158,672
Accrued promotion and advertising expenses		300,683	140,057
Other accruals		109,259	93,880
		1,571,186	1,201,078

(i) Details of contract liabilities are as follows:

	2018 RMB'000	2017 RMB'000
Short-term advances received from customers for sale of goods	412,213	346,885
Deferred income	408,155	282,399
Total contract liabilities	820,368	629,284

(ii) At 31 December 2017, other payables included amounts due to associates EUR1,600,000 (equivalent to approximately RMB12,484,000) which was repaid during this year.

Other payables are non-interest-bearing and have no fixed terms of repayment.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2018 Assets RMB'000	2018 Liabilities RMB'000	2017 Assets RMB'000	2017 Liabilities RMB'000
Call option	(i)	–	–	13,856	–
Forward currency contracts	(ii)	–	786	729	–
Interest rate swaps	(iii)	–	1,072	–	1,592
Subsequent considerations	(iv)	–	236,227	–	–
		–	238,085	14,585	1,592
Portion classified as non-current:					
Call option	(i)	–	–	(13,856)	–
Subsequent considerations	(iv)	–	(236,227)	–	–
Current portion		–	1,858	729	1,592

Notes:

(i) Pursuant to the agreement of the Ozfarm Acquisition in 2017, the Group was granted a call option (the "**Ozfarm Call Option**") to acquire the remaining 50% equity interest in Ozfarm from the joint venture partner. Such call option was lapsed upon the acquisition of the remaining 50% equity interest in Ozfarm during the year ended 31 December 2018. Further details are given in note 35.

(ii) Ausnutria Dairy Company Limited has entered into a forward currency contract to manage its exchange rate exposures and was settled on 8 November 2018. The currency contract is not designated for hedge purposes and is measured at fair value through profit or loss. A net fair value gain amounting to RMB309,000 (2017: RMB715,000) and a net exchange gain amounting to RMB12,000 (2017: RMB13,000) were recognised in the statement of profit or loss for the year ended 31 December 2018. Ausnutria China has also entered into a forward currency contract to manage its exchange rate exposures on 13 November 2018. The currency contract is not designated for hedge purposes and is measured at fair value through profit or loss. A net fair value loss on the forward currency contract amounting to RMB786,000 (2017: Nil) was recognised in the statement of profit or loss for the year ended 31 December 2018.

(iii) The Ausnutria B.V. Group has entered into an interest rate swap contract to manage its interest rate exposures. The interest rate swaps is measured at fair value through profit or loss. A net fair value gain on the interest rate swap amounting to RMB527,000 (2017: RMB1,038,000) and a net exchange loss amounting to RMB7,000 (2017: RMB148,000) was recognised in the statement of profit or loss for the year ended 31 December 2018.

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(iv) Details of subsequent considerations are as follows:

	Notes	2018 RMB'000	2017 RMB'000
Subsequent HNC Consideration	(a)	230,391	–
Subsequent Ozfarm Consideration	(35)	5,836	–
		236,227	–

(a) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in the HNC Group. The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 which is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021. Balance represented the fair value of the Subsequent HNC Consideration which was derived with reference to management's estimation of the future financial performance of the HNC Group for the three years as mentioned in the above and the closing market price of the Shares at 31 December 2018 of HK$8.8 per share. The Subsequent HNC Consideration is classified as derivative financial instrument and is measured at fair value through profit or loss. The gain arising from the change in fair value between the date of completion of the HNC Group Acquisition and 31 December 2018 amounted to RMB22.3 million.

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

The following table illustrates the interest-bearing bank loans and other borrowings of the Group:

	2018			2017		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current:						
Finance lease payables (note 30)	3.0-4.56	2019	36,548	3.0-4.56	2018	35,961
Bank overdrafts – secured	1 month EURIBOR+1.8	2019	172,631	1 month EURIBOR+1.8	2018	106,251
Bank overdrafts – secured	3 month EURIBOR+2.35	2019	241	3 month EURIBOR+2.35	2018	228,511
Bank loan – secured	1year LIBOR+0.8	2019	94,168	3 month LIBOR+0.8-2.25	2018	312,092
Bank loan – secured	3 month LIBOR+2.25	2019	31,389	1 year LIBOR+0.8-0.82	2018	264,888
Bank loan – secured	1.0-5.00	2019	289,433	1.0-5.65	2018	185,001
Current portion of long-term bank loans – secured	3 month EURIBOR+2.35	2019	25,442	3 month EURIBOR+2.35	2018	25,336
Other loans – unsecured*	4.22	2019	9,190	–	–	–
			659,042			1,158,040
Non-current:						
Finance lease payables (note 30)	3.0-4.56	2020	169,571	3.0-4.56	2019-2023	204,937
Bank loans – secured	2.25	2020-2021	85,811	2.25	2020	75,143
Bank loans – secured	3 month EURIBOR +1.35-2.35	2020	155,150	3 month EURIBOR +1.0-2.35	2019-2020	436,996
Bank loans – secured	3.99	2023	1,314	3 month LIBOR+2.25	2019-2020	93,628
Other loans – unsecured*	5.00	2023	3,016	–	–	–
Other loans – unsecured*	3 month EURIBOR+3.0	2020	1,538	3 month EURIBOR+3.0	2020	3,440
			416,400			814,144
			1,075,442			1,972,184

* Loans from non-controlling shareholders of subsidiaries

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	613,304	1,122,079
In the second year	210,081	426,247
In the third to fifth years, inclusive	32,194	179,520
	855,579	1,727,846
Other borrowings repayable:		
Within one year or on demand	45,738	35,961
In the second year	171,109	36,339
In the third to fifth years, inclusive	3,016	109,957
After five years	–	62,081
	219,863	244,338
	1,075,442	1,972,184

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria B.V. Group amounting to EUR35,000,000 (equivalent to approximately RMB274,656,000) (2017: EUR85,000,000, equivalent to approximately RMB663,196,000), of which EUR22,029,000 (equivalent to approximately RMB172,872,000) (2017: EUR42,906,000, equivalent to approximately RMB334,762,000) had been utilised as at 31 December 2018, with a certain pledge of the group's assets.

(b) Certain of the Group's bank loans and overdraft facilities are secured by:

(i) mortgages over the Ausnutria B.V. Group's land and buildings situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR87,495,000 (equivalent to approximately RMB686,600,000) (2017: EUR20,216,000 (equivalent to approximately RMB157,731,000)); and

(ii) pledges of the Ausnutria B.V. Group's machinaries situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR50,534,000 (equivalent to approximately RMB396,555,000) (2017: EUR104,178,000 (equivalent to approximately RMB812,828,000)); and

(iii) pledges of the Ausnutria B.V. Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR85,150,000 (equivalent to approximately RMB668,198,000) (2017: EUR84,741,000 (equivalent to approximately RMB661,175,000)); and

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

Notes: (continued)

(b) Certain of the Group's bank loans and overdraft facilities are secured by: (continued)

(iv) pledges of the Ausnutria B.V. Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR16,719,000 (equivalent to approximately RMB131,199,000) (2017: EUR12,694,000 (equivalent to approximately RMB99,042,000)); and

(v) pledges of certain of the Group's time deposits amounting to RMB427,791,000 (2017: RMB968,701,000); and

(vi) as at 31 December 2017, the Group had also pledged the land and buildings in Australia with a carrying value of AUD6,600,000 (equivalent approximately RMB33,612,000) for the banking facilities granted to the operations of the Group in Australia. Such bank loans were repaid during the year and the corresponding pledge of the land and buildings in Australia were released during the year accordingly.

(c) The group's other loans are unsecured, with NZD2,000,000 (equivalent to approximately RMB9,190,000) (2017: Nil) bearing interest at 4.22% per annum, AUD625,000 (equivalent to approximately RMB3,016,000) (2017: Nil) bearing interest at 5.00% per annum and EUR196,000 (equivalent to approximately RMB1,538,000) (2017: EUR441,000, equivalent to approximately RMB3,440,000) bearing interest at 3-month EURIBOR+3.0% per annum. All the loans are repayable within 4 years.

27. DEFINED BENEFIT PLAN

Ausnutria Ommen B.V. operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 67 (2017: age of 67).

The employees who participate in this defined benefit plan moved to another pension plan which was treated as a defined contribution plan as from 1 January 2018. All rights from previous years will remain in the old defined benefit plan. Sensitivity on future salary and pension costs is not applicable for the Group's defined benefit plan.

The Group's defined benefit plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. The trustees decide the amount of contribution based on the results of the annual review.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2018 by the appraiser, using the projected unit credit actuarial valuation method.

27. DEFINED BENEFIT PLAN (continued)

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2018	2017
Discount rate (%)	2.10	2.00
Expected rate of future pension cost increases (%)	2.10	2.00
Expected rate of salary increases (%)	1.75	1.75
Indexation post activities	0.00	0.00

The actuarial valuation showed that the market value of plan assets was RMB27,630,000 (2017: RMB27,613,000) and that the actuarial value of these assets represented 82% (2017: 81%) of the benefits that had accrued to qualifying employees. The deficiency of RMB5,940,000 (2017: RMB6,374,000) is expected to be cleared over the remaining life expectancy (based on unconditional future indexations for active and post-active participants).

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2018				
Discount rate	0.25	(1,577)	0.25	1,695

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2017				
Discount rate	0.25	(1,701)	0.25	1,834

27. DEFINED BENEFIT PLAN (continued)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2018 RMB'000	2017 RMB'000
Current service cost	–	31
Interest cost	735	713
Net benefit expenses	735	744
Recognised in cost of sales	735	744
Recognised in administrative expenses	–	–
	735	744

The movements in the present value of the defined benefit obligations are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	33,987	31,778
Current service cost	–	31
Interest cost	(172)	475
Benefit paid	(438)	(452)
Exchange differences on a foreign plan	194	2,155
At 31 December	33,571	33,987

27. DEFINED BENEFIT PLAN (continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2018

	1 January 2018 RMB'000	Pension cost charged to profit or loss: Service cost RMB'000	Pension cost charged to profit or loss: Additional charges RMB'000	Pension cost charged to profit or loss: Net interest expense RMB'000	Pension cost charged to profit or loss: Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Remeasurement gains/(losses) in other comprehensive income: Return on plan assets (excluding amounts included in net interest expense) RMB'000	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in demographic assumptions RMB'000	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in financial assumptions RMB'000	Remeasurement gains/(losses) in other comprehensive income: Experience adjustments RMB'000	Remeasurement gains/(losses) in other comprehensive income: Sub-total included in other comprehensive income RMB'000	Contribution by employer RMB'000	Foreign exchange difference RMB'000	31 December 2018 RMB'000
Defined benefit obligations	(33,987)	–	–	(680)	(680)	438	–	344	641	(133)	852	–	(194)	(33,571)
Fair value of plan assets	27,613	–	(55)	–	(55)	(438)	555	(274)	(547)	242	(24)	375	160	27,631
Benefit liability	(6,374)	–	(55)	(680)	(735)	–	555	70	94	109	828	375	(34)	(5,940)

2017

	1 January 2017 RMB'000	Pension cost charged to profit or loss: Service cost RMB'000	Pension cost charged to profit or loss: Additional charges RMB'000	Pension cost charged to profit or loss: Net interest expense RMB'000	Pension cost charged to profit or loss: Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Remeasurement gains/(losses) in other comprehensive income: Return on plan assets (excluding amounts included in net interest expense) RMB'000	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in demographic assumptions RMB'000	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in financial assumptions RMB'000	Remeasurement gains/(losses) in other comprehensive income: Experience adjustments RMB'000	Remeasurement gains/(losses) in other comprehensive income: Sub-total included in other comprehensive income RMB'000	Contribution by employer RMB'000	Foreign exchange difference RMB'000	31 December 2017 RMB'000
Defined benefit obligations	(31,778)	(31)	–	(659)	(690)	452	–	–	–	184	184	–	(2,155)	(33,987)
Fair value of plan assets	25,640	–	(54)	–	(54)	(452)	536	–	–	(168)	368	368	1,743	27,613
Benefit liability	(6,138)	(31)	(54)	(659)	(744)	–	536	–	–	16	552	368	(412)	(6,374)

The fair value of the total plan assets at 31 December 2018 was RMB27,631,000 (2017: RMB27,613,000).

Expected contributions to the defined benefit plan in future years are as follows:

	2018 RMB'000	2017 RMB'000
Within the next 12 months	800	437
Between 2 and 5 years	8,608	2,700
Between 5 and 10 years	6,316	5,578
Total expected contributions	15,724	8,715

The average duration of the defined benefit obligations at the end of the reporting period was 19.2 (2017: 21.5) years.

28. DEFERRED REVENUE

Government grants were received by the Group as subsidies for the HQ Land. Government grants are recognised as income over the weighted average of the expected useful life of the relevant property, plant and equipment on the HQ Land.

29. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax liabilities

2018

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2018					
At 1 January 2018	2,160	69,284	2,165	16,757	90,366
Acquisition of Ozfarm (note 35)	–	13,945	–	–	13,945
Deferred tax credited to profit or loss during the year (note 10)	(2,096)	(7,740)	(361)	(5,279)	(15,476)
Exchange difference	4	(542)	11	270	(257)
Gross deferred tax liabilities at 31 December 2018	68	74,947	1,815	11,748	88,578

2017

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2017					
At 1 January 2017	2,668	29,317	2,364	13,764	48,113
Acquisition of subsidiaries	–	48,203	–	–	48,203
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(676)	(6,481)	(354)	2,993	(4,518)
Exchange difference	168	(1,755)	155	–	(1,432)
Gross deferred tax liabilities at 31 December 2017	2,160	69,284	2,165	16,757	90,366

29. DEFERRED TAX (continued)

Deferred tax assets

2018

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018	1,706	67,887	727	34,439	60,222	5,711	170,692
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(242)	(13,774)	3,046	(28,623)	11,468	10,520	(17,605)
Exchange difference	9	(594)	–	–	–	6	(579)
Gross deferred tax assets at 31 December 2018	1,473	53,519	3,773	5,816	71,690	16,237	152,508

2017

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2017							
At 1 January 2017	1,638	65,980	472	45,390	34,941	5,664	154,085
Acquisition of subsidiaries	–	506	–	–	–	–	506
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(39)	(2,190)	255	(10,951)	25,281	(34)	12,322
Deferred tax charged to equity during the year	(3)	–	–	–	–	–	(3)
Exchange difference	110	3,591	–	–	–	81	3,782
Gross deferred tax assets at 31 December 2017	1,706	67,887	727	34,439	60,222	5,711	170,692

Management expects it is probable that taxable profits will be available against which the above tax losses and deducible temporary differences can be utilised in the coming years.

29. DEFERRED TAX (continued)

Deferred tax assets (continued)

The Group has tax losses arising in Hong Kong of RMB10,846,000 (2017: RMB10,773,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB63,522,000 (2017: RMB31,602,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10% (2017: 5% or 10%). The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2018, the Group has not recognised deferred tax liabilities of RMB142,103,000 (2017: RMB103,094,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB1,538,509,000 (2017: RMB1,139,013,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its production business. These leases are classified as financial leases and have remaining lease terms ranging from one to five years.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2018 RMB'000	Minimum lease payments 2017 RMB'000	Present value of minimum lease payments 2018 RMB'000	Present value of minimum lease payments 2017 RMB'000
Amounts payable:				
Within one year	42,441	42,991	36,548	35,961
In the second year	40,988	42,197	36,247	36,339
In the third to fifth years, inclusive	140,836	117,367	133,324	106,517
After five years	–	63,488	–	62,081
Total minimum finance lease payments	224,265	266,043	206,119	240,898
Future finance charges	(18,146)	(25,145)		
Total net finance lease payables	206,119	240,898		
Portion classified as current liabilities (note 26)	(36,548)	(35,961)		
Non-current portion (note 26)	169,571	204,937		

31. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Issued and fully paid:		
1,582,150,653 (2017:1,256,061,530) ordinary shares of HK$0.10 each	158,215	125,606

31. SHARE CAPITAL (continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue '000	Share capital RMB'000
At 1 January 2017		1,247,733	108,455
Share options exercised		8,329	717
At 31 December 2017 and 1 January 2018		1,256,062	109,172
Share options exercised	(i)	13,815	1,131
Acquisition of non-controlling interest	(ii)	50,294	4,116
Acquisition of a subsidiary	(iii)	12,980	1,094
Issue of Shares	(iv)	249,000	21,908
At 31 December 2018		1,582,151	137,421

Notes:

(i) The subscription rights attaching to 13,815,000 share options were exercised at the subscription price of HK$2.45 per share (note 32), resulting in the issue of 13,815,000 Shares for a total cash consideration, before expenses, of HK$33,847,000 (equivalent to approximately RMB27,737,000). An amount of RMB6,979,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

(ii) On 30 May 2018, 50,294,123 Shares were allotted and issued to satisfy the consideration of the HNC Group Acquisition, at fair value of HK$9.68 per Share, representing an amount of HK$486.8 million (equivalent to approximately RMB398.4 million).

(iii) On 26 June 2018, 12,980,000 Shares were allotted and issued to satisfy the consideration of the Second Ozfarm Acquisition, at fair value of HK$8.58 per Share, representing an amount of HK$111.4 million (equivalent to approximately RMB93.9 million).

(iv) On 26 October 2018, 249,000,000 Shares were allotted and issued to satisfy the subscription agreement entered into between the Company and CITIC Agri Fund Management Co., Ltd., ("**CITIC Agri Fund**") at a subscription price of HK$5.18 per Share, amounting to HK$1,289.8 million (equivalent to approximately RMB1,144.8 million).

32. SHARE OPTION SCHEME

The Group operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme are the directors, and any person belonging to any of the following classes of participants:

i. any employee or proposed employee (whether full-time or part-time), consultants or advisers of or to the Group, any of subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest;

ii. any supplier of goods or services to the Group or any of subsidiaries of any Invested Entity;

iii. any customer of the Group or any Invested Entity;

iv. any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

v. any shareholder of the Company or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity.

The Scheme became effective on 19 September 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

32. SHARE OPTION SCHEME (continued)

Share options granted to a director, chief executive or substantial shareholder of the Group are subject to approval in advance by the directors (excluding any independent non-executive directors who are the grantees of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant), in excess of HK$5 million within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period which is not later than ten years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The following share options were outstanding under the Scheme during the year

	2018		2017	
	Weighted average exercise price HK$ per Share	Number of options '000	Weighted average exercise price HK$ per Share	Number of options '000
At 1 January	2.45	37,486	2.45	46,615
Exercised during the year	2.45	(13,815)	2.45	(8,329)
Forfeited during the year	2.45	(200)	2.45	(800)
At 31 December	2.45	23,471	2.45	37,486

32. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options '000	Exercise price HK$ per Share	Exercise period
12,590	2.45	21-1-17 to 20-1-21
10,881	2.45	06-7-17 to 20-1-21
23,471		

2017

Number of options '000	Exercise price HK$ per Share	Exercise period
25,471	2.45	21-1-17 to 20-1-21
12,015	2.45	06-7-17 to 20-1-21
37,486		

The fair value of the share options granted was HK$27,477,000 (2017: HK$27,477,000), of which the Group recognised a share option expense of HK$3,460,000 (equivalent to approximately RMB2,934,000) (2017: HK$8,598,000, equivalent to approximately RMB7,585,000) during the year ended 31 December 2018.

32. SHARE OPTION SCHEME (continued)

The fair value at grant date is estimated using a binomial model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. There is no cash settlement of the options. The fair value of options granted during year was estimated on the date of grant using the following assumptions:

Dividend yield (%)	0.00
Expected volatility (%)	47.45 – 49.09
Risk-free interest rate (%)	1.36 – 1.6
Expected life of share options (year)	5
Weighted average share price (HK$)	2.45

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 13,815,000 share options exercised during the year resulted in the issue of 13,815,000 ordinary shares of the Company and new share capital of HK$1,381,500 (equivalent to approximately RMB1,131,000) (before issue expenses), as further detailed in note 31 to the financial statements.

At the end of the reporting period, the Company had 23,471,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 23,471,000 additional ordinary shares of the Company and additional share capital of HK$2,347,100 (equivalent to approximately RMB1,987,000) (before issue expenses).

Subsequent to the end of the reporting period, 1,356,000 share options were exercised during the period from 8 January 2019 to 15 January 2019. On 15 January 2019, a total of 40,000,000 share options were granted to certain of the eligible participants in respect of their services provided to the Group. These share options vest on 15 January 2019 and have an exercise price of HK$10.0 per share and an exercise period ranging from 15 January 2021 to 14 January 2024. The price of the Company's shares at the date of grant was HK$7.95 per share.

At the date of approval of these financial statements, the Company had 62,115,000 share options outstanding under the Scheme, which represented approximately 3.9% of the Company's shares in issue as at that date.

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 98 to 99 of the financial statements.

(i) Capital reserve

Capital reserve represents the net difference of the aggregate issued paid-in capital of subsidiaries comprising the Group in 2009 and contribution from the then owners of certain property, plant and equipment and a lease prepayment for land use rights at nil consideration in 2007 and after offsetting the effect arising from the acquisitions of non-controlling interest of subsidiaries.

(ii) Statutory surplus reserve

According to the PRC Company Law, each of the PRC subsidiaries of the Group is required to transfer 10% of its after tax profit, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that such fund is maintained at a minimum level of 25% of the registered capital.

(iii) Foreign exchange reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with presentation currencies other than RMB.

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests as at 31 December 2018 are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
Ausnutrition Care Pty. Ltd. ("**ACP**")	30%	30%
Pure Nutrition Limited ("**PNL**")	40%	40%

	2018 RMB'000	2017 RMB'000
Loss for the year allocated to non-controlling interests:		
ACP	(2,406)	(7,793)
PNL	(12,904)	(2,592)
Accumulated balances of non-controlling interests at the reporting date:		
ACP	54,864	60,650
PNL	(1,677)	10,817

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2018	ACP RMB'000	PNL RMB'000
Revenue	263,213	–
Total expenses	(273,724)	(32,259)
Loss for the year	(10,511)	(32,259)
Attributable to non-controlling interests	(2,491)	–
Total comprehensive loss attributable to owners of the parent	(8,020)	(32,259)
Current assets	241,322	31,770
Non-current assets	336,659	185,844
Current liabilities	(218,228)	(221,808)
Non-current liabilities	(148,314)	–
Non-controlling interests	28,558	–
Net cash flows from/(used in) operating activities	14,566	(16,758)
Net cash flows used in investing activities	(1,585)	(15,020)
Net cash flows from/(used in) financing activities	(157)	30,910
Net increase/(decrease) in cash and cash equivalents	12,824	(868)

2017	ACP RMB'000	PNL RMB'000
Revenue	143,571	–
Total expenses	(162,603)	(6,480)
Profit/(loss) for the year	(19,032)	(6,480)
Attributable to non-controlling interests	(3,864)	–
Total comprehensive loss attributable to owners of the parent	(15,168)	(6,480)
Current assets	172,599	7,691
Non-current assets	373,425	172,162
Current liabilities	(139,010)	(152,811)
Non-current liabilities	(172,131)	–
Non-controlling interests	32,715	–
Net cash flows from/(used in) operating activities	(20,359)	(9,330)
Net cash flows used in investing activities	(46,268)	(122,052)
Net cash flows from/(used in) financing activities	70,025	123,065
Net increase/(decrease) in cash and cash equivalents	3,398	(8,317)

35. BUSINESS COMBINATION

Pursuant to a share purchase deed (the "**Ozfarm Deed**") entered into between the Group and the vendors of Ozfarm (the "**Ozfarm Vendors**") on 1 June 2018, the Group agreed to purchase and the Ozfarm Vendors agreed to sell (i) the remaining 50% equity interest in Ozfarm at a consideration of HK$129.8 million (equivalent to approximately RMB93.9 million) (the "**Upfront Ozfarm Consideration**") which was settled by the issue and allotment of 12,980,000 Shares to the Ozfarm Vendors; and (ii) an aggregate of 42.5% equity interest in Ozfarm Royal (HK) Limited ("**Ozfarm HK**") at a cash consideration of AUD1 (collectively, the "**Ozfarm Acquisition**"). According to the Ozfarm Deed, the consideration (the "**Subsequent Ozfarm Consideration**") is subject to an adjustment, to be determined based on the financial performance of Ozfarm for the two years ending 31 December 2020 and 2021. The Subsequent Ozfarm Consideration, if any, will be settled by cash or by the issue and allotment of the Shares (or any combination) at the discretion of the Group.

Ozfarm is principally engaged in the infant formula milk products and nutrition business, operates on formula milk products for infant, children, pregnant mother and elderlies under its own brand name Oz Farm®. Ozfarm HK is principally engaged in investment holding and holds the entire interest in Ozfarm Nutrition (Changsha) Co., Ltd., which is a company established in the PRC and principally engaged in the marketing and distribution of Ozfarm branded formula milk products in the PRC. Ozfarm and Ozfarm HK were accounted for as a joint venture and an associate of the Company previously, respectively. Upon completion of the above acquisitions on 29 June 2018, Ozfarm became a wholly-owned subsidiary of the Group and Ozfarm HK became an 85% owned subsidiary of the Group thereafter.

35. BUSINESS COMBINATION (continued)

In accordance with IFRS 3, other than fair values of the Upfront Ozfarm Consideration and the Subsequent Ozfarm Consideration, the fair values of the Group's previously held 50% equity interest in Ozfarm and the Ozfarm Call Option at the completion date were also considered as consideration in the calculation of goodwill. The fair values of the identifiable assets and liabilities of Ozfarm and Ozfarm HK as at the respective dates of acquisitions were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	972
Intangible assets	48,037
Inventories	1,307
Trade receivables	10,735
Prepayments, other receivables and other assets	1,916
Cash and cash equivalents	48,146
Trade payables	(14,348)
Accruals and other payables	(6,663)
Provision for tax	(8,357)
Deferred tax liabilities	(13,945)
Total identifiable net assets at fair value	67,800
Non-controlling interests	(10,559)
Goodwill on acquisition	136,352
Total consideration	193,593
Satisfied by:	
Issue of Shares	93,894
Subsequent Ozfarm Consideration	5,836
Previously held interest in Ozfarm at its acquisition-date fair value	82,676
Ozfarm Call Option	11,187
Total consideration	193,593

35. BUSINESS COMBINATION (continued)

The Group incurred transaction costs of RMB251,000 for the above acquisitions. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

Pursuant to the Ozfarm Deed, contingent consideration is payable, which is dependent on the future performance of the Ozfarm Group (namely Ozfarm, Ozfarm Royal (HK) Limited and its subsidiary) for the financial years ended 31 December 2020 and 2021. The initial amount recognised for the Subsequent Ozfarm Consideration was RMB5.8 million, which was determined using the discounted cash flow model and is within Level 3 fair value measurement. The Subsequent Ozfarm Consideration, if any, is due for payment to the Ozfarm Vendors in 2022. As at the date of approval of these financial statements, no further significant changes to the consideration are expected.

An analysis of the cash flows in respect of the acquisitions of the Ozfarm Group is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances acquired	48,146
Net inflow of cash and cash equivalents included in cash flows from investing activities	48,146
Transaction costs of the acquisitions included in cash flows from operating activities	(251)
	47,895

Since the acquisition, the Ozfarm Group contributed RMB30,047,000 to the Group's revenue and RMB1,506,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB5,423,624,000 and RMB652,423,000, respectively.

36. DILUTION OF INTEREST IN A SUBSIDIARY TO AN ASSOCIATE

In 2017, the Group, through the HQ Development Company, purchased two adjacent plots of land in the PRC at a total consideration of RMB139.0 million principally for the construction of the future headquarter of the PRC region. Their areas measure 34,424 square meters (the "**Land A**") and 6,922 square meters (the "**Land B**"), and are located in Changsha City in the PRC.

On 12 February 2018, in order to facilitate the development of the HQ Land, the Group entered into an agreement with HQ Land Development Partner for the investment in the HQ Development Company. Pursuant to the agreement, the HQ Land Development Partner will contribute RMB100.0 million immediately after entering into the agreement. After the capital injection made by the HQ Land Development Partner on 25 May 2018, the HQ Development Company is owned by the Group and the HQ Land Development Partner as to 51% and 49%, respectively.

Further, 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 future management, daily operations, funding, and financing arrangements of the HQ Development Company. 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.

Pursuant to 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. In February and May 2018, the Group obtained the land use rights for the Land A and the Land B, respectively, and the development of the HQ Land has already been commenced since July 2018. The construction of the headquarter is expected to be completed in early 2021.

As a result of the above arrangement, the Group's interest in the HQ Development Company was reduced from 100% to 51% and the Group's investment for the headquarter was limited to the initial land costs. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company is accounted for as an associate of the Company.

36. DILUTION OF INTEREST IN A SUBSIDIARY TO AN ASSOCIATE (continued)

	2018 RMB'000
Net assets disposed of:	
Property, plant and equipment	152,368
Cash and bank balances	422
Prepayments and other receivables	2,462
Accruals and other payables	(2,595)
	152,657
Gain arising upon dilution of interest in a subsidiary to an associate	196
Satisfied by:	
Investment in an associate	152,853

An analysis of the net outflow of cash and cash equivalents in respect of the dilution of interest in a subsidiary to an associate is as follows:

	2018 RMB'000
Cash consideration	–
Cash and bank balances disposed of	422
Net outflow of cash and cash equivalents in respect of the dilution of interest in a subsidiary to an associate	(422)

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2017, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of EUR26,266,000 (equivalent to approximately RMB206,119,000).

(b) Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Finance lease payables RMB'000
At 1 January 2018	1,731,286	240,898
Changes from financing cash flows	(818,424)	(36,564)
Foreign exchange movement	(43,539)	1,785
At 31 December 2018	869,323	206,119

	Bank and other loans RMB'000	Finance lease payables RMB'000
At 1 January 2017	1,197,626	14,984
Changes from financing cash flows	388,602	(5,361)
New finance lease	–	207,901
Foreign exchange movement	76,388	23,374
Increase arising from acquisition of subsidiaries	68,670	–
At 31 December 2017	1,731,286	240,898

38. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2017: Nil).

39. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 13, 19, 20, 22 and 26, respectively, to the financial statements.

40. OPERATING LEASE ARRANGEMENTS

As lessee

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

	2018 RMB'000	2017 RMB'000
Within one year	13,311	8,161
In the second to fifth years, inclusive	16,255	10,293
After five years	1,159	–
	30,725	18,454

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40 above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Plant and machinery	9,654	46,825
Buildings	–	57,981
Intangible assets	4,244	4,144
	13,898	108,950

On 17 December 2018, the Group entered into a share purchase deed for the acquisition of the remaining equity interest in Ausnutrition Care Pty Ltd to optimise the integration with production of infant milk formula. The consideration for ANC acquisition would be settled by the issue and allotment of 4,149,567 Shares by the company to ANC Vendor and AUD6.87 million by cash. At the same time, the Group also entered into a share purchase deed for the acquisition of the remaining equity interest in Nutrition Care Pharmaceuticals Pty Ltd to expand the Nutrition Business for the Group. The consideration for NCP acquisition would be settled by the issue and allotment of 4,954,824 Shares by the company to NCP Vendor. As at the reporting date, both acquisitions are still subject to the fulfillment of various conditions precedent. Further details regarding this acquisition are set out in the announcement of the Company dated 17 December 2018.

42. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Purchases of products from a joint venture	(i)	476	128
Sales of products to a joint venture	(i)	48,085	31,877
Purchases of products from the associates	(i)	270,510	248,423
Sales of products to the associates	(i)	232,701	81,459
Sales of property, plant and equipment to the associates	(i)	–	17,499
Management fees received from an associate	(ii)	162	1,833

Notes:

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

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

(b) Outstanding balances with related parties:

Details of the balances with the joint venture and associates as at the end of the reporting period are disclosed in notes 20, 21, 23 and 24 to the financial statements.

(c) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	24,760	21,796
Retirement benefit contributions	793	765
Equity-settled share option expense	2,194	4,719
Total compensation paid to key management personnel	27,747	27,280

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

43. FINANCIAL INSTRUMENTS BY CATEGORY

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

2018

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	352,617	352,617
Financial assets included in Prepayments, other receivables and other assets	5,839	5,839
Pledged deposits	427,791	427,791
Cash and cash equivalents	1,449,861	1,449,861
	2,236,108	2,236,108

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	283,584	283,584
Financial liabilities included in other payables and accruals	–	176,096	176,096
Derivative financial instruments	238,085	–	238,085
Interest-bearing bank loans and other borrowings	–	1,075,442	1,075,442
	238,085	1,535,122	1,773,207

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2017

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	225,412	225,412
Financial assets included in Prepayments, other receivables and other assets	–	12,086	12,086
Pledged deposits	–	968,701	968,701
Derivative financial instruments	14,585	–	14,585
Cash and cash equivalents	–	635,650	635,650
	14,585	1,841,849	1,856,434

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	271,925	271,925
Financial liabilities included in other payables and accruals	–	97,970	97,970
Derivative financial instruments	1,592	–	1,592
Interest-bearing bank loans and other borrowings	–	1,972,184	1,972,184
	1,592	2,342,079	2,343,671

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Financial assets				
Derivative financial instruments	–	14,585	–	14,585

	Carrying amounts		Fair values	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Financial liabilities				
Derivative financial instruments	238,085	1,592	238,085	1,592
Interest-bearing bank loans and other borrowings	1,075,442	1,972,184	1,076,709	1,943,952
	1,313,527	1,973,776	1,314,794	1,945,544

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

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

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

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

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

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant.

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

The fair values of the Subsequent HNC Consideration have been estimated based on market share prices and the expected numbers of settlement shares, details are included in note 25 (iv)(a). The directors believe that the estimated fair values, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values as at 31 December 2018.

The fair values of the Subsequent Ozfarm Consideration have been estimated using a Probabilistic model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future EBIT growth. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values as at 31 December 2018.

As at 31 December 2018, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2018

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

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	729	13,856	14,585

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	230,391	1,858	5,836	238,085

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	1,592	–	1,592

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (2017: Nil).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and overdrafts, finance leases, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and foreign currency contract. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings with a floating interest rate.

The Group manages its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2018, after taking into account the effect of the interest rate swaps, approximately 90% (2017: 96%) of the Group's interest-bearing borrowings bore interest at fixed rates.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
EUR	100	(12,897)
EUR	(100)	12,897
HK$	100	–
HK$	(100)	–
AUD	100	(113)
AUD	(100)	113
NZD	100	(175)
NZD	(100)	175
TWD	100	(271)
TWD	(100)	271
2017		
EUR	100	(10,762)
EUR	(100)	10,762
HK$	100	(4,943)
HK$	(100)	4,943
AUD	100	(1,507)
AUD	(100)	1,507
NZD	100	–
NZD	(100)	–

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in the Netherlands, Hong Kong, Australia and New Zealand in currencies other than the Group's functional currency (i.e., RMB). In addition, the Group's certain bank balances are denominated in HK$, EUR, AUD, NZD and TWD, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$, EUR, AUD, NZD and TWD.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables*	–	–	–	352,617	352,617
Financial assets included in prepayments, other receivables and other assets					
– Normal**	5,839	–	–	–	5,839
Pledged deposits					
– Not yet past due	427,791	–	–	–	427,791
Cash and cash equivalents					
– Not yet past due	1,449,861	–	–	–	1,449,861
	1,883,491	–	–	352,617	2,236,108

* For trade receivables to which the Group applies the simplified approach for impairment.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits, trade and bills receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, interest-bearing bank loans, finance leases and other interest-bearing loans.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	–	275,877	7,707	–	–	283,584
Finance lease payables	–	–	42,441	181,824	–	224,265
Financial liabilities included in other payables and accruals	15,865	34,824	125,407	–	–	176,096
Derivative financial instruments	–	1,858	–	236,227	–	238,085
Interest-bearing bank loans and other borrowings	175,979	–	454,315	252,565	–	882,859
Total	191,844	312,559	629,870	670,616	–	1,804,889

	2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	598	271,327	–	–	–	271,925
Finance lease payables	–	–	35,961	142,856	62,081	240,898
Financial liabilities included in other payables and accruals	52,112	47,445	–	–	–	99,557
Derivative financial instruments	–	1,592	–	–	–	1,592
Interest-bearing bank loans and other borrowings	334,762	156,056	775,956	744,152	–	2,010,926
Total	387,472	476,420	811,917	887,008	62,081	2,624,898

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total assets. Net debt is calculated as the sum of interest-bearing bank loans and other borrowings, less pledged deposits and cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2018 RMB'000	2017 RMB'000
Interest-bearing bank loans and other borrowings	1,075,442	1,972,184
Less: Pledged deposits	(427,791)	(968,701)
Cash and cash equivalents	(1,449,861)	(635,650)
(Surplus cash)/net debt	(802,210)	367,833
Total assets	6,829,006	5,621,130
Gearing ratio	N/A	6.5%

46. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in this report, the Group had no significant event which took place subsequent to the end of the reporting period.

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	463,979	171,320
Total non-current assets	463,979	171,320
CURRENT ASSETS		
Due from subsidiaries	1,734,329	874,618
Prepayments, other receivables and other assets	1,333	1,315
Cash and cash equivalents	445,726	11,491
Total current assets	2,181,388	887,424
CURRENT LIABILITIES		
Due to subsidiaries	40,437	37,402
Other payables	2,266	1,335
Total current liabilities	42,703	38,737
NET CURRENT ASSETS	2,138,685	848,687
TOTAL ASSETS LESS CURRENT LIABILITIES	2,602,664	1,020,007
Net assets	2,602,664	1,020,007
EQUITY		
Issued capital	137,421	109,172
Reserves	2,465,243	910,835
Total equity	2,602,664	1,020,007

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the company's reserves is as follows:

	Share premium RMB'000	Capital reserve* RMB'000	Share Option RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2017	911,574	171,320	11,793	(97,893)	25,594	1,022,388
Total comprehensive loss for the year	–	–	–	(20,413)	(61,480)	(81,893)
Exercise of share option	18,584	–	(1,720)	–	–	16,864
Equity-settled share option arrangements	–	–	7,585	–	–	7,585
Final 2016 dividend declared	(54,109)	–	–	–	–	(54,109)
At 31 December 2017 and 1 January 2018	876,049	171,320	17,658	(118,306)	(35,886)	910,835
Total comprehensive loss for the year	–	–	–	(24,371)	45,984	21,613
Issues of shares	1,122,882	–	–	–	–	1,122,882
Exercise of share option	33,585	–	(6,979)	–	–	26,606
Equity-settled share option arrangements	–	–	2,934	–	–	2,934
Final 2017 dividend declared	(106,742)	–	–	–	–	(106,742)
Acquisition of a subsidiary	92,800	–	–	–	–	92,800
Acquisition of non-controlling interests	394,315	–	–	–	–	394,315
At 31 December 2018	2,412,889	171,320	13,613	(142,677)	10,098	2,465,243

* The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganization in 2009 over the nominal value of the Company's shares issued in exchange therefor.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2019.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
RESULTS					
REVENUE	5,389,568	3,926,466	2,740,262	2,103,534	1,966,047
Cost of sales	(2,728,933)	(2,236,267)	(1,615,403)	(1,513,568)	(1,398,842)
Gross profit	2,660,635	1,690,199	1,124,859	589,966	567,205
Other income and gains	114,109	57,463	62,631	45,652	29,325
Selling and distribution expenses	(1,444,237)	(969,127)	(646,411)	(497,613)	(336,000)
Administrative expenses	(461,853)	(298,025)	(215,656)	(116,281)	(105,285)
Other expenses	(59,621)	(28,466)	(14,055)	(8,907)	(11,621)
Finance costs	(29,753)	(22,110)	(17,849)	(16,045)	(10,310)
Share of profits and losses of:					
A joint venture	1,159	940	–	–	–
Associates	11,553	7,671	4,233	7,019	3,959
PROFIT BEFORE TAX	791,992	438,545	297,752	3,791	137,273
Income tax expense	(147,440)	(103,765)	(63,756)	(680)	(20,552)
PROFIT FOR THE YEAR	644,552	334,780	233,996	3,111	116,721
Attributable to:					
Owners of the parent	635,100	308,133	212,672	50,645	90,219
Non-controlling interests	9,452	26,647	21,324	(47,534)	26,502
	644,552	334,780	233,996	3,111	116,721

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	6,829,006	5,621,130	3,923,646	3,030,522	2,433,267
Total liabilities	(3,434,458)	(3,674,124)	(2,333,995)	(1,702,979)	(1,218,339)
Net assets	3,394,548	1,947,006	1,589,651	1,327,543	1,214,928
Non-controlling interests	(140,810)	(206,515)	(121,582)	(14,864)	(107,168)
	3,253,738	1,740,491	1,468,069	1,312,679	1,107,760

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