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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	2020 *RMB'M*	2019 *RMB'M*	*Change %*
Revenue	**7,985.8**	6,736.2	**18.6**
Gross profit	**3,982.0**	3,533.3	**12.7**
Gross profit margin *(%)*	**49.9**	52.5	**(2.6) pps**
EBITDA			
– Reported	**1,463.2**	1,291.6	**13.3**
– Adjusted*	**1,554.5**	1,355.2	**14.7**
Profit attributable to equity holders of the Company			
– Reported	**1,004.1**	878.4	**14.3**
– Adjusted*	**1,083.3**	942.0	**15.0**
Final dividend per share *(HK$)*	**0.27**	0.22	**22.7**

For the year ended 31 December 2020 (the "**Year 2020**"), Ausnutria Dairy Corporation Ltd ("**Ausnutria**" or the "**Company**") and its subsidiaries (collectively, the "**Group**") recorded the followings:

- Revenue increased by RMB1,249.6 million or 18.6%, among which revenue derived from own-branded business increased by 15.0% to RMB6,926.4 million.
- Gross profit increased by RMB448.7 million or 12.7%.
- Adjusted EBITDA increased by RMB199.3 million or 14.7%.
- Adjusted profit attributable to equity holders of the Company increased by RMB141.3 million or 15.0%.

In addition, the board (the "**Board**") of directors (the "**Directors**") of the Company has recommended the payment of a final dividend of HK$0.27 (2019: HK$0.22) per share of the Company (the "**Shares**") for the Year 2020.

* *Adjusted for the loss on the fair value change of a derivative financial instrument for the Year 2020 of RMB43.0 million (Year 2019: RMB63.6 million) and one-off BUs integration expenses of RMB48.3 million (net of tax of RMB36.2 million) (Year 2019: Nil).*

The Board is pleased to announce the audited consolidated financial results of the Group for the Year 2020 together with the comparative figures for the year ended 31 December 2019 (the "**Year 2019**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	**2020**	2019
		RMB'000	*RMB'000*
REVENUE	*5*	**7,985,816**	6,736,153
Cost of sales		**(4,003,859)**	(3,202,836)
Gross profit		**3,981,957**	3,533,317
Other income and gains	*5*	**90,105**	69,191
Selling and distribution expenses		**(2,066,765)**	(1,771,834)
Administrative expenses		**(692,996)**	(558,289)
Other expenses		**(88,707)**	(138,666)
Finance costs	*7*	**(28,850)**	(33,332)
Share of profits and losses of associates		**26,102**	6,797
Profit before tax	*6*	**1,220,846**	1,107,184
Income tax expense	*8*	**(220,812)**	(228,288)
PROFIT FOR THE YEAR		**1,000,034**	878,896
Attributable to:			
Owners of the parent		**1,004,106**	878,390
Non-controlling interests		**(4,072)**	506
		1,000,034	878,896
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	*9*		
Basic			
– For profit for the year *(RMB cents)*		**60.93**	54.92
Diluted			
– For profit for the year *(RMB cents)*		**60.57**	54.50

	Notes	**2020** *RMB'000*	2019 *RMB'000*
PROFIT FOR THE YEAR		**1,000,034**	878,896
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		**64,562**	8,250
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**64,562**	8,250
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on the defined benefit plan, net of tax		**(2,195)**	(1,602)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(2,195)**	(1,602)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**62,367**	6,648
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,062,401**	885,544
Attributable to:			
Owners of the parent		**1,066,201**	886,744
Non-controlling interests		**(3,800)**	(1,200)
		1,062,401	885,544

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,840,357**	1,471,496
Right-of-use assets		**359,731**	349,314
Goodwill		**297,541**	289,803
Other intangible assets		**411,642**	398,100
Investments in convertible bonds	*10*	**–**	207,352
Investments in associates		**581,188**	271,831
Prepayments, deposits and other assets		**136,992**	158,198
Deferred tax assets		**257,981**	222,890
Total non-current assets		**3,885,432**	3,368,984
CURRENT ASSETS			
Inventories	*11*	**2,400,946**	2,051,326
Trade and bills receivables	*12*	**456,425**	419,919
Prepayments, other receivables and other assets		**435,576**	432,272
Pledged deposits	*13*	**212,062**	396,152
Cash and cash equivalents	*13*	**1,857,516**	1,674,541
Total current assets		**5,362,525**	4,974,210
CURRENT LIABILITIES			
Trade and bills payables	*14*	**409,247**	337,937
Other payables and accruals		**2,267,673**	2,038,496
Derivative financial instruments		**109**	1,013
Interest-bearing bank loans and other borrowings		**558,973**	419,787
Tax payable		**156,666**	215,719
Total current liabilities		**3,392,668**	3,012,952
NET CURRENT ASSETS		**1,969,857**	1,961,258
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,855,289**	5,330,242

	Notes	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,855,289**	5,330,242
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		**527,299**	784,003
Defined benefit plan		**8,932**	6,440
Derivative financial instruments	*15*	**–**	300,312
Deferred revenue	*16*	**65,121**	65,463
Other long term liability		**7,477**	11,369
Deferred tax liabilities		**94,520**	98,747
Total non-current liabilities		**703,349**	1,266,334
Net assets		**5,151,940**	4,063,908
EQUITY			
Equity attributable to owners of the parent			
Share capital	*17*	**149,267**	140,031
Treasury shares		**–**	(24,733)
Reserves		**5,022,105**	3,900,356
		5,171,372	4,015,654
Non-controlling interests		**(19,432)**	48,254
Total equity		**5,151,940**	4,063,908

1. CORPORATE AND GROUP INFORMATION

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (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 Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. There is no impact upon early adoption as no rent concessions occurred as a direct consequence of the covid-19 pandemic.

(e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units ("**BUs**") based on their products and services and had two reportable operating segments in 2020 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 Mainland China 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, non-lease-related 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 other than lease liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2020

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	**7,843,554**	**142,262**	**7,985,816**
Intersegment sales	**–**	**–**	**–**
	7,843,554	**142,262**	**7,985,816**
Reconciliation:			
Elimination of intersegment sales			**–**
Revenue from operations			**7,985,816**
Segment results	**1,264,735**	**(11,974)**	**1,252,761**
Reconciliation:			
Interest income			**31,603**
Finance costs (other than interest on lease liabilities)			**(20,752)**
Corporate and other unallocated expenses			**(42,766)**
Profit before tax			**1,220,846**
Segment assets	**7,091,341**	**326,075**	**7,417,416**
Reconciliation:			
Elimination of intersegment receivables			**(239,037)**
Corporate and other unallocated assets			**2,069,578**
Total assets			**9,247,957**
Segment liabilities	**3,063,923**	**390,012**	**3,453,935**
Reconciliation:			
Elimination of intersegment payables			**(239,037)**
Corporate and other unallocated liabilities			**881,119**
Total liabilities			**4,096,017**
Other segment information			
Impairment losses recognised in the statement of profit or loss	**170,280**	**4,313**	**174,593**
Share of profits and losses of associates	**27,140**	**(1,038)**	**26,102**
Investments in associates	**374,874**	**206,314**	**581,188**
Depreciation and amortisation	**232,659**	**12,441**	**245,100**
Capital expenditure*	**519,454**	**11,499**	**530,953**

Year ended 31 December 2019

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	6,617,456	118,697	6,736,153
Intersegment sales	–	–	–
	6,617,456	118,697	6,736,153
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			6,736,153
Segment results	1,207,602	(36,628)	1,170,974
Reconciliation:			
Interest income			27,365
Finance costs (other than interest on lease liabilities)			(23,585)
Corporate and other unallocated expenses			(67,570)
Profit before tax			1,107,184
Segment assets	6,314,293	279,013	6,593,306
Reconciliation:			
Elimination of intersegment receivables			(320,805)
Corporate and other unallocated assets			2,070,693
Total assets			8,343,194
Segment liabilities	3,386,474	291,839	3,678,313
Reconciliation:			
Elimination of intersegment payables			(320,805)
Corporate and other unallocated liabilities			921,778
Total liabilities			4,279,286
Other segment information			
Impairment losses recognised in the statement of profit or loss	51,131	–	51,131
Share of profits and losses of associates	6,797	–	6,797
Investments in associates	271,831	–	271,831
Investment in convertible bonds	–	207,352	207,352
Depreciation and amortisation	167,119	11,286	178,405
Capital expenditure*	249,991	8,072	258,063

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.*

Geographical information

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
The PRC	**6,932,067**	5,918,535
European Union	**647,940**	435,805
Middle East	**165,947**	119,275
North and South America	**144,175**	120,198
Australia	**54,816**	77,752
New Zealand	**3,599**	8,138
Others	**37,272**	56,450
	7,985,816	6,736,153

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

(b) Non-current assets

	2020	2019
	RMB'000	*RMB'000*
The PRC	**1,048,227**	881,806
The Netherlands	**1,959,269**	1,593,441
Australia	**460,037**	498,521
New Zealand	**159,918**	172,326
	3,627,451	3,146,094

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

Information about major customer

During the year, there was no revenue from a single external customer accounting for 10% or more of the Group's total revenue (2019: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 *RMB'000*	2019 *RMB'000*
Revenue from contracts with customers	**7,985,816**	6,736,153

Other income and gains

	Notes	2020 *RMB'000*	2019 *RMB'000*
Other income and gains			
Interest income		**31,603**	27,365
Government grants	*(i)*	**43,576**	28,076
Gain on fair value changes of derivative financial instrument			
– Subsequent Ozfarm Consideration (as defined below)	*(ii)*	**–**	5,755
Management fees income from an associate		**217**	2,118
Others		**14,709**	5,877
Total other income and gains		**90,105**	69,191

(i) The amount mainly represented various government grants 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. Current year amount also included subsidies from the respective local governments to support entities as a result of the lockdowns due to the Pandemic.

(ii) The prior year amount represented a contingent consideration for the settlement by the Group in its acquisition of remaining 50% equity interest in Ozfarm Royal Pty Ltd (the "**Subsequent Ozfarm Consideration**").

6. PROFIT BEFORE TAX

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

	2020 *RMB'000*	2019 *RMB'000*
Cost of inventories sold	**3,829,266**	3,151,705
Write-down of inventories to net realisable value	**174,593**	51,131
Cost of sales	**4,003,859**	3,202,836
Depreciation of property, plant and equipment	**126,124**	103,285
Depreciation of right-of-use assets	**63,688**	36,470
Amortisation of other intangible assets	**55,288**	38,650
Research and development costs	**181,292**	132,071
Lease payments not included in the measurement of lease liabilities	**6,292**	5,965
Losses on disposal of items of property, plant and equipment	**1,993**	5,468
Losses on disposal of items of other intangible assets	**5,294**	606
Foreign exchange differences, net	**3,603**	8,583
Fair value losses/(gains), net:		
Derivative instruments		
– transactions not qualifying as hedges	**380**	2,215
– Subsequent HNC Consideration *(note 15)*	**43,020**	63,631
– Subsequent Ozfarm Consideration	**–**	(5,755)
Auditor's remuneration	**8,940**	9,800
Advertising and promotion expenses	**1,095,096**	780,713
Employee benefit expenses (including Directors' remuneration):		
Wages, salaries and staff welfare	**970,928**	851,787
Temporary staff costs	**212,151**	189,121
Other employee related expenses	**127,483**	172,220
Equity share option expense	**20,170**	19,535
Pension scheme contributions*	**49,972**	62,276
	1,380,704	1,294,939

* *At 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans	**21,670**	23,639
Interest on lease liabilities	**8,098**	9,747
Total interest expense on financial liabilities not at fair value through profit or loss	**29,768**	33,386
Unrealised gain, net on an interest rate swap and an interest rate cap	**(918)**	(54)
	28,850	33,332

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the year.

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 16.5% (2019: 19%) 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 20%.

Ausnutria China and HNC were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% up to the year ending 31 December 2022.

	2020	2019
	RMB'000	*RMB'000*
Current charge for the year – Mainland China		
Charge for the year	**231,314**	211,314
Underprovision in prior years	**–**	179
Current charge for the year – The Netherlands		
Charge for the year	**39,427**	51,418
Overprovision in prior years	**(10,278)**	–
Current charge for the year – Hong Kong		
Charge for the year	**5,630**	8,755
Current charge for the year – Taiwan		
Charge for the year	**491**	1,318
Current charge for the year – Australia		
Charge for the year	**–**	9,603
Underprovision in prior years	**–**	5,596
Deferred tax	**(45,772)**	(59,895)
Total tax charge for the year	**220,812**	228,288

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,648,004,506 (2019: 1,599,358,534) 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

	2020	2019
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**1,004,106**	878,390

Shares

	Number of shares	
	2020	2019
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	**1,648,004,506**	1,599,358,534
Effect of dilution – weighted average number of ordinary shares:		
Share options	**9,709,475**	12,339,974
	1,657,713,981	1,611,698,508

10. INVESTMENT IN CONVERTIBLE BONDS

On 6 June 2019, Ausnutria Dairy Investments Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement (the "**CB Subscription Agreement**") in relation to the subscription of the convertible bonds in the principal amount of US$30.0 million (equivalent to approximately RMB207.4 million) (the "**Convertible Bonds**"). The Convertible Bonds were issued by Bioflag International Corporation (formerly Genlac Biotech International Corporation) (the "**CB Issuer**"), a special purpose vehicle incorporated in the Cayman Islands for the purpose of acquiring the equity interest in Glac Biotech Co. Ltd ("**Glac Biotech**"). Glac Biotech was a company listed on the Taipei Exchange (stock code: 6553.TW) which principally engaged in the research and development, manufacturing and sale of probiotics– and fermentation-related application products.

Pursuant to the CB Subscription Agreement, the proceeds of US$30.0 million together with the internal resources of the CB Issuer shall be used for the proposed privatisation of Glac Biotech from the Taipei Exchange. On 31 December 2019, the said proposed privatisation was completed.

The conversion of the Convertible Bonds into 26.09% equity interest in the CB Issuer by the Company was completed during the year and the CB Issuer became an associate of the Company thereafter.

11. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**891,148**	677,374
Finished goods	**1,160,386**	1,149,143
Goods in transit	**309,113**	200,102
Others	**40,299**	24,707
Total	**2,400,946**	2,051,326

12. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**437,138**	403,840
Bills receivable	**19,287**	16,079
Total	**456,425**	419,919

The Group normally allows a credit period from 1 to 12 months (2019: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An 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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**400,673**	353,852
3 to 6 months	**16,919**	36,155
6 months to 1 year	**8,850**	5,726
Over 1 year	**10,696**	8,107
Total	**437,138**	403,840

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 *RMB'000*	2019 *RMB'000*
Cash and bank balances	**1,296,509**	1,436,544
Time deposits	**773,069**	634,149
	2,069,578	2,070,693
Less: Pledged deposits	**(212,062)**	(396,152)
Cash and cash equivalents	**1,857,516**	1,674,541

14. 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:

	2020 *RMB'000*	2019 *RMB'000*
Within 12 months	**406,969**	336,631
Over 12 months	**2,278**	1,306
	409,247	337,937

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

	Note	2020 *RMB'000*	2019 *RMB'000*
Subsequent HNC Consideration	*(a)*	**–**	300,312

(a) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hongkong) Company Limited and HNC (collectively, the "**HNC Group**") (the "**HNC Group Acquisition**"). The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ended 31 December 2018, 2019 and 2020 (the "**Subsequent HNC Consideration**"), and is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021. The balance at 31 December 2019 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 above and the closing market price of the Share at 31 December 2019 of HK$11.22. The Subsequent HNC Consideration is classified as a derivative financial instrument and is measured at fair value through profit or loss.

On 9 April 2020, having considered the outstanding financial performance of the HNC Group, the Group and the vendors of the HNC Group Acquisition (the "**HNC Vendors**") entered into a supplemental deed, pursuant to which the parties have conditionally agreed to amend certain terms regarding, among others, the early settlement of the Subsequent HNC Consideration (the "**HNC Amendments**"). On 27 August 2020, the HNC Amendments were completed and the Company issued 29,879,876 Shares to settle the Subsequent HNC Consideration at an issue price of HK$5.00 pursuant to the agreement relating to the HNC Group Acquisition. A loss of RMB43,020,000 (2019: RMB63,631,000) was recognised for the year.

16. DEFERRED REVENUE

On 22 May 2018, the Company purchased two plots of the land in Changsha city, Hunan province, for building of the headquarters of the Group in the PRC region (the "**PRC Headquarters**"). In order to support the long term growth of the Group, Ausnutria China received government grants as financial subsidies to support the development.

Such government grants received are treated as deferred revenue as at the end of the reporting period and are to be amortised and recognised as other income over the expected useful life of the PRC Headquarters.

As at the end of the reporting period, the construction of the PRC Headquarters was in progress and handled by an associate of the Company.

17. SHARE CAPITAL

	2020 ***HK$'000***	2019 *HK$'000*
Issued and fully paid:		
1,715,903,508 (2019: 1,612,106,299) ordinary shares of HK$0.10 each	**171,590**	161,211

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 2020		1,612,106	140,031
Share options exercised	*(i)*	6,596	597
Shares cancelled	*(ii)*	(2,679)	(240)
Consideration Shares issued for:			
Acquisition of HBC's non-controlling interest	*(iii)*	70,000	6,223
Settlement of Subsequent HNC Consideration	*(iv)*	29,880	2,656
Total consideration Shares issued		99,880	8,879
At 31 December 2020		1,715,903	149,267

Notes:

(i) The subscription rights attaching to 6,596,000 share options were exercised at the subscription price of HK$2.45 per Share, resulting in the issue of 6,596,000 Shares for a total cash consideration, before expenses, of HK$16,161,000 (equivalent to approximately RMB14,616,000). An amount of RMB3,701,000 was transferred from the share option reserve to share capital and share premium account upon the exercise of the share options.

(ii) During the year ended 31 December 2019, the Company repurchased 2,679,000 Shares on the Stock Exchange and fully paid at a total consideration of HK$27,484,000 (equivalent to approximately RMB24,733,000). On 28 February 2020, the concerned Shares were cancelled.

(iii) On 27 August 2020, 70,000,000 Shares were allotted and issued to satisfy the consideration for the acquisition of the remaining 15% equity interest in Hyproca Bio-Science (Hong Kong) Company Limited ("**HBC**"), at a share price fair value of HK$12.84 each, totally amounting to HK$898,800,000 (equivalent to approximately RMB799,078,000).

(iv) On 27 August 2020, 29,879,876 Shares were allotted and issued to settle the Subsequent HNC Consideration, at a share price fair value of HK$12.84 each, totally amounting to HK$383,658,000 (equivalent to approximately RMB341,090,000).

18. BUSINESS COMBINATION

Pursuant to a share purchase deed (the "**Deed**") entered into between the Group and an independent party (the "**Vendor**") on 20 November 2019, the Group agreed to purchase and the Vendor agreed to sell the entire equity interests in Changsha AnEr Nutrition Co. Ltd. (formerly 湖南坤源塑化有限公司) ("**Changsha AnEr**"), a company established in the PRC, holding a plot of land with a site area, including land and building, of approximately 84,000 square meters (the "**Changsha Land**") at a consideration of USD11,500,000 (equivalent to approximately RMB80,725,000) (the "**Consideration**"), which was settled by cash upon completion.

The Changsha Land is adjacent to the Group's existing production facility in Changsha city, Hunan province, the PRC. The purpose of acquisition is to facilitate the future expansion of the Group's production and storage facilities in the PRC. Upon the completion of acquisition, Changsha AnEr became an indirect wholly-owned subsidiary of the Company. This acquisition was completed on 31 March 2020.

The fair values of the identifiable assets and liabilities of Changsha AnEr as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	24,318
Right-of-use assets	64,157
Cash and cash equivalents	688
Trade receivables	1,481
Other payable	(9,919)
Total identifiable net assets at fair value and total consideration	80,725
Satisfied by:	
Cash	80,725

An analysis of the cash flows in respect of the acquisition of Changsha AnEr is as follows:

	RMB'000
Cash consideration	(80,725)
Cash and bank balances acquired	688
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(80,037)
Transaction costs of the acquisitions included in cash flows from operating activities	–
	(80,037)

As the acquisition completed on 31 March 2020 and the Group is in the process of formulating and implementing the business plan on Changsha AnEr, there was no contribution by Changsha AnEr to the Group's revenue and the consolidated profit for the year ended 31 December 2020.

19. DIVIDENDS

	2020	2019
	RMB'000	*RMB'000*
Proposed final dividend – HK27 cents (2019: HK22 cents) per ordinary share	**389,927**	317,172

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

BUSINESS OVERVIEW

The Year 2020 is a year of challenges to many people. Unexpected events, including the outbreak of the coronavirus disease (COVID-19) (the "**Pandemic**"), have been casting uncertainty over the global economy, market sentiment and consumption behaviour. These unexpected events have caused some short-term interruptions in the business development of the Group, particularly: (i) the Group's own-branded formula milk powder business (both in the PRC and the overseas) due to lockdowns, resulting in fewer marketing and promotional activities conducted for the concerned period; and (ii) the dairy commodities trading business due to lower dairy related commodity prices. Nevertheless, the Group successfully contained the negative impact of these challenges to the Group's operations at a manageable level by rapidly adjusting its strategies (mainly on the marketing aspects) and by leveraging on its global network (particularly on the supply chain) to minimise the interruption to the lowest level. For the Year 2020, the Group recorded a revenue of RMB7,985.8 million (Year 2019: RMB6,736.2 million), representing a year-on-year ("**YoY**") increase of RMB1,249.6 million or 18.6%. Among which, the performance of the own-branded formula milk powder business (being the Group's core operations) recorded revenue of RMB6,926.4 million (Year 2019: RMB6,023.4 million), representing a YoY increase of RMB903.0 million or 15.0%, and accounted for 86.7% (Year 2019: 89.4%) of the total revenue of the Group.

In order to accommodate the change and the accelerated market consolidation of the formula milk powder business in the PRC, the Group undertook a BUs integration exercise in mid-2020 by merging and integrating some of its BUs for better resource allocation and management. The Group recognised one-off expenses of approximately RMB48.3 million (net of tax of RMB36.2 million) for such exercise, which included the integration of the sales team and clearance sales of the slow-moving products of the relevant BUs. Further, considering sales growth of the Group's own-branded formula milk powder products slowed down during the year due to lockdowns, the Group assessed the impact of the slower-than-projected sales on the Group's inventory and, accordingly, made provision for products that are not expected to be sold as scheduled. As a result, the Group's inventory write-down for the Year 2020 amounted to RMB174.6 million, representing 4.4% of the Group's cost of inventories sold.

Apart from the above, the Group strategically increased its intake of fresh goat milk to marginally in excess of the Group's production needs since the second quarter of 2020 to ensure the stable supply of certain key ingredients for the production of goat milk formula powder products. The fresh goat milk in excess, after processing and extracting relevant ingredients, was sold to the market in the form of goat milk powder and cream at spot price. Due to the Pandemic and the decrease in dairy-related commodity prices in the second half of 2020, operating losses derived from the trading of these products amounted to approximately RMB63.2 million, resulting a decrease in gross profit margin by 0.7 percentage points. According to the Group's initial business plan, part of the by-products are to be further processed into higher value-added materials such as goat or cheese protein powder for other nutrition products use, such plan has been delayed as a result of the lockdowns.

As a result of the one-off expenses derived from the BUs integration exercise, the additional stock provision made and the trading loss derived as mentioned above, the gross profit margin, and hence the net profit margin of the Group, decreased for the Year 2020. Excluding the aforementioned factors, the Group's gross profit and net profit margins remained fairly stable when compared with the Year 2019. The Company believes that it will continue to benefit from the product premiumisation trend in the PRC and, with the continuous effort in streamlining its internal structure and enhancing the upstream operational efficiency, the overall profit margin of the Group will improve progressively.

During the Year 2020, the Group recorded an accounting loss of RMB43.0 million (Year 2019: RMB63.6 million) in respect of the fair value change of a derivative financial instrument (the "**HNC FV Loss**"), which represents a contingent consideration liability for the Subsequent HNC Consideration in the HNC Group Acquisition in 2018. On 27 August 2020, the Subsequent HNC Consideration was settled and a loss of RMB43.0 million (Year 2019: RMB63.6 million) was recognised for the Year 2020. With the settlement of the Subsequent HNC Consideration, the significant accounting impact of the derivative financial instrument arising from the Subsequent HNC Consideration has ceased. The Group's profit attributable to equity holders of the Company for the Year 2020 amounted to RMB1,004.1 million (Year 2019: RMB878.4 million), representing a YoY increase of RMB125.7 million or 14.3%. Excluding the accounting loss and the one-off after tax BUs integration expenses mentioned above, the Group recorded an adjusted profit attributable to equity holders of the Company of RMB1,083.3 million (Year 2019: RMB942.0 million), representing a YoY increase of RMB141.3 million or 15.0%.

Formula Milk Powder Business

In 2020, the core business of the Group, namely the own-branded formula milk powder business, maintained a healthy growth with overall sales of RMB6,926.4 million, representing a YoY increase of RMB903.0 million or 15.0%. The Group believes that this increase was mainly attributable to: (i) the implementation of the Group's effective strategic plans, the constant refinement of its business chain and the continuous improvement in its upstream operational efficiency and product quality; (ii) the constant enhancement in its product mix in accordance with its well-established multiple-brand strategy that caters to the rising market demand for high-end products; and (iii) the synergies between its brands and channels resulting from its unremitting efforts to develop mama and baby store channels by high-frequency and high-quality marketing activities.

(a) Own-branded Cow Milk Formulas

In 2020, sales of own-branded cow milk formulas amounted to RMB3,820.2 million, representing a YoY increase of RMB653.0 million or 20.6%. Subsequent to the integration of its BUs in mid-2020, the Group has three BUs, namely Hyproca 1897, Allnutria and Puredo, with each product being developed with different formulas, milk sources, price ranges, and target consumer groups. Each BU has its unique vision and marketing strategy.

Amongst these BUs, Hyproca 1897 BU (which comprises the brands of Hyproca Hollary, Hyproca Hypure and Neolac (the "**Hyproca 1897 Series**")), focuses on the super premium market and was the fastest-growing BU in the Group recording sales for 2020 of RMB2,697.6 million, representing a YoY increase of RMB931.4 million or 52.7%.

During the year under review, both Allnutria and Puredo BUs introduced maternal mothers' and a children's milk powder formulas (Stage 4) imported directly from the Netherlands and New Zealand respectively, to broaden their formula milk powder product portfolios and target consumer groups. In September 2020, Neolac, an organic infant formula, was revamped and upgraded and a summit with strategic partners across the country was held.

Through such efforts, all of the Group's own-branded cow milk formulas have successfully raised their brand influence and awareness among the consumers, thereby laying the foundation for the steady and rapid growth of the Group's cow milk formula business in the future.

(b) Own-branded Goat Milk Formulas

In 2020, sales of own-branded goat milk formulas amounted to RMB3,106.2 million, representing a YoY increase of RMB250.0 million or 8.8%. Sales in the PRC and overseas markets amounted to RMB2,818.4 million and RMB287.8 million, accounting for 90.7% and 9.3%, respectively. The Group's own-branded goat milk formulas are all produced in the Netherlands and marketed globally in 66 countries and regions. According to the data from Nielsen, sales of the Group's goat milk formulas accounted for more than sixty percent of all imported infant goat milk formulas in the PRC three years in a row (2018-2020). The Group's own-branded goat milk formulas in the PRC are all operated by Kabrita BU, brands under which included infant formulas Kabrita Yuebai and Kabrita Youzhuang, toddler formula Kabrita JingYing, prenatal and postnatal formula Kabrita Mama（佳貝艾特媽媽粉）, and formulas for 3-year-old and above and adult Kabrita Yingjia Goat Milk Powder Formulas.

The PRC Market

Affected by the Pandemic, channels of the Group's goat milk formula powder products experienced some disruption during the year under review. This was caused by irregular pricing in the retail market, particularly during the period of lockdowns when some of the mama and baby stores had to temporarily close down, and difficulties in the development of new customers, due to limitations in the implementation of its marketing activities and the provision of face to face education services to the customers. In response to the challenge in the retail market, Kabrita BU swiftly adjusted its strategies and restructured its channels in mid-2020. On one hand, it enhanced its product tracing system by strengthening the protection of the product internal identity code and established a market inspection team to prevent vicious pricing and cross-region sales of its products. On the other hand, it actively cooperated with its distributors to optimise their inventories and implemented stringent award and punishment systems to strengthen its channel management capability. As at the date of this announcement, the channel reform yielded concrete results with pricing gradually stabilising in the market and inventory level returning to normal and, ultimately, sales at the retail level.

Facing the increasing competition of the industry, Kabrita BU rolled out a cloud-based digitalisation project（數字化雲碼項目）at the end of 2020, in order to more effectively develop new customers and manage the lifecycle of the members. The project upgraded its channel operation and precise membership marketing system with the aim of lengthening the lifecycles and boosting the order size of its members with better digitalised services. The Group is confident that these measures will powerfully strengthen the channels and improve the overall operation of its retail outlets.

Overseas Markets

Other than the markets in the PRC, Europe, the United States of America, the Middle East, the Commonwealth of Independent States and Brazil, despite the development being challenged by the Pandemic for the Year 2020, the Group successfully extended its presence to other countries, particularly Mexico after about two years of preparation works. It is now available in both online and offline channels in Mexico. Kabrita is also available in South-Korea (launched in early 2020), Cambodia and South Africa through different distributors. Besides, there has been increasing recognition of Kabrita in overseas markets such as in the Middle East, where Kabrita was awarded the prestigious Product of the Year in 2020 in the Gulf region.

After more than 10 years of efforts in this industry, Kabrita's infant formulas have successfully captured the heart of the consumers and built up several core strengths. Kabrita has gathered powerful brand influence by integrating its strengths in terms of sourcing, products, marketing, services, operation and sales. Through multi-dimensional channel marketing, Kabrita is confident of realising sustainable long-term benefits while protecting the interests of its partners.

Nutrition Business

The Group's vision is to become the most trustworthy formula, nutrition and healthcare enterprise in the world. Based on Ausnutria's "Golden Decade" strategic plan, the Group has extended its business from infant formulas to nourishing nutrition for all age groups, and is steadily developing its layout in the nutrition and healthcare sector.

As a result of the Pandemic, the general public has become increasing aware of the need to boost immune defence, which in turn drove the growth of the Group's nutrition business and mitigated the impact brought by the decrease in sales from cross-border e-commerce channels and daigou in Australia. For the Year 2020, sales of nutrition products amounted to RMB142.3 million, representing an increase of RMB23.6 million or 19.9% as compared with the Year 2019.

In the Year 2020, the Group launched a series of kid and adult nutritional products. Capitalising on its strengths in the scientific research and production of probiotics products, the Group successfully expanded its branded probiotics business in Australia and the PRC during the year. Nutrition Care (NC) formulated a new product marketing strategy, the scope of which includes NC Seasonal Biotic (NC舒鼻益生菌) and NC Flora Biotic (NC蔓越莓益生菌), which were rolled out during the year and achieved anticipated performance. In the first half of 2020, NC was invited again to set up an individual booth in the third China International Import Expo in Shanghai. Participating in this exhibition for the third consecutive year demonstrated that NC's brand power is widely recognised by major e-commerce channels as well as the public. Furthermore, a product of AUNULIFE (愛益森), the Australian probiotics brand acquired by the Group in 2019, was also launched in the PRC in the second half of 2020.

Leveraging the Group's strength in terms of dairy product related research and development ("**R&D**") as well as raw materials capability, new nutritional products such as immune-boosters like UHOPS (優賀普) lactoferrin milk powder and Holisure (合力素) lactoferrin milk powder were rolled out in 2020. Amongst two registered healthcare food items, the registration renewal procedures of one item had completed while that of the other one were proceeding in accordance with the procedures.

The R&D of food for special medical purposes ("**FSMP**") progressed smoothly in 2020. The first of the Group's nutritionally complete FSMP product was approved in Taiwan, while the first lactose-free infant FSMP developed by the Group in Hunan province, the PRC passed the on-site examination of the relevant national authorities. The R&D of goat milk FSMP and nutritional products for special medical purposes regarding specific illnesses based on the Group's proprietary intellectual property also achieved breakthrough. In particular, applications for the registration of two general adult nutritional foods had been submitted.

With respect to core raw materials, the Group invested in high-tech platforms, such as BioFlag International Corporation (formerly Genlac Biotech International Corporation) in 2019, that have the capacity to research, develop, produce and manufacture the raw materials of probiotics and nutritional products, and have secured and supported the Group's supply chain. During the Year 2020, the Group stepped up its search for probiotics resources, built up probiotics culture series resources from different sources such as breastmilk of the Chinese, southern pastures and plant fermentation, and has initially identified several potential probiotics culture resources, thereby laying the foundations for the sustainable development of the Company's probiotics business. The Group has also strengthened the strategic cooperation with Peking University, Jiangnan University, Central South University, the Wageningen University in the Netherlands and other tertiary institutions. In particular, Professor Chen Wei, an Academician of China Engineering Academy and the president of Jiangnan University, relocated his only academician R&D station to the Group, which will enhance the Group's overall comprehensive R&D ability in respect of probiotics and nutritional products and lay a solid groundwork for the future development of the Group.

In the Year 2020, through cooperation with top-notch tertiary institutions and hospitals in Mainland China and Taiwan, the Group successfully developed PNA, a precise nutritional gene chip exclusively for the Chinese market based on the genome data of millions of Chinese people. Based on this chip, the Group has established personalised nutritional services and management platforms for the growth of children and weight management of pregnant women in order to empower the retail channels and provide better personalised nutrition solutions to the consumers. These operations are currently on trial.

The Group believes the near future will be instrumental in the development of the nutrition industry in the PRC. Market concentration in the infant formula industry will continue to rise. The health food sectors, covering health foods and FSMP related products and will exhibit exponential growth. Nutritional and healthcare services will proliferate with better quality, will be more customised, more convenient and increasingly smart. The Company will continue to prudently foster the growth of its nutritional products and nutrition business by being science-oriented, keeping abreast of the latest trends and expanding from infant nutritional products to kid and adult nutritional products in the future to further contribute to the growth and health of the consumers.

Private Label and Other Businesses

For the Year 2020, sales of formula milk powder products on an original equipment manufacturing basis (the "**Private Label**") and other businesses, which represented 11.5% (Year 2019: 8.8%) of the total revenue of the Group, increased by 54.4% to RMB917.1 million. The increase in sales was mainly due to the increase in trading of commodities as a result of the increase in the intake of milk, particularly goat, for the processing of related ingredients in order to fulfil the internal production needs. The Private Label business also achieved an important business turnaround after approximately 2 years of business restructuring. This resulted in a 3.6% revenue growth (Year 2019: decrease by 40.3%) and an improvement in operating margins despite the business being also negatively affected by the Pandemic for the year under review.

STRATEGIC STEPS TAKEN

In order to accommodate the Company's vision, the Group has executed the following during the Year 2020:

- Completed the acquisition of the remaining 15.0% equity interest in Hyproca Bio-Science (Hong Kong) Company Limited (together with its subsidiary, the "**HBC Group**") (the "**HBC Acquisition**") on 27 August 2020. Since then, the HBC Group became wholly-owned subsidiaries of the Company. Further details regarding the HBC Acquisition are set out in the announcement and circular of the Company dated 9 April 2020 and 13 July 2020 respectively.

- Completed the HNC Amendments on 27 August 2020. Since then, the significant accounting impact of the derivative financial instrument arising from the Subsequent HNC Consideration ceased. Further details regarding the HNC Amendments are set out in the announcement and circular of the Company dated 9 April 2020 and 13 July 2020 respectively.

- Completed the acquisition of the Changsha Land on 31 March 2020 to facilitate the future expansion of the Group's production and storage facilities in the PRC.

- In early 2020, the Board has approved the Group to invest in a new infant formula base powder facility (the "**New IFBP Facility**") and other related facilities principally for the processing of goat milk and whey in the Netherlands. The projects have been progressing as planned despite being slightly interrupted by the lockdowns.

INDUSTRY OVERVIEW

As the number of fertile women drops whilst housing, education, medical and other direct costs suppress the desire to have children, the number of births (and in turn the growth in the volume of the infant formula market in the PRC) will continue to slow down. According to relevant industry data, the total retail sales of the PRC infant formula industry for 2020 amounted to RMB176.3 billion, representing a YoY increase of 4.4%, sales volume grew by 1.2% YoY. In view of the challenges ahead, the Group believes that the development of the infant formula industry in the PRC will continue to be characterised by:

1. Brand upgrading, which will be the key driver of the industry – Relevant industry research indicates that in 2020, the market share of high-end and premium infant formulas amongst all infant formulas in the PRC was 56.4% (Year 2019: 51.6%). Due to the aspiration of the younger generation for better quality and more desirable brands, the shares of high-end and premium infant formulas will rise further to 69% in 2025.

2. Speeding up in market consolidation – According to relevant industry data, the aggregate shares of the top three and top ten infant formula brands in 2020 were 37.6% and 76.6% (Year 2019: 35.6% and 71.9%), representing increases of 2.0 and 4.7 percentage points respectively, thanks to strengthening industry regulations. However, these figures still lagged far behind the share of top three infant formula brands in Europe and America of over 90%. It is believed that the PRC infant formula industry will further consolidate due to tightening regulations and competition.

3. Growing in the supremacy of domestic brands with comprehensive industry chains, extensive channel knowledge, and experience in the PRC – In view of the all-round improvement in their products, channels, and marketing strategies, leading domestic brands have gradually regained consumers' trust. According to relevant industry data, the aggregate market share of the top five domestic brands surged from 32.9% in 2019 to 38.2% in 2020. Following the introduction of the policy of "Action Plan of Promoting Domestically Produced Infant Formula Milk Powder (國產嬰幼兒配方乳粉提升行動方案)" in the PRC in 2019, it is anticipated that domestic brands with high quality international supply chains will increase their market share gradually by further enhancing their brand capacity and penetrating into lower-tier channels.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

Sustainability and creating shared value with different stakeholders have always been a commitment of the Group. The Group has been actively implementing its strategic plan to streamline its operations and resources across different regions while being mindful of integrating sustainability into the Group's business. The Group is committed to continue to stand by its sustainability vision and the relevant United Nations Sustainable Development Goals.

Since the Pandemic, the Board has been closely monitoring its development and assessing its impact to the Group's operations. The Company has, since the Pandemic, taken immediate steps and measures to protect its employees from being infected. Remote working and mixed modes of working have been implemented according to the different needs and government announcements in the Group's subsidiaries around the world. Despite there being a number of confirmed infected cases in Changsha city, Hunan province, where the Group's headquarters in the PRC is located, and subsequently also in the other parts of the world where the Group's upstream operations are located, the Group's operations have not experienced any material disruptions. As at the date of this announcement, apart from some temporary interruptions in the carrying out of marketing activities and the logistic aspect for the delivery of goods to the consumers, the Board is not aware of any material adverse impact to the Group's financial or trading position caused by the Pandemic.

Furthermore, the Company has committed to the national action plans in the PRC to fight against the Pandemic. Ausnutria U-Foundation, together with the Company's subsidiaries around the world, repeatedly donated batches of cash, medical supplies and nutrition products to various communities worth over RMB78.0 million in total. The Board will continue to closely monitor the market situation and continuously evaluate the impact of the Pandemic on the Group's operations, and provide updates to the Shareholders and potential investors if there is any material development.

OUTLOOK

With the continuous drops in the female population at childbearing age and the reduced willingness to marry and bear children, particularly in the PRC (the Company's principal market), the number of newborns is anticipated to decrease in the coming years. Besides, it is expected that the Pandemic will continue to adversely affect the global economy and the general traveling and spending behaviours at least in 2021. Nevertheless, the Company is still reasonably optimistic about its future development given the strategies that it has formulated including the building of the world-class upstream facilities; its well-established distribution networks (particularly in the mama and baby store channels in the PRC); its strong R&D and the widely developed product portfolio to cover its consumers of all age; its unique position on the goat milk category with anticipated faster growth rate in the market; and most importantly a sound and solid management team with proven track records.

The Company considers the capability of securing key raw materials to be one of the critical success factors in the formula milk products in the industry, in particular for the development of goat and organic related products. The Company will continue to formulate its long-term plan and strategies, including cooperation with industry pioneers and further investments to ensure that the Group's products are always of the highest quality standard and that there are sufficient raw materials and resources to fulfil the demands from the market as well as to support its long-term growth.

From the market perspective, the Company will continue to invest in the market and to further enhance the brand equity, particularly on Kabrita and Hyproca Hollary, the two superstar brands of the Group, by launching a combination of innovative high-frequency and high-quality offline and online marketing activities. Leveraging on its pull (from brands) and push (from channels) strategies, the Company will continue to provide its channels and end customers precise marketing, continued training and value-added services. This will enhance the Group's brand recognition in the first-tier cities, while at the same time strengthen the growth momentum and market penetration in other tier cities. The Company will also continue to strengthen its channel management capability and to expand its point of sales in an orderly manner. The Pandemic has changed the spending behaviours and living lifestyle for many people, the Company will continue to explore different opportunities to enrich its distribution channels and, hence, to maintain its growth in the market share.

In 2020, the Chinese government issued a consultation memorandum including various measures to further strengthen the regulations and quality standards of infant formula. Such standard is expected to become effective in 2023. The Company will endeavour to ensure proper planning and adequate resources will be put in place for the fulfilment of such new set of regulations.

FINANCIAL REVIEW

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

Revenue

					Proportion to total revenue	
		2020	2019	Change	**2020**	2019
	Notes	***RMB'M***	*RMB'M*	*%*	*%*	*%*
Own-branded formula milk powder products:						
Cow milk (in the PRC)	*(i)*	**3,820.2**	3,167.2	20.6	**47.8**	47.0
Goat milk (in the PRC)	*(i)*	**2,818.4**	2,570.3	9.7	**35.3**	38.2
Goat milk (elsewhere)	*(i)*	**287.8**	285.9	0.7	**3.6**	4.2
Goat milk total		**3,106.2**	2,856.2	8.8	**38.9**	42.4
		6,926.4	6,023.4	15.0	**86.7**	89.4
Private Label and others:						
Private Label	*(ii)*	**209.0**	201.8	3.6	**2.6**	3.0
Others	*(iii)*	**708.1**	392.3	80.5	**8.9**	5.8
Private Label and others total		**917.1**	594.1	54.4	**11.5**	8.8
Dairy and related products		**7,843.5**	6,617.5	18.5	**98.2**	98.2
Nutrition products	*(iv)*	**142.3**	118.7	19.9	**1.8**	1.8
Total		**7,985.8**	6,736.2	18.6	**100.0**	100.0

Notes:

(i) Representing the sales of own-branded cow milk formula products in the PRC and Kabrita in the PRC, Europe, the Commonwealth of Independent States, the United States, Canada, the Middle East countries, South Korea, South Africa, Mexico, etc.

(ii) Representing the sales of formula milk powder products (including infant formula) under the customers' own brands.

(iii) Representing mainly the sales of milk, milk powder, cream and other milk derived ingredients such as whey protein powder, etc.

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

Despite the competition of the formula milk powder product market continuing to be intense and that the global economy was adversely affected by the Pandemic for the year under review, the Group recorded revenue of RMB7,985.8 million, representing an increase of RMB1,249.6 million, or 18.6%, from RMB6,736.2 million for the Year 2019. This was mainly driven by the increase in sales of the Group's own-branded cow and goat milk formula products by 20.6% and 8.8%, respectively, and the increase in the trading of commodities as a result of the increase in its intake of fresh goat milk since the second quarter of 2020.

Yet, the rate of growth in the Group's revenue in the Year 2020 slowed down when compared with that in the Year 2019, particularly Kabrita. Since the mid-Year 2020, the Group's sales of Kabrita in the distribution channel began to slow down as less marketing and promotional activities were conducted due to lockdowns. In order to avoid overstocking in the distribution level, to better manage the selling price in the retail level and to strengthen the confidence of the distribution channel in marketing Kabrita, management of Kabrita commenced its distribution channel reorganisation in mid-Year 2020. In addition, the Group also increased its marketing effort on the promotion and distribution of Kabrita, particularly in the offline channel which was temporarily interrupted during the lockdowns in the first half of 2020; and strengthened the traceability and control on inventory in the distribution level by adding a second code inside the product. Up to the date of this announcement, the distribution channel reorganisation has achieved substantial results. The inventory level in the distribution channel, the coverage of the internal code traceability system, and the retail sales to end customers have been gradually returned to normal.

Furthermore, the Company has executed an integration exercise on some BUs in response to the market change in mid-Year 2020, which included merging Allnutria and Eurlate BUs, as well as re-positioning Puredo BU to dedicate to milk formula products made in Australia and New Zealand by enriching its product portfolio. Such integration exercise resulted in a temporary impact on the sale of those BUs (mainly cow milk powder products) during the year. The Company believes the integration of these BUs will bring a clearer brand strategy and resources integration to drive the business success of these BUs.

Apart from the above, the Group has Private Label and other side businesses, including sales of dairy related products such as milk, milk powder, cream and other milk derived ingredients such as whey protein powder. The Group has entered into long-term contracts with farmers and key raw materials/ingredients suppliers in order to secure the supply of key raw materials. The Group will trade its supplies whenever there is a surplus. During the Year 2020, the Group increased its intake of goat milk in order to secure the supply of goat whey for the production of Kabrita. As such, the output of corresponding by-products including cream, goat milk (after processing) and powder increased during the year. Revenue derived from the trading of these products increased accordingly. The Private Label business also achieved an important business turnaround after approximately 2 years of business restructuring, resulted in a 3.6% revenue growth (Year 2019: decrease by 40.3%) and an improvement in operating margins despite the business being also negatively affected by the Pandemic for the year under review.

Gross profit and gross profit margin

	Gross profit		Gross profit margin	
	2020	2019	**2020**	2019
	RMB'M	*RMB'M*	***%***	*%*
Own-branded formula milk powder products:				
Cow milk	**2,200.8**	1,756.4	**57.6**	55.5
Goat milk	**1,834.8**	1,689.2	**59.1**	59.1
	4,035.6	3,445.6	**58.3**	57.2
Private Label and others	**33.9**	87.1	**3.7**	14.7
Dairy and related products	**4,069.5**	3,532.7	**51.9**	53.4
Nutrition products	**87.1**	51.7	**61.2**	43.6
	4,156.6	3,584.4	**52.0**	53.2
Less: write-down of inventories to net realisable value	**(174.6)**	(51.1)		
Total	**3,982.0**	3,533.3	**49.9**	52.5

The Group's gross profit for the Year 2020 was RMB3,982.0 million, representing an increase of RMB448.7 million, or 12.7%, when compared with the Year 2019. The decrease in the gross profit margin of the Group from 52.5% for the Year 2019 to 49.9% for the Year 2020 was primarily due to (i) the proportionate decrease in the sales of the higher profit margin own-branded goat milk formulas. Overall contribution to revenue by own-branded goat milk formulas slightly decreased from 42.4% for the Year 2019 to 38.9% for the Year 2020; (ii) the increase in inventories provision of RMB123.5 million mainly attributable to a provision made by the Group for the products that are not expected to be sold as scheduled as a result of lockdowns; and (iii) operating losses derived from the trading of goat milk powder and cream of RMB63.2 million. During the Year 2020, the commodity price such as cream, goat milk and powder decreased when compared with the Year 2019 as a result of the lockdowns. Such impact has resulted in gross loss margins derived from these products. As a result of the increase in intake of goat milk for the processing of goat whey, the gross profit derived from trading of the corresponding by-products decreased during the year.

Other income and gains

An analysis of other income and gains is as follows:

		2020	2019
	Notes	***RMB'M***	*RMB'M*
Interest income	*(i)*	**31.6**	27.4
Government grants	*(ii)*	**43.6**	28.1
Management fees income from an associate		**0.2**	2.1
Others		**14.7**	11.6
		90.1	69.2

Notes:

(i) The amount mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC. The increase in interest income was in line with the increase in the average bank balances during the Year 2020.

(ii) The amount 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 2020. Current year amount also included subsidies from the respective local governments to support entities as a result of the lockdowns due to the Pandemic.

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 25.9% (Year 2019: 26.3%) of the revenue for the Year 2020. The decrease in the selling and distribution expenses was mainly due to the decrease in sales related staff costs and the corresponding travelling and accommodation costs due to less exhibition and trade show being organised during the year as a result of the lockdowns.

Administrative expenses

The administrative expenses accounted for 8.7% (Year 2019: 8.3%) of the revenue of the Group for the Year 2020.

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB20.2 million (Year 2019: RMB19.5 million)), travelling expenses, auditor's 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 by RMB49.2 million, from RMB132.1 million for the Year 2019 to RMB181.3 million for the Year 2020 for the R&D of new products.

Other expenses

Other expenses for the Year 2020 mainly comprised (i) the HNC FV Loss of RMB43.0 million (Year 2019: RMB63.6 million); (ii) charitable donations of RMB35.0 million (Year 2019: RMB11.0 million) mainly for the purpose of supporting different communities to combat the Pandemic; and (iii) net foreign currency exchange losses of RMB3.6 million (Year 2019: RMB8.6 million) arising from the foreign currency transactions, mainly between EUR and RMB, and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency rates of exchange ruling at the end of the reporting period.

Finance costs

The finance costs of the Group for the Year 2020 amounted to RMB28.9 million (Year 2019: RMB33.3 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 decrease in finance costs was mainly attributable to the decrease in interest-bearing bank loans and other borrowings.

Share of profits and losses of associates

Balance mainly represented the share of profits of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**") for the Year 2020. 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 2020 were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the CIT at a rate of 25%. Ausnutria China and HNC, both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the Year 2020. 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 16.5% (Year 2019: 19%) 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 20%, respectively.

The Group's adjusted effective tax rate of 17.5% (excluding the HNC FV Loss of RMB43.0 million) for the Year 2020 decreased by 2.0 percentage points as compared with the Year 2019 of 19.5% (excluding the HNC FV Loss of RMB63.6 million). The decrease in the adjusted effective tax rate was mainly due to (i) a preferential tax rate in the Netherlands being granted for the year; and (ii) the write-back of over-accrual of CIT in the Netherlands in prior years of RMB10.3 million.

Profit attributable to ordinary equity holders of the Company

The Group's profit attributable to equity holders of the Company for the Year 2020 amounted to RMB1,004.1 million, representing an increase of RMB125.7 million, or 14.3% when compared with the Year 2019.

The Group's adjusted profit attributable to equity holders of the Company was arrived at after excluding the non-recurring or non-cash items from the above reported profit as set out below:

	2020	2019	Change
	RMB'M	*RMB'M*	*%*
Profit attributable to equity holders of the Company	**1,004.1**	878.4	14.3
The HNC FV Loss	**43.0**	63.6	(32.4)
One-off BUs integration expenses, net of tax	**36.2**	–	N/A
Adjusted profit attributable to equity holders of the Company	**1,083.3**	942.0	15.0

Analysis on Consolidated Statement of Financial Position

As at 31 December 2020, the total assets and net asset value of the Group amounted to RMB9,248.0 million (2019: RMB8,343.2 million) and RMB5,151.9 million (2019: RMB4,063.9 million), respectively.

The increase in total assets of the Group as at 31 December 2020 was mainly attributable to the effect of:

(i) the increase in inventories by RMB349.6 million as a result of (a) the increase in safety inventory level on certain key ingredients to avoid interruption on production during the Pandemic; and (b) the slower-than-expected growth in the sales of certain brands of the Group's formula milk powder products;

(ii) the increase in property, plant and equipment in the Netherlands of RMB274.2 million for the Year 2020 mainly for the building of the New IFBP Facility and other related facilities principally for the processing of goat milk and goat whey; and

(iii) the completion of the acquisition of a subsidiary which holds the Changsha Land adjacent to the Group's existing production facility in Changsha city, Hunan province, the PRC during the year which resulted in an increase in property, plant and equipment and right-of-use assets of RMB16.4 million and RMB68.5 million, respectively.

The increase in total assets of the Group as at 31 December 2020 was mainly financed by cash flows generated from operating activities of the Group of RMB1,130.2 million (Year 2019: RMB970.8 million) during the year.

The increase in net assets of the Group as at 31 December 2020 was mainly a result of the net effect of (i) the net profit generated for the Year 2020 of RMB1,004.1 million (Year 2019: RMB878.4 million); (ii) the increase in equity as a result of the issuance of new Shares for the HBC Acquisition and early settlement of the Subsequent HNC Consideration; and (iii) the payment of 2019 final dividend of RMB322.4 million.

Working Capital Cycle

As at 31 December 2020, the current assets to current liabilities ratio of the Group was 1.58 times (2019: 1.65 times) which remained fairly stable when compared with the prior year.

An analysis of key working capital cycle is as follows:

	2020 Number of days	2019 Number of days	Change Number of days
Inventories turnover days	**203**	205	(2)
Debtors' turnover days	**20**	21	(1)
Creditors' turnover days	**35**	35	-

The Group's inventories turnover days decreased slightly for the year which was mainly attributable to the improved production and logistic lead time in the upstream production facilities. Such improvement was partly offset by (i) the strategic steps taken by the Group to increase the safety inventory level on certain of its key materials in its production facilities; and (ii) the slower-than-expected growth in the sales of certain brands of the Group's formula milk powder products. The Company has already established a special team to oversee and monitor the entire operation flows of the Group with an aim to further reduce the conversion rate of inventories and hence the liquidity position of the Group.

The turnover days of the Group's trade and bills receivables and payables remained fairly stable and were in line with the credit periods granted to the customers/by the suppliers.

Analysis on Consolidated Statement of Cash Flows

	2020	2019
	RMB'M	*RMB'M*
Net cash flows from operating activities	**1,130.2**	970.8
Net cash flows used in investing activities	**(402.5)**	(445.2)
Net cash flows used in financing activities	**(494.9)**	(254.5)
Net increase in cash and cash equivalents	**232.8**	271.1

Net cash flows from operating activities

The net cash flows from operating activities of the Group for the Year 2020 amounted to RMB1,130.2 million (Year 2019: RMB970.8 million). The improvement in cash flows from operating activities of the Group for the Year 2020 was mainly contributed by the increase in profit before tax from RMB1,107.2 million for the Year 2019 to RMB1,220.8 million for the Year 2020.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2020 of RMB402.5 million (Year 2019: RMB445.2 million) mainly represented the net effect of (i) the purchases of items of property, plant and equipment of RMB439.9 million (Year 2019: RMB208.4 million) mainly for the building of the New IFBP Facility and other related facilities in the Netherlands; (ii) the acquisition of the Changsha Land of RMB80.0 million (Year 2019: Nil); and (iii) the decrease in pledged time deposits of RMB184.1 million (Year 2019: RMB31.6 million) due to the settlement of respective bank loans during the year.

Net cash flows used in financing activities

The net cash flows used in financing activities of the Group for the Year 2020 of RMB494.9 million (Year 2019: RMB254.5 million) was primarily contributed by the effect of (i) dividends paid during the year of RMB322.4 million (Year 2019: RMB207.9 million); and (ii) the net repayment of bank loans and other borrowings of a total of RMB152.0 million (Year 2019: RMB9.9 million).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the acquisition as detailed in the section headed "Strategic Steps Taken", there were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Year 2020.

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 PLEDGE OF ASSETS

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

	As at 31 December	
	2020	2019
	RMB'M	*RMB'M*
Interest-bearing bank loans and borrowings	**(1,086.3)**	(1,203.8)
Less: Pledged deposits[(1)]	**212.1**	396.2
Cash and cash equivalents[(2)]	**1,857.5**	1,674.5
	983.3	866.9
Total assets	**9,248.0**	8,343.2
Shareholders' equity	**5,171.4**	4,015.7
Gearing ratio[(3)]	**N/A**	N/A
Solvency ratio[(4)]	**55.9%**	48.1%

Notes:

(1) An analysis of pledged deposits by currency is set out below:

	2020		2019	
Currency	***RMB'M***	*%*	*RMB'M*	*%*
RMB	**211.2**	**99.6**	395.4	99.8
EUR	**0.9**	**0.4**	0.8	0.2
Total	**212.1**	**100.0**	396.2	100.0

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

	2020		2019	
Currency	***RMB'M***	*%*	*RMB'M*	*%*
RMB	**1,534.8**	**82.6**	1,129.8	67.5
EUR	**90.4**	**4.9**	275.0	16.4
HK$	**53.0**	**2.9**	125.6	7.5
US$	**50.5**	**2.7**	61.3	3.7
AUD	**92.1**	**5.0**	42.4	2.5
TWD	**16.8**	**0.9**	10.9	0.6
NZD	**4.8**	**0.2**	3.3	0.2
Others	**15.1**	**0.8**	26.2	1.6
Total	**1,857.5**	**100.0**	1,674.5	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 of the New IFBP Facility and other related facilities in the Netherlands and the extension into the nutrition business segment.

As at 31 December 2020, the Group had outstanding borrowings of RMB1,086.3 million (2019: RMB1,203.8 million), of which RMB559.0 million (2019: RMB419.8 million) was due within one year and the remaining RMB527.3 million (2019: RMB784.0 million) was due over one year. As at 31 December 2020, the Group's bank overdrafts and revolving facilities that were attributed to the Ausnutria B.V. group amounting to EUR100.0 million (equivalent to approximately RMB802.5 million) (2019: EUR100.0 million, equivalent to approximately RMB781.6 million), of which EUR20.0 million (equivalent to approximately RMB160.5 million) (2019: Nil) had been utilised as at 31 December 2020.

An analysis of the Group's outstanding borrowings by currency is set out below:

	2020		2019	
Currency	***RMB'M***	***%***	*RMB'M*	*%*
EUR	**1,001.7**	**92.2**	986.1	81.9
RMB	**40.3**	**3.7**	178.2	14.8
Others	**44.3**	**4.1**	39.5	3.3
Total	**1,086.3**	**100.0**	1,203.8	100.0

As at 31 December 2020, 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 EUR243.6 million, equivalent to approximately RMB1,955.0 million (2019: EUR235.0 million, equivalent to approximately RMB1,836.4 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB212.1 million (2019: RMB396.2 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the Year 2020, revenue, cost of sales and operating expenses of the Group are mainly denominated in RMB, Hong Kong dollars ("**HK$**"), EURO ("**EUR**"), United States dollars ("**US$**"), Australian dollars ("**AUD**"), Taiwan dollars ("**TWD**") or New Zealand dollars ("**NZD**") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in RMB, EUR and AUD, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, EUR, US$, AUD, TWD 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.

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. As at 31 December 2019, the Group had an interest rate swap contract with a bank of a notional amount of EUR12.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 0.42% per annum, which was expired during the year. As at 31 December 2020, the Group did not have any outstanding interest rate swap contract.

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 2020, 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 RMB89.0 million (2019: RMB212.3 million).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK$0.27 (2019: HK$0.22) per Share for the Year 2020 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 24 June 2021. As at the date of this announcement, there was no arrangement with any Shareholders under which he/she/it has waived or agree to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

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

For the purpose of determining shareholders of the Company who are eligible to attend and vote and the forthcoming AGM, the register of members of the Company will be closed from 6 May 2021 to 11 May 2021 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified to attend the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 5 May 2021.

(b) Entitlement for the proposed final dividend

For the purpose of determining shareholders of the Company who are qualified for the proposed final dividend, the register of members of the Company will be closed from 8 June 2021 to 10 June 2021 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 7 June 2021.

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 2020.

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 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange as its own code of corporate governance practices. The Board also strives to implement the best practices embodies in the CG Code whenever feasible and as far as practicable.

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the Year 2020 and up to the date of this announcement. The Company will continue to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers for the Year 2020 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Board comprises three independent non-executive Directors, namely, Mr. Lau Chun Fai Douglas, Mr. Jason Wan and Mr. Aidan Maurice Coleman. The audit committee of the Board has reviewed the audited consolidated financial statements of the Group for the Year 2020 including the accounting principles and practices adopted by the Group and discussed with the management of the Company on matters relating to auditing, risk management and internal controls and financial reporting.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company for the Year 2020, which contains the detailed results and other information of the Company for the Year 2020 required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

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

The PRC, 16 March 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; three non-executive Directors, namely Mr. Shi Liang (Vice-Chairman), Mr. Qiao Baijun and Mr. Tsai Chang-Hai; and three independent non-executive Directors, namely Mr. Lau Chun Fai Douglas, Mr. Jason Wan and Mr. Aidan Maurice Coleman.