ANNUAL REPORT 2017

KEEP YOUR DREAM GROWING

澳优
Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1717)

澳优
Ausnutria

allnutria 能立多
澳优爱优
Augood® 珀淳™

淳璀™ ExtraPure
kabrita 佳贝艾特®悦白
kabrita 佳贝艾特®悠装

kabrita 佳贝艾特®睛滢
kabrita 佳贝艾特®
海普诺凯 荷致

悠蓝 Neolac®
海普诺凯 萃护
globlait 醇莱特
globlait 醇奶客
globlait 醇奶客

Nutrition Care
Products you can trust
OZ FARM

欧选® Eurlate®
代膳 Eurence
美纳多®

PuredoNu 美纳优
美纳珍®
Puredovita 启活®

美优高
美优高经典
爱恩护

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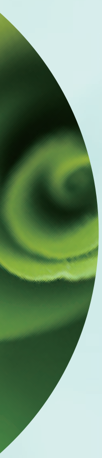


MISSION

Nourishing Life & Growth
全球營養　呵護成長

VISION

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

成為全球最受信賴的
配方奶粉及營養健康企業

OUR ACHIEVEMENTS

2017

January

Awarded the title of **Influential Enterprise of the Year** at the Leadership Summit for Mother and Baby Product Industry in the PRC

April

Completed the acquisition of 60% interest in Youluck in Taiwan

60% interest

May

Received the **Second Class Award** in Provincial Patents of Hunan, the PRC for the second time

June

Received the **China Trademark Awards – Madrid Trademark International Registration Special Award**

December

Ausnutria University was awarded the **2017 Most Excellent Corporate Universities** in the PRC

Completed the construction of a new factory in New Zealand

The testing centre in Changsha city, the PRC received the CNAS Laboratory Accreditation Certificate

November

2 new factories in the Netherlands received accreditation certificates from the CNCA

July

Received the **2017 Outstanding Brand Image Award** at the 6th China Finance Summit

Completed the acquisition of ADP & Ozfarm in Australia

adp australian dairy park

Oz Farm

SALE OF FORMULA MILK POWDER ...COW

Revenue
Y2015
RMB 665.9M

Revenue
Y2016
RMB 1,018.9M

Increased
+53.0%

Revenue
Y2017
RMB 1,582.8M

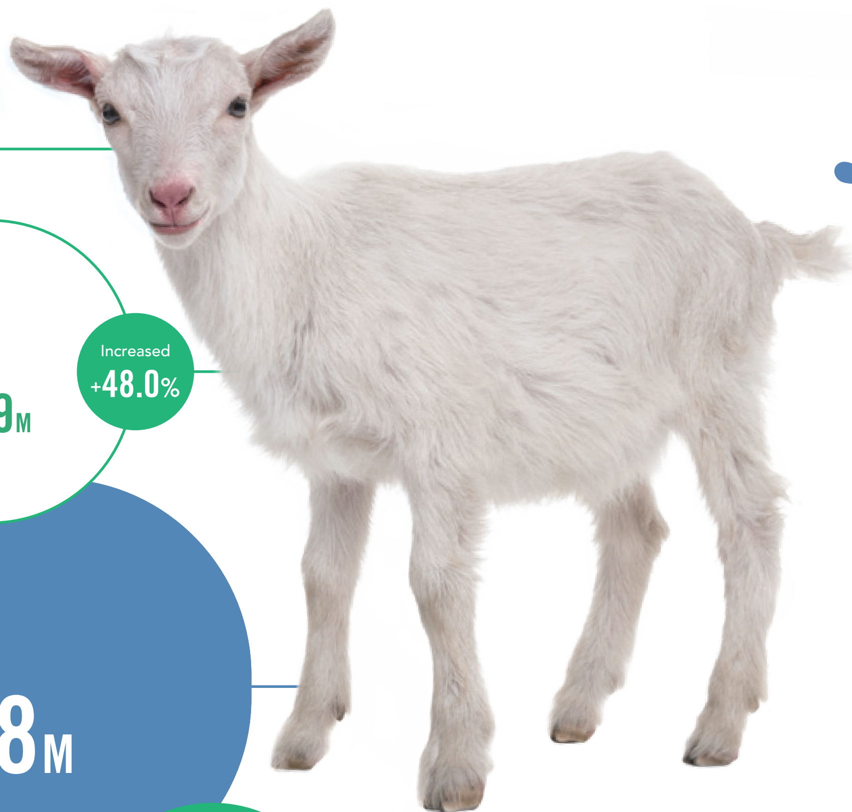
Increased
+55.3%

...GOAT

Revenue
Y2015
RMB 539.9M

Revenue
Y2016
RMB 798.9M

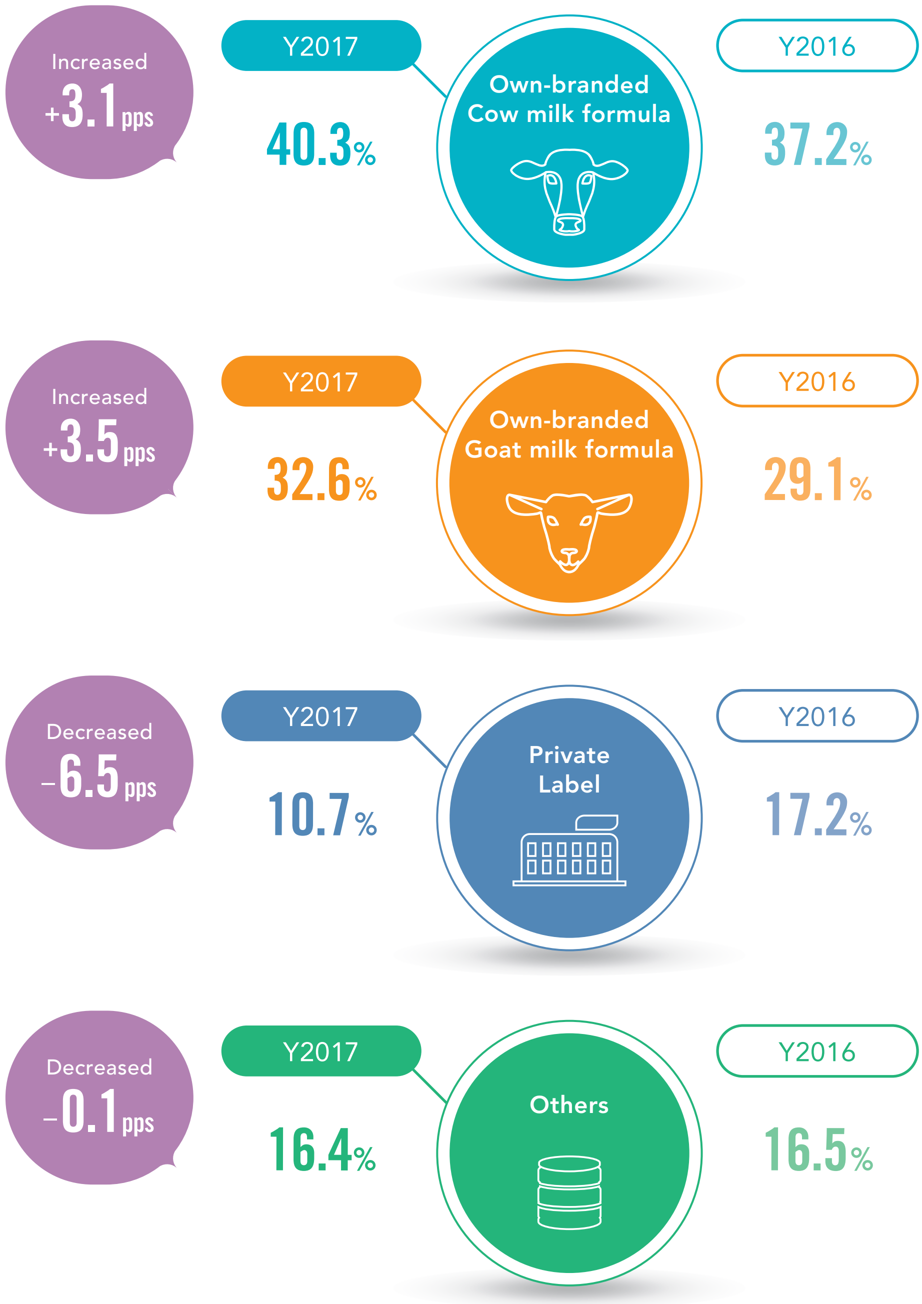
Increased
+48.0%

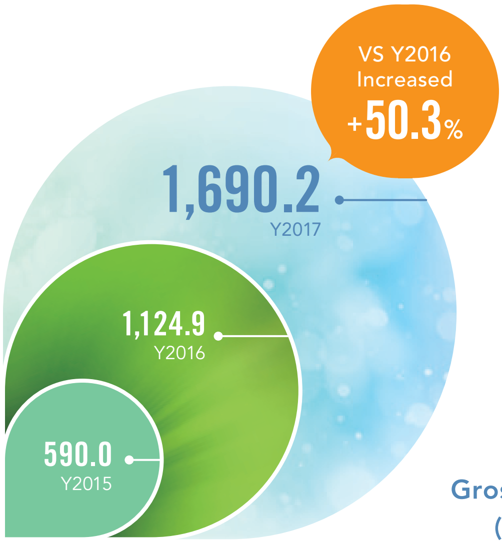


Revenue
Y2017
RMB 1,279.8M

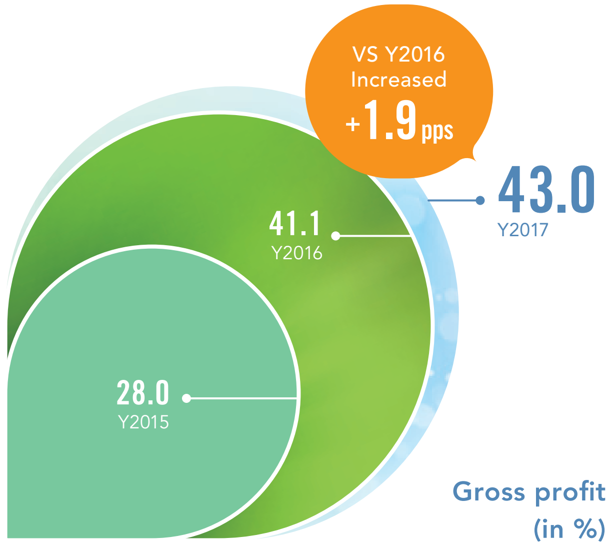
Increased
+60.2%

Revenue by Unit

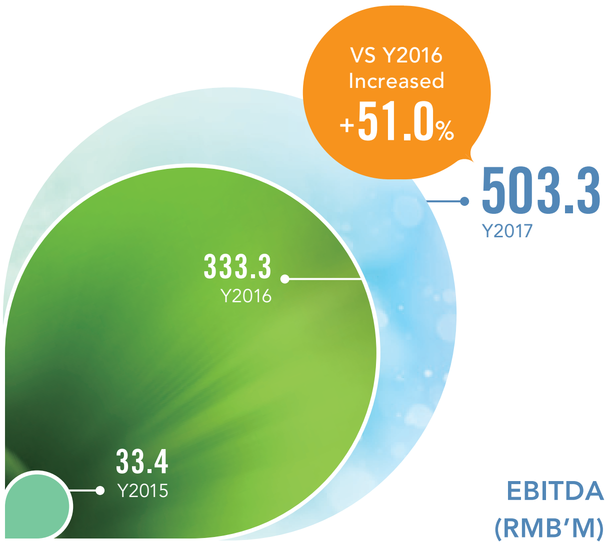




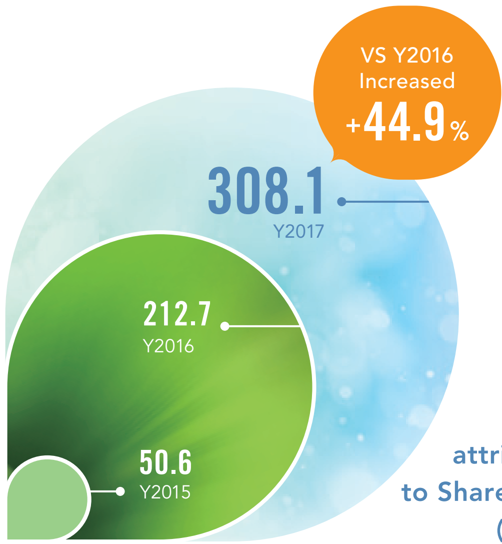
Gross profit
(RMB'M)



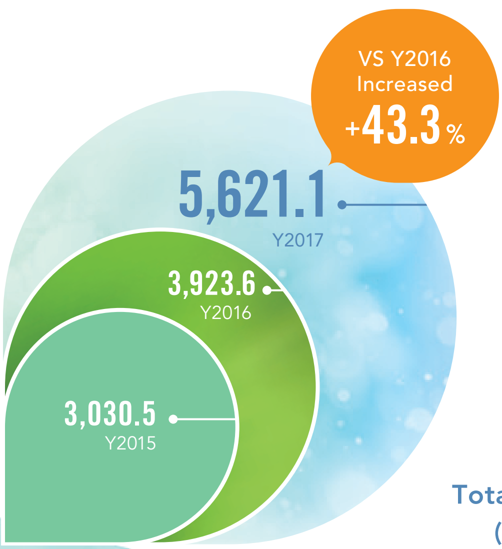
Gross profit
(in %)



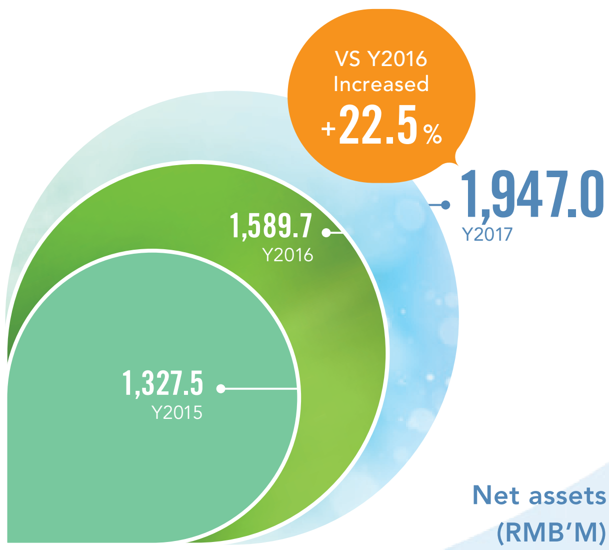
EBITDA
(RMB'M)



Profit
attributable
to Shareholders
(RMB'M)

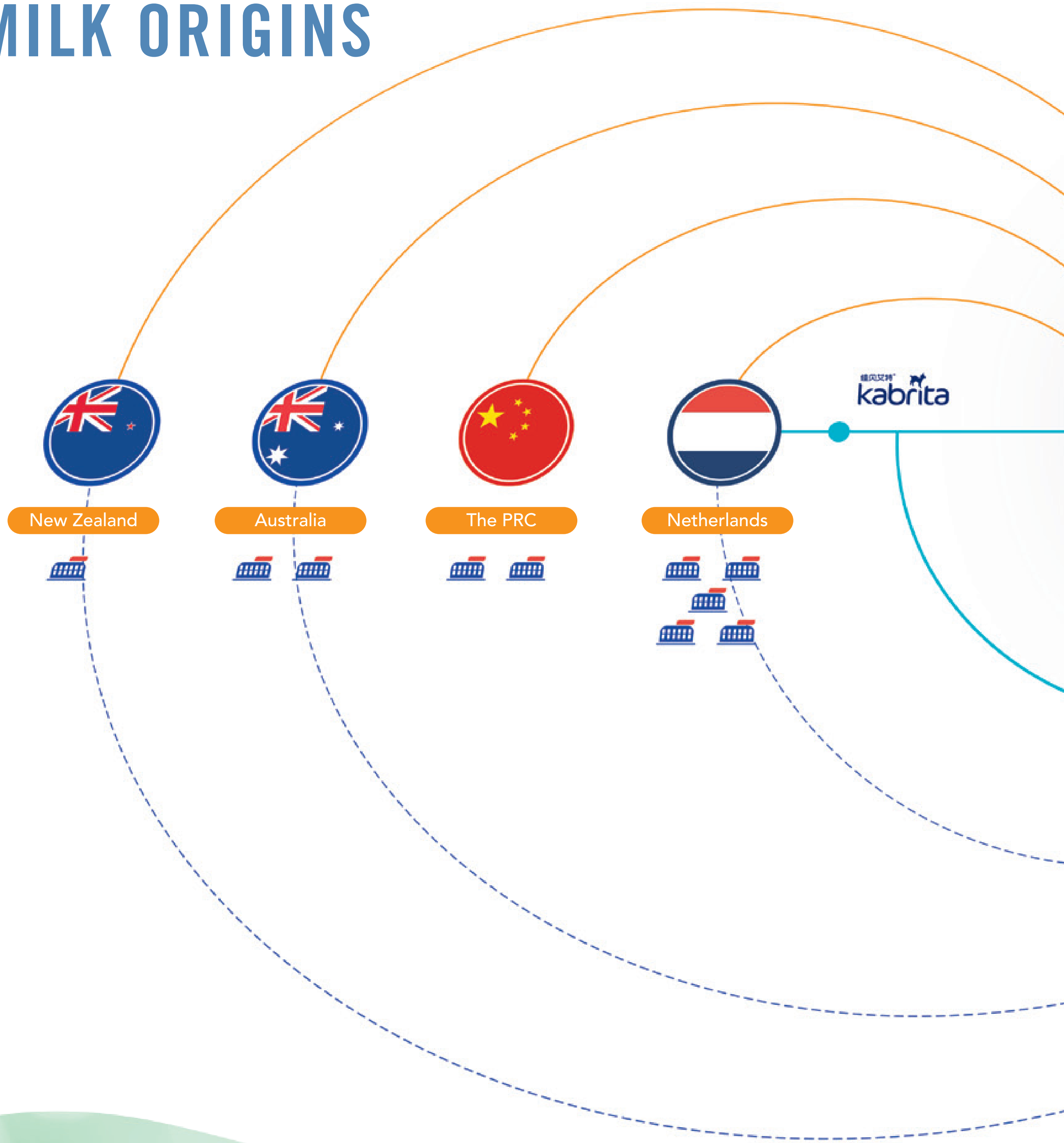


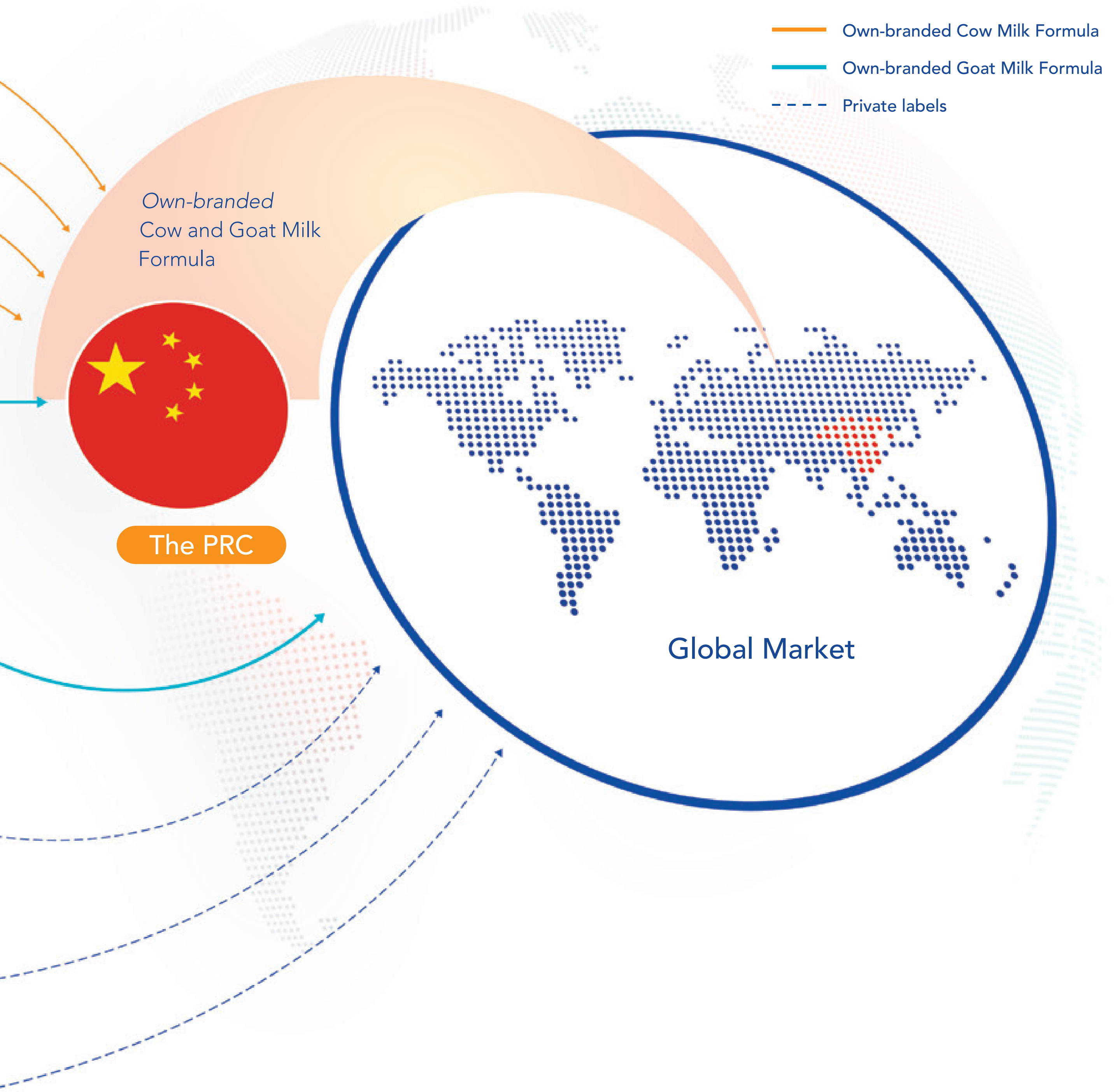
Total assets
(RMB'M)



Net assets
(RMB'M)

GLOBAL PREMIUM MILK ORIGINS




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

(RMB'M)	2013	2014	2015	2016	2017
Revenue	1,687.8	1,966.0	2,103.5	2,740.3	3,926.5
Gross profit	471.8	567.2	590.0	1,124.9	1,690.2
Gross profit (in %)	28.0	28.9	28.0	41.1	43.0
EBITDA	178.3	168.3	33.4	333.3	503.3
Profit before tax	157.8	137.3	3.8	297.8	438.5
Profit attributable to Shareholders	120.7	90.2	50.6	212.7	308.1
EPS (in RMB cent)	12.2	9.1	4.9	17.0	24.6
Cash inflows/(outflow) from operating activities	82.6	85.9	(45.4)	294.4	512.5
Net assets	1,194.5	1,214.9	1,327.5	1,589.7	1,947.0
Total assets	2,002.7	2,433.3	3,030.5	3,923.6	5,621.1
Net cash	573.6	391.2	317.1	112.3	(367.8)

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Tsai Chang-Hai
Mr. Zeng Xiaojun

Independent Non-executive Directors

Ms. Ho Mei-Yueh
Mr. Jason Wan
Mr. Lau Chun Fai Douglas

COMPANY SECRETARY

Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

Mr. Lau Chun Fai Douglas *(Chairman)*
Ms. Ho Mei-Yueh
Mr. Jason Wan

REMUNERATION COMMITTEE

Mr. Lau Chun Fai Douglas *(Chairman)*
Mr. Yan Weibin
Ms. Ho Mei-Yueh
Mr. Jason Wan

NOMINATION COMMITTEE

Mr. Yan Weibin *(Chairman)*
Ms. Ho Mei-Yueh
Mr. Jason Wan
Mr. Lau Chun Fai Douglas

AUDITORS

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

Asian Capital Limited

REGISTERED OFFICE

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

PRINCIPAL PLACES OF BUSINESS

In Hong Kong

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

In Mainland China

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

In the Netherlands

Dokter van Deenweg 150
8025 BM Zwolle
The Netherlands

In Australia

25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1717

COMPANY'S WEBSITE

www.ausnutria.com.hk

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Ausnutria Dairy Corporation Ltd ("**Ausnutria**" or the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Year 2017**").

"Together we strive • Together we achieve（一起奮鬥•一起成就）" is the motto adopted by the Company at the beginning of 2017. In 2017, the dairy industry in the People's Republic of China (the "**PRC**") faced a huge challenge caused by the change in regulatory policies, particularly the implementation of registration requirements for infant formula. The Company overcomes such difficulties by adhering to its principle of "responding to market uncertainty with firm strategies（以戰略的確定性，來戰勝市場的不確定性）" and to execute its strategies with full faith. All of the staff devoted their best efforts towards this achievement, and thus wrote another bright new chapter in Ausnutria's development. I would like to take this opportunity to express my sincere gratitude for the support of the partners, the trust of the consumers, the care of society, and the dedication of the staff.

2017 was in fact a year of multi-faceted achievement for Ausnutria. For the Year 2017, the Group recorded a revenue of approximately RMB3,926.5 million, representing an increase of RMB1,186.2 million, or 43.3%, when compared with the year ended 31 December 2016 (the "**Year 2016**"). The performance of our own-branded business, one of the Group's core operations, was particularly outstanding, with an annual revenue of approximately RMB2,862.6 million, representing an increase of RMB1,044.8 million, or 57.5%, when compared with the Year 2016. The Group's profit attributable to ordinary equity holders of the Company increased by 44.9% to RMB308.1 million for the Year 2017. In view of the business growth and sound financial position of the Group, the Board recommended the payment of a final dividend of HK$0.10 (2016: HK$0.05) per share of the Company (the "**Share**") for the Year 2017.

During the Year 2017, the Company made a number of notable achievements in terms of business development. For upstream operations, our two new factories in the Netherlands obtained the certification from and completed the registration with the Certification and Accreditation Administration of the PRC (the "**CNCA**") in November, as planned. Such accreditation was an acknowledgment of the Company's efforts in the construction, operation, and quality control of the upstream factories. The new factory in New Zealand, jointly developed with Westland Co-operative Dairy Company Limited ("**Westland**"), the second largest dairy cooperative in New Zealand, was also completed during the year. The factory in Wangcheng, Changsha city, the PRC (the "**Smart Factory**") is in the stage of equipment fine-tuning and is anticipated to commence trial production in the third quarter of 2018. In addition, the factory in Australia, which was acquired in July 2017, has already commenced the production of the Group's two major brands during the year. Taking into account that construction of the Smart Factory is expected to be completed in 2018, the Group will have ten factories around the world, thereby realising Ausnutria's strategy of maintaining a global supply chain network with premium milk sources, and laying a solid foundation for the Group's future growth.

In respect of branding and marketing development, Ausnutria's brands received a number of awards during the year, including the China Trademark Awards – Madrid Trademark International Registration Special Award (中國商標金獎—馬德里商標國際註冊特別獎) jointly issued by the Madrid System of the World Intellectual Property Organization and the State Administration for Industry & Commerce of the PRC; the 2017 Outstanding Brand Image Award (2017傑出品牌形象獎) from the sixth China Finance Summit; the CBME Awards; and the 2017 Southern Weekly Annual Gala – Creative Marketing Award of the Year (2017南方週末年度盛典—年度創意營銷大獎). The Group's efforts in developing innovative business and service models were also highly recognised. In November 2017, at the China Business 2017 (15th Anniversary) Annual Meeting on Enterprise Competitiveness, held by China Business (中國經營報) in Beijing, Ausnutria outshone its peers and obtained the Outstanding Award for Business Model Innovation (優秀商業模式創新獎) for its unique global expansion and operation strategy.

As to the global marketing network, during the year, the Group has expanded its sales network in Taiwan through the acquisition of a 60% equity interest in Youluck International Inc. ("**Youluck**"), a company established in Taiwan. It also acquired a 50% equity interest in Ozfarm Royal Pty Ltd ("**Ozfarm**"), a company established in Australia, owning the number one maternal women's milk powder brand in Australia. Following the completion of the acquisition of the Nutrition Business (as defined below) in Australia in 2016, the Company has successfully launched a number of nutritional products in the PRC market under its brand name in 2017. The Group's products are now available in more than sixty-six countries and regions. Such a network has set a solid foundation for the distribution and promotion of the Group's products (especially in product segments such as goat milk infant formula) across the globe.

The Group acknowledges that human resource management and organisational development are critical to the success and sustainability of an enterprise. To facilitate business growth and the career development of its staff, the Company established Ausnutria University in 2015. Ausnutria University is a corporate university designed to foster talent, provide learning support, and develop a culture of continuing education to cope with the Company's "Golden Decade" strategic plan. During the year under review, Ausnutria University was also recognised as one of the 2017 Excellent Corporate Universities (2017年度最具成長性企業大學) which further acknowledges the work conducted by Ausnutria on talent grooming and organisational development. At the second CSTD (Chinese Society for Talent Development) National Course Design Awards held in Beijing in November 2017, the program as organised by Ausnutria University was granted the Gold Award, excelling among 210 participants after various rounds of evaluations.

With regard to quality control, the Group's inspection center in Changsha city, the PRC, received the CNAS Laboratory Accreditation Certificate, and the quality control center located in the BioScience Centre of the University of Wageningen in the Netherlands has commenced operation during the year. As for research and development ("**R&D**"), the Company's teams around the world have worked closely and completed the registrations of most of the infant formula of the Group during the year under review. Furthermore, the Group's R&D projects progressed smoothly as scheduled, and the results of the scientific research with Peking University, China Agricultural University, and Jiangnan University are encouraging.

Ausnutria strongly recognises the significance of having love and care for society. Thus the Group, since its inception, has underlined the obligation to take up social responsibility in Article 3 of the Ausnutria Principle. In 2017, various business units of the Company, such as Kabrita, Allnutria, and Mygood, donated to charities. In June 2017, Ausnutria made donations for the setup of the fund and subsequent expenses to the philanthropic event named "Give Your Eyes The Loving Care They Need (加倍eye護睛瀅行動)", which was jointly organised with the China Children and Teenager's Fund to promote awareness of eye care among mothers and children. It also gathered a group of ophthalmology specialists and nutritionists in the country and called for public support to embark on an education campaign on near-sightedness prevention and control and visual health and to promote children's eyesight. Hyproca held a campaign named "A Tibetan Dream – Road to Better Nutrition (格桑夢營養行)" with the health science center of Peking University in Tibet and this marked the first step of Ausnutria's charitable moves, a recurring campaign to increase awareness of maternal and baby nutrition and prolongs the lives of the Tibetan people. Addtionally, Ausnutria showed its care for society by providing immediate assistance to the relief works after the flooding in Hunan, the PRC, during the year. The Company also demonstrated its caring and commitment to industry development by hosting the first Central China Comprehensive Health Industry Summit (中國中部首屆大健康產業高峰論壇).

2018 is the Group's fifteenth year in business. In reviewing the past and looking forward to the future development of the Group, there is no doubt that the world is developing rapidly beyond anyone's imagination. The economy of the PRC will continue to maintain stable growth, with more focus on quality rather than velocity. Such an upgrade in consumption patterns has created enormous opportunities for the food and nutrition enterprises in the PRC. Factors such as technological improvement, the social media boom, the sharing economy, and advances in data management, have all created excellent opportunities for Ausnutria to overtake its competitors. National strategies of the PRC, such as "The Healthy China Dream" and "The Belt and Road Initiatives", have also provided an excellent opportunity for Ausnutria to expedite its development. The introduction of new policies on the dairy industry in the PRC has even given Ausnutria an edge. In 2018, the Group will continue the mission of "Nourishing Life & Growth." While strengthening the quality of its products and having its foothold in the PRC, the Group will continue its effort in developing its global market. It will expand in Taiwan, Hong Kong, and Korea, explore the South American market with focus on Brazil, and step up expansion in Southeast Asian countries such as Thailand and Singapore, with the supply from the Netherlands, Australia, and New Zealand. It will also continue its endevour in the development of its existing markets in Europe, North America, and the Middle East. Through all of this, we will capitalize on this rare moment of rapid growth in the nutrition product markets in and outside the PRC.

Leveraging on the foundations established in 2017, the Group has set 2018 as the year to pursue excellence. In the 2017 Mayor's Quality Awards (Changsha city, the PRC), as a representative of the management of Ausnutria, I personally was awarded as the winner in the category of Individual Achievement. This award represents recognition from consumers and society, for their trust and expectation on Ausnutria. In this regard, the Group will maintain Ausnutria's value and sustainability by promoting the spirit of workmanship, persistency, dedication, and steadfastness in pursuit of higher quality, better service, and more excellent work. In 2018, we will continue the strategic approach of "in-depth understanding of the customers' needs to strive for mutual benefits." We will also provide sufficient support within the corporation and to external partners, facilitate the healthy growth of the industry, promote a positive attitude in society, and attain the highest customer satisfaction in the industry.

I strongly believe that Ausnutria will be able to unleash its "YOU" power in 2018 and make the necessary contribution to the health and well-being of humans.

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

Yan Weibin
Chairman

The PRC
27 March 2018

OVERVIEW OF 2017

Business Overview

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

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

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

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

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

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

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

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

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

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

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

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

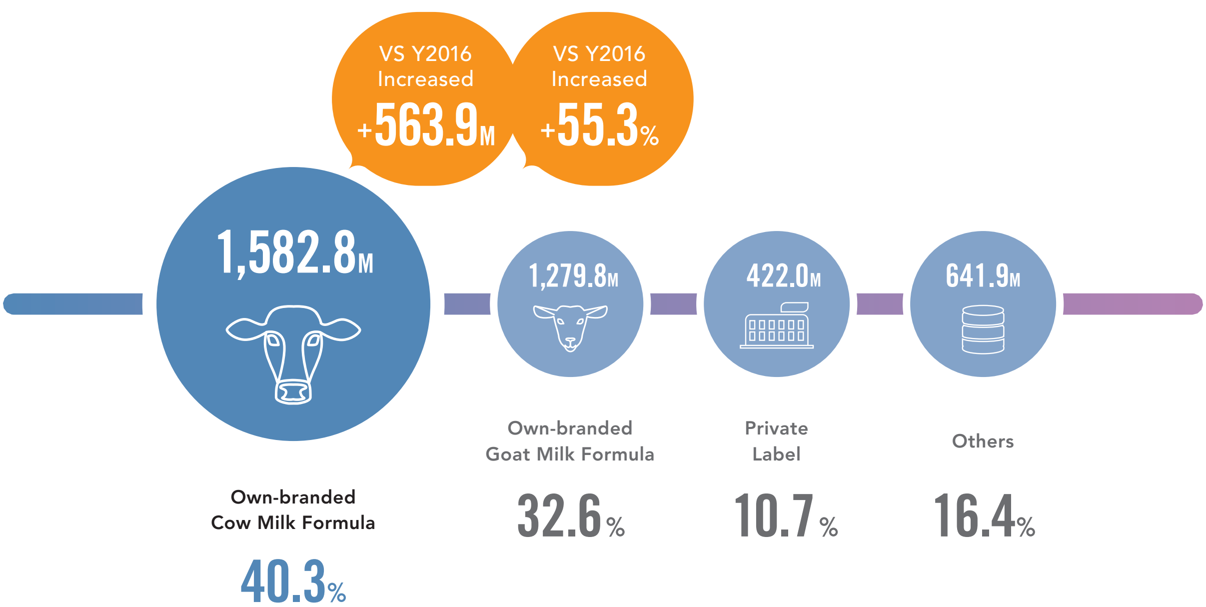
Additionally, because of the stable growth in demand for infant formula in the PRC (attributable to the steady growth in newborns), and the increasingly high industry entry barriers that result from the PRC's new regulations, the Company believes that the Group will benefit from the industry reforms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

Formula Milk Products Business

(A) *Own-branded Cow Milk Formula*

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

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



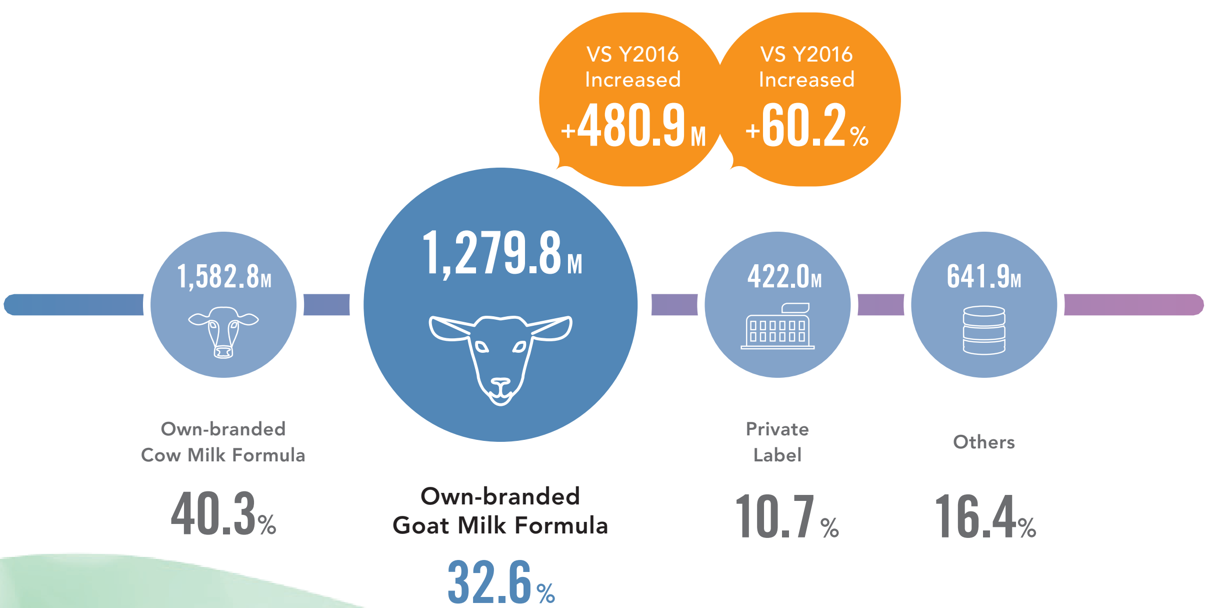
(B) Own-branded Goat Milk Formula

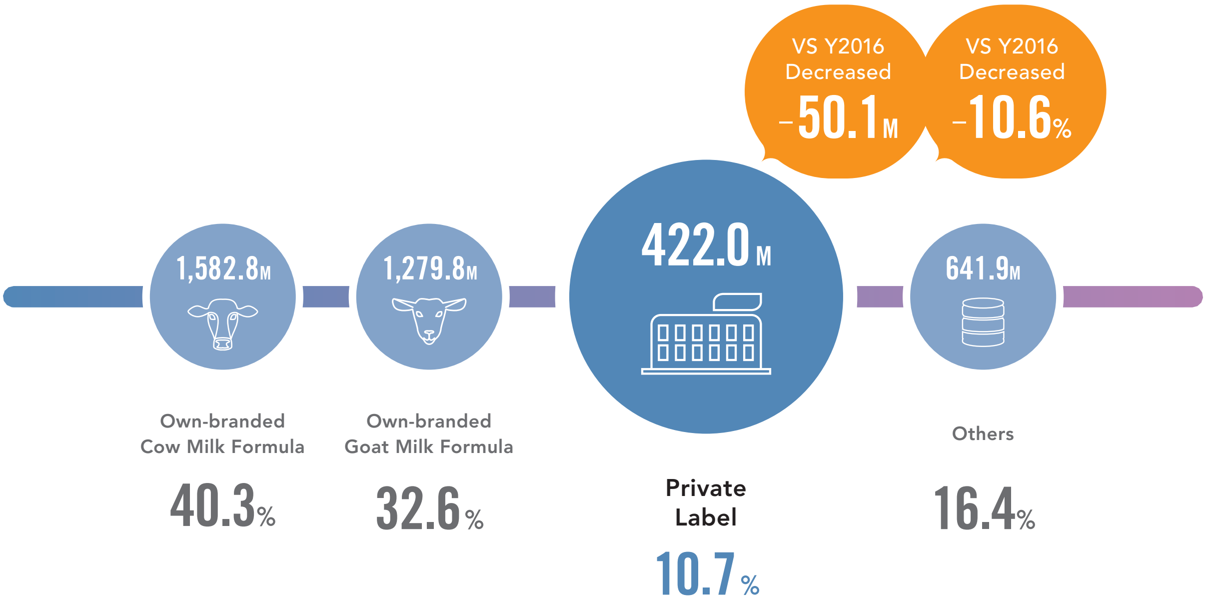
The Group's goat milk infant formula is marketed under the brand name of *Kabrita*. During the Year 2017, sales of *Kabrita* continued to be promising. In particular, it continues to be ranked as the number one imported goat milk infant formula in the PRC in terms of both sales value and volume.

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

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

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





(C) Private Label business

Alongside the development of its own-branded business, the Group also produces formula milk powder products for other worldwide customers on an OEM basis (the "**Private Label**"). For the Year 2017, sales of the Private Label business, which represented 10.7% (2016: 17.2%) of the total revenue of the Group, decreased by 10.6% to RMB422.0 million. During the Year 2017, the blending and packaging operations of the Group's factories in the Netherlands and the PRC were usually running at full capacity. The decrease in sales of the Private Label business was due mainly to a higher proportion of the production capacity being allocated to serve the Group's own-branded infant formula business, which recorded an increase in sales by 57.3% during the year.

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

Nutrition Business

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

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

Production

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

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

The Netherlands

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

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

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

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

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

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

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

* Step 1 under technical review

Australia

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

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

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

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

New Zealand

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

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

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

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

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

The PRC

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

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

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

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

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

Research and Development

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

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

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

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

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

Human Resources

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

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

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

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

Youluck Acquisition

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

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

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

ADP Acquisition

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

Australian Dairy Park Pty Ltd., a wholly-owned subsidiary of ADP Holdings, was one of the first two factories in Australia granted the license by the PRC government for the import of infant formula products. It is currently one of the fifteenth infant formula manufacturing enterprises in Australia that has succeeded in fulfilling the registration requirements of the CNCA.

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

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

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

Ozfarm Acquisition

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

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

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

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

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

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

Industry Overview

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

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

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

OUTLOOK

Completion of the Global Supply Chain

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

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

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

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

Expansion of Infant Formula's Market Share

(A) The PRC

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

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

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

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

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

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

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

(B) Outside the PRC

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

Extension into the Nutrition Business Sector

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

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

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

Building the Group's Headquarters in the PRC

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

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

FINANCIAL REVIEW

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

Revenue

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

* New businesses commenced in the fourth quarter of 2016.

Notes:

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

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

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

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

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

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

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

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

Gross profit and gross profit margin

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

* New businesses commenced in the fourth quarter of 2016.

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

Other income and gains

An analysis of other income and gains is as follows:

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

Notes:

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

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

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

Selling and distribution expenses

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

Administrative expenses

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

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

Other expenses

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

Finance costs

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

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

Share of profit of a joint venture

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

Share of profits of associates

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

Income tax expenses

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

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

Profit attributable to equity holders of the Company

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

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

Analysis on Consolidated Statement of Financial Position

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

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

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

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

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

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

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

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

Working Capital Cycle

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

An analysis of key working capital cycle is as follows:

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

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

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

Analysis on Consolidated Statement of Cash Flows

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

Net cash flows from operating activities

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

Net cash flows used in investing activities

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

Net cash flows from financing activities

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

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the Youluck Acquisition, the ADP Acquisition and the Ozfarm Acquisition as detailed in the section headed "Business Review and Outlook", there were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Year 2017.

TREASURY POLICY

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGED OF ASSETS

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

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

Notes:

(1) All denominated in RMB.

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

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

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

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

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

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

FOREIGN EXCHANGE RISK

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

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

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

INTEREST RATE RISK

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

CREDIT RISK

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

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

COMMITMENTS

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

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

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

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

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

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

The Directors are pleased to present the corporate governance report for the Year 2017.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance within the Group at all times and believes that such practices help safeguard the interests of the Shareholders, enhance corporate value and accountability as well as improve its performance.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2017 and up to the date of this report.

The Company has a written guideline "Employees' Code of Dealing the Securities of the Company" on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance with the "Employees' Code of Dealing the Securities of the Company" by relevant employees was noted by the Company for the Year 2017 and up to the date of this report.

THE BOARD

Responsibilities

The Board is responsible for the leadership and oversight of the Group's businesses as well as its strategic planning and performances. The Board is dedicated to make decisions objectively in the best interests of the Group. Each of the Directors have a wide spectrum of valuable business experiences, knowledge and professionalism which enables the Board to be efficient and effective. The Board has established four Board committees of the Company, namely, audit committee (the "**Audit Committee**"), nomination committee (the "**Nomination Committee**"), remuneration committee (the "**Remuneration Committee**") and executive committee (the "**Executive Committee**").

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

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

Board Composition

The Board currently comprised eight members, including three executive Directors, two non-executive Directors (the "**NEDs**") and three independent non-executive Directors (the "**INEDs**") as at the date of this report. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board, with diversity of skills, expertise, experience and qualifications concerning the Directors. The biographies of the Directors are set out on pages 74 to 77 of this report.

The Board currently comprises the following members:

Executive Directors:

Mr. Yan Weibin	*(Chairman, chairman of the Nomination Committee and member of the Remuneration Committee and the Executive Committee)*
Mr. Bartle van der Meer	*(Chief Executive Officer and member of the Executive Committee)*
Ms. Ng Siu Hung	

Non-executive Directors:

Mr. Tsai Chang-Hai
Mr. Zeng Xiaojun

Independent Non-executive Directors:

Ms. Ho Mei-Yueh	*(member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*
Mr. Jason Wan	*(member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*
Mr. Lau Chun Fai Douglas	*(chairman of the Audit Committee and the Remuneration Committee and member of the Nomination Committee)*

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

During the Year 2017, the Board at all times met the requirements of the Listing Rules of appointing at least three INEDs representing one-third of the Board with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise.

The Board adopted a board diversity policy effective from 1 September 2013 which recognises and embraces the benefits of building a diverse and inclusive Board, and agrees to increase diversity at Board level continuously, in order to achieve and maintain a sustainable development and a competitive advantage. Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining the optimum composition of the Board and should be balanced appropriately when possible and necessary. The Board will annually discuss and establish measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

An annual review of the composition of the Board according to the board diversity policy was recently done on 27 March 2018 by the Nomination Committee.

Board meetings

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

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

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

Attendances of the Directors at various Board meetings, Board committee meetings and general meetings during the Year 2017

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meeting	Year 2016 AGM 1 June 2017
Executive Directors:					
Mr. Yan Weibin[(1)]	7/7	N/A	1/1	1/1	1/1
Mr. Lin Jung-Chin[(2)]	5/5	N/A	N/A	N/A	1/1
Mr. Bartle van der Meer	6/7	N/A	N/A	N/A	1/1
Ms. Ng Siu Hung	7/7	N/A	N/A	N/A	1/1
Non-executive Directors:					
Mr. Tsai Chang-Hai	7/7	N/A	N/A	N/A	1/1
Mr. Zeng Xiaojun	7/7	N/A	N/A	N/A	1/1
Independent Non-executive Directors:					
Ms. Ho Mei-Yueh	7/7	2/2	1/1	1/1	1/1
Mr. Jason Wan	7/7	2/2	1/1	1/1	1/1
Mr. Lau Chun Fai Douglas[(3)]	7/7	2/2	1/1	1/1	1/1

1. Chairman of the Board and the Nomination Committee.
2. Resigned on 5 October 2017.
3. Chairman of the Audit Committee and the Remuneration Committee.

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

Corporate Governance Functions

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

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

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

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

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

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

During the Year 2017, the Board has reviewed (i) the Company's corporate governance policies and practices; (ii) training and continuous professional development of the Directors and senior management; and (iii) the Company's policies and practices on compliance with legal and regulatory requirements.

Delegation by the Board

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

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

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

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

Executive Directors

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

Non-Executive Directors and Independent Non-Executive Directors

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

The INEDs are experienced professionals with expertise in respective areas of dairy industry and related technical know-how, accounting and finance. With their professional knowledge and experience, the INEDs advise the Company on its operation and management; provide independent opinion on the Company's connected transactions; and participate in various committees' meetings of the Board. The INEDs also provide adequate checks and balance to protect the interests of the Group and the Shareholders as a whole, and to promote the development of the Group.

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

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers that all INEDs to be independent in accordance with the definition of the Listing Rules for the Year 2017.

Appointment, Re-election and Removal of Directors

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

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

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

Chairman of the Board and Chief Executive Officer

The Company has, since the early stage of its incorporation, segregated the duties of the chairman of the Board (the "**Chairman**") and the chief executive officer of the Company (the "**CEO**"). The Chairman and the CEO are separately held by different Board members in order to preserve independence and have a balanced judgment of views. The Chairman has the responsibilities to lead the Board and make sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The CEO has the responsibilities to manage and execute the Group's overall business directions and corporate operation decisions. In addition, the Board also comprises INEDs who can provide the Board with independent judgments, knowledge and experience.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2017, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

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

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

Directors' Liability Insurance

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against the Directors arising out of corporate activities. The coverage and the sum insured under the policy are reviewed and renewed on an annual basis. The insurance coverage was renewed on 7 January 2018.

Continuous Professional Development

All Directors keep abreast of their responsibilities as a Director and of the conduct, business activities and development of the Company. Each newly appointed Director will receive comprehensive, formal and tailored induction on his/her first occasion of appointment to ensure each Director is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements as well as corporate governance structure and businesses of the Company.

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

Based on the training records as provided to the Company by the Directors, the Directors have participated in the following training during the Year 2017:

	Types of training
Executive Directors:	
Mr. Yan Weibin	A, B
Mr. Bartle van der Meer	B
Ms. Ng Siu Hung	A, B
Mr. Lin Jung-Chin *(resigned on 5 October 2017)*	B
Non-executive Directors:	
Mr. Tsai Chang-Hai	B
Mr. Zeng Xiaojun	A, B
Independent Non-executive Directors:	
Ms. Ho Mei-Yueh	A, B
Mr. Jason Wan	B
Mr. Lau Chun Fai Douglas	A, B

A: attended trainings and seminars

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

Remuneration of Directors and Senior Management

The remuneration of Directors and the senior management by band for the Year 2017 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	9
1,000,001 – 1,500,000	5
1,500,001 – 2,000,000	3
2,000,001 – 2,500,000	6
2,500,001 – 3,000,000	–
3,000,001 – 3,500,000	1
	24

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

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises all the three INEDs. Primary duties of the Audit Committee are to assist the Board in reviewing the financial statements and material advice in respect of financial reporting, internal control and risk management systems and the effectiveness of internal audit function of the Company, making recommendations to the Board on the appointment and removal of external auditors, and reviewing arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The written terms of reference of the Audit Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2017, the annual results for the Year 2017, risk management and internal control systems of the Group as well as considered and discussed with the external auditors regarding their re-appointment.

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

Nomination Committee

The Nomination Committee comprises an executive Director and all the three INEDs. Primary duties of the Nomination Committee are to review the structure, size and composition of the Board and to review the diversity policy of the Board or the Nomination Committee on a regular basis and to recommend to the Board suitable candidates for directorship after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The written terms of reference of the Nomination Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

During the Year 2017, the Nomination Committee reviewed the board diversity policy, the structure, size and composition of the Board, the independence of the INEDs and considered the qualifications of the retiring Directors standing for re-election at the AGM.

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

Remuneration Committee

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

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

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

Executive Committee

The Executive Committee was established in 2015 and comprises three members: Mr. Yan Weibin (the Chairman), Mr. Bartle van der Meer (the CEO) and Mr. Wong Wei Hua, Derek (chief financial officer and the Company Secretary). The primary duty of the Executive Committee is to make significant business decisions of the Company. Upon delegation by the Board, the Executive Committee makes decisions regarding major issues as proposed by the Board through interactive communications from time to time concerning monitoring over the Group's business objectives, business development plans and major business projects.

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for facilitating the Board process, as well as communication among Board members, with the Shareholders and management. For the Year 2017, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out on page 77 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITORS' REMUNERATION

During the Year 2017, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	RMB'000
Annual audit services	4,660
Review of quarterly results and other assurance services	2,250
Non-audit services	310
Total	7,220

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Anti-fraud and whistleblowing procedures are in place to facilitate employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems on an annual basis covering the Year 2017, among others, the financial, operational and compliance controls. No material deficiencies have been identified during the review. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

In respect of the Year 2017, the Board considered the risk management and internal control systems of the Group are effective and adequate. No significant areas of concern that might affect the Shareholders were identified during the Year 2017.

SHAREHOLDERS' AND INVESTOR RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders, investors and potential investors. To the best belief of the Board, the Company has published all of its announcements in time in accordance with the Listing Rules. The Company also commenced the voluntarily publishing of quarterly results since 2015. Besides, the Board maintains regular dialogues with institutional investors and analysts and participates in media interviews and specialist industry forums to keep the Shareholders and investors timely informed of the Group's strategy, operations, management and plans. The Directors and members of the various Board committees would attend and answer questions raised at the AGM, and significant issues will be put as separate proposed resolutions.

The Directors acknowledge their responsibility for the timely holding of AGMs. The last Shareholders' meeting was the AGM held on 1 June 2017 at Level B1, Shangri-La's Far Eastern Plaza Hotel, Taipei, 201 Tun Hwa South Road, Section 2, Taipei, Taiwan for approval of, among other things, the audited consolidated financial statements and the Report of the Directors and of the Auditors for the Year 2016, the general mandates to issue the Shares and repurchase Shares, the re-election of the retiring Directors, authorizing the Board to fix the Directors' remuneration and emolument and the payment of a final dividend. Particulars of the major items considered at the AGM are set out in the circular of the Company dated 21 April 2017. All proposed ordinary resolutions were passed by way of poll at the AGM.

The notice of the forthcoming AGM will be sent to the Shareholders at least 21 clear days and 20 clear business days before the AGM.

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

CONSTITUTIONAL DOCUMENTS

During the Year 2017 and up to the date of this report, there had been no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

The Directors hereby present their report and the audited financial statements for the Year 2017.

PRINCIPAL ACTIVITIES

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

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

(ii) R&D, production, marketing and distribution of nutrition products to customers principally located in the PRC, Australia and New Zealand. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

An analysis of the Group's performance for the Year 2017 by operating segment is set out in note 4 to the financial statements of this report.

BUSINESS REVIEW

A fair review of the business of the Group during the Year 2017 and the Group's future business development are provided in the section headed "Business Review and Outlook" on pages 20 to 36 of this report. A discussion of the principal risks and uncertainties facing the Group and an analysis of the Group's performance using key performance indicators are included in the section headed "Management Discussion and Analysis" on pages 37 to 46 of this report. In addition, a discussion on relationships with the Company's stakeholders are included in the section headed "Shareholders and Investor Relations" on pages 57 to 58 of this report. The reviews form part of this directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

RESULTS AND DIVIDENDS

The Group's results for the Year 2017 and the Group's financial position at that date are set out in the financial statements on pages 87 to 194 of this report.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on pages 195 to 196 of this report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2017 are set out in note 13 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year 2017 are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2017 and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2017 are set out in note 45 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's accumulated losses amounted to RMB118,306,000 (31 December 2016: RMB97,893,000). As at 31 December 2017, the Company's share premium account available for distribution under certain conditions amounted to RMB876,049,000 (31 December 2016: RMB911,574,000), of which RMB104,995,000 (31 December 2016: RMB55,805,000) has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the Year 2017, the Group made charitable contributions in cash totalling RMB2,047,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2017, sales to the Group's five largest customers accounted for approximately 10.8% (2016: approximately 16.5%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 3.6% (2016: approximately 7.8%). Purchases from the Group's five largest suppliers accounted for approximately 33.1% (2016: approximately 28.8%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 11.6% (2016: approximately 14.6%).

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

DIRECTORS

The Directors who were in the office during the Year 2017 and up to the date of this report were as follows:

Executive Directors:
Mr. Yan Weibin *(Chairman)*
Mr. Bartle van der Meer *(Chief Executive Officer)*
Ms. Ng Siu Hung
Mr. Lin Jung-Chin* *(Resigned on 5 October 2017)*

Non-executive Directors:
Mr. Tsai Chang-Hai
Mr. Zeng Xiaojun

Independent Non-executive Directors:
Ms. Ho Mei-Yueh
Mr. Jason Wan
Mr. Lau Chun Fai Douglas

* Resigned due to personal reasons, details of which are set out in the announcement of the Company dated 6 October 2017.

In accordance with Articles 83(3) and 84 of the Articles of Association, Mr. Tsai Chang-Hai, Mr. Zeng Xiaojun and Mr. Jason Wan will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2017 and up to the date of this report. The Company considers all of the INEDs to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the Year 2017.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

The Directors' remuneration is determined by the Board, as authorised by the Shareholders at general meeting, with reference to the recommendation by the Remuneration Committee after taking into consideration the Directors' duties, responsibilities and performance and the results of the Group as well as the prevailing market conditions. Details of remuneration of the Directors during the Year 2017 are set out in note 8 to the financial statements.

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

Save for the related party transactions as disclosed in note 40 to the financial statements (which are not defined as "connected transactions" or "continuing connected transactions" under the Listing Rules), no Director or an entity connected with the Director or the controlling shareholders of the Company had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2017.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of Director	Number of Shares or underlying Shares (1)	Nature of interest	Approximate percentage of issued share capital (5)
Mr. Yan Weibin	400,000 (L)	Beneficial owner	0.03%
	800,000 (L)	Beneficial owner (2)	0.07%
	106,539,085 (L)	Interest of a controlled corporation (3)	8.48%
Mr. Bartle van der Meer	400,000 (L)	Beneficial owner	0.03%
	800,000 (L)	Beneficial owner (2)	0.07%
	162,205,230 (L)	Interest of a controlled corporation (4)	12.91%
Ms. Ng Siu Hung	330,000 (L)	Beneficial owner	0.03%
	670,000 (L)	Beneficial owner (2)	0.05%
Mr. Tsai Chang-Hai	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner (2)	0.02%
Mr. Zeng Xiaojun	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner (2)	0.02%
Ms. Ho Mei-Yueh	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner (2)	0.02%
Mr. Jason Wan	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner (2)	0.02%
Mr. Lau Chun Fai Douglas	100,000 (L)	Beneficial owner	0.01%
	200,000 (L)	Beneficial owner (2)	0.02%

Notes:

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

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

3. The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan Weibin ("**Mr. Yan**"). Mr. Yan is therefore deemed to be interested in 106,539,085 Shares held by Ausnutria BVI under the SFO.

4. The Shares are held by Dutch Dairy Investments HK Limited, which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is owned as to 50.00% by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer ("**Mr. van der Meer**"). Mr. van der Meer is therefore deemed to be interested in 162,205,230 Shares held by Dutch Dairy Investments HK Limited under the SFO.

5. As at 31 December 2017, the total number of the issued Shares of the Company was 1,256,061,530.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", at no time during the year and up to the date of this report were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2017, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	Number of Shares	Nature of interest	Approximate percentage of issued share capital (10)
Ausnutria BVI (1)	106,539,085	Beneficial owner	8.48%
Babyland Holdings Limited (2)	71,301,949	Beneficial owner	5.68%
BioEngine Capital Inc.(3)	123,355,375	Beneficial owner	9.82%
Center Laboratories, Inc.(3)	361,738,129 144,193,643	Beneficial owner Interest of a controlled corporations	28.80% 11.48%
Chengwei Evergreen Capital LP (2 and 4)	71,301,949	Interest of a controlled corporations	5.68%
Chengwei Evergreen Management, LLC (4)	71,301,949	Interest of a controlled corporations	5.68%
DDI (5 and 6)	162,205,230	Interest of a controlled corporation	12.91%
Dutch Dairy Investments HK Limited (6)	162,205,230	Beneficial owner	12.91%
Fan Deming BV (7)	162,205,230	Interest of a controlled corporation	12.91%
Manids B.V. (5 and 8)	162,205,230	Interest of a controlled corporation	12.91%
Mr. Ignatius Petrus Jorna (8)	162,205,230	Interest of controlled corporation	12.91%
Ms. Chen Miaoyuan (9)	106,539,085	Interest of spouse	8.48%

Notes:

1. Ausnutria BVI is wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 106,539,085 Shares held by Ausnutria BVI under the SFO.

2. Babyland Holdings Limited is owned as to 93.88% by Chengwei Evergreen Capital, L.P.

3. Both BioEngine Capital Inc. ("**BioEngine Capital**") and BioEngine Technology Development Inc. are non-wholly-owned subsidiaries of Center Laboratories, Inc. ("**Center Lab**"). Center Lab is therefore deemed to be interested in 123,355,375 Shares and 20,838,268 Shares held by BioEngine Capital and BioEngine Technology Development Inc., respectively under the SFO.

4. Chengwei Evergreen Capital, L.P. is wholly-owned by Chengwei Evergreen Management, LLC.

5. DDI is owned as to 50.00% by each of Fan Deming B.V. and Manids B.V..

6. Dutch Dairy Investments HK Limited is wholly-owned by DDI.

7. Fan Deming BV is wholly-owned by Mr. van der Meer.

8. Manids B.V. is owned as to 99.84% by Mr. Ignatius Petrus Jorna.

9. Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 106,539,085 Shares held by Mr. Yan under the SFO.

10. As at 31 December 2017, the total number of the issued Shares of the Company was 1,256,061,530.

Save as disclosed above, as at 31 December 2017, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of terms

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

(a) Purpose

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

(b) The participants

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

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

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

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

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

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

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

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

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

(c) Maximum number of Shares

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

ii. The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme) to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 100,000,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option as defined in the prospectus of the Company dated 24 September 2009) (the "**General Mandate Limit**"). Since the date of the adoption of the Share Option Scheme and up to the date of this report, options carrying the rights to subscribe for a total of 46,815,000 Shares had been granted under the Share Option Scheme and thus the total number of Shares available for issue under the General Mandate Limit is 9,420,461, representing approximately 0.75% of the total issued share capital as at the date of this report.

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

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

(d) Maximum entitlement of each participant and connected persons

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

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

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

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

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

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

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

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

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

(f) *Subscription price for Shares*

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

(g) *Time of exercise of option*

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

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

(h) *Period of the Share Option Scheme*

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

Present status of the Share Option Scheme

Options to subscribe for a total of 46,815,000 Shares of HK$0.10 each were granted to certain eligible participants pursuant to the Share Option Scheme during the Year 2016, particulars and movements of the Share Option Scheme during the Year 2017 by category of grantees are set out below:

				Number of options					
Grantees	Date of grant	Exercise period	Exercise price per option	Outstanding as at 1 January 2017	Granted during the Year 2017	Exercised during the Year 2017	Cancelled during the Year 2017	Lapsed during the Year 2017	Outstanding as at 31 December 2017
Directors									
Mr. Yan Weibin	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,200,000	–	(400,000)	–	–	800,000
Mr. Lin Jung-Chin (resigned on 5 October 2017)	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,200,000	–	(400,000)	–	(800,000)	–
Mr. Bartle van der Meer	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,200,000	–	(400,000)	–	–	800,000
Ms. Ng Siu Hung	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,000,000	–	(333,000)	–	–	667,000
Mr. Tsai Chang-Hai	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	(100,000)	–	–	200,000
Mr. Zeng Xiaojun	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	(100,000)	–	–	200,000
Ms. Ho Mei-Yueh	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	(100,000)	–	–	200,000
Mr. Jason Wan	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	(100,000)	–	–	200,000
Mr. Lau Chun Fai Douglas	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	(100,000)	–	–	200,000
Sub-total				6,100,000	–	(2,033,000)	–	(800,000)	3,267,000
Other									
Eligible participants	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	28,500,000	–	(6,296,000)	–	–	22,204,000
Eligible participants	06/07/2016	06/07/2017 – 20/01/2021	HK$2.45	12,015,000	–	–	–	–	12,015,000
Total				46,615,000	–	(8,329,000)	–	(800,000)	37,486,000

Note:

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

The First Batch of Options Granted
- One-third was vested on 21 January 2017;
- One-third was vested on 21 January 2018; and
- One-third shall vest on 21 January 2019.

The Second Batch of Options Granted
- One-third was vested on 6 July 2017;
- One-third shall vest on 6 July 2018; and
- One-third shall vest on 6 July 2019.

COMPLIANCE ADVISORS' INTEREST

The Company extended the appointment of Asian Capital Limited as the Company's compliance advisor on an on-going basis for consultation on compliance with the Listing Rules for a period of one year commencing from 24 August 2017 (which the Company is entitled to terminate the appointment by serving two months prior notice in writing). During the term of the appointment, Asian Capital Limited will be accountable to the Audit Committee. As notified by Asian Capital Limited, during the Year 2017 and up to the date of this report, neither Asian Capital Limited nor any of its directors, employees or associates had any interests in the Shares or shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares or shares of any member of the Group.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 47 to 58 of this report.

PERMITTED INDEMNITY PROVISION

The Company has subscribed appropriate and sufficient insurance coverage on directors' and officers' liability insurance throughout the Year 2017, which provides appropriate cover for the Directors and officers of the Company.

AUDITORS

The consolidated financial statements for the Year 2017 have been audited by Ernst & Young who shall retire at the forthcoming AGM. A resolution for their re-appointment as external auditors of the Company will be proposed at the forthcoming AGM. There has been no change in the Company's auditors in the preceding three years.

On behalf of the Board

Yan Weibin
Chairman

The PRC
27 March 2018

Biographical details of the Directors and the senior management of the Group for the Year 2017 and up to the date of this report are set out below:

DIRECTORS

Executive Directors

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

Mr. Yan, aged 52, was appointed as an executive Director on 8 June 2009 and elected as the Chairman on 7 June 2013. Mr. Yan is the sole shareholder and director of Ausnutria Holding, one of the substantial Shareholders, and also a director of a number of the Company's subsidiaries (including Ausnutria China). He joined the Group in September 2003 when Ausnutria China was established. Mr. Yan is responsible for leading the Board and ensuring that it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Yan is also primarily responsible for the overall corporate strategy, planning and business development of the Group. He also acts as Chancellor of Ausnutria University. Mr. Yan was elected as a member of the twelfth Hunan committee of the Chinese People's Political Consultative Conference in January 2018. Mr. Yan graduated from Hunan University with a bachelor's degree in engineering and a master's degree in business administration. Mr. Yan was a director of Yuan Longping High-tech Agriculture Co., Ltd*（袁隆平農業高科技股份有限公司）("**Longping High-tech**"), a company listed on the Shenzhen Stock Exchange, from 2004 to January 2016. At Longping High-tech, he served as chief executive officer from 2004 to April 2010, vice chairman and chief financial officer from April 2010 to December 2011, chief executive officer and chief financial officer from December 2011 to June 2012 and vice president from June 2012 to January 2016. Mr. Yan resigned all his duties in Longping High-tech in January 2016. Mr. Yan has been an independent non-executive director of Origin Agritech Ltd., a company listed on the Nasdaq Stock Market, since August 2017.

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

Mr. van der Meer, aged 72, was appointed as an executive Director and the CEO on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria Operations and has been involved in the strategic management since the establishment of Ausnutria Operations in 1994. He was also a member of the board of directors and chief executive officer of Ausnutria Operations since 2012 to April 2015 and from August 2016 until now, Mr. van der Meer is primarily responsible for managing and executing the Group's overall business directions and corporate operation decisions. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of Fan Deming B.V., a private equity company which owned 50.0% equity interests in DDI, a substantial Shareholder, since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998.

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

Ms. Ng, aged 49, was appointed as an executive Director on 19 September 2009. Ms. Ng is also an executive director of Ausnutria China and oversees the brand and public relations division, primarily responsible for the brand building, investor relations and other public relations affairs of the Group in the PRC region. She graduated at University of Westminster, the United Kingdom with a master of arts degree in human resource management. Ms. Ng has been a director of Hunan Yukai Real Estate Co., Ltd*（湖南宇凱房地產有限公司）since 2004.

Mr. LIN Jung-Chin ("Mr. Lin")

Mr. Lin, aged 64, was appointed and resigned as an executive Director on 12 December 2014 and 5 October 2017, respectively. Mr. Lin is a shareholder and director of Center Lab and BioEngine Capital, both being the substantial Shareholders. Prior to his resignation, Mr. Lin was mainly responsible for the overall corporate strategy, planning and business development of the Group. Mr. Lin graduated in pharmacy from Taipei Medical University and was awarded an honorary doctorate in medicine by Taipei Medical University in 2010. He is currently chairman of Center Lab and holds directorships or serves as a member of the senior management of over ten companies in the biotechnology industry. Mr. Lin has extensive experience in directing corporate reorganisations and restructurings and successfully directed the initial public offering for a number of companies. He actively engages in the investment planning and integration of the biotechnology industry.

Non-executive Directors

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

Mr. Tsai, aged 68, was appointed as a NED on 19 January 2016. Mr. Tsai graduated with a bachelor's degree in medicine from China Medical University and holds a doctorate of medical science from The University of Tokyo. Mr. Tsai has extensive knowledge and expertise in biomedicine. Mr. Tsai is the founder and chairman of Asia University and its affiliated hospital. He is also a professor and chairman of China Medical University. Mr. Tsai serves the role of director in Taiwan Fertilizer Co., Ltd., a company listed on the Taiwan Stock Exchange. He is also chairman of the board of directors of Lumosa Therapeutics Co., Ltd. and a director of Medeon Biodesign, Inc., both companies are listed on the Taipei Exchange in Taiwan. Mr. Tsai is also a director of BioEngine Capital. Mr. Tsai was a member of Supervisory Committee（監理委員會）of the National Health Insurance Administration of the Ministry of Health and Welfare of Taiwan, deputy convener of the Central Medical Review Committee（中區醫療審查委員會）, a counsellor of the Ministry of Health and Welfare, a director of the board of directors of the National Health Research Institutes and chairman of Taiwan Hospital Association.

Mr. ZENG Xiaojun ("Mr. Zeng")

Mr. Zeng, aged 43, was appointed as a NED on 19 January 2016. He graduated in trade economics from the Department of International Economics and Trade of Jiangxi University of Finance and Economics and was enrolled for EMBA at China Europe International Business School. Mr. Zeng is currently a member of the executive management team, the chief partner and chief strategy officer of Shenzhen GTJA Investment Group Co., Ltd. He is responsible for investment research, investment management, risk management, branding and public relations and corporate strategies. Mr. Zeng has extensive expertise in the biotechnology industry. From 1996 to 2014, he served as the senior management of several pharmaceutical companies, namely China Resources Sanjiu Pharmaceutical Trading Co., Ltd.*（深圳華潤三九醫藥貿易有限公司）and Zhejiang Conba Pharmaceutical Sales Co., Ltd. where he was mainly responsible for market research and took an active part in sales, corporate strategies and new product introduction and brand management.

Independent Non-executive Directors

Ms. HO Mei-Yueh ("Ms. Ho")

Ms. Ho, aged 67, was appointed as an INED on 19 January 2016. She graduated from National Taiwan University with a bachelor of agricultural chemistry degree. She is currently an independent director of AU Optronics Corp., Advanced Semiconductor Engineering Inc., Kinpo Electronics Inc. and Bank of Kaohsiung Co., Ltd., the shares of which are listed on the Taiwan Stock Exchange. Ms. Ho has over 30 years of working experience as a civil servant in Taiwan, with a focus on economic affairs. Ms. Ho was the Minister of the Ministry of Economic Affairs, Taiwan from May 2004 to January 2006 and the chairperson of the Council for Economic Planning and Development Taiwan from May 2007 to May 2008. During her tenure as a civil servant, Ms. Ho involved in the formulation of various national policies, including the National Development Plan for Taiwan. From May 2013 to May 2015, Ms. Ho was also an independent director of Taiwan Pelican Express Co. Ltd., the shares of which are listed on the Taiwan Stock Exchange.

Mr. Jason WAN ("Mr. Wan")

Mr. Wan, aged 54, was appointed as an INED on 19 September 2009. Mr. Wan is currently a tenured full professor, Associate Chair for the Department of Food Science and Nutrition, and Associate Director for the Institute for Food Safety and Health, Illinois Institute of Technology, the United States. Mr. Wan completed a PhD at Deakin University, Australia in 1992. Prior to that, he graduated with a bachelor of science degree from Hunan Agricultural University in 1983 and a master of science degree in dairy science and processing from Northeast Agricultural University in 1986. Mr. Wan was a lecturer in the Department of Food Science and Technology at Northeast Agricultural University from 1986 to 1988 and a visiting scientist at the Food Research Institute of the Department of Agriculture in Victoria, Australia in 1989. Mr. Wan was a post-doctoral researcher in the Department of Biochemistry at the University of Melbourne from 1992 to 1995 and a senior research scientist at CSIRO Food Science Australia from 1995 to 2009. Prior to his current position, Mr. Wan was a research professor in food microbiology and biotechnology at Illinois Institute of Technology, the United States from 2009 to 2015. Mr. Wan has extensive knowledge and expertise in the area of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. He has written many articles over the years on various subjects, including microbiology and biotechnology, and continues to develop his expertise in these subjects. Mr. Wan has also received numerous scholarships and research grants, including those supporting a number of PhD scholars relating to whey proteins and biological properties, as well as major research grants for research relating to dairy processing.

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

Mr. Lau, aged 45, was appointed as an INED on 2 January 2015. Mr. Lau has over 18 years of experience in auditing, accounting and financial and corporate management. Mr. Lau graduated from the University of New South Wales with a bachelor of commerce degree in accounting and finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants in Australia and CPA Australia and a founding member of the Institute of Accountants Exchange. Before joining the Group, Mr. Lau was a partner at Ernst & Young (Assurance and Advisory Business Services) Hong Kong and Beijing and a regional director (China and Hong Kong) of the Institute of Chartered Accountants in English and Wales. Mr. Lau is an independent non-executive director of Chanjet Information Technology Company Limited (Stock code: 1588) since 2011, and GME Group Holdings Limited (Stock code: 8188) since February 2017.

SENIOR MANAGEMENT

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

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

Mr. CHEN Tiejun ("Mr. Chen")

Mr. Chen, aged 47, is the vice president of Ausnutria China and the general manager of Globlait Nutrition (Changsha) Co., Ltd.（澳優液態營養品（長沙）有限公司）("**Globlait Nutrition**") and is mainly responsible for the overall operations of Globlait Nutrition. He also serves as Vice-chancellor of Ausnutria University. He joined the Group in September 2015. Mr. Chen graduated from Université du Québec in Canada with a master's degree in business administration. Mr. Chen held various positions in sales management at Nestlé (China) Ltd. for almost 10 years, and subsequently served the liquid milk division of Yili Group for 4 years as assistant to general manager of the marketing department (East China) and nationwide senior training manager. Mr. Chen was also deputy marketing director of the A-share listed Kingenta Ecological Engineering Group Co and was responsible for the affairs of the business college of the corporation. Subsequent to 2012, he worked at 北京優識行銷管理諮詢有限公司, a well-known marketing consultancy in China, as executive president and shareholder partner, focusing on corporate consulting and training. Mr. Chen has over 20 years of experience in the dairy industry.

Mr. DAI Zhiyong ("Mr. Dai")

Mr. Dai, aged 43, is an executive director of Ausnutria China and the vice chairman, chief engineer and general manager of the upstream supply of the Group in the PRC region. He is also the director of Ausnutria Institute of Food and Nutrition. Shortly after the establishment of Ausnutria China, he joined the Group in 2003. Mr. Dai has a bachelor of chemistry degree and a master degree in food processing and safety. Mr. Dai held a management position in a dairy company for a number of years and has over 20 years of experience in the industry. Mr. Dai served Hunan Ava Nanshan Dairy Products Company Limited*（湖南亞華南山乳品行銷有限公司）("**Hunan Ava Nanshan Dairy**") as vice factory manager and person in charge of the R&D department of Inner Mongolia Ya Ke Shi Ru Factory*（內蒙古牙克石乳品廠）and was engaged in milk powder R&D works. Mr. Dai is primarily responsible for the R&D, quality control, factory operation and supply chain management of the Group in the PRC region.

Mr. DENG Shenhui ("Mr. Deng")

Mr. Deng, aged 44, is the chief operation officer of the Group in the PRC region. He joined the Group in 2011. Mr. Deng graduated from Central South University, majoring in computer science. Mr. Deng held positions at multiple foreign computer software consulting companies and has over ten years of experience in the industry. Mr. Deng served as department manager of the PRC region of the Asia Pacific Sales Services Department at Oracle Corp. Mr. Deng is mainly responsible for the budgeting, daily operation and sale policy management in the PRC region, providing technical support to the BUs and departments at the headquarters and along the supply chain. He also oversees the operation of *Eurlate*, Ozfarm Nutrition (Changsha) Co., Ltd（澳滋營養品（長沙）有限公司）and e-commerce. He also jointly manages the information technology research centre and the sale management department.

Ms. Froukje DIJKSTRA ("Ms. Dijkstra")

Ms. Dijkstra, aged 48, is the chief operational officer of Ausnutria Operations. She joined the Group since 2012. Ms. Dijkstra graduated in business administration. Before joining Ausnutria Operations, Ms. Dijkstra had over 20 years of experience in the chemical industry with different positions.

Mr. Jan-Willem ELEVELD ("Mr. Eleveld")

Mr. Eleveld, aged 50, is the chief commercial officer of Ausnutria Operations. He joined the Group since 2017. Mr. Eleveld graduated in Economics at the Erasmus University in Rotterdam. Before joining Ausnutria Operations, Mr. Eleveld had several years of experience in the food industry latest at Mead Johnson Nutrition as vice president and general manager for Thailand and emerging markets.

Dr. Alfred HAANDRIKMAN ("Dr. Haandrikman")

Dr. Haandrikman, aged 60, is the director of the R&D department of Ausnutria Operations. He joined the Group in 2012. Dr. Haandrikman graduated with a doctorate degree in molecular biology from the Rijksuniversiteit Groningen in the Netherlands. From 1994 to 2006, he worked as a senior scientist and R&D manager in Hercules European Research Centre, the Netherlands. From 2006 onwards and before joining the Group, he was appointed as the global R&D director in Lipid Nutrition B.V. and IOI-Loders Croklaan group, a leading company in development of lipids for infant nutrition.

Ms. HONG Haoru ("Ms. Hong")

Ms. Hong, aged 36, is the secretary of the board of directors of the Group in the PRC region. Ms. Hong joined the Group in 2011 as supervisor of the office of the board of directors of Ausnutria China and was later appointed as secretary of the board of directors of Ausnutria China in January 2016. Prior to joining the Group in 2011, she served as secretary to president at Longping High-tech. Ms. Hong graduated from Hunan Agricultural University with a bachelor of arts degree. Ms. Hong is mainly responsible for assisting the Chairman/chief executive officer in the PRC region in his daily work, and oversees the board secretary office and administrative and logistics department of Ausnutria China.

Mr. HU Fangming ("Mr. Hu")

Mr. Hu, aged 42, joined the Group in October 2016 and stationed in the Netherlands as the project manager responsible for the new production plant project in the Netherlands. Subsequent to the completion of the project in December 2017, he returned to the PRC and has been serving as the director of global supply chain responsible for the management of the Group's global supply chain. Mr. Hu served as a utility engineer, project manager and production manager of Mars Foods (China) Co., Ltd.（瑪氏食品（中國）有限公司）from August 1998 to September 2009. From October 2009 to June 2014, he served as the manager of the engineering department and a plant manager of Dumex Baby Food Co., Ltd.（多美滋嬰幼兒食品有限公司）under Danone. He joined Biostime (Guangzhou) Health Products Limited in July 2014 as the director of global production until his resignation from all his positions in Biostime in August 2016. In 1998, Mr. Hu was awarded a bachelor's degree in electrical system and automation by Nanjing University of Science and Technology. Having worked in the food production industry ever since, he has extensive experience in operation management.

Ms. LI Yimin ("Ms. Li")

Ms. Li, aged 43, is a vice president of the Group in the PRC region and the general manager of HNC, a non-wholly-owned subsidiary of the Company. She joined the Group in February 2011. Ms. Li graduated from Sichuan University with a master's degree in business administration and held managerial positions at various enterprises. Ms. Li is mainly responsible for coordinating the strategy, business and other overseas market affairs of HNC and the goat milk business in the PRC. She is also the chief human resources officer in the PRC region jointly managing the human resources department and Ausnutria University.

Mr. LIU Yubiao

Mr. Liu Yubiao, aged 44, is a vice president of the Group in the PRC region and the general manager of Hyproca Bio-science Co., Ltd.*（海普諾凱生物科技有限公司）, a non-wholly-owned subsidiary of the Company. He joined the Group upon the establishment of Ausnutria China and served as regional manager of Hunan province, manager of the Central China region (covering five provinces) and deputy general manager of the Allnutria BU. Mr. Liu Yubiao has over 16 years of experience in sales management in the dairy industry. He is mainly responsible for the overall operations of Hyproca Bio-science Co., Ltd.

Mr. LIU Yuehui

Mr. Liu Yuehui, aged 54, is the chief supervisor, party secretary and chairman of the labour union of the Group in the PRC region. He joined the Group shortly after the establishment of Ausnutria China in 2003. Mr. Liu Yuehui studied dairy techniques at the Inner Mongolia Light Manufacturing School*（內蒙古輕工業學校）. He has held management positions in various dairy factories and has over 30 years of experience in the industry. Mr. Liu Yuehui was the assistant to the chief executive officer of Hunan Ava Nanshan Dairy. He is primarily responsible for Ausnutria China's affairs in relation to the party committee, auditing, compliance, labour unions and China Nutrition and Health Food Association*（營養保健食品協會）.

Mr. QU Zhishao ("Mr. Qu")

Mr. Qu, aged 40, is a vice president of the Group in the PRC region, the general manager of Puredo Health Service (Changsha) Co., Ltd.*（美納多健康服務（長沙）有限公司）and the chairman of Globlait Nutrition, both are non-wholly-owned subsidiaries of Ausnutria China. He joined the Group upon the establishment of Ausnutria China and was head of the marketing department, regional manager, assistant to the chief executive officer and sales director for the southern region in the PRC, chief marketing officer and general manager of the marketing BU. Mr. Qu holds a bachelor's degree in arts from Xiangtan University and has engaged in dairy advertising strategy, sales planning, and marketing and sales management since 2001. He has over 17 years of experience in the industry.

Ms. Melinda VLASKAMP (''Ms. Vlaskamp")

Ms. Vlaskamp, aged 48, is the human resource director of Ausnutria Operations. She joined the Group since 2017. Ms. Vlaskamp graduated in education science at the University of Groningen in Groningen. Before joining Ausnutria Operations, Ms. Vlaskamp had several years of experience in international human resource latest at Pentair Inc. as human resource director in Hygienic Process Solutions.

Mr. ZHAO Li ("Mr. Zhao")

Mr. Zhao, aged 49, joined the Group in April 2016 as vice president of the Group in the PRC region, general manager of the Allnutria BU, and general manager of Nutriunion (Guangzhou) Interconnection Technology Co., Ltd.（廣州雲養邦互聯科技有限公司）("**Nutriunion GZ**"). He is responsible for overseeing the development of Nutriunion GZ and the *Nutrition Care* branded business in the PRC. Mr. Zhao worked at Biostime Inc. (Guangzhou)* ("**Biostime**")（廣州市合生元生物製品有限公司）during the period between October 2004 and February 2016 and held various positions including general manager of the sales centre of the Biostime group from October 2004 to December 2013, group chief sales officer of the brand development division of the Biostime group from January to September 2014, general manager and group vice president of the brand development division of the Biostime group from October 2014 to March 2015 and chief executive officer and chief experience officer of the Mama100 office of the Biostime group from April 2015 to February 2016 when he resigned all his positions in Biostime. Mr. Zhao obtained a bachelor's degree in Chinese medicine from 湖南中醫學院 in July 1991 and studied the Executive Master of Business Administration programme of South China University of Technology in 2009. He has extensive experience in sales and marketing.

* For identification purpose only

EY 安永

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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

OPINION

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 87 to 194, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

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

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
Under IFRSs, the Group is required to at least annually perform the impairment test for goodwill. The carrying value of goodwill amounted to approximately RMB155.5 million as at 31 December 2017. The impairment test is based on the recoverable values of the respective cash-generating units ("**CGUs**") to which the goodwill is assigned. Management's assessment process is complex and highly judgmental, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate. The accounting policies, significant estimates and related disclosures are included in note 2.4 Business combinations and goodwill, note 3 Impairment of goodwill and note 15 Goodwill to the financial statements.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and long-term growth rate, with the assistance of our valuation specialists. We paid specific attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGUs and the business development plan. We also focused on the adequacy of the Group's disclosures of goodwill impairment.
Accounting for Customer loyalty program and distributor incentive program	
The Group awards end-customers points for their consumptions, and grants distributors incentives based on their fulfilment of purchase target. The end-customers then can exchange the award points for free products within one year, and the distributors can redeem free products in the next purchase. Under both programs, management allocates the revenue into two parts, the current sales and the deferred income for award points and incentives. The allocation and measurement of revenue are complex and require significant management judgement and estimates of relative fair values. The accounting policies, significant estimates and related disclosures are included in note 2.4 Customer loyalty program and distributor incentive program, note 3 Deferred revenue and note 5 Revenue, other income and gains to the financial statements.	We assessed and tested the design and operation of the controls over revenue allocation including the quality of underlying data and systems. We obtained the computation schedule, checked the calculation, and evaluated the allocation based on the relative fair values and the key estimates, such as values of free products and percentage of award points redeemed by end-customers, with reference to the historical information, market practice and the subsequent settlement of award points and incentives as at 31 December 2017. We also compared the actual purchase with the target amount for selected distributors to assess whether the calculation of incentives was in accordance with the incentive scheme. We also focused on the adequacy of the Group's disclosures of Customer loyalty program and distributor incentive program.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Accounting for acquisitions of a subsidiary and a joint venture	
In connection with the acquisition of ADP Holdings (Australia) Pty Ltd ("**ADP**") (the "**ADP Acquisition**"), management performed a valuation for the identifiable assets and liabilities of ADP and a purchase price allocation resulting in goodwill with an amount of RMB10.0 million. In connection with the acquisition of joint venture, Ozfarm Royal Pty Ltd ("**Ozfarm**") (the "**Ozfarm Acquisition**"), the Group was granted a call option to acquire the remaining shares of Ozfarm from the joint venture partner. Management performed a valuation for the identifiable assets and liabilities of Ozfarm, a purchase price allocation resulting in internal goodwill with an amount of RMB12.8 million and a valuation for the call option granted to the Group, resulting in a derivative financial instrument with an amount of RMB13.9 million. The valuation of the assets and liabilities identified in the purchase price allocation and the fair value of derivative financial instrument were significant to our audit, and require significant management judgement and estimates. The accounting policies, significant estimates and related disclosures are included in notes 2.4 Business combinations and goodwill, Investments in associates and joint ventures, and Fair value measurement, note 3 Purchase price allocation and Derivative financial instruments, note 17 Investment in a joint venture, note 25 Derivative financial instruments and note 34 Business combination to the financial statements.	Our audit procedures included, amongst others, reviewing the acquisition agreements, evaluating the competency, independence and objectivity of the valuation experts engaged by management, and evaluating the assumptions in particular, the discount rate, long-term growth rate, and volatility of stock used by the management and the valuation experts in the preparation of the valuation report with the assistance of our internal valuation specialists. We paid specific attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of ADP and Ozfarm and the business development plan, respectively. We focused on the disclosures in the consolidated financial statements that relate to the acquisitions of a subsidiary and a joint venture. We assessed whether those disclosures are compliant with the requirements set forth in IFRS 3, IAS 28 and IFRS 7, are comprehensive and provide sufficient information concerning the acquisitions of a subsidiary and a joint venture, respectively.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	3,926,466	2,740,262
Cost of sales		(2,236,267)	(1,615,403)
Gross profit		1,690,199	1,124,859
Other income and gains	5	57,463	62,631
Selling and distribution expenses		(969,127)	(646,411)
Administrative expenses		(298,025)	(215,656)
Other expenses		(28,466)	(14,055)
Finance costs	7	(22,110)	(17,849)
Share of profits and losses of:			
A joint venture		940	–
Associates		7,671	4,233
Profit before tax	6	438,545	297,752
Income tax expense	10	(103,765)	(63,756)
PROFIT FOR THE YEAR		334,780	233,996
Attributable to:			
Owners of the parent		308,133	212,672
Non-controlling interests		26,647	21,324
		334,780	233,996
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	12		
Basic			
– For profit for the year (RMB cents)		24.61	17.04
Diluted			
– For profit for the year (RMB cents)		24.37	17.01

Year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,537,068	830,891
Prepaid land lease payments	14	27,960	28,808
Goodwill	15	155,596	135,069
Other intangible assets	16	330,027	150,648
Investment in a joint venture	17	43,122	–
Investments in associates	18	65,183	52,103
Deposit paid	21	58,543	35,000
Derivative financial instruments	25	13,856	–
Deferred tax assets	28	170,692	154,085
Total non-current assets		2,402,047	1,386,604
CURRENT ASSETS			
Inventories	19	1,083,385	800,259
Trade and bills receivables	20	225,412	216,990
Prepayments, deposits and other receivables	21	305,206	194,834
Derivative financial instruments	25	729	–
Pledged deposits	22	968,701	778,427
Cash and cash equivalents	22	635,650	546,532
Total current assets		3,219,083	2,537,042
CURRENT LIABILITIES			
Trade payables	23	271,925	151,934
Other payables and accruals	24	1,201,078	797,007
Derivative financial instruments	25	1,592	2,482
Interest-bearing bank loans and other borrowings	26	1,158,040	761,455
Tax payable		130,605	115,711
Total current liabilities		2,763,240	1,828,589
NET CURRENT ASSETS		455,843	708,453
TOTAL ASSETS LESS CURRENT LIABILITIES		2,857,890	2,095,057

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,857,890	2,095,057
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	26	814,144	451,155
Defined benefit plan	27	6,374	6,138
Deferred tax liabilities	28	90,366	48,113
Total non-current liabilities		910,884	505,406
Net assets		1,947,006	1,589,651
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	109,172	108,455
Reserves	32	1,631,319	1,359,614
		1,740,491	1,468,069
Non-controlling interests		206,515	121,582
Total equity		1,947,006	1,589,651

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital RMB'000 (note 30)	Share premium account RMB'000	Capital reserve RMB'000 (note 32(i))	Share option reserves RMB'000	Statutory surplus reserve RMB'000 (note 32(ii))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	108,455	911,574	(317,246)	11,793	84,243	(91,518)	760,768	1,468,069	121,582	1,589,651
Profit for the year	–	–	–	–	–	–	308,133	308,133	26,647	334,780
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(6,775)	–	(6,775)	(3,720)	(10,495)
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	–	7	7	–	7
Total comprehensive income for the year	–	–	–	–	–	(6,775)	308,140	301,365	22,927	324,292
Exercise of share option	717	18,584	–	(1,720)	–	–	–	17,581	–	17,581
Acquisition of a subsidiary (note 34)	–	–	–	–	–	–	–	–	5,156	5,156
Deemed disposal of interest in a subsidiary upon acquisition of another subsidiary (note 34)	–	–	–	–	–	–	–	–	63,867	63,867
Final 2016 dividend declared	–	(54,109)	–	–	–	–	–	(54,109)	–	(54,109)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(7,592)	(7,592)
Equity-settled share option arrangements	–	–	–	7,585	–	–	–	7,585	–	7,585
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	575	575
Transfer from retained profits	–	–	–	–	35,821	–	(35,821)	–	–	–
At 31 December 2017	109,172	876,049*	(317,246)*	17,658*	120,064*	(98,293)*	1,033,087*	1,740,491	206,515	1,947,006

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital RMB'000 (note 30)	Share premium account RMB'000	Capital reserve RMB'000 (note 32 (i))	Share option reserves RMB'000	Statutory surplus reserve RMB'000 (note 32 (ii))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	108,455	945,159	(302,835)	–	64,237	(65,244)	562,907	1,312,679	14,864	1,327,543
Profit for the year	–	–	–	–	–	–	212,672	212,672	21,324	233,996
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(26,274)	–	(26,274)	(1,899)	(28,173)
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	–	5,195	5,195	–	5,195
Total comprehensive income for the year	–	–	–	–	–	(26,274)	217,867	191,593	19,425	211,018
Acquisition of non–controlling interests	–	–	(14,411)	–	–	–	–	(14,411)	10,819	(3,592)
Final 2015 dividend declared	–	(33,585)	–	–	–	–	–	(33,585)	–	(33,585)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(5,838)	(5,838)
Equity-settled share option arrangements	–	–	–	11,793	–	–	–	11,793	–	11,793
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	82,312	82,312
Transfer from retained profits	–	–	–	–	20,006	–	(20,006)	–	–	–
At 31 December 2016	108,455	911,574*	(317,246)*	11,793*	84,243*	(91,518)*	760,768*	1,468,069	121,582	1,589,651

* These components of equity comprise the consolidated reserves of RMB1,631,319,000 (2016: RMB1,359,614,000) as at 31 December 2017 in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		438,545	297,752
Adjustments for:			
Finance costs	7	22,110	17,849
Share of profits and losses of a joint venture and associates		(8,611)	(4,233)
Interest income	5	(33,863)	(37,266)
Depreciation	6	56,136	44,429
Amortisation of other intangible assets	6	19,502	10,161
Amortisation of prepaid land lease payments	6	848	357
Write-off of trade receivables	6	–	704
Provision for impairment of inventories	6	83,719	55,124
Loss on disposal of items of property, plant and equipment	6	–	1,741
Loss on disposal of items of other intangible assets	6	–	945
Equity-settled share option arrangements	6	7,585	11,793
Fair value gain on derivative instrument			
– transaction not qualifying as hedge	25	(715)	–
		585,256	399,356
Increase in inventories		(368,713)	(248,616)
Increase in trade and bills receivables		(6,773)	(28,526)
Increase in prepayments, deposits and other receivables		(128,757)	(51,259)
Increase/(decrease) in trade payables		118,859	(25,504)
Increase in other payables and accruals		387,261	307,565
Cash generated from operations		587,133	353,016
Interest received		53,129	25,659
Interest paid		(22,618)	(13,961)
Mainland China corporate income tax paid		(96,019)	(71,677)
Overseas tax refunded/(paid)		(9,163)	1,368
Net cash flows from operating activities		512,462	294,405

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows from operating activities		512,462	294,405
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(469,843)	(248,107)
Proceeds from disposal of items of property, plant and equipment		374	–
Additions to other intangible assets		(49,192)	(36,030)
Acquisition of subsidiaries		(50,612)	(143,079)
Increase in time deposits		–	(98,270)
Increase in pledged time deposits		(190,274)	(8,689)
Maturity of time deposits		98,270	185,990
Investment in an associate		(4,260)	(14,614)
Investment in a joint venture		(56,585)	–
Net cash flows used in investing activities		(722,122)	(362,799)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of the share options		17,581	–
New bank loans and other borrowings		999,257	331,695
Repayments of bank loans		(607,093)	(69,072)
Repayments of other borrowings		(8,393)	(3,962)
Acquisition of non-controlling interests		–	(3,592)
Contributions from non-controlling shareholders		575	44,116
Dividends paid		(53,858)	(33,585)
Dividends paid to non-controlling shareholders		(7,592)	(5,838)
Interest element of finance lease rental payments		(530)	(3,405)
Net cash flows from financing activities		339,947	256,357
NET INCREASE IN CASH AND CASH EQUIVALENTS		130,287	187,963
Cash and cash equivalents at beginning of year		448,262	307,620
Effect of foreign exchange rate changes, net		57,101	(47,321)
CASH AND CASH EQUIVALENTS AT END OF YEAR		635,650	448,262

	Notes	2017 RMB'000	2016 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	398,361	448,262
Non-pledged time deposits with original maturity of less than three months when acquired		237,289	–
Non-pledged time deposits with original maturity of more than three months when acquired		–	98,270
Cash and cash equivalents as stated in the consolidated statement of financial position		635,650	546,532
Non-pledged time deposits with original maturity of more than three months when acquired		–	(98,270)
Cash and cash equivalents as stated in the consolidated statement of cash flows		635,650	448,262

1. CORPORATE AND GROUP INFORMATION

Ausnutria Dairy Corporation Ltd. (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located at (i) Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong; (ii) 8th Floor, XinDaXin Building A, No. 168, Huangxing Middle Road, Changsha City, Hunan Province, the People's Republic of China (the "**PRC**"); (iii) Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands; and (iv) 25-27 Keysborough Avenue, Keysborough VIC 3173, Australia. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 8 October 2009. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Spring Choice Limited	British Virgin Islands	US$200	100	–	Investment holding
Ausnutria Dairy Company Limited	Hong Kong	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty. Ltd.	Australia	AUD$500,000	–	100	Investment holding
Ausnutria Dairy (China) Co., Ltd.[1] ("**Ausnutria China**")	PRC/ Mainland China	RMB68,633,832	–	100	Production, marketing and distribution of dairy and related products in Mainland China
Ausnutria Dairy (Dutch) Coöperatief U.A	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria B.V.[2] (formerly Ausnutria (Dutch) Holding B.V.)	The Netherlands	EUR10,465,000	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Ausnutria Operations B.V.[3] (formerly Ausnutria Hyproca B.V.) ("**Ausnutria Operations**")	The Netherlands	EUR10,215,000	–	100	Investment holding
Hyproca Nutrition Co. Ltd.[1] ("**HNC**")	PRC/ Mainland China	RMB10,000,000	–	85[4]	Marketing and distribution of goat milk nutrition products in Mainland China
Ausnutria Ommen B.V.[3] (formerly Hyproca Dairy B.V.) ("**Ausnutria Ommen**")	The Netherlands	EUR18,200	–	100	Manufacturing of dairy and related products
Lypack Leeuwarden B.V.	The Netherlands	EUR18,151	–	100	Processing and packaging of dairy and related products
Ausnutria Nutrition B.V.[3] (formerly Hyproca Nutrition B.V.)	The Netherlands	EUR18,000	–	100	Marketing and distribution of goat milk nutrition products
Ausnutria Kampen B.V.[3] (formerly Lyempf Kampen B.V.)	The Netherlands	EUR21,500	–	100	Manufacturing of dairy and related products
Ausnutria Heerenveen Hector B.V.	The Netherlands	EUR1,000	–	100	Processing and packaging of dairy and related products
Ausnutria Heerenveen Pluto B.V.	The Netherlands	EUR1,000	–	100	Processing and packaging of dairy and related products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hyproca Nutrition East Limited	Hong Kong/ Russia	HK$4,000,000	–	51	Marketing and distribution of dairy products in Russia
Hyproca Nutrition Middle East FZCO	Dubai	AED1,500,000	–	87	Marketing and distribution of dairy products in the Middle East
Hyproca Nutrition USA Inc.	United States	US$1	–	100	Marketing and distribution of dairy products in the United States
Hyproca Nutrition Canada Inc.	Canada	CAD100	–	100	Marketing and distribution of dairy products in Canada
Hyproca Bio-Science Co., Ltd.[(1)]	PRC/ Mainland China	RMB10,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Puredo Health Service (Changsha) Co., Ltd.	PRC/ Mainland China	RMB20,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Neolac (Shanghai) Nutrition Co. Ltd.[(1)]	PRC/ Mainland China	RMB10,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Globlait Nutrition (Changsha) Co., Ltd.	PRC/ Mainland China	RMB20,000,000	–	67	Marketing and distribution of dairy and related products in Mainland China
Mornring Nutrition Technology (Changsha) Co., Ltd.	PRC/ Mainland China	RMB27,400,000	–	100	Manufacturing and distribution of dairy and related products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ausnutrition Care Pty. Ltd.	Australia	AUD46,428,571	–	70	Investment holding
ADP Holdings (Australia) Pty Ltd.	Australia	AUD4,002,000	–	70	Investment holding
Australian Dairy Park Pty Ltd.	Australia	AUD4,000,000	–	70	Manufacturing and distribution of dairy and related products
Nutrition Care Pharmaceuticals Pty Ltd.	Australia	AUD30,000,000	–	52.5	Manufacturing and distribution of nutrition products
Pure Nutrition Limited	New Zealand	NZD7,500,000	–	60	Manufacturing and distribution of dairy and related products
Nutriunion (Hong Kong) Company Limited	Hong Kong/ Mainland China	HK$100	–	60	Marketing and distribution of nutrition products in Mainland China
Nutriunion (Guangzhou) Interconnection Technology Co., Ltd.	PRC/ Mainland China	RMB50,000,000	–	60	Marketing and distribution of nutrition products in Mainland China
Youluck International Inc. ("Youluck")	Taiwan	TWD20,400,000	–	60	Marketing and distribution of nutrition products in Taiwan

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

(2) The former name of the company is changed to the current one subsequent to the end of the reporting period, with effect from 2 February 2018.

(3) The former names of these companies are changed to the current ones subsequent to the end of the reporting period, with effect from 5 March 2018.

(4) Subsequent to the end of the reporting period, on 14 February 2018, the Group entered into an agreement with the vendor for the acquisition of the remaining 15% equity interest in HNC (note 44(b)).

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 35(b) to the financial statements.

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Annual Improvements to 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 22 and IAS 23[2]
Amendment to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets.

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

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that no provision for impairment will be required upon the initial adoption of the standard.

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

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15. The Group's principal activities consist of the production and distribution of dairy and related products and nutrition products to its worldwide customers. The expected changes in accounting policies will not have any significant impact on the Group's financial statements.

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

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease,* SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 38 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB18.5 million. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

In January 2018, the IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace the existing IFRS 4 *Insurance Contracts*. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach)
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard is not expected to have any impact on the Group.

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any impact on the Group's financial statements.

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

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 28 issued in January 2018 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

Annual Improvements to IFRSs 2015-2017 Cycle, issued in February 2018, sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- IFRS 3 *Business Combinations:* Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- IFRS 11 *Joint Arrangements:* Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- IAS 12 *Income Taxes:* Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- IAS 23 *Borrowing Costs:* Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Fair value measurement

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Intangible assets (other than goodwill)

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

Non-patent technology and licence

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

Trademarks

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

Software

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Milk collection right

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

Research and development costs

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

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

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

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Derecognition of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

Current versus non-current classification

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification (continued)

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

(iii) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

Other employee benefits

Defined contribution plan

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

Pension scheme

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension scheme (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the relevant authorities of the provinces or the local municipal governments in Mainland China in which the Group's subsidiaries are located. The Group contributes to this scheme in respect of its employees in Mainland China and such costs are charged to profit or loss as incurred.

Defined benefit plan

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

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

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

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

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

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Customer loyalty program and distributor incentive program

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

Foreign currencies

The functional currency of the Company is Hong Kong dollars, while the presentation currency of the Company for the financial statements is the RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgement

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgement (continued)

Finance lease – Group as lessee

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

Estimation uncertainty

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

Deferred revenue

Deferred revenue is recognised for the points earned by the customer loyalty program members and the incentives earned by the distributions incentive program members. The revenue is deferred by allocating the consideration received or receivable from the products sold among the points, incentives and other components of the sales transactions. Significant management judgement is required to determine the amount of deferred revenue that can be recognised, based upon values of free products and percentage of award points redeemed by end-customers, with reference to the historical information, market practice and the subsequent settlement of award points and incentives. Further details are given in note 5 to the financial statements.

Purchase price allocation

The valuation of the assets and liabilities identified in the purchase price allocation have been estimated using valuation techniques. The valuation required the Group to make estimates about expected future revenue growth, long term growth rate for revenue and suitable discount rates, and hence they are subject to uncertainty. The fair value of the assets and liabilities identified in the purchase price allocation are included in notes 17 and 34 to the financial statements.

Derivative financial instruments

The call option assigned to the Group to acquire the remaining shares of the joint venture from the joint venture partner have been estimated using a Monte Carlo Simulation model. The valuation required the Group to make estimates about expected future EBIT growth, long term growth rate for EBIT, long term growth rate for stock and volatility of stock, and hence they are subject to uncertainty. The fair value of the call option at 31 December 2017 was RMB13,856,000 (2016: Nil). Further details are included in note 25 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB155,596,000 (2016: RMB135,069,000). Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

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

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management judgements and estimation. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying value of the trade receivables and impairment loss in the periods in which such estimates have been changed. No impairment loss was recognised as at 31 December 2017 (2016: Nil). Further details are provided in note 20.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 28.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2017 was RMB56,136,000 (2016: RMB44,429,000). Further details are provided in note 13.

Defined benefit plan

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2017, the best estimate of the carrying amount of capitalised development costs was RMB18,795,000 (2016: Nil).

4. OPERATING SEGMENT INFORMATION

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

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

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

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

Segment assets exclude cash and cash equivalents and other bank deposits and pledged deposits as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Information about a major customer

During the year, there was no revenue from a single external customer accounted for 10% or more of the Group's total revenue (2016: Nil).

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after deduction of allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

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

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

6. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		2,152,548	1,560,279
Write-down of inventories to net realisable value		83,719	55,124
Cost of sales		2,236,267	1,615,403
Depreciation	13	56,136	44,429
Amortisation of prepaid land lease payments	14	848	357
Amortisation of other intangible assets	16	19,502	10,161
Research and development costs		37,908	27,038
Minimum lease payments under operating leases		11,436	7,132
Loss on disposal of items of property, plant and equipment		–	1,741
Foreign exchange differences, net		3,488	(11,692)
Fair value gain on derivative instrument:			
– transaction not qualifying as hedge		(715)	–
Write-off of trade receivables		–	704
Loss on disposal of items of other intangible assets		–	945
Auditor's remuneration		7,220	6,575
Advertising and promotion expenses		408,358	312,291
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		445,092	331,916
Equity share option expense		7,585	11,793
Pension scheme contributions*		31,707	20,828
		484,384	364,537

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank loans, overdrafts and other loans	26,185	21,969
Interest on finance leases	530	669
Total interest expense on financial liabilities not at fair value through profit or loss	26,715	22,638
Less: Interest capitalised	(3,567)	(5,272)
	23,148	17,366
Other finance costs:		
Unrealised loss/(gain) on an interest rate swap (note 25)	(1,038)	483
	22,110	17,849

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2017 RMB'000	2016 RMB'000
Fees	1,872	1,905
Other emoluments:		
Salaries, allowances and benefits in kind	4,153	2,265
Equity-settled share option expense	937	1,911
Pension scheme contributions	75	59
	5,165	4,235
	7,037	6,140

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

In the prior year, all the directors of the Company were granted with share options in respect of their services provided to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

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

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive directors:					
Yan Weibin	206	1,029	376	23	1,634
Bartle van der Meer	206	514	376	–	1,096
Ng Siu Hung	206	722	313	36	1,277
Lin Jung-Chin (resigned on 5 October 2017)	206	–	376	–	582
	824	2,265	1,441	59	4,589
Non-executive directors:					
Tsai Chang Hai	206	–	94	–	300
Zeng Xiaojun	206	–	94	–	300
	412	–	188	–	600
Independent non-executive directors:					
Ho Mei-Yueh	206	–	94	–	300
Jason Wan	206	–	94	–	300
Lau Chun Fai Douglas	257	–	94	–	351
	669	–	282	–	951
	1,905	2,265	1,911	59	6,140

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include two (2016: Nil) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: five) non-director highest paid employees of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	5,043	4,985
Equity-settled share option expense	1,465	7,357
Pension scheme contributions	112	110
	6,620	12,452

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

	Number of employees	
	2017	2016
HK$2,000,001 to HK$2,500,000	2	–
HK$2,500,001 to HK$3,000,000	–	3
HK$3,000,001 to HK$3,500,000	1	1
HK$3,500,001 to HK$4,000,000	–	1
Total	3	5

In the prior year, share options were granted to three non-director highest paid employees in respect of their services provided to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

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

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the United States tax laws, enterprises are subject to the United States CIT rate of 34% (subsequent to the end of the reporting period, enterprises are subject to the CIT rate of 21% with effect from 1 January 2018). Under the Canada tax laws, enterprises are subject to the Canada CIT rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia CIT rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand CIT rate of 28%. Under the Taiwan tax laws, enterprises are subject to the Taiwan CIT rate of 17%.

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

	2017 RMB'000	2016 RMB'000
Current charge for the year – Mainland China		
Charge for the year	114,428	115,477
Underprovision in prior years	–	107
Current charge for the year – The Netherlands		
Charge for the year	3,004	4,110
Underprovision in prior years	1,034	173
Current charge for the year – Hong Kong		
Charge for the year	1,022	–
Underprovision in prior years	653	–
Current charge for the year – Taiwan		
Charge for the year	464	–
Deferred income tax (note 28)	(16,840)	(56,111)
Total tax charge for the year	103,765	63,756

10. INCOME TAX (continued)

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

2017

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

2016

	Hong Kong		The Netherlands		Mainland China		Canada		United States		Australia		New Zealand		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(9,633)		31,771		329,241		(4,743)		(10,269)		(14,776)		(278)		(23,561)		297,752	
Income tax at the statutory income tax rate	(1,589)	16.5	7,943	25.0	82,347	25.0	(1,257)	26.5	(3,492)	34.0	(4,433)	30.0	(78)	28.0	–	–	79,441	26.7
Tax effects on preferential tax rates	–	–	–	–	(17,317)	(5.3)	–	–	–	–	–	–	–	–	–	–	(17,317)	(5.8)
Adjustments in respect of current tax in previous periods	–	–	173	0.5	107	–	–	–	–	–	–	–	–	–	–	–	280	0.1
Effect on opening deferred tax of decrease in rates	–	–	–	–	–	–	1,437	(30.3)	–	–	–	–	–	–	–	–	1,437	0.5
Non-deductible items and others, net	3,168	(32.9)	138	0.4	3,834	1.2	–	–	–	–	194	(1.3)	–	–	–	–	7,334	2.5
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	623	0.2	–	–	–	–	–	–	–	–	–	–	623	0.2
Profits and losses attributable to associates	–	–	(1,058)	(3.3)	–	–	–	–	–	–	–	–	–	–	–	–	(1,058)	(0.4)
Additional deduction of expenses	–	–	–	–	(1,807)	(0.5)	–	–	–	–	–	–	–	–	–	–	(1,807)	(0.6)
Tax losses utilised from previous periods	(1,040)	10.8	(2,603)	(8.2)	–	–	–	–	–	–	–	–	–	–	–	–	(3,643)	(1.2)
Tax losses not recognised	339	(3.5)	1,171	3.7	2,092	0.6	–	–	–	–	1,558	(10.6)	61	(21.9)	–	–	5,221	1.7
Income not subject to tax	(918)	9.5	(2,171)	(6.8)	(3,666)	(1.1)	–	–	–	–	–	–	–	–	–	–	(6,755)	(2.3)
Tax charge at the Group's effective rate	(40)	0.4	3,593	11.3	66,213	20.1	180	(3.8)	(3,492)	34.0	(2,681)	18.1	(17)	6.1	–	–	63,756	21.4

The share of tax attributable to associates and a joint venture amounting to RMB1,623,000 (2016: RMB1,152,000) is included in "Share of profits and losses of associates and a joint venture" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

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

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,251,839,982 (2016: 1,247,732,530) in issue during the year.

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

Earnings

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

Shares

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

13. PROPERTY, PLANT AND EQUIPMENT

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and 1 January 2016:							
Cost	236,902	180,700	7,574	21,157	21,639	231,343	699,315
Accumulated depreciation and impairment	(44,515)	(45,434)	(6,487)	(8,165)	(8,418)	–	(113,019)
Net carrying amount	192,387	135,266	1,087	12,992	13,221	231,343	586,296
At 1 January 2016, net of accumulated depreciation and impairment	192,387	135,266	1,087	12,992	13,221	231,343	586,296
Additions	20,277	25,381	844	15,308	880	185,417	248,107
Acquisition of nutrition business and a subsidiary	27,499	3,376	86	479	278	–	31,718
Disposals	(565)	(84)	(96)	(996)	–	–	(1,741)
Depreciation provided during the year	(13,191)	(23,089)	(691)	(4,834)	(2,624)	–	(44,429)
Transfers	9,598	63	–	188	3,381	(16,502)	(3,272)
Exchange realignment	4,175	3,799	–	159	(17)	6,096	14,212
At 31 December 2016, net of accumulated depreciation and impairment	240,180	144,712	1,230	23,296	15,119	406,354	830,891
At 31 December 2016:							
Cost	298,778	212,504	6,467	34,956	26,174	406,354	985,233
Accumulated depreciation and impairment	(58,598)	(67,792)	(5,237)	(11,660)	(11,055)	–	(154,342)
Net carrying amount	240,180	144,712	1,230	23,296	15,119	406,354	830,891

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2017 was EUR30,875,000 (equivalent to approximately RMB240,896,000) (2016: EUR2,051,000, equivalent to approximately RMB14,986,000).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2017, the Group had pledged (i) the land and buildings, plant and machineries and construction in progress that were attributed to Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") and located in the Netherlands with net carrying amounts of EUR20,216,000 (equivalent to approximately RMB157,731,000) (2016: EUR19,892,000, equivalent to approximately RMB145,347,000) and EUR104,178,000 (equivalent to approximately RMB812,828,000) (2016: EUR49,733,000, equivalent to approximately RMB363,389,000), respectively; and (ii) the land and building in Australia with an aggregate carrying amount of AUD6,600,000 (equivalent to approximately RMB33,612,000) (2016: Nil) for the banking facilities granted to the Group for the financing the Group's daily working capital and capital expenditure plans (note 26(b)).

The Group's land included in property, plant and equipment with net carrying amount of EUR7,354,000 (equivalent to approximately RMB57,378,000) (2016: EUR7,354,000, equivalent to approximately RMB53,668,000), AUD4,430,000 (equivalent to approximately RMB22,561,000) (2016: AUD1,990,000, equivalent to approximately RMB9,981,000) and NZD3,000,000 (equivalent to approximately RMB12,981,000) (2016: NZD3,000,000, equivalent to approximately RMB14,492,000) are situated in the Netherlands, Australia and New Zealand and are held as freehold land.

14. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	29,656	2,028
Acquisition of a subsidiary	–	27,985
Amortised during the year	(848)	(357)
Carrying amount at 31 December	28,808	29,656
Current portion included in prepayments, deposits and other receivables	(848)	(848)
Non-current portion	27,960	28,808

15. GOODWILL

	RMB'000
At 1 January 2016:	
Cost	72,053
Accumulated impairment	–
Net carrying amount	72,053
Cost at 1 January 2016, net of accumulated impairment	72,053
Acquisition of nutrition business	61,798
Exchange realignment	1,218
Cost and net carrying amount at 31 December 2016	135,069
At 31 December 2016:	
Cost	135,069
Accumulated impairment	–
Net carrying amount	135,069
Cost at 1 January 2017, net of accumulated impairment	135,069
Acquisition of Youluck and the ADP Group (note 34)	14,856
Exchange realignment	5,671
Cost and net carrying amount at 31 December 2017	155,596
At 31 December 2017:	
Cost	155,596
Accumulated impairment	–
Net carrying amount	155,596

15. GOODWILL (continued)

Impairment testing of goodwill

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

- Ausnutria Operations cash-generating unit;
- Nutrition Business cash-generating unit;
- Youluck cash-generating unit; and
- ADP Group cash-generating unit;

Ausnutria Operations cash-generating unit

The recoverable amount of the Ausnutria Operations cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12% (2016:12%). The growth rate used to extrapolate the cash flows of the Ausnutria Operations unit beyond the five-year period is 3% (2016: 3%).

Nutrition Business cash-generating unit

The recoverable amount of the Nutrition Business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17.5% (2016: 18.6%). The growth rate used to extrapolate the cash flows of the Nutrition Business unit beyond the five-year period is 3% (2016: 2%).

Youluck cash-generating unit

The recoverable amount of the Youluck cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14.0%. The growth rate used to extrapolate the cash flows of the Youluck unit beyond the five-year period is 4%.

ADP Group cash-generating unit

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

15. GOODWILL (continued)

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

Cash-generating units	Carrying amount of goodwill	
	2017 RMB'000	2016 RMB'000
Ausnutria Operations	79,233	74,202
Nutrition Business	61,803	60,867
Youluck	2,518	–
ADP Group	12,042	–
	155,596	135,069

Assumptions were used in the value in use calculation of the Ausnutria Operations, Nutrition Business, Youluck and ADP Group cash-generating units for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

16. OTHER INTANGIBLE ASSETS

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2017						
Cost at 1 January 2017, net of accumulated amortisation	64,465	40,779	28,811	15,697	896	150,648
Additions	9,438	18,464	21,290	–	–	49,192
Acquisition of Youluck and the ADP Group (note 34)	148,796	–	–	–	4,622	153,418
Transfers	–	271	43	–	(271)	43
Amortisation provided during the year	(11,958)	(4,358)	(2,269)	(383)	(534)	(19,502)
Exchange realignment	(1,226)	1,036	1,588	(5,190)	20	(3,772)
At 31 December 2017	209,515	56,192	49,463	10,124	4,733	330,027
At 31 December 2017:						
Cost	223,620	63,277	67,739	27,593	6,252	388,481
Accumulated amortisation	(14,105)	(7,085)	(18,276)	(17,469)	(1,519)	(58,454)
Net carrying amount	209,515	56,192	49,463	10,124	4,733	330,027

16. OTHER INTANGIBLE ASSETS (continued)

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2016						
Cost at 1 January 2016, net of accumulated amortisation	9,002	1,060	15,332	18,824	1,461	45,679
Additions	21,816	–	14,119	–	95	36,030
Acquisition of nutrition business	34,944	41,936	–	–	–	76,880
Disposals	–	–	(945)	–	–	(945)
Transfers from property, plant and machinery	–	–	3,624	–	(352)	3,272
Amortisation provided during the year	(1,018)	(1,622)	(3,460)	(3,707)	(354)	(10,161)
Exchange realignment	(279)	(595)	141	580	46	(107)
At 31 December 2016	64,465	40,779	28,811	15,697	896	150,648
At 31 December 2016:						
Cost	66,614	43,481	44,207	31,692	1,862	187,856
Accumulated amortisation	(2,149)	(2,702)	(15,396)	(15,995)	(966)	(37,208)
Net carrying amount	64,465	40,779	28,811	15,697	896	150,648

17. INVESTMENT IN A JOINT VENTURE

	2017 RMB'000	2016 RMB'000
Share of net assets	30,349	–
Goodwill on acquisition	12,773	–
	43,122	–

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

17. INVESTMENT IN A JOINT VENTURE (continued)

Particulars of the joint venture is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Ozfarm Royal Pty Ltd	AUD1,500,050	Australia	50%	50%	50%	Marketing and distribution of nutrition products

The above investment is indirectly held by the Company.

Ozfarm Royal Pty Ltd, which is the only joint venture of the Group, acts as the Group's distributor of nutritional products in Australia and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Ozfarm Royal Pty Ltd, adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2017 RMB'000
Cash and cash equivalents	37,390
Other current assets	12,776
Current assets	50,166
Non-current assets	47,810
Financial liabilities, excluding trade and other payables and provisions	(19,161)
Other current liabilities	(4,443)
Current liabilities	(23,604)
Non-current liabilities	(13,674)
Net assets	60,698

17. INVESTMENT IN A JOINT VENTURE (continued)

	2017 RMB'000
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	50%
Group's share of net assets of the joint venture, excluding goodwill	30,349
Goodwill on acquisition (less cumulative impairment)	12,773
Carrying amount of the investment	43,122
From the date of acquisition to 31 December 2017	
Revenue	43,711
Interest income	177
Depreciation and amortisation	(2,223)
Tax	(194)
Profit and total comprehensive income for the period	1,880

18. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	55,498	45,858
Goodwill on acquisition	9,685	6,245
	65,183	52,103

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

18. INVESTMENTS IN ASSOCIATES (continued)

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

	2017 RMB'000	2016 RMB'000
Share of the associates' profit for the year	8,775	4,233
Share of the associates' total comprehensive income	8,775	4,233
Aggregate carrying amounts of the Group's investments in the associates	65,183	52,103

19. INVENTORIES

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

As at 31 December 2017, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR84,741,000 (equivalent to approximately RMB661,175,000) (2016: EUR63,841,000, equivalent to approximately RMB466,473,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group (note 26(b)).

20. TRADE AND BILLS RECEIVABLES

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

20. TRADE AND BILLS RECEIVABLES (continued)

The Group normally allows a credit period from 1 month to 12 months (2016: from 1 month to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

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

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

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	186,043	153,282
Within 3 months past due	5,792	4,725
3 months to 1 year past due	9,020	3,936
Total	200,855	161,943

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

20. TRADE AND BILLS RECEIVABLES (continued)

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

As at 31 December 2017, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR12,694,000 (equivalent to approximately RMB99,042,000) (2016: EUR13,305,000, equivalent to approximately RMB97,217,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group (note 26(b)).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2017 RMB'000	2016 RMB'000
Prepayments and deposits paid		211,435	112,226
Interest income receivable		9,163	28,429
Other tax recoverable		31,110	20,559
Others		112,041	68,620
		363,749	229,834
Portion classified as non-current:			
Deposit paid	(i)	58,543	35,000
Current portion		305,206	194,834

(i) Balance represented deposit paid for the purchase of a plot of land with a site area of approximately 34,425 square metres in Changsha, the PRC, for the building of the headquarters of the Group. Pursuant to the land purchase agreement, the total cost of the land amounted to RMB115,710,000. Subsequent to the end of the reporting period, on 12 February 2018, the Group entered into a joint venture agreement with an independent property developer to form a joint venture for the purpose of the development of the land site. Further details are set out in note 44(a) to the financial statements.

Included in other receivables are amounts due from associates of EUR2,543,000 (equivalent to approximately RMB19,840,000) (2016: Nil).

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	398,361	448,262
Time deposits	1,205,990	876,697
	1,604,351	1,324,959
Less: Pledged deposits (note 26(b)(v))	(968,701)	(778,427)
Cash and cash equivalents	635,650	546,532

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB147,600,000 (2016: RMB312,225,000). In addition, time deposits of the Group denominated in RMB amounted to RMB1,205,271,000 (2016: RMB876,697,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

23. TRADE PAYABLES

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

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

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

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

24. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Advances from customers	346,885	206,969
Deferred income	282,399	171,638
Deposits	28,443	12,999
Accrued salaries and welfare	108,391	69,871
Other tax payables	42,351	20,512
Other payables	158,672	123,999
Accrued promotion and advertising expenses	140,057	107,996
Other accruals	93,880	83,023
	1,201,078	797,007

Included in other payables are amounts due to associates of EUR1,600,000 (equivalent to approximately RMB12,484,000) (2016: Nil).

Other payables are non-interest-bearing and have no fixed terms of repayment.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Call option	13,856	–	–	–
Forward currency contracts	729	–	–	–
Interest rate swaps	–	1,592	–	2,482
	14,585	1,592	–	2,482
Portion classified as non-current:				
Call option	(13,856)	–	–	–
Current portion	729	1,592	–	2,482

Pursuant to the agreement of the Ozfarm Acquisition, the Group was granted a call option to acquire the remaining shares of the joint venture from the joint venture partner for a 12-month period commencing 24 months from the date of the announcement of the first batch of brands that is approved by the China Food and Drug Administration and in any case no later than 1 July 2018. The call option is measured at fair value through profit or loss.

The Ausnutria B.V. Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swaps are measured at fair value through profit or loss. A net fair value gain on these interest rate swaps amounting to RMB1,038,000 (2016: loss of RMB483,000) and a net exchange loss amounting to RMB148,000 (2016: RMB56,000) were recognised in profit or loss for the year ended 31 December 2017.

The Group has entered into a forward currency contract to manage its exchange rate exposures. The forward currency contract is not designated for hedge purposes and is measured at fair value through profit or loss. A net fair value gain on the forward currency contract amounting to RMB715,000 (2016: Nil) and a net exchange gain amounting to RMB13,000 (2016: Nil) was recognised in profit or loss for the year ended 31 December 2017.

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

The following table illustrates the interest-bearing bank loans and other borrowings of the Group:

	2017			2016		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current:						
Finance lease payables (note 29)	3.0-4.56	2018	35,961	3.0-4.56	2017	4,104
Bank overdrafts – secured	1 month EURIBOR+1.8	2018	106,251	1 month EURIBOR+1.8	2017	135,350
Bank overdrafts – secured	3 month EURIBOR+2.35	2018	228,511	3 month EURIBOR+2.35	2017	31,276
Bank loan – secured	3 month LIBOR+0.8-2.25	2018	312,092	3 month LIBOR+0.8-1.55	2017	368,993
Bank loan – secured	1 year LIBOR+0.8-0.82	2018	264,888	–	–	–
Bank loan – secured	1.0-5.65	2018	185,001	1.0-5.0	2017	194,820
Current portion of long-term bank loans – secured	3 month EURIBOR+2.35	2018	25,336	3 month EURIBOR+2.35	2017	23,690
Other loans – unsecured*	–	–	–	3 month EURIBOR+3.0	2017	3,222
			1,158,040			761,455
Non-current:						
Finance lease payables (note 29)	3.0-4.56	2019-2023	204,937	3.0-4.56	2018-2020	10,880
Bank loans – secured	2.25	2020	75,143	3 month EURIBOR +1.2-2.35	2018-2020	308,754
Bank loans – secured	3 month EURIBOR +1.0-2.35	2019-2020	436,996	3 month LIBOR+2.25	2019	131,521
Bank loans – secured	3 month LIBOR+2.25	2019-2020	93,628	–	–	–
Other loans – unsecured*	3 month EURIBOR+3.0	2020	3,440	–	–	–
			814,144			451,155
			1,972,184			1,212,610

* Loans from non-controlling shareholders of subsidiaries

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	1,122,079	754,129
In the second year	426,247	116,909
In the third to fifth years, inclusive	179,520	323,366
	1,727,846	1,194,404
Other borrowings repayable:		
Within one year or on demand	35,961	7,326
In the second year	36,339	4,271
In the third to fifth years, inclusive	109,957	6,609
After five years	62,081	–
	244,338	18,206
	1,972,184	1,212,610

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria B.V. Group amounting to EUR85,000,000 (equivalent to approximately RMB663,196,000) (2016: EUR30,000,000, equivalent to approximately RMB219,204,000), of which EUR42,906,000 (equivalent to approximately RMB334,762,000) (2016: EUR22,804,000, equivalent to approximately RMB166,626,000) had been utilised as at 31 December 2017.

(b) Certain of the Group's bank loans and overdraft facilities are secured by:

(i) mortgages over the Ausnutria B.V. Group's land and buildings situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR20,216,000 (equivalent to approximately RMB157,731,000) (2016: EUR19,892,000, equivalent to approximately RMB145,347,000);

(ii) pledges of the Ausnutria B.V. Group's plant and equipment situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR104,178,000 (equivalent to approximately RMB812,828,000) (2016: EUR49,733,000, equivalent to approximately RMB363,389,000);

(iii) pledges of the Ausnutria B.V. Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR84,741,000 (equivalent to approximately RMB661,175,000) (2016: EUR63,841,000, equivalent to approximately RMB466,473,000);

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

Notes: (continued)

(b) Certain of the Group's bank loans and overdraft facilities are secured by: (continued)

(iv) pledges of the Ausnutria B.V. Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR12,694,000 (equivalent to approximately RMB99,042,000) (2016: EUR13,305,000, equivalent to approximately RMB97,217,000);

(v) mortgages over the ADP Group's land and building situated in Australia, which had an aggregate carrying value at the end of the reporting period of AUD6,600,000 (equivalent to approximately RMB33,612,000) (2016: Nil); and

(vi) pledges of certain of the Group's time deposits amounting to RMB968,701,000 (2016: RMB778,427,000).

27. DEFINED BENEFIT PLAN

Ausnutria Ommen operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 67 (2016: age of 67).

The employees who participate in this defined benefit plan moved to another pension plan which was treated as a defined contribution plan as from 1 January 2017. All rights from previous years will remain in the old defined benefit plan. Sensitivity on future salary and pension costs is not applicable for the Group's defined benefit plan.

The Group's defined benefit plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administered by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. The trustees decide the amount of contribution based on the results of the annual review.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2017 by the appraiser, using the projected unit credit actuarial valuation method.

27. DEFINED BENEFIT PLAN (continued)

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2017	2016
Discount rate (%)	2.00	2.00
Expected rate of future pension cost increases (%)	2.00	2.00
Expected rate of salary increases (%)	1.75	0.00
Indexation post activities	0.00	0.00

The actuarial valuation showed that the market value of plan assets was RMB27,613,000 (2016: RMB25,640,000) and that the actuarial value of these assets represented 77.1% (2016: 80.7%) of the benefits that had accrued to qualifying employees. The deficiency of RMB6,374,000 (2016: RMB6,138,000) is expected to be cleared over the remaining life expectancy (based on unconditional future indexations for active and post-active participants).

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2017				
Discount rate	0.25	(1,701)	0.25	1,834

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2016				
Discount rate	0.25	(1,651)	0.25	1,797

27. DEFINED BENEFIT PLAN (continued)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2017 RMB'000	2016 RMB'000
Current service cost	31	22
Interest cost	713	1,087
Net benefit expenses	744	1,109
Recognised in cost of sales	744	1,109
Recognised in administrative expenses	–	–
	744	1,109

The movements in the present value of the defined benefit obligations are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	31,778	38,151
Current service cost	31	22
Interest cost	475	(6,879)
Benefit paid	(452)	(690)
Exchange differences on a foreign plan	2,155	1,174
At 31 December	33,987	31,778

27. DEFINED BENEFIT PLAN (continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2017

		Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2017 RMB'000	Service cost RMB'000	Additional charges RMB'000	Net interest expense RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Return on plan assets (excluding amounts included in net interest expense) RMB'000	Actuarial changes arising from changes in demographic assumptions RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	Contribution by employer RMB'000	Foreign exchange difference RMB'000	31 December 2017 RMB'000
Defined benefit obligations	(31,778)	(31)	–	(659)	(690)	452	–	–	–	184	184	–	(2,155)	(33,987)
Fair value of plan assets	25,640	–	(54)	–	(54)	(452)	536	–	–	(168)	368	368	1,743	27,613
Benefit liability	(6,138)	(31)	(54)	(659)	(744)	–	536	–	–	16	552	368	(412)	(6,374)

2016

		Pension cost charged to profit or loss				Remeasurement gains/(losses) in other comprehensive income							
	1 January 2016 RMB'000	Service cost RMB'000	Net interest expense RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Return on plan assets (excluding amounts included in net interest expense) RMB'000	Actuarial changes arising from changes in demographic assumptions RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	Contribution by employer RMB'000	Foreign exchange difference RMB'000	31 December 2016 RMB'000
Defined benefit obligations	(38,151)	(22)	(984)	(1,006)	690	–	(22)	2,445	5,440	7,863	–	(1,174)	(31,778)
Fair value of plan assets	25,266	–	646	646	–	–	7	2,526	(3,561)	(1,028)	690	66	25,640
Benefit liability	(12,885)	(22)	(338)	(360)	690	–	(15)	4,971	1,879	6,835	690	(1,108)	(6,138)

The fair value of the total plan assets at 31 December 2017 was RMB27,613,000 (2016: RMB25,640,000).

Expected contributions to the defined benefit plan in future years are as follows:

	2017 RMB'000	2016 RMB'000
Within the next 12 months	437	431
Between 2 and 5 years	2,700	2,236
Between 5 and 10 years	5,578	3,821
Total expected contributions	8,715	6,488

The average duration of the defined benefit obligations at the end of the reporting period was 21.5 (2016: 23.3) years.

28. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2017					
At 1 January 2017	2,668	29,317	2,364	13,764	48,113
Acquisition of Youluck and the ADP Group (note 34)	–	48,203	–	–	48,203
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(676)	(6,481)	(354)	2,993	(4,518)
Exchange difference	168	(1,755)	155	–	(1,432)
Gross deferred tax liabilities at 31 December 2017	2,160	69,284	2,165	16,757	90,366

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2016					
At 1 January 2016	3,628	6,961	2,861	13,141	26,591
Acquisition of a subsidiary	–	23,064	–	–	23,064
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(1,073)	(560)	(586)	623	(1,596)
Exchange difference	113	(148)	89	–	54
Gross deferred tax liabilities at 31 December 2016	2,668	29,317	2,364	13,764	48,113

28. DEFERRED TAX (continued)

Deferred tax assets

2017

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2017							
At 1 January 2017	1,638	65,980	472	45,390	34,941	5,664	154,085
Acquisition of Youluck and the ADP Group (note 34)	–	506	–	–	–	–	506
Deferred tax credited to profit or loss during the year (note 10)	(39)	(2,190)	255	(10,951)	25,281	(34)	12,322
Deferred tax charged to equity during the year	(3)	–	–	–	–	–	(3)
Exchange difference	110	3,591	–	–	–	81	3,782
Gross deferred tax assets at 31 December 2017	1,706	67,887	727	34,439	60,222	5,711	170,692

2016

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016	3,092	54,425	238	19,122	21,491	426	98,794
Acquisition of Nutrition Business	–	702	–	–	–	–	702
Deferred tax credited to profit or loss during the year (note 10)	86	9,251	234	26,268	13,450	5,226	54,515
Deferred tax charged to equity during the year	(1,640)	–	–	–	–	–	(1,640)
Exchange difference	100	1,602	–	–	–	12	1,714
Gross deferred tax assets at 31 December 2016	1,638	65,980	472	45,390	34,941	5,664	154,085

Management expects it is probable that taxable profits will be available against which the above tax losses and deducible temporary differences can be utilised in the coming years.

28. DEFERRED TAX (continued)

Deferred tax assets (continued)

The Group has tax losses arising in Hong Kong of RMB10,773,000 (2016: RMB11,224,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB31,602,000 (2016: RMB17,202,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10% (2016: 10%). The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2017, the Group has not recognised deferred tax liabilities of RMB103,094,000 (2016: RMB68,848,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB1,139,013,000 (2016: RMB688,482,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its production business. These leases are classified as financial leases and have remaining lease terms ranging from one to six years.

At 31 December 2017, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2017 RMB'000	Minimum lease payments 2016 RMB'000	Present value of minimum lease payments 2017 RMB'000	Present value of minimum lease payments 2016 RMB'000
Amounts payable:				
Within one year	42,991	4,609	35,961	4,104
In the second year	42,197	4,609	36,339	4,271
In the third to fifth years, inclusive	117,367	6,826	106,517	6,609
After five years	63,488	–	62,081	–
Total minimum finance lease payments	266,043	16,044	240,898	14,984
Future finance charges	(25,145)	(1,060)		
Total net finance lease payables	240,898	14,984		
Portion classified as current liabilities (note 26)	(35,961)	(4,104)		
Non-current portion (note 26)	204,937	10,880		

30. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Issued and fully paid:		
1,256,061,530 (2016:1,247,732,530) ordinary shares	125,606	124,773

30. SHARE CAPITAL (continued)

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2016, 31 December 2016 and 1 January 2017	1,247,732,530	108,455
Share options exercised (Note (a))	8,329,000	717
At 31 December 2017	1,256,061,350	109,172

Note:

(a) The subscription rights attaching to 8,329,000 share options were exercised at the subscription price of HK$2.45 per share (note 31), resulting in the issue of 8,329,000 shares for a total cash consideration, before expenses, of HK$20,406,000 (equivalent to approximately RMB17,581,000). An amount of RMB1,720,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

31. SHARE OPTION SCHEME

The Group operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme are the directors, and any person belonging to any of the following classes of participants:

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

ii. any supplier of goods or services to the Group or any of the subsidiaries or any Invested Entity;

iii. any customer of the Group or any Invested Entity;

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

v. any shareholder of the Company or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity.

31. SHARE OPTION SCHEME (continued)

The Scheme became effective on 19 September 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Group are subject to approval in advance by the directors (excluding any independent non-executive directors who are the grantees of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period which is not later than ten years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The following share options were outstanding under the Scheme during the year

	2017		2016	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	2.45	46,615	–	–
Granted during the year	–	–	2.45	46,815
Exercised during the year	2.45	(8,329)	–	–
Forfeited during the year	2.45	(800)	2.45	(200)
At 31 December	2.45	37,486	2.45	46,615

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.45 per share (2016: No share options were exercised).

31. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options '000	Exercise price HK$ per share	Exercise period
25,471	2.45	21-1-2017 to 20-1-2021
12,015	2.45	06-7-2017 to 20-1-2021
37,486		

2016

Number of options '000	Exercise price HK$ per share	Exercise period
34,600	2.45	21-1-2017 to 20-1-2021
12,015	2.45	06-7-2017 to 20-1-2021
46,615		

The fair value of the share options granted was HK$27,477,000 (2016: HK$27,477,000), of which the Group recognised a share option expense of HK$8,598,000 (equivalent to approximately RMB7,585,000) (2016: HK$14,061,000, equivalent to approximately RMB11,793,000) during the year ended 31 December 2017.

The fair value at grant date is estimated using a binomial tree model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. There is no cash settlement of the options. The fair value of options granted during year was estimated on the date of grant using the following assumptions:

31. SHARE OPTION SCHEME (continued)

Dividend yield (%)	0.00
Expected volatility (%)	47.45 – 49.09
Risk-free interest rate (%)	1.36 – 1.6
Expected life of share options (year)	5
Weighted average share price (HK$)	2.45

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 8,329,000 share options exercised during the year resulted in the issue of 8,329,000 ordinary shares of the Company and new share capital of HK$832,900 (equivalent to approximately RMB717,000) (before issue expenses), as further detailed in note 30 to the financial statements.

At the end of the reporting period, the Company had 37,486,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 37,486,000 additional ordinary shares of the Company and additional share capital of HK$3,748,600 (equivalent to approximately RMB3,133,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 37,486,000 share options outstanding under the Scheme, which represented approximately 3.0% of the Company's shares in issue as at that date.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 91 to 92 of the financial statements.

(i) Capital reserve

Capital reserve represents the net difference of the aggregate issued paid-in capital of subsidiaries comprising the Group in 2009 and contribution from the then owners of certain property, plant and equipment and a lease prepayment for land use rights at nil consideration in 2007 and after offsetting the effect arising from the acquisition of non-controlling interest.

32. RESERVES (continued)

(ii) Statutory surplus reserve

According to the PRC Company Law, each of the PRC subsidiaries of the Group is required to transfer 10% of its after tax profit, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that such fund is maintained at a minimum level of 25% of the registered capital.

(iii) Foreign exchange reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with presentation currencies other than RMB.

33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2017	2016
Percentage of equity interest held by non-controlling interests:		
Hyproca Nutrition Co., Ltd ("**HNC**")	15%	15%
Ausnutrition Care Pty Ltd. ("**ACP**")	30%	–
Pure Nutrition Limited ("**PNL**")	40%	40%

	2017 RMB'000	2016 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
HNC	23,961	16,023
ACP	(7,793)	–
PNL	(2,592)	(17)
Accumulated balances of non-controlling interests at the reporting date:		
HNC	46,670	25,709
ACP	70,465	–
PNL	10,817	14,475

33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2017	HNC RMB'000	ACP RMB'000	PNL RMB'000
Revenue	1,067,198	143,571	–
Total expenses	(907,457)	(162,603)	(6,480)
Profit/(loss) for the year	159,741	(19,032)	(6,480)
Total comprehensive income/(loss) for the year	159,741	(19,032)	(6,480)
Current assets	630,968	172,599	7,691
Non-current assets	82,935	373,425	172,162
Current liabilities	(398,768)	(139,010)	(152,811)
Non-current liabilities	(4,000)	(172,131)	–
Net cash flows from/(used in) operating activities	163,228	(20,359)	(9,330)
Net cash flows used in investing activities	(12,647)	(46,268)	(122,052)
Net cash flows from/(used in) financing activities	(30,000)	70,025	123,065
Net increase/(decrease) in cash and cash equivalents	120,581	3,398	(8,317)

2016	HNC RMB'000	PNL RMB'000
Revenue	663,481	–
Total expenses	(556,663)	(43)
Profit/(loss) for the year	106,818	(43)
Total comprehensive income/(loss) for the year	106,818	(43)
Current assets	446,132	14,064
Non-current assets	43,482	37,997
Current liabilities	(316,195)	(15,874)
Non-current liabilities	(2,025)	–
Net cash flows from operating activities	157,651	44
Net cash flows used in investing activities	(33,243)	(22,993)
Net cash flows from financing activities	–	36,183
Net increase in cash and cash equivalents	124,408	13,234

34. BUSINESS COMBINATION

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

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

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

34. BUSINESS COMBINATION (continued)

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

	Notes	Fair values recognised on acquisition RMB'000
Property, plant and equipment	13	56,351
Intangible assets	16	153,418
Deferred tax assets	28	506
Inventories		33,047
Trade receivables		11,338
Prepayments, deposits and other receivables		9,379
Cash and cash equivalents		11,463
Trade payables		(11,473)
Other payables and accruals		(29,674)
Tax payable		(1,240)
Interest-bearing bank loans and other borrowings		(68,670)
Deferred tax liabilities	28	(48,203)
Total identifiable net assets at fair value		116,242
Non-controlling interests		(5,156)
Goodwill on acquisition	15	14,856
Total consideration		125,942
Satisfied by:		
Cash		62,075
Issue of the ACP Shares		63,867
		125,942

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

34. BUSINESS COMBINATION (continued)

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

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

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

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

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total carrying value at the inception of the lease of EUR26,646,000 (equivalent to approximately RMB207,901,000) (2016: Nil).

(b) Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Finance lease payables RMB'000
At 1 January 2017	1,197,626	14,984
Changes from financing cash flows	388,602	(5,361)
New finance lease	–	207,901
Foreign exchange movement	76,388	23,374
Increase arising from acquisition of subsidiaries	68,670	–
At 31 December 2017	1,731,286	240,898

36. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2016: Nil).

37. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 13, 19, 20, 22 and 26, respectively, to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	8,161	8,048
In the second to fifth years, inclusive	10,293	10,825
After five years	–	198
	18,454	19,071

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Plant and machinery	46,825	335,512
Buildings	57,981	125,820
Intangible assets	4,144	–
	108,950	461,332

40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed in note 30(a) and elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2017 RMB'000	2016 RMB'000
Purchases of products from a joint venture	(i)	128	–
Sales of products to a joint venture	(i)	31,877	–
Purchases of products from the associates	(i)	248,423	160,980
Sales of products to the associates	(i)	81,459	36,416
Sales of property, plant and equipment to the associates	(i)	17,499	–
Management fees received from the associates	(ii)	1,833	1,046
Management fees paid to BioEngine Technology Development Inc. ("**BioEngine Tech**")	(iii)	–	1,920

Notes:

(i) These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

(ii) The management fees were charged based on the management time incurred by the management of the Ausnutria B.V. Group for the associates.

(iii) BioEngine Tech is a subsidiary of Center Laboratories Inc. In 2016, the management fees were charged based on the actual costs incurred by management of BioEngine Tech to the Company. In the current year, related management became the employees of Hyproca Nutrition Asia Limited, a wholly-owned subsidiary of the Company, which bears the related costs, and accordingly, the Group no longer requires to pay the management fees to BioEngine Tech.

(b) Outstanding balances with related parties:

Details of the balances with the joint venture and associates as at the end of the reporting period are disclosed in notes 20, 21, 23 and 24 to the financial statements.

(c) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	21,796	21,422
Retirement benefit contributions	765	904
Equity-settled share option expense	4,719	10,861
Total compensation paid to key management personnel	27,280	33,187

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	225,412	225,412
Financial assets included in prepayments, deposits and other receivables	–	12,086	12,086
Pledged deposits	–	968,701	968,701
Derivative financial instruments	14,585	–	14,585
Cash and cash equivalents	–	635,650	635,650
	14,585	1,841,849	1,856,434

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	271,925	271,925
Financial liabilities included in other payables and accruals	–	97,970	97,970
Derivative financial instruments	1,592	–	1,592
Interest-bearing bank loans and other borrowings	–	1,972,184	1,972,184
	1,592	2,342,079	2,343,671

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2016

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	216,990
Financial assets included in prepayments, deposits and other receivables	28,429
Pledged deposits	778,427
Cash and cash equivalents	546,532
	1,570,378

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	151,934	151,934
Financial liabilities included in other payables and accruals	–	135,795	135,795
Derivative financial instruments	2,482	–	2,482
Interest-bearing bank loans and other borrowings	–	1,212,610	1,212,610
	2,482	1,500,339	1,502,821

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial assets				
Derivative financial instruments	14,585	–	14,585	–

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial liabilities				
Derivative financial instruments	1,592	2,482	1,592	2,482
Interest-bearing bank loans and other borrowings	1,972,184	1,212,610	1,943,952	1,203,007
	1,973,776	1,215,092	1,945,544	1,205,489

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due to associates, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

The Group enters into derivative financial instruments with various financial institutions such as Rabobank and Hongkong and Shanghai Banking Corporation Limited. Derivative financial instruments, including interest rate swaps and foreign currency contract, are measured using valuation techniques similar to forward pricing and swap models measured, using present value calculation. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

The fair values of the call option granted to the Group to acquire the remaining shares of the joint venture from the joint venture partner have been estimated using a Monte Carlo Simulation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future EBIT growth. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values as at 31 December 2017.

As at 31 December 2017, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of call option together with a quantitative sensitivity analysis as at 31 December 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Call option	Discounted cash flow method	long term growth rate for EBIT	2017: 6.78% to 38.51%	5% increase (decrease) in growth rate would result in both increase in fair value by RMB85,839 and by RMB1,838,053
		long term growth rate for stock	2017: 2.16%	1% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB1,785,343 and by RMB198,366
		volatility of stock	2017: 60.88%	5% increase (decrease) in stock would result in decrease (increase) in fair value by RMB2,227,874 and by RMB793,484

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	729	13,856	14,585

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	–	–	–

Liabilities measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	1,592	–	1,592

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	2,482	–	2,482

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (2016: Nil).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans, finance leases and other borrowings, amounts due from/to related parties, and cash and bank balances and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of interest rate exposure, the Group has entered into interest rate swap contracts with creditworthy banks to manage its interest rate swaps.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2017		
EUR	100	(10,762)
EUR	(100)	10,762
HK$	100	(4,943)
HK$	(100)	4,943
AUD	100	(1,507)
AUD	(100)	1,507
NZD	100	–
NZD	(100)	–
2016		
EUR	100	(7,636)
EUR	(100)	7,636
HK$	100	(3,671)
HK$	(100)	3,671
AUD	100	(1,938)
AUD	(100)	1,938
NZD	100	(13)
NZD	(100)	13

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in the Netherlands, Hong Kong, Australia and New Zealand in currencies other than the Group's functional currency (i.e., RMB). In addition, the Group's certain bank balances are denominated in HK$, EUR, AUD, NZD and TWD, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$, EUR, AUD, NZD and TWD.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits, trade and bills receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, interest-bearing bank loans, finance leases and other borrowings.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	598	271,327	–	–	–	271,925
Finance lease payables	–	–	35,961	142,856	62,081	240,898
Financial liabilities included in other payables and accruals	52,112	47,445	–	–	–	99,557
Derivative financial instruments	–	1,592	–	–	–	1,592
Interest-bearing bank loans and other borrowings	334,762	156,056	775,956	744,152	–	2,010,926
Total	387,472	476,420	811,917	887,008	62,081	2,624,898

	2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	3,279	148,655	–	–	–	151,934
Finance lease payables	–	–	4,609	11,435	–	16,044
Financial liabilities included in other payables and accruals	108,019	73,831	866	–	–	182,716
Derivative financial instruments	–	2,482	–	–	–	2,482
Interest-bearing bank loans and other borrowings	135,350	–	634,702	471,428	–	1,241,480
Total	246,648	224,968	640,177	482,863	–	1,594,656

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by total assets. Net debt is calculated as the sum of interest-bearing bank loans and other borrowings, less pledged deposits and cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank loans and other borrowings	1,972,184	1,212,610
Less: Pledged deposits	(968,701)	(876,697)
Cash and cash equivalents	(635,650)	(448,262)
Net debt/(surplus cash)	367,833	(112,349)
Total assets	5,621,130	3,923,646
Gearing ratio	6.5%	N/A

44. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in this report, the Group has the following events which took place subsequent to the end of the reporting period:

(a) On 12 February 2018, the Group entered into a joint venture agreement with an independent property developer (the "**HQ Land Development Partner**") for the formation of a joint venture (the "**HQ Joint Venture**") for the purpose of the development of two plots of land in Changsha, the PRC (the "**HQ Land**"). Pursuant to the agreement, the HQ Joint Venture will be owned by the Group and the HQ Land Development Partner as to 51% and 49%, respectively. The Group will inject the HQ Land into the HQ Joint Venture while the HQ Land Development Partner will inject RMB100.0 million into the HQ Joint Venture immediately after the entering into the joint venture agreement. Pursuant to the agreement, except for the bank account which is jointly-controlled by the Group and the HQ Land Development Partner, the HQ Land Development Partner will be responsible for the future management, daily operations, funding and financing arrangements of the HQ Joint Venture. In return, the Group will be entitled to two blocks of office buildings which are to be built on the HQ Land with a total of 40,000 square meters of floor area and 400 car parking spaces. Pursuant to the agreement, the office buildings have to be completed within 30 months from the date when all the land use rights have been obtained by the Group.

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

Further details regarding the formation of the HQ Joint Venture are set out in the "Business Review and Outlook" section of this report.

(b) On 14 February 2018, the Group entered into a sale and purchase agreement (the "**HNC Purchase Agreement**") to acquire (the "**HNC Group Acquisition**") the remaining 15% equity interest in Hyproca Nutrition (Hongkong) Company Limited ("**HNHK**"), a non-wholly-owned subsidiary of the Company. HNHK and its wholly-owned subsidiary, Hyproca Nutrition Co. Ltd. (collectively, the "**HNC Group**"), are principally engaged in marketing and distribution of goat milk nutrition products in Hong Kong, Macau and the PRC.

Pursuant to the HNC Purchase Agreement, the consideration of the HNC Group Acquisition is to be determined based on 15% of 8.5 times of the audited consolidated net profit of the HNC Group for the year ended 31 December 2017 (subject to certain adjustments to be determined later on based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019 and 2020). The consideration will be settled by the issue and allotment of the shares of the Company (the "**Shares**") which shall not exceed HK$400,870,000 or 80,174,000 Shares in aggregate.

Further details regarding the HNC Group Acquisition are set out in the "Business Review and Outlook" section of this report and the announcement of the Company dated 14 February 2018.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	171,320	171,320
Total non-current assets	171,320	171,320
CURRENT ASSETS		
Due from subsidiaries	874,618	984,033
Prepayments, deposits and other receivables	1,315	1,902
Cash and cash equivalents	11,491	3,364
Total current assets	887,424	989,299
CURRENT LIABILITIES		
Due to subsidiaries	37,402	26,552
Other payables	1,335	3,224
Total current liabilities	38,737	29,776
NET CURRENT ASSETS	848,687	959,523
TOTAL ASSETS LESS CURRENT LIABILITIES	1,020,007	1,130,843
Net assets	1,020,007	1,130,843
EQUITY		
Issued capital	109,172	108,455
Reserves (note)	910,835	1,022,388
Total equity	1,020,007	1,130,843

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the company's reserves is as follows:

	Share premium RMB'000	Capital reserve* RMB'000	Share Option RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2016	945,159	171,320	–	(70,757)	(38,100)	1,007,622
Total comprehensive loss for the year	–	–	–	(27,136)	63,694	36,558
Equity-settled share option arrangements	–	–	11,793	–	–	11,793
Final 2015 dividend declared	(33,585)	–	–	–	–	(33,585)
At 31 December 2016 and 1 January 2017	911,574	171,320	11,793	(97,893)	25,594	1,022,388
Total comprehensive loss for the year	–	–	–	(20,413)	(61,480)	(81,893)
Exercise of share option	18,584	–	(1,720)	–	–	16,864
Equity-settled share option arrangements	–	–	7,585	–	–	7,585
Final 2016 dividend declared	(54,109)	–	–	–	–	(54,109)
At 31 December 2017	876,049	171,320	17,658	(118,306)	(35,886)	910,835

* The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganization in 2009 over the nominal value of the Company's shares issued in exchange therefor.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2018.

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
RESULTS					
REVENUE	3,926,466	2,740,262	2,103,534	1,966,047	1,687,781
Cost of sales	(2,236,267)	(1,615,403)	(1,513,568)	(1,398,842)	(1,216,026)
Gross profit	1,690,199	1,124,859	589,966	567,205	471,755
Other income and gains	57,463	62,631	45,652	29,325	25,884
Selling and distribution expenses	(969,127)	(646,411)	(497,613)	(336,000)	(227,757)
Administrative expenses	(298,025)	(215,656)	(116,281)	(105,285)	(84,742)
Other expenses	(28,466)	(14,055)	(8,907)	(11,621)	(20,939)
Finance costs	(22,110)	(17,849)	(16,045)	(10,310)	(6,406)
Share of profits and losses of:					
A joint venture	940	–	–	–	–
Associates	7,671	4,233	7,019	3,959	–
PROFIT BEFORE TAX	438,545	297,752	3,791	137,273	157,795
Income tax expense	(103,765)	(63,756)	(680)	(20,552)	(30,930)
PROFIT FOR THE YEAR	334,780	233,996	3,111	116,721	126,865
Attributable to:					
Owners of the parent	308,133	212,672	50,645	90,219	120,705
Non-controlling interests	26,647	21,324	(47,534)	26,502	6,160
	334,780	233,996	3,111	116,721	126,865

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**5,621,130**	3,923,646	3,030,522	2,433,267	2,002,701
Total liabilities	**(3,674,124)**	(2,333,995)	(1,702,979)	(1,218,339)	(808,235)
Net assets	**1,947,006**	1,589,651	1,327,543	1,214,928	1,194,466
Non-controlling interests	**(206,515)**	(121,582)	(14,864)	(107,168)	(84,656)
	1,740,491	1,468,069	1,312,679	1,107,760	1,109,810