ANNUAL REPORT 2019

NOURISHING LIFE & GROWTH

澳优
Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

Ausnutria Principles

Utmost Execution

Non-stop Innovation

Team Working

Internationalisation

A u s n u t r i a

Accountable

Socially Responsible

Uncompromising on Quality

Respect

All for Nutrition

Ausnutria 澳优

AUSNUTRIA DAIRY CORPORATION LTD
ANNUAL REPORT 2019

Contents

MISSION

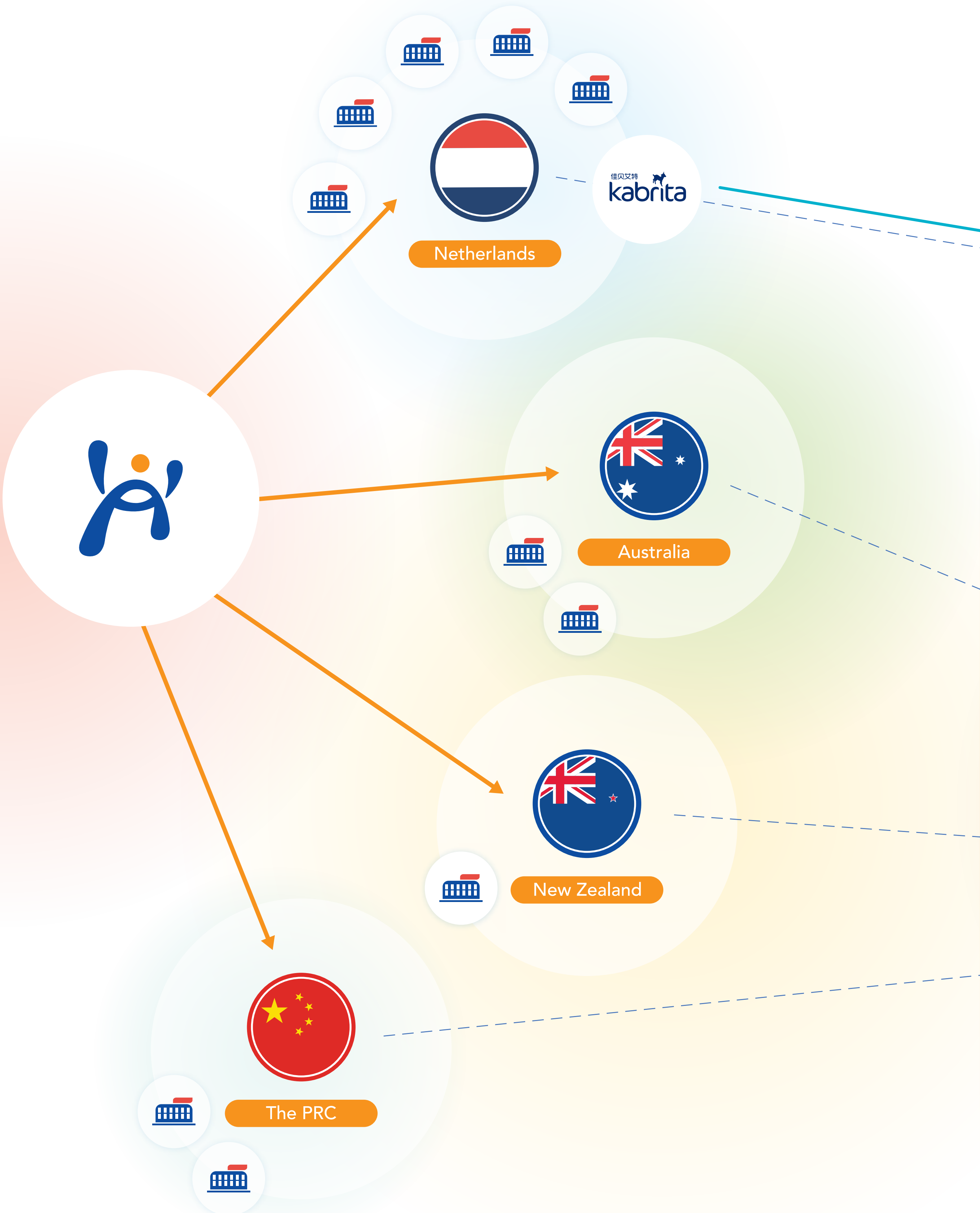
Nourishing Life & Growth

VISION

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

SUSTAINABILITY VISION

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


Netherlands
kabrita
Australia
New Zealand
The PRC

Global Market

Our Awards

1 MAY

Hunan Province
May Day Award

BY
Hunan Province, the PRC at the "May Day" International Workers' Day Celebration and Model Worker and Outstanding Craftsman Award Ceremony

21 JAN

2018 Infant Formula Milk Powder Quality Gold Award

BY
China Dairy Industry Association, the PRC at the "Second China Dairy Quality Annual Meeting and the Fourth Meeting of the Sixth Board"

31 AUG

Reviving Leader in the Dairy Industry in China *and* Second Class Technology Progress Award

BY
China Dairy Industry Association, the PRC at its 25th annual meeting

22 JAN

First Class Development Contribution Award

BY
Wangcheng Economic and Technological Development Zone, the PRC at its economic work conference for 2019

24 SEP

Best CFOs, Best Corporate Governance, Best ESG/SRI Metrics, Best IR Professionals *and* Honoured Company

BY
Institutional Investor LLC, New York, United States in its Institutional Investor's 2019 All-Asia Executive Team

24 OCT

Top 50 Universities of Chinese Enterprises

BY
Training Magazine of Xinhua Daily Media Group, the PRC

13-14 NOV

Leader in Corporate Social Responsibility and the Most Socially Responsible Entrepreneur

BY
The 17th China Food Safety Annual Conference and the 11th China International Pickles Food Expo, the PRC

10 DEC

2019 Best Investment Value Company, Jubilee Awards

BY
China Investment Network and 標點財經研究院 at "See the Future 2019 – the 2nd Capital Market Summit and Annual Jubilee Award Presentation Ceremony" in Beijing, the PRC

Y2019

24 OCT

2019 Best Internationalisation Award

BY
Dairy Association of China, the PRC at the 2nd Chinese Dairy Industry Capital Forum held in Beijing with the theme of "Building New Business Models with New Impetus"

13-14 DEC

Enterprise of the Year Award

BY
China Baby Industry Media (CBIS), the PRC at the 6th China Baby Industry Summit

Sale of formula milk powder ...goat

Y2019

RMB 2,856.2M

↑ 40.5%

Y2018

RMB 2,033.4M

Y2019

RMB
3,167.2M

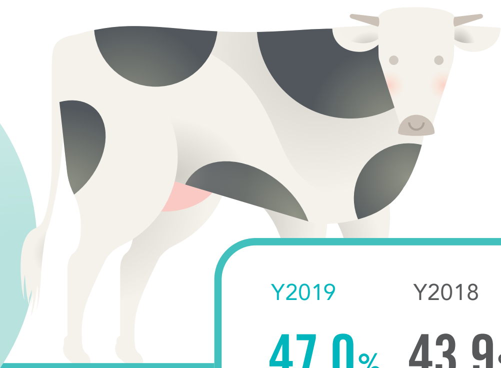
Y2018

RMB
2,368.0M

33.8%

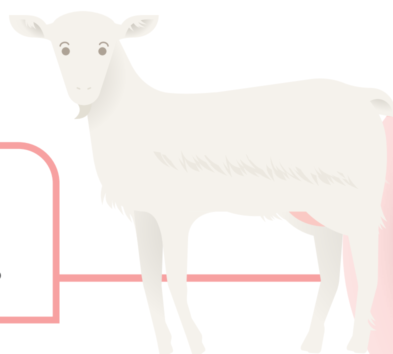
Sale of formula milk powder
...cow

Sales Contribution



Own-branded Cow milk formula

Y2019	Y2018
47.0%	43.9%



Own-branded Goat milk formula

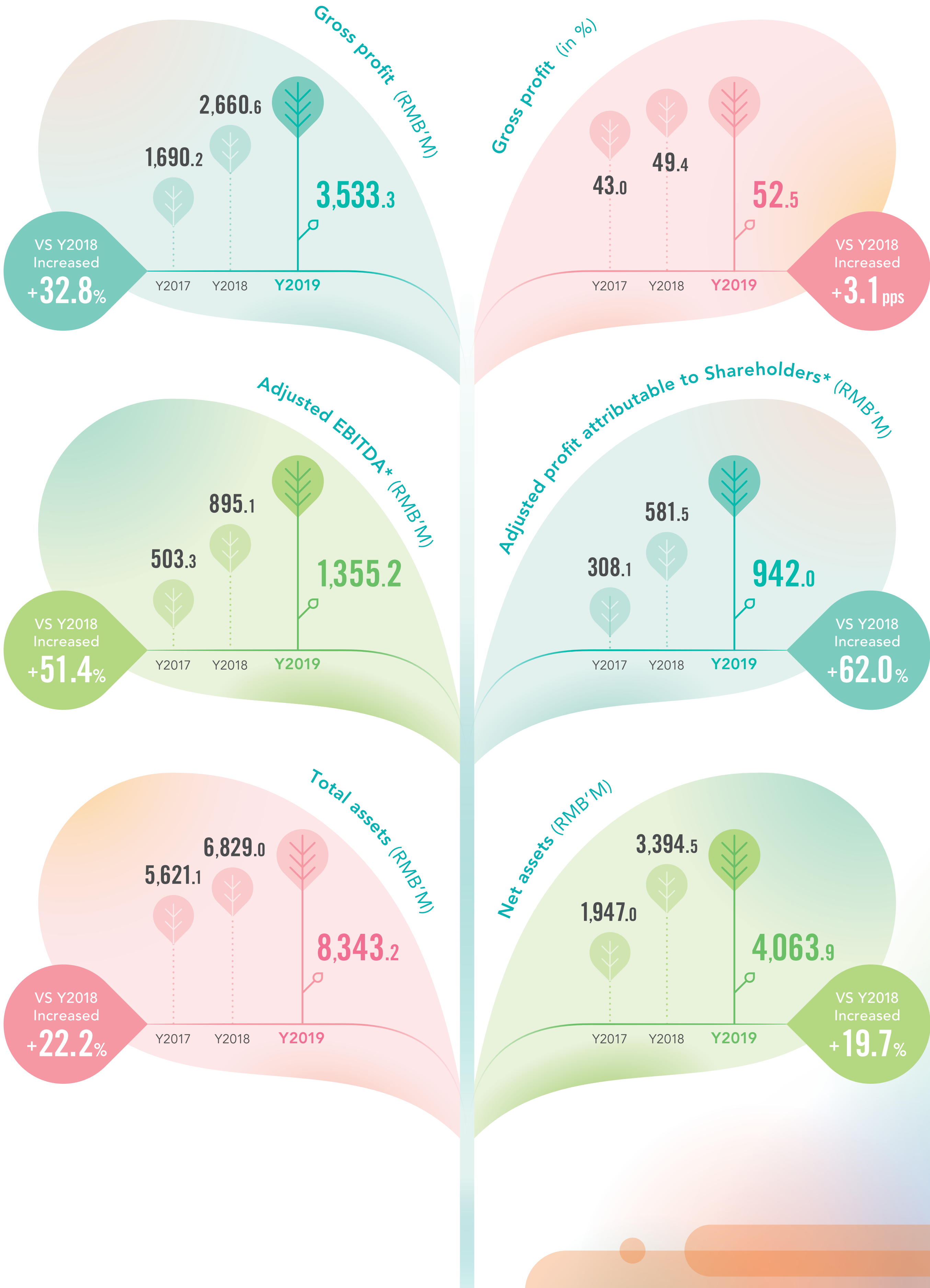
Y2019	Y2018
42.4%	37.7%

Private Label

Y2019	Y2018
3.0%	6.3%

Others

Y2019	Y2018
7.6%	12.1%


Gross profit (RMB'M)
1,690.2
2,660.6
3,533.3
Y2017
Y2018
Y2019
VS Y2018
Increased
+32.8%
Gross profit (in %)
43.0
49.4
52.5
Y2017
Y2018
Y2019
VS Y2018
Increased
+3.1pps
Adjusted EBITDA* (RMB'M)
503.3
895.1
1,355.2
Y2017
Y2018
Y2019
VS Y2018
Increased
+51.4%
Adjusted profit attributable to Shareholders* (RMB'M)
308.1
581.5
942.0
Y2017
Y2018
Y2019
VS Y2018
Increased
+62.0%
Total assets (RMB'M)
5,621.1
6,829.0
8,343.2
Y2017
Y2018
Y2019
VS Y2018
Increased
+22.2%
Net assets (RMB'M)
1,947.0
3,394.5
4,063.9
Y2017
Y2018
Y2019
VS Y2018
Increased
+19.7%

(RMB'M, unless otherwise stated)	2015	2016	2017	2018	2019
Revenue	2,103.5	2,740.3	3,926.5	5,389.6	6,736.2
Gross profit	590.0	1,124.9	1,690.2	2,660.6	3,533.3
Gross profit (in %)	28.0	41.1	43.0	49.4	52.5
EBITDA	33.4	333.3	503.3	948.7	1,291.6
Profit before tax	3.8	297.8	438.5	792.0	1,107.2
Profit attributable to Shareholders	50.6	212.7	308.1	635.1	878.4
EPS (in RMB cent)	4.9	17.0	24.6	47.2	54.9
Cash inflows/(outflows) from operating activities	(45.4)	294.4	512.5	531.8	970.8
Net assets	1,327.5	1,589.7	1,947.0	3,394.5	4,063.9
Total assets	3,030.5	3,923.6	5,621.1	6,829.0	8,343.2
Net cash	317.1	112.3	(367.8)	802.3	866.9

BOARD OF DIRECTORS

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

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

Independent Non-executive Directors
Mr. Lau Chun Fai Douglas
Mr. Jason Wan
Mr. Aidan Maurice Coleman

COMPANY SECRETARY
Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES
Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

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

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

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

AUDITORS
Ernst & Young
Certified Public Accountants

LEGAL ADVISER
DEACONS

FINANCIAL ADVISER ON RETAINER BASIS
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.,
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168-200 Connaught Road Central
Sheung Wan
Hong Kong

In Mainland China
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No. 168 Huangxing Middle Road
Changsha City, Hunan Province, the PRC

In the Netherlands
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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
Bank of China

STOCK CODE
1717

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Ms. Tracy Sun
Email: tracy_sun@ausnutria.com

COMPANY'S WEBSITE
www.ausnutria.com.hk

DEAR SHAREHOLDERS,

On behalf of the board of directors of Ausnutria Dairy Corporation Ltd, I am pleased to present the annual report of the Company and its subsidiaries for the year ended 31 December 2019.

IN 2019, WE STROVE, WE ACHIEVED, WE MATURED

2019 signified the tenth anniversary of Ansnutria's listing on The Stock Exchange of Hong Kong Limited. It also marked the beginning of the second phase of the "Golden Decade" strategic plan we announced in 2015. The aim of the second phase is to become the leader of infant formulas and high-end nutritional products market. Notwithstanding the intensifying external competition and market uncertainties, as well as certain expected and unexpected challenges, by adhering to our principle of "responding to market uncertainty with firm strategies", we continued to maintain constancy, step up the management, take on challenges and shore up the operation, thereby satisfactorily attained the operational targets for the Year 2019.

Substantial Attainment of Key Operational Targets

Our core businesses maintained relatively rapid growth. Revenue for the year amounted to RMB6,736.2 million, representing an increase of 25.0% when compared with the corresponding period of 2018. Net profit amounted to RMB878.4 million, representing a growth of 38.3% when compared with the corresponding period of 2018. Return on net assets rose from 19.5% in 2018 to 21.9% in 2019.

Enriched Product Portfolio

In 2019, we continued to develop infant formulas and launched Hyproca Hypure series, which is 100% imported directly from the Netherlands, in the first half of the year. Meanwhile, we also enriched the product portfolio in November 2019, from infant formulas to milk powders for all age groups, with the introduction of Kabrita Yingjia adult goat milk powder and Allnutria ExtraPure organic maternal mother milk powder. As to nutritional products, our nutrition brand, Nutrition Care, launched a series of new products from Australia this year. In December 2019, we entered into a strategic cooperation with JD.COM to introduce an international version of Puredo. By revamping the products we broadened our portfolio of nutritional product for all age groups, thereby better serving the diversified nutritional needs of the consumers.

Continuous Enhancement of Supply Chain

Hector and Pluto factories, two of our factories in the Netherlands, commenced production in 2018 and became the major drivers of our business growth in 2019. This has further enhanced our global supply capacity and enabled Ausnutria to turn into one of the leading infant formula importers in China during the year. Apart from the enhancement of overseas supply capacity, our second factory in Changsha, China was also completed and was granted a permit to produce adult milk powder during the year. The commencement of the operation of the aforementioned factory is expected to further boost our production capacity and efficiency.

Besides, there are growing recognition to our supply chain. In July 2019, our factory in New Zealand was proudly listed as one of the new infant formula production enterprises registered by the General Administration of Customs in China. Our products were listed by the Chinese Association of Quality Inspection (中國質量檢驗協會) as products that pass national quality inspection consistently.

Relentless Innovation and Upgrade of Brand-building Strategies

To further increase our brand awareness, some of our brands have engaged some well-known celebrities. To highlight our brand philosophy of "Taking Up Challenges and Striving for Betterment（向優向上，無懼挑戰）", we announced our collaboration with the Chinese Tennis Association to act as the official partner of the Chinese national tennis team at our ten-year listing anniversary celebration. Allnutria, one of our cow milk powder brands, and Nutrition Care, our nutritional product brand, were the official dairy and nutritional product suppliers of this event. With the endorsement of celebrities and the Chinese national tennis team, Ausnutria's brands have successfully gained public awareness and propagated their brand philosophies.

Gradual Increase in Market Influence

According to relevant industry data, Ausnutria took an approximate 5% share in the Chinese infant formula market in 2019. Furthermore, according to various market reports, our market share in infant formula milk has been ranked among the top ten in China in 2019. Among which, the market share of our goat milk powder brand, Kabrita, has consecutively been ranked as the number one for goat infant formula in China since 2014. Kabrita was also the first choice of Chinese consumers for goat milk powders in 2019 and accounted for over 60% of Chinese goat infant formula imports.

Active Engagement in Social Responsibilities

To support the study of nutrition and alleviate poverty in a scientific and precise manner, Ausnutria researched and studied the feeding patterns, nutritional health and development status of 0 to 6-year-old in Tibet, China, in collaboration with Tibet University under a project called "Nourish Tundra Rose with Nutritional Masterpiece. A project to Improve the Nutritional Health of Mothers and Infants in Tibet by Ausnutria YOU-Foundation（營養匠心 讓格桑花美麗綻放－澳優U基金格桑花西藏母嬰營養提升計劃）". We made a pledge of donations to support social development in the next ten years and committed to inject RMB100 million into Ausnutria YOU-Foundation. Following the recent outbreak of the coronavirus disease, our business units acted quickly with Ausnutria YOU-Foundation and donated eight batches of cash and supplies which worth over RMB67.6 million in total.

Constant Cultural Integration of Global Management Team

To achieve our motto of "One Ausnutria, One Dream, One Voice", in April 2019, we held global marketing conference and global human resources conference in Changsha, China. Representatives from Ausnutria's branches in eleven countries and territories participated in the conferences to study the development of Ausnutria's brands across the world, as well as its global brand-building strategies, structural development, innovation in marketing strategies, and other topics. After frank and honest interaction, the branches achieved a high degree of unity.

Persistent Furtherance of Staff Training with the Aim of Building a Team Fit for the Future

To improve our employees' ability and shape our culture, we carried out systematic team-building activities and enhanced our organisational capacity in 2019. Through cultural integration workshops, diversified team-building activities, all-round family members care activities and innovative incentive mechanism, we have enhanced the unity of the entire staff. Moreover, we designed our human resource system with a product-oriented mindset by establishing and optimising a hierarchical training system featuring six unique Ausnutria-style talent development programmes for employees spanning from management trainees to top management personnel. In respect of the development of professional talents, we encourage employees to develop suitable professional skills through the establishment of a professional competency framework as well as a learning map.

Our talent development centre, Ausnutria University, has received high recognition from within and outside in 2019, such as being ranked no. 21 in the chart of "The Most Valuable Enterprise Universities in China（中國最具價值企業大學）" published by China Internet Weekly and no. 46 among the "Top 50 Universities of Chinese Enterprises in 2019 （2019中國企業大學50強）" published by Training Magazine of Xinhua Daily Media Group.

Further Improvement in Corporate Governance

2019 has been a year full of memorable moments for Ausnutria. Our teams across the globe interacted and cooperated with each other and exerted themselves tirelessly to achieve huge success in research and development, supply, marketing and sales, digitalisation, team building and organisational development. Despite malicious attacks from foreign short sellers, our substantial shareholders and other investors pronounced their staunch support for Ausnutria in a timely manner. What is more, our team spirit, pride and unity shot up afterwards and our organic growth accelerated.

IN 2020, WE INNOVATE, WE IMPROVE, WE STRIVE WITH PASSION

At a time of constant changes, the needs of our business partners, the aspiration of our employees, as well as the social expectations of our corporate responsibilities, are all changing constantly. However, the only everlasting ingredient of a successful business is the value it can create for its customers. 2020 will be the key to the second phase of Ausnutria's "Golden Decade" strategic plan. We have adopted "integrity, charity, altruism, people orienting, supporting partners, protecting environment, and sustainability" as the major goals in our fight for commercial success. According to our strategic goals and guiding principles for 2020, we will make every effort to build up a number of strengths, namely customer services, partner support, marketing, research and development, innovation, production and supply, quality control, digitalisation and automation, organisation and team building, branding and social responsibility, as well as corporate development.

To gradually establish itself as a leader in the global nutrition and health industries and forge a successful enterprise in the evolving Chinese nutrition industry, Ausnutria will focus in the Chinese market, and steadfastly continue its efforts on the goat milk powder and organic milk powder segments, devote itself to the development of the nutrition business, and commit itself to a global layout while tapping into China's enormous domestic consumption.

ACKNOWLEDGEMENT

On behalf of the board of directors of Ausnutria, I would like to sincerely thank the customers, business associates, shareholders, and governments for their continuous support, trust and help. Meanwhile, my heartfelt appreciation goes to our board members and senior management, as well as to all our staff, for their contributions and dedication throughout the year.

In 2020, let us work together steadily for long-term growth and advancement.

Yan Weibin
Chairman

The People's Republic of China
17 March 2020

THE GROUP'S OWN BRANDS

BUSINESS OVERVIEW

The year ended 31 December 2019 (the "**Year 2019**") was the fourth year of the "Golden Decade" strategic plan and also signified the tenth anniversary of the public listing of Ausnutria Dairy Corporation Ltd (the "**Company**" or "**Ausnutria**"). For the Year 2019, the Group recorded a revenue of RMB6,736.2 million, representing an increase of RMB1,346.6 million, or 25.0%, when compared to the corresponding period of 2018 (the "**Year 2018**"). The performance of the own-branded formula milk powder business, one of the Group's core operations, was particularly outstanding, with a recorded revenue of RMB6,023.4 million, representing an increase of RMB1,622.0 million, or 36.9%, when compared with the Year 2018, and accounted for 89.4% (Year 2018: 81.6%) of the total revenue of the Group. Such increase was partly offset by the decrease in revenue of the original equipment manufacturing for other worldwide customers (the "**Private Label**") and sales of dairy related products, as a result of the Company's strategy to prioritise more resources to better serve its own-branded formula milk powder business. The move has resulted in a temporary interruption of both the Private Label business and sales of dairy related products for the Year 2019.

During the Year 2019, the Group recorded a loss on the fair value change of derivative financial instruments of RMB63.6 million. On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hong Kong) Company Limited and Hyproca Nutrition Co., Ltd (collectively, the "**HNC Group**") (the "**HNC Group Acquisition**"). The HNC Group is principally engaged in the marketing and distribution of goat milk nutrition products, in particular under the brand name of Kabrita, in the People's Republic of China (the "**PRC**"). Pursuant to the sale and purchase agreement for the HNC Group Acquisition, the consideration is subject to certain adjustments (the "**Subsequent HNC Consideration**"), which shall be settled by the issuance and allotment of no more than 29,879,877 shares of the Company (the "**Shares**") (the "**Subsequent Consideration Shares**") in around April 2021.

In accordance with International Accounting Standard 32, the Subsequent HNC Consideration, being a contingent consideration, is classified as a financial instrument in the Group's financial statements and is measured at fair value through profit or loss. Accordingly, valuation of the Subsequent HNC Consideration and thus the fair value of the financial instrument hinges on the market price of the Shares. During the Year 2019, the Group recorded an other expense attributable to the loss on fair value changes of financial instrument arising from the Subsequent HNC Consideration of HK$72.3 million, equivalent to RMB63.6 million (the "**HNC FV Loss**") (Year 2018: gain of RMB22.3 million). Such loss was calculated by multiplying the Subsequent Consideration Shares by the difference of the closing market price of the Shares between the last reporting date (i.e. HK$8.80 as at 31 December 2018) and at the end of the reporting period (i.e. HK$11.22 as at 31 December 2019). The Group's profit attributable to equity holders of the Company increased by 38.3% to RMB878.4 million for the Year 2019. Excluding the HNC FV Loss of RMB63.6 million, the adjusted profit attributable to equity holders of the Company amounted to RMB942.0 million, representing an increase of RMB360.5 million, or 62.0%, when compared with the adjusted profit for the Year 2018.

The Company would like to emphasise that (i) the HNC FV Loss is an accounting loss which has no adverse implications to the Group's cash flow and operating position; and (ii) such a change in fair value arising from the Subsequent HNC Consideration will continue to impact the consolidated profit or loss account of the Company on a positive or negative way, depending on the Share price, until the Subsequent Consideration Shares are to be issued in 2021 pursuant to the terms as set out in the agreement in relation to the HNC Group Acquisition.

The market share of Kabrita, marketed and distributed by the HNC Group, has been ranked as the No. 1 imported goat milk infant formula in the PRC since 2014. The Company believes that the HNC Group Acquisition will enable the Group to further enhance its operating results and fully benefit from 100% of the cash flow and profits of the HNC Group. It will facilitate better implementation of the operating philosophies and strategies of the Company into the HNC Group for the vision of building Kabrita to be the global number one brand of goat milk infant formula. Further details regarding the HNC Group Acquisition were set out in the announcement and circular of the Company dated 14 February 2018 and 12 April 2018 respectively.

During the Year 2019, the Group continued to execute its upstream and downstream strategic plans, in particular, continuously improving its upstream operations efficiency, streamlining its supply chain, and enhancing its product mix. As a result of the continuous contributions from the above strategies, gross profit margin of the Group improved by 3.1 percentage points when compared with the Year 2018. During the Year 2019, the Group continued strengthening its sales network and brand building which resulted in the continuous growth in sales of own-branded formula milk powder products, particularly in the goat category, which has reported an increase in revenue by 40.5%. The Group also continues to strengthen its research and development ("**R&D**") and quality controls capabilities. Additionally, the Company is pleased to report that the registration of its new factory in New Zealand (the "**PNL Factory**") with The General Administration of Customs of the PRC (中國海關總署) (the "**China Customs**") (previously regulated by the Certification and Accreditation Administration of the PRC) has also been approved during the Year 2019, thereby increasing the total number of registered dry blending and packaging factories of the Group from five to six, covering the Netherlands, Australia, New Zealand and the PRC.

The Company will continue to deploy its strategies and resources with a combination of prudent and proactive approaches with an aim to realise its "Golden Decade" strategic plan set out at the end of 2015.

Formula Milk Powder Business

As the number of newborns continued to decrease in 2019, competition and consolidation in the infant formula industry have intensified. However, the core business of the Group, namely the own-branded formula milk powder business, maintained satisfactory results with an overall sales of RMB6,023.4 million, representing an increase of RMB1,622.0 million, or 36.9%, when compared with the Year 2018. The Group believes that such increase was mainly attributable to (i) the implementation of the Group's effective strategic plans, the constant refinement of its industry chain and the continuous improvement of the upstream operational efficiency and product quality; (ii) the constant enhancement in its product mix in accordance with its well-established multiple-brand strategy that caters to the rising market demand for high-end products; and (iii) the synergies between its brands and channels resulting from its unremitting efforts to develop mama and baby store channels by high-frequency and high-quality marketing activities.

The own-branded formula milk powder products of the Group comprise both cow milk formulas and goat milk formulas. As at 31 December 2019, the Group had a total of forty-five registered formulas under fifteen series covering all segments of the market ranging from premium, high-end to mid-end segments. In particular, thirty-nine formulas under thirteen series were cow milk powders, while six formulas under two series were goat milk powders.

(a) Own-branded Cow Milk Formula

For the Year 2019, sales of own-branded cow milk formulas amounted to RMB3,167.2 million, representing an increase of RMB799.2 million, or 33.8%, when compared with the Year 2018. The Group's own-branded cow milk formula business has established a number of business units ("**BUs**") with different formulas, milk sources, price ranges, and target consumer groups. Each BU has its unique vision and marketing strategy.

Amongst these BUs, the Hyproca 1897 BU, which comprises the brands of Hyproca Hollary, Hyproca Hypure and Neolac, was the fastest-growing BU in the Group and recorded sales of RMB1,692.7 million for the Year 2019, representing an increase of RMB780.8 million, or 85.6%, when compared with the Year 2018. In March 2019, some of the Group's own-branded cow milk formulas, including the Step 1 formulas of two core series, were registered with the State Administration for Market Regulation of the PRC (國家市場監督管理總局) (the "**SAMR**") (formerly regulated by the China Food and Drug Administration). These new products were launched and received overwhelming response from the market. Furthermore, the two newly registered Step 1 formulas boosted the sales of the existing Step 2 and Step 3 formulas of the same series, resulting in a faster year-on-year growth of 46.5% in the sales of own-branded cow milk formulas in the second half of 2019.

During the year, all BUs continued to develop mama and baby store channels. In addition to broadening channel coverage, the brands also created synergies with, and were empowered by, their channels through all sorts of online and offline member activities. For instance, the Hyproca 1897 BU launched the Hyproca 1897 Fairy Tale Festival (海普諾凱1897童話節), held the Fairy Kingdom's Summer Bubble Festival (夏季童話王國泡泡節) and introduced enhanced membership services in collaboration with over a hundred high-end hotels to provide premium out-of-town services to the brand's members. On the other hand, the Allnutria BU comprehensively targeted families with maternal mothers, infants, and toddlers by organising a theme park event called the Pure Country's Quest for Light (純淨國尋光記), a yoga activity named Le Huo Yun Mammies (樂活孕媽咪) and the Lecture Tour by Breastfeeding Experts from Peking University (北大專家科哺育行), a breastfeeding-related popular science campaign.

All BUs under the Group's cow milk formula segment have also made every effort to boost their brand influence. The Hyproca 1897 BU appointed Mr. Jimmy Lin Chih-ying (林志穎), a famous actor and singer from Taiwan, as Neolac's ambassador. It also served as the title sponsor of Mr. & Mrs. (《我家小倆口》), a popular variety show, and provided title sponsorship for Hyproca to another popular variety show, Mr. Housework (《做家務的男人》). Celebrity endorsement was also arranged in collaboration with the team of Joy of Life (《慶餘年》), a popular television series. The Allnutria BU upgraded its brand image by officially announcing its cooperation with the national tennis team of the PRC and rolling out home-screen pictures and promotional videos for the team. The Puredo BU raised its brand exposure by acting as the sole sponsor of Innocence Hit the Earth (《童心撞地球》), the first large-scale children's drama show in the PRC produced by maijimaiji.cn (金鷹卡通).

In the Year 2019, the Group introduced a series of new cow milk formula products. Hyproca Hypure, a series of new products imported directly from the Netherlands, was launched by the Hyproca 1897 BU at the Great Wall in Beijing, the PRC in June 2019. In November 2019, the Allnutria BU inaugurated its new product, Ausnutria's ExtraPure organic milk powder for maternal mothers, at the second China International Import Expo. This product obtained organic certifications from the Australian Certified Organic (ACO) and China Organic Food Certification Center (COFCC) (中綠華夏). It is also the first organic milk formula for maternal mothers to be launched in the PRC and Australia simultaneously. In December 2019, the Puredo BU also debuted an international version of Puredo infant formula imported directly from New Zealand on JD.COM.

Through such efforts, all of the Group's brands have successfully raised their brand influence and awareness, and captured the hearts of the consumers. Add to that the success of the newly-launched products and their positive market response, the Group is confident that the own-branded cow milk powder business will maintain healthy sales growth.

(b) Own-branded Goat Milk Formula

For the Year 2019, sales of own-branded goat milk formulas amounted to RMB2,856.2 million, representing an increase of RMB822.8 million, or 40.5%, when compared with the Year 2018. The Group's own-branded goat milk formulas are all produced in the Netherlands and marketed globally.

Over the years, the Group has been striving to raise awareness about goat milk and foster the growth of the industry while expanding its up-stream production capacity and securing quality raw materials for production. The Group has sponsored dairy industry conferences to publicise the special nutritional value of goat milk, and has established academic exchange platforms with medical experts, to safeguard the health of mothers and children. As a result, consumer acceptance of goat milk and awareness about Kabrita have both soared.

According to relevant market research data, the goat milk formula market continues to outpace the infant formula market when compared with other categories. Such exponential growth of the goat milk formula industry has prompted many industry players to roll out goat milk formula products. Although competition intensified, market recognition of goat milk formulas was also on the rise. Notwithstanding such competition, goat milk powder products of the Group remained the leaders in the industry in the PRC. Data from the China Customs shows that the imported goat milk formula of the Group continued to dominate the market with a 60.5% share in the import market, and ranked ninth in the overall imported formula market, for the Year 2019.

During the year, the Kabrita BU raised its brand awareness by enlisting Mr. Huang Lei(黃磊)(a famous celebrity in the PRC) as its brand ambassador, renovating its outlets, placing targeted advertisements and high-speed rail advertisements, using placement marketing on a popular television series called A Little Reunion(《小歡喜》), and putting advertisements on various mainstream media. To strengthen its channels, the campaign at the outlets focused on three themes, namely "Kabrita walks with Kids(佳貝愛TA童心同行)", "Kabrita Queen's Festival(佳貝愛TA女王節)" and "Kabrita JingYing Eye Protection Festival(佳貝愛TA睛瀅護眼節)", to comprehensively cover infant, pregnancy, and children's milk powder formulas.

To tap into the enormous potential of the adult health product market in the PRC, the Kabrita BU successfully rolled out two lines of family formulas imported directly from the Netherlands, namely Kabrita Yingjia High-Calcium and High-Selenium Goat Milk Powder Formula(佳貝艾特營嘉-高鈣富硒配方羊奶粉) and Kabrita Yingjia Probiotics + Prebiotics Goat Milk Powder Formula (Yingjia)(佳貝艾特營嘉-益生菌 + 益生元配方羊奶粉(營嘉)), in November 2019. Capitalising on the brand influence and strong membership base of Kabrita, Yingjia's family milk powders were well received by the market. To further boost its brand awareness, Yingjia increased its exposure on a wide range of media by investing in a popular adopted web drama called Three Lives, Three Worlds, The Pillow Book(《三生三世枕上書》). In December 2019, the Kabrita BU also experimented with offline specialty stores in various neighbourhoods in order to promote and introduce goat milk to such communities in daily life.

In June 2019, Kabrita was invited to the 52nd annual conference of European Society for Paediatric Gastroenterology, Hepatology, and Nutrition (ESPGHAN) in Glasgow, Scotland. This annual conference attracted over 4,000 professionals in those fields from more than 100 countries. Experts there affirmed Kabrita's research results, such as the superior absorption rate and nutritional proximity of goat milk whey protein compared to breast milk.

After 8 years of efforts in this industry, Kabrita's infant formulas have successfully captured the heart of the consumers and built up several core strengths. In geographical terms, Kabrita has established footholds in 66 countries and regions across the world and will continue to enlarge its sales area. Leveraging on the capital base of the Group, Kabrita successfully rolled out Yingjia's family formulas during the year. This represented not only a monumental progress in making Kabrita a household name in the goat milk market, but also a strategic step in the Group's long-term plan to develop comprehensive family nutrition solutions. The Group believes that the potential of the goat milk infant formula market, coupled with that of the enormous adult market, will stimulate relatively healthy and rapid growth in its own-branded goat milk formulas.

(c) Private Label and Others

Alongside the development of its own-branded formula milk powder business, the Group also produces formula milk powder products for other worldwide customers on an original equipment manufacturing basis. For the Year 2019, sales of the Private Label business, which represented 3.0% (Year 2018: 6.3%) of the total revenue of the Group, decreased by 40.3% to RMB201.8 million. The decrease in sales of the Private Label business was due mainly to a strategic reorientation.

The Company believes that the Private Label business will continue to play a role in the Group's growth. In particular, with the continuous ramping up of the output and efficiency of the Group's two factories in the Netherlands which commenced operations in the beginning of 2018 (the "**Ausnutria Heerenveen Factories**"), and the anticipated start of production in the PNL Factory, the Private Label business will help to maximise the operation efficiency of production facilities, and achieve economies of scale while simultaneously provide a reasonable return to the Group. Thus, the Company will continue to develop the Private Label business.

Other than the development of the Private Label business, the Group has other side businesses, including sales of dairy related products such as milk, milk powder, and butter. The Group has entered into long-term contracts with farmers in order to secure the supply of milk sources. The Group will trade its supplies of milk and powder whenever there is a surplus. The Group previously produced butter for decades in a factory in the Netherlands built in 1897 (the "**Ommen Factory**"). In order to allocate more factory space for the Group's development of some ingredients for producing goat milk formula products, the Company decided to terminate the butter business in the second quarter of 2019. Revenue derived from the butter business decreased accordingly when compared with the Year 2018.

Nutrition Business

Since the Group acquired an Australian nutrition business, namely Nutrition Care in 2016, and the subsequent establishment of a sales platform (the "**Nutrition Business**"), the Group has devoted itself to deliver accurate health solutions to the public through naturopathy. With the Australian nutritional products brand, NC, and its sub-brand, Kidsbon, a series of marketing activities has rolled out to offer education and quality nutritional healthcare products to all Chinese families.

NC promotes awareness of gastrointestinal well-being while enhancing its own brand reputation. In April 2019, the Group completed its year-long clinical research study on NC Gut Relief through the National Institute of Integrative Medicine in Australia. Since then, NC Gut Relief has become the only clinically approved health product for the stomach in Australia.

For the Year 2019, sales of nutrition products amounted to RMB118.7 million, representing a decrease of RMB17.4 million, or 12.8% as compared with the Year 2018. Among which, sales derived from NC Gut Relief amounted to RMB72.1 million (Year 2018: RMB80.8 million). The slower-than-anticipated growth in sales of the Nutrition Business was mainly due to a drop in the sales of Soforla products, as a result of a product suspension during the Year 2019. The suspension of Soforla products was caused by a packaging issue incurred by an outsourced contractor. As at the date of this report, the Group is working closely with other outsourced contractors to resume the production of the product, which the Group believes has a very good market prospect. Based on the latest plan, the Group believes Soforla products can be relaunched around the third quarter of 2020. The performance of the Nutrition Business was also adversely affected by the civil unrest in Hong Kong, as well as the e-commerce law that became effective during the year, which caused a temporary interruption of cross-border sales.

Marketing activities launched during the year include both online and offline. To strengthen interaction with consumers and extend the influence of the NC brand, NC Gut Relief engaged TikTok, a short-form mobile video platform, and organised a series of themed contests during the year. In October 2019, a press conference on NC Gut Relief's clinical trial and NC's new products was held in Melbourne, Australia. At this conference, experts from the PRC and Australia, such as Mr. Yang Qinbing, the head of medical nutrition department of Tsinghua University Affiliated Beijing Tsinghua Changgung Hospital, Mr. Wang Ming Yong, an Asian expert in raw veganism, Ms. Lynda Griparic, a famous Australian natural therapist, and Ms. Geraldine Georgeou, a famous Australian practicing dietician, discussed the importance of gastrointestinal health and advocated the philosophy of "Love your gut Live your life". The Company also rolled out its comprehensive offline network comprising hundreds of sales points across Hong Kong, Australia, and New Zealand, including big retailer chains. In 2019, NC's brand was greeted by e-commerce channels and the public with nods of approval, such as being named the guru of gastrointestinal health in the holistic health product category (機能平衡品類－腸胃健康艦長) by Tmall Global and an outstanding partner for the year by Joybuy, as well as being invited to participate in the second China International Import Expo in Shanghai. These initiatives have strengthened interactions with the consumers and extended the market influence of the brands. However, the results of such activities have been partly offset by the issues mentioned above.

To promote consumers' awareness of beneficial nutrients, the Group will continue to foster channel collaboration and roll out online and offline educational activities. As consumers in the PRC are becoming more health-conscious over time, in particular after the outbreak of COVID-19, the Group believes that the Nutrition Business will benefit from the increasing market demand of nutrition products by leveraging on its infrastructure and wide distribution network.

STRATEGIC STEPS TAKEN

Extension of Nutrition Business – Probiotics

On 6 June 2019, Ausnutria Dairy Investments Limited ("**ADI**"), a wholly-owned subsidiary of the Company, entered into a subscription agreement (the "**CB Subscription Agreement**") in relation to the subscription of the convertible bonds in the principal amount of US$30.0 million (equivalent to RMB207.4 million) (the "**Convertible Bonds**"). The Convertible Bonds were issued by Genlac Biotech International Corporation (the "**CB Issuer**"), a special purpose vehicle incorporated in the Cayman Islands for the purpose of acquiring the equity interest in Glac Biotech Co. Ltd (the "**Glac Biotech**").

Glac Biotech is a company listed on the Taipei Exchange (stock code: 6553.TW) and principally engaged in the R&D, manufacturing, packaging, and sale of probiotics- and fermentation-related application products. As at the date of entering into the CB Subscription Agreement, Glac Biotech is owned as to 40.2% by Center Laboratories, Inc. ("**Center Lab**"), a substantial shareholder of the Company. On 6 June 2019, Center Lab announced the privatisation proposal (the "**Proposed Privatisation**") of Glac Biotech by the CB Issuer (details of which are set out in the announcement of Center Lab published on the Market Observation Post System on 6 June 2019).

Upon completion of the Proposed Privatisation and full conversion of the Convertible Bonds, the CB Issuer will be owned by Center Lab and/or its subsidiary, the Group, and the other shareholders of Glac Biotech as to 36.6%, 26.1%, and 37.3%, respectively.

On 6 June 2019, ADI and Glac Biotech entered into share purchase deed (the "**Share Purchase Deed**"), pursuant to which ADI has conditionally agreed to acquire (and Glac Biotech has conditionally agreed to sell) the entire equity interest in Aunulife Pty Ltd ("**Aunulife**"), a company incorporated in Australia and a wholly-owned subsidiary of Glac Biotech, at a consideration of AUD0.8 million (equivalent to RMB3.9 million) (the "**Aunulife Acquisition**"). Aunulife is a company established in Australia and principally engaged in the development, distribution, and sales of probiotic health products under an Australian probiotic health supplement brand. Aunulife has several products that are registered with, and obtained certifications from, the Therapeutic Goods Administration (TGA) in Australia. The acquisition of Aunulife was completed on 31 October 2019.

The Board believes that the investments in Glac Biotech and the Aunulife Acquisition can create synergy with and are complementary to the Nutrition Business because: (i) the Group can capitalise on the R&D of probiotics-and fermentation-related application products of Glac Biotech to launch probiotic products that align with the corporate strategic development; (ii) the Group's upstream sourcing capability can be enhanced; and (iii) Aunulife's existing products will further enrich the product portfolio of the Nutrition Business and strengthen the Group's market position in the segment of gastrointestinal nutrition products. Taking into account the uncertainties that may arise from the Proposed Privatisation, the Board believes that investment by way of the Convertible Bonds provides greater protection and flexibility for the Group at this juncture.

As the CB Issuer is an associate of Center Lab, being a substantial shareholder of the Company, the entering into the CB Subscription Agreement and the Share Purchase Deed with the CB Issuer and Glac Biotech, respectively, constituted connected transactions for the Company. The issuance of the Convertible Bonds was completed in July 2019. Further details regarding the above are set out in the announcement of the Company dated 6 June 2019.

On 31 December 2019, the Proposed Privatisation is completed and the Company has already notified the CB Issuer for the conversion of the Convertible Bonds into equity interest. As at the date of this report, the conversion of the Convertible Bonds is still in progress.

Nutriunion Group Acquisition

On 8 July 2019, the Group (through its wholly-owned subsidiaries) entered into sale and purchase agreements for the acquisitions of each of the remaining 40% equity interest in Nutriunion (Hong Kong) Company Limited ("**Nutriunion HK**") and Nutriunion (Guangzhou) Interconnection Technology Co. Ltd（廣州雲養邦互聯科技有限公司）("**Nutriunion GZ**") (collectively, the "**Nutriunion Group**") from the vendors, who are all existing directors/supervisors of the Nutriunion Group or companies legally and beneficially owned by existing employees of the Nutriunion Group. The Nutriunion Group is principally engaged in the marketing and distribution of the nutrition products of the Group, under the brand names of NC and Nutrition Care, in Hong Kong and the PRC. Both Nutriunion HK and Nutriunion GZ are insignificant subsidiaries of the Company by virtue of Rule 14A.09 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Therefore, notwithstanding (in respect of the acquisition of Nutriunion GZ) the vendors' directorships and supervisorship in the Nutriunion Group and (in respect of the acquisition of Nutriunion HK) the interests of certain directors/supervisors of the Nutriunion Group in the vendors, such directors/supervisors of the Nutriunion Group and their associates are not regarded as connected persons of the Company pursuant to Rule 14A.09 of the Listing Rules.

Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion HK, the total consideration comprising (i) an upfront consideration of RMB57.3 million (equivalent to HK$63.7 million), which was settled by the issuance and allotment of 4,118,255 new Shares at a price of HK$15.5 each by the Company; and (ii) a subsequent consideration (if any), which is capped at RMB180.0 million (equivalent to HK$203.4 million). The actual Subsequent Consideration will be determined based on the financial performance of the Nutriunion Group for the three years ending 31 December 2021. Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion GZ, a total consideration of RMB6.8 million (equivalent to HK$7.7 million) shall be settled by cash.

The Board believes the above acquisitions will (i) enable the Group to obtain full control in the Nutriunion Group for better allocation of internal resources of the Group; (ii) avoid conflict of interest and hence facilitate the operations of the Nutriunion Group as the interest of the management team of the Nutriunion Group will then be aligned with the interest of the Company; (iii) provide a good incentive scheme to the management team of the Nutriunion Group, as a large part of the Consideration for the acquisitions is linked to the performance of the Nutriunion Group and deferred to 2022; and (iv) strengthen the Group's position for the long-term growth and development in the Nutrition Business, which is one of the major long-term visions of the Company. Benefited from the above acquisitions, the interests of the Nutriunion Group and the Group will be integrated and hence create better synergy with the Group a whole, and hence improve the operational efficiency.

The acquisition of the Nutriunion Group was completed in October 2019. Since then, both Nutriunion HK and Nutriunion GZ have become indirect wholly-owned subsidiaries of the Company. Further details regarding the acquisition of the Nutriunion Group are set out in the announcement of the Company dated 8 July 2019.

Changsha Land Acquisition

On 20 November 2019, Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with an independent party (the "**Changsha Land Vendor**"). Pursuant to the agreement, Ausnutria China agreed to acquire and the Changsha Land Vendor agreed to sell the entire equity interests in 湖南坤源塑化有限公司 (the "**Changsha Land Holdco**"), a company established in the PRC, which as of the date of the agreement, is holding a plot of land (the "**Changsha Land**") with a site area of approximately 84,000 square meters and is adjacent to the Group's existing production facility in Changsha City, the PRC, at a consideration of US$11.5 million (equivalent to approximately RMB79.3 million).

The purpose of the Changsha Land acquisition is to facilitate the future expansion of the Group's production and storage facilities in Changsha city, the PRC. The consideration was determined after arm's length negotiation between Ausnutria China and the Changsha Land Vendor based on the appraised value of the Changsha Land reported under a valuation report produced by an independent qualified appraisal company in the PRC.

As at the date of this report, the Changsha Land Acquisition is still in progress.

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of the PRC, the number of newborns in the PRC in 2019 was 14.65 million, representing a decline of 3.8% when compared with 2018. Nevertheless, the decline has narrowed when compared with 2018, in which a drop of 11.6% as compared with 2017 was recorded. Relevant industry data shows that in 2019, the infant formula industry in the PRC recorded a total retail sales value of RMB175.5 billion, representing a year-on-year growth of 8.4%, as well as a year-on-year growth in sales volume of 4.6%.

We believe that the development of the infant formula industry in the PRC will be characterised by:

Consumption upgrade – Brand upgrade will become the key driver of the whole industry. Relevant industry researches indicate that the market share of high-end and premium infant formulas amongst all infant formulas has risen from 22% in 2014 to 38% in 2018, and will rise further to 58% in 2023, due to the aspiration of the younger generations for a more stylish and higher quality life.

Change of focus from new consumer to existing consumers and faster market consolidation – The downward trend in the number of newborns in the PRC will continue due to a decline in the population of fertile women as well as the lack of incentive to raise children under the immense pressure of life. The infant formula industry in the PRC will shift from the explosive growth stage into a maturity stage with static sales growth. Relevant industry data shows that, attributable to tightening industry regulations, the market shares of the top three players in the PRC infant formula industry increased by 2.5 percentage points from 34.4% in 2018 to 36.9% in 2019, while the shares of the top ten players increased by 2.9 percentage points from 72.6% in 2018 to 75.5% in 2019. It is believed that the PRC infant formula industry will further consolidate due to tightening regulations.

Supremacy of domestic brands with comprehensive industry chains, extensive channel knowledge, and experience in the PRC – In view of the all-round improvement in their products, channels, and marketing strategies, leading domestic brands have gradually regained consumers' trust. According to relevant industry data, the aggregate market share of the top five domestic brands surged from 29.1% in 2018 to 37.3% in 2019, while that of top five foreign brands dropped from 34.7% to 29.3%. Following the introduction of the policy of "Action Plan of Promoting Domestically Produced Infant Formula Milk Powder（國產嬰幼兒配方乳粉提升行動方案）" in the PRC in 2019, brands with topnotch international supply chains will increase their market share gradually by further enhancing their brand capacity and penetrating into lower-tier cities in the PRC.

Despite a declining trend of newborns in the PRC, the high industry entry barriers (as a result of the PRC government raising its industry regulatory standards) will accelerate the consolidation of the industry, and thus the PRC dairy industry is expected to have a healthier growth in the long run. This would benefit those industry participants, including the Group, who possess strong R&D and production capability.

UPDATES IN RELATION TO THE NOVEL CORONAVIRUS PNEUMONIA

Since the outbreak of the coronavirus disease (COVID-19) (the "**Pandemic**"), the Board has been monitoring the development of the Pandemic and assessing its impact to the Group's operations. The Company has since the Pandemic taken immediate steps and measures to protect its employees from being infected. As at the date of this report, the Board is not aware of any infected cases among the Group's employees. Despite there are a number of confirmed infected cases in Changsha city, Hunan province, where the Group's headquarter in the PRC is located, and subsequently also in the other parts of the world where the Group upstream operations are located, the Group's operations have not experienced any material disruptions. As at the date of this report, except that there are some interruptions on the logistic aspect for the delivery of goods to the consumers, the Board is not aware of any material adverse impact to the Group' financial or trading position caused by the Pandemic.

Furthermore, as at the date of this report, the Company has committed to the national action plans in the PRC to fight against the Pandemic. The Group's brands acted quickly with Ausnutria YOU-Foundation and has donated eight batches of cash, medical supplies and nutrition products to charities in the PRC which worth over RMB67.6 million in total. The Board will continue to closely monitor the market situation and continuously evaluate the impact of the Pandemic on the Group's operations, and provide updates to shareholders of the Company (the "**Shareholders**") and potential investors if there is any material development.

OUTLOOK

Based on the strategic steps that have been implemented by the Group over the years, from the investment in world-class upstream facilities to the building of a strong and well-established downstream sales team and network, and the establishment of strong R&D capabilities and first-class quality control system, the Company believes that the Group is well-positioned to become one of the major players on infant formula in the world, and a leading company in the PRC on infant formula, nutritional products, and nutritional services. The Company will continue to allocate its best resources to support the ongoing developments in these important areas, in particular on the R&D, the digitalisation of the operational platform and further improvement of the supply capabilities.

Expansion of the Production Facilities

The contribution of formula milk powder products accounted for approximately 89.4% of the total revenue of the Group for the Year 2019. According to various market reports, the market share of the Group's infant formula milk has been ranked among the top ten in the PRC in 2019. Among which, the market share of Kabrita has consecutively been ranked as the number one for goat infant formula, since 2014 in the PRC.

The Group will continue to implement its innovative marketing strategies and to provide quality products and better value added services to its distributors and consumers. It aims to further expand the market share of the Group in the PRC for formula milk powder products, as well as overseas for goat and organic formula milk powder products.

(a) Investments in Infant Formula Base Powder facility

In order to accomplish the above strategies of the Group, subsequent to the end of the reporting period, the Board has approved the Group to invest in a new infant formula base powder facility (the "**New IFBP Facility**") and other related facilities principally for the processing of goat milk and goat whey. This will be a total investment of EUR140.0 million (equivalent to approximately RMB1,094.8 million) in the Netherlands.

As of the date of this report, all the base powder for the goat milk formula products is produced by Ausnutria Kampen B.V. ("**Kampen**"), a wholly-owned subsidiary of the Company established in the Netherlands. The base powder for the cow milk formula products produced in the Netherlands are partly supplied by Kampen and partly outsourced from independent third parties located in the Netherlands.

According to the plan, the New IFBP Facility and other related facilities, which will principally be designated for the processing of goat milk and goat whey, have a designed annual production capacity of 35,000 tonnes of base powder and an annual processing capacity of 4,400 tonnes of goat whey concentrate. The New IFBP Facility and the related facilities will be built at the Group's existing production plant in Heerenveen, the Netherlands, where the dry blending and packaging factories are located. The base powder produced and goat whey processed by the new facilities will be used by the Ausnutria Heerenveen Factories and the Lypack factory, all based in the Netherlands, for further drying, blending, and packaging into end products.

Since the launch of Kabrita in 2011, Kabrita has become one of the key income drivers to the Group. In order to sustain the long-term continuous growth of Kabrita and to realise the Company's vision to maintain its position as the global leader in goat milk based infant formula powder products, the Board is of the view that the investments in the new facilities are part of the important milestones to the Group.

The investments in the New IFBP Facility and the related establishments will be financed by cash flow of the Group and bank facilities. The New IFBP Facility is expected to be completed in 2022.

(b) Completion of the Factories and Brand Registration

During the Year 2019, the Group has completed the construction of a new dry blending factory (the "**Smart Factory**") in Changsha City, the PRC, and succeeded in the registration of the PNL Factory with the China Customs.

The Company will endeavor to fulfill the formula registration requirements with the SAMR for these two newly established factories.

(c) Secure key ingredients

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

Expansion of Nutrition Business

Since 2016, the Group extended its business into the nutrition sector by investing in Nutrition Care Pharmaceutical Pty Ltd ("**NCP**"), a company engaged in development, manufacturing, packaging, and distribution of complementary medicine, nutritional and health care products. In 2017, the Group launched a number of the nutrition products developed by NCP under various brands, including Nutrition Care, NC, and Kidsbon, into the PRC. Despite that revenue contributed by the Nutrition Business segment for the Year 2019 continued to be small, accounting for less than 2% of the Group's total revenue, the Company considers the extension and development of the Nutrition Business to be a major strategic step of the Group.

In 2019, the Group invested in Glac Biotech for the purpose of extending the Nutrition Business into the probiotic sector. Glac Biotech is principally engaged in the R&D, manufacturing, packaging, and sale of probiotics-and fermentation-related application products. According to the business plan between Glac Biotech and the Company, Glac Biotech will continue to carry on its existing well-established business-to-business marketing and distribution strategies, while the Group will commence the development of business-to-consumer. The Group has already planned to launch a number of probiotic-related products in the second quarter of 2020 under a number of brands, including Aunulife（愛益森）, in the PRC. Such probiotic products will be marketed and distributed by the existing BUs of the Group by leveraging on its existing distribution networks, customers, and other resources. Furthermore, in order to support the development of personal nutrition services, the Company is in the process of establishing a laboratory for genetic-related testing. The laboratory is scheduled to commence service in 2020.

The Company will continue to execute its R&D with an aim to realise its "Golden Decade" strategic plan and its vision "To become the most trustworthy milk formula, nutrition and health-care enterprise in the world."

FINANCIAL REVIEW

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

Revenue

	Notes	2019 RMB'M	2018 RMB'M	Change %	Proportion to total revenue 2019 %	Proportion to total revenue 2018 %
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	3,167.2	2,368.0	33.8	47.0	43.9
Goat milk (in the PRC)	(i)	2,570.3	1,772.5	45.0	38.2	32.9
Goat milk (elsewhere)	(i)	285.9	260.9	9.6	4.2	4.8
Goat milk total		2,856.2	2,033.4	40.5	42.4	37.7
		6,023.4	4,401.4	36.9	89.4	81.6
Private Label	(ii)	201.8	337.9	(40.3)	3.0	6.3
Milk powder	(iii)	177.2	198.7	(10.8)	2.6	3.7
Butter	(iv)	36.6	160.7	(77.2)	0.5	3.0
Others	(v)	178.5	154.8	15.3	2.7	2.9
Dairy and related products		6,617.5	5,253.5	26.0	98.2	97.5
Nutrition products	(vi)	118.7	136.1	(12.8)	1.8	2.5
Total		6,736.2	5,389.6	25.0	100.0	100.0

Notes:

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

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

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

(iv) Representing the sales of butter which is produced during the milk treatment process. The butter business was terminated in the second quarter of 2019.

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

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

For the Year 2019, the Group recorded revenue of RMB6,736.2 million, representing an increase of RMB1,346.6 million, or 25.0%, from RMB5,389.6 million for the Year 2018. Despite the competition of the formula milk powder product market in the PRC continuing to be intense during the Year 2019, revenue of the Group continued to increase. This was mainly driven by the increase in sales of the Group's own-branded cow and goat milk formula products by 33.8% and 40.5% respectively, when compared with that of the Year 2018, as a result of the continuous strengthening of sales network and brand building.

In the past years, the Group experienced limits on production capacity and maintained a strategy to serve the own-branded sector with priority. With the commencement of operation of the Ausnutria Heerenveen Factories in the beginning of 2018, the production capacity limitation issue is gradually relieved. As more time is required for the Group to rebuild its customer base in the Private Label business, the sales of the Private Label business dropped when compared with the Year 2018. Besides, as more milk powder was consumed for the production of own-branded formula milk powder products, sale derived from the trading of milk powder for the year decreased accordingly.

The Group previously produced butter for decades in the Ommen Factory in the Netherlands, a factory established in 1897 and with the longest history of the Group. In order to allocate more factory space for the Group's development of some ingredients for producing goat infant formula products, the Company decided to terminate the butter business in the second quarter of 2019. Revenue derived from the butter business decreased accordingly when compared with the Year 2018.

Gross profit and gross profit margin

	Gross profit		Gross profit margin	
	2019 RMB'M	2018 RMB'M	2019 %	2018 %
Own-branded formula milk powder products:				
Cow milk	1,756.4	1,296.7	55.5	54.8
Goat milk	1,689.2	1,104.8	59.1	54.3
	3,445.6	2,401.5	57.2	54.6
Others	87.1	233.0	14.7	27.3
Dairy and related products	3,532.7	2,634.5	53.4	50.1
Nutrition products	51.7	78.7	43.6	57.8
	3,584.4	2,713.2	53.2	50.4
Less: write-down of inventories to net realisable value	(51.1)	(52.6)		
Total	3,533.3	2,660.6	52.5	49.4

The Group's gross profit for the Year 2019 was RMB3,533.3 million, representing an increase of RMB872.7 million, or 32.8%, when compared with the Year 2018. The increase in the gross profit margin of the Group from 49.4% for the Year 2018 to 52.5% for the Year 2019 was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded formula milk powder products, particularly those products that are in the super premium and niche segments, as compared with the other business sectors. Overall contribution to revenue by the own-branded formula milk powder products increased to 89.4% for the Year 2019 (Year 2018: 81.6%).

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2019 RMB'M	2018 RMB'M
Interest income	(i)	27.4	26.3
Government grants	(ii)	28.1	16.0
The HNC FV Gain	(iii)	–	22.3
The Ozfarm Re-measurement Gain	(iv)	–	35.0
Management fees income from an associate		2.1	0.2
Others		11.6	14.3
		69.2	114.1

Notes:

(i) Balance mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC. The increase in interest income was in line with the increase in the average bank balances during the Year 2019.

(ii) Balance mainly represented incentive income received from the government of the Hunan province, the PRC for the contribution made by Ausnutria China in the Hunan province, the PRC during the Year 2019.

(iii) The balance in the prior year represented the fair value gain of derivative financial instruments arising from the contingent consideration as a result of the HNC Group Acquisition in May 2018.

(iv) The balance in the prior year represented the gain on re-measurement of previously held 50% equity interest in Ozfarm Royal Pty Ltd ("**Ozfarm**") as a result of the Group's acquisition of the remaining 50% equity interest in Ozfarm in June 2018 (the "**Ozfarm Re-measurement Gain**").

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 26.3% (Year 2018: 26.8%) of the revenue for the Year 2019. The decrease in the selling and distribution expenses to revenue ratio was mainly due to the net effect of:

(i) the decrease in air-freight charges by RMB51.0 million from RMB112.8 million for the Year 2018 to RMB61.8 million for the Year 2019. In the prior year, in order to shorten the delivery time of the products and meet the market demand of the Group's own-branded products in the PRC, more air-freight charges were incurred. As more products can now be produced by the Ausnutria Heerenveen Factories and railway transport is used for the delivery of products, airfreight charges dropped in the current year;

(ii) the proportionate increase in the sales of own-branded products which the selling and distribution costs ratio is normally higher than other business sectors; and

(iii) more brand-building campaigns were carried out during the year as detailed in the Business Review and Outlook section of this report in order to gain market share.

Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB19.5 million (Year 2018: RMB2.9 million)), travelling expenses, auditors' remuneration, professional fees, depreciation and R&D costs.

The administrative expenses accounted for 8.3% (Year 2018: 8.6%) of the revenue of the Group for the Year 2019. Despite the increase in R&D costs by RMB32.0 million, from RMB100.1 million for the Year 2018 to RMB132.1 million for the Year 2019 for the R&D of new products, administrative expenses to revenue ratio decreased which was primarily attributed to the continuous benefit from the economy of scale.

Other expenses

Other expenses for the Year 2019 mainly comprised (i) the HNC FV Loss of RMB63.6 million (Year 2018: HNC FV Gain of RMB22.3 million); (ii) charitable donations of RMB11.0 million (Year 2018: RMB2.2 million); (iii) professional fees of RMB5.2 million (Year 2018: Nil) in relation to the independent review on the matters as alleged in the short seller reports published in the current year; and (iv) net foreign currency exchange losses of RMB8.6 million (Year 2018: RMB30.8 million) arising from the foreign currency transactions, mainly between EUR and RMB, and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency rates of exchange ruling at the end of the reporting period.

The prior year balance also included the loss on fair value change of derivative financial instrument in relation to a call option granted by the vendors of Ozfarm upon completion of the first acquisition of 50% interest in Ozfarm in 2017 of RMB3.7 million (the "**Ozfarm FV Loss**"). Such call option is lapsed upon completion of the acquisition of remaining 50% interest in Ozfarm in 2018.

Finance costs

The finance costs of the Group for the Year 2019 amounted to RMB33.3 million (Year 2018: RMB29.8 million), representing mainly interest on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

The increase in finance costs was mainly attributable to the increase in interest-bearing bank loans and other borrowings.

Share of profits and losses of associates

Balance mainly represented the share of profits of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**") for the Year 2019. 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 2019 were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria China and HNC, both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the Year 2019. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000. The standard CIT rates in Australia, New Zealand, the United States, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 20%, respectively.

The Group's adjusted effective tax rate of 19.5% (excluding the HNC FV Loss of RMB63.6 million) for the Year 2019 remained fairly stable as compared with the Year of 2018 of 20.0% (excluding the Ozfarm Re-measurement Gain, the Ozfarm FV Loss (collectively the "**Ozfarm One-Off Net Gain**") and the HNC FV Gain of a total of RMB53.6 million).

Profit attributable to ordinary equity holders of the Company

The Group's profit attributable to equity holders of the Company for the Year 2019 amounted to RMB878.4 million, representing an increase of RMB243.3 million, or 38.3% when compared with the Year 2018.

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

	2019 RMB'M	2018 RMB'M	Change %
Profit attributable to equity holders of the Company	878.4	635.1	38.3
The HNC FV Loss	63.6	–	
The HNC FV Gain	–	(22.3)	
The Ozfarm One-Off Net Gain	–	(31.3)	
Adjusted profit attributable to equity holders of the Company	942.0	581.5	62.0

The continuous improvement in the Group's financial performance was spurred by (i) better brand awareness and acceptance of the Group's goat and cow brands in the market; (ii) the implementation of the Group's strategic plans, in particular, continuous improvement of the upstream operational efficiency, streamlining of the supply chain and enhancement in the product mix; and (iii) the improvement in business structure as a result of the rising proportion of the sales of the Group's own-branded goat and cow milk formula products.

Analysis on Consolidated Statement of Financial Position

As at 31 December 2019, the total assets and net asset value of the Group amounted to RMB8,343.2 million (2018: RMB6,829.0 million) and RMB4,063.9 million (2018: RMB3,394.5 million), respectively.

The increase in total assets of the Group as at 31 December 2019 was mainly attributable to the effect of:

(i) the increase in inventories of RMB507.0 million as a result of the scale-up of the Group's operations;

(ii) the subscription of the Convertible Bonds in the principal amount of US$30.0 million (equivalent to RMB207.4 million). Further details regarding the subscription of the Convertible Bonds are set out in the Business Review and Outlook section of this report;

(iii) the increase in long term prepayments and deposits of a total of RMB158.2 million mainly for the expansion of the facilities in the Netherlands and acquisition of the Changsha Land;

(iv) the recognition of right-of-use assets of RMB349.3 million as a result of the adoption of IFRS 16 with effect from 1 January 2019; and

(v) the net increase in cash and cash equivalent and pledged deposits of a total of RMB193.0 million derived mainly from cash generated from operating activities.

The increase in total assets of the Group as at 31 December 2019 was mainly financed by internal working capital and the cash flows generated from operating activities of the Group of RMB970.8 million (Year 2018: RMB531.8 million) during the year.

The increase in net assets of the Group as at 31 December 2019 was mainly a result of the net effect of (i) the net profit of the Group generated for the year of RMB878.4 million (Year 2018: RMB635.1 million); (ii) the increase in share capital and share premium accounts of the Company mainly derived from the issuance of approximately 13.2 million Shares for the completion of acquisitions of the remaining 30% equity interest in Ausnutria Pty Ltd ("**APL**") (formerly Ausnutrition Care Pty Ltd); the remaining 25% equity interest in NCP and the remaining 40% equity interest in the Nutriunion Group during the year amounted to a total of RMB139.0 million; (iii) the decrease in the share premium account of the Company arising from the payment of 2018 final dividend of RMB208.8 million; and (iv) the decrease in capital reserve arising from the elimination of the goodwill for the acquisitions of the minority interests in APL, NCP and the Nutriunion Group during the year of a total of RMB85.7 million.

Working Capital Cycle

As at 31 December 2019, the current assets to current liabilities ratio of the Group was 1.65 times (2018: 1.56 times) which remained fairly stable when compared with the prior year.

An analysis of key working capital cycle is as follows:

	2019 Number of days	2018 Number of days	Change Number of days
Inventories turnover days	205	176	29
Debtors' turnover days	21	20	1
Creditors' turnover days	35	37	(2)

The increase in the Group's inventories turnover days was mainly attributable to (i) the increase in finished goods and goods in transit to cater for the growing demand in the coming quarters; (ii) the increase in product portfolio, particularly following the registration of the twelve infant formulas with the SAMR which were completed at the end of March 2019, and the launch of a number of adult formulas; and (iii) the increase in delivery time for changing the transportation from air to railway and sea for cost saving reason.

In view of the Pandemic, subsequent to the end of the reporting period, the Group has taken steps to increase the inventory safety level on certain of its key materials in its production facilities as well as finished goods in the PRC in order to ensure that there is a stable supply of formula milk powder products to its customers. The Group believes that the inventory level will gradually decrease only and until the outbreak is under control.

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

Analysis on Consolidated Statement of Cash Flows

	2019 RMB'M	2018 RMB'M
Net cash flows from operating activities	970.8	531.8
Net cash flows (used in)/from investing activities	(445.2)	227.6
Net cash flows (used in)/from financing activities	(254.5)	105.0
Net increase in cash and cash equivalents	271.1	864.4

Net cash flows from operating activities

The net cash flows from operating activities of the Group for the Year 2019 amounted to RMB970.8 million (Year 2018: RMB531.8 million). The improvement in cash flows from operating activities of the Group for the Year 2019 was mainly contributed by the increase in profit before tax from RMB792.0 million for the Year 2018 to RMB1,107.2 million for the Year 2019.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2019 of RMB445.2 million (Year 2018: net cash inflows of RMB227.6 million) mainly represented the net effect of (i) the purchase of property, plant and equipment of RMB208.4 million (Year 2018: RMB307.0 million) mainly for the construction of the factories; (ii) the subscription of the Convertible Bonds of RMB207.4 million (Year 2018: Nil); and (iii) the net decrease in pledged time deposits of RMB31.6 million (Year 2018: RMB540.9 million) according to the Group's treasury policy.

Net cash flows used in financing activities

The net cash flows used in financing activities of the Group for the Year 2019 of RMB254.5 million (Year 2018: net cash inflows of RMB105.0 million) was primarily contributed by the effect of (i) dividends paid during the year of RMB207.9 million (Year 2018: RMB106.9 million); and (ii) the net repayment of bank loans and other borrowings of a total of RMB9.9 million (Year 2018: RMB854.4 million).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the acquisitions as detailed in the section headed "Business Review and Outlook", there were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Year 2019.

TREASURY POLICY

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

	As at 31 December	
	2019	2018
	RMB'M	RMB'M
Interest-bearing bank loans and borrowings	(1,203.8)	(1,075.4)
Less: Pledged deposits[1]	396.2	427.8
Cash and cash equivalents[2]	1,674.5	1,449.9
	866.9	802.3
Total assets	8,343.2	6,829.0
Shareholders' equity	4,015.7	3,253.7
Gearing ratio[3]	N/A	N/A
Solvency ratio[4]	48.1%	47.6%

Notes:

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

	2019		2018	
Currency	RMB'M	%	RMB'M	%
RMB	395.4	99.8	427.8	100.0
EUR	0.8	0.2	–	–
Total	396.2	100.0	427.8	100.0

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

	2019		2018	
Currency	RMB'M	%	RMB'M	%
RMB	1,129.8	67.5	630.4	43.5
EUR	275.0	16.4	198.5	13.7
HK$	125.6	7.5	448.4	30.9
US$	61.3	3.7	54.4	3.8
AUD	42.4	2.5	81.9	5.6
TWD	10.9	0.6	13.6	0.9
NZD	3.3	0.2	4.3	0.3
Others	26.2	1.6	18.4	1.3
Total	1,674.5	100.0	1,449.9	100.0

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

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

The Group is dedicated to maintain its overall liquidity by maximising the cashflows generated from operating activities and increasing the facilities with banks to reserve sufficient funding to support its business development, in particular to meet the Group's strategy of building the New IFBP Facility and the related facilities and the extension into the Nutrition Business segment.

As at 31 December 2019, the Group had outstanding borrowings of RMB1,203.8 million (2018: RMB1,075.4 million), of which RMB419.8 million (2018: RMB659.0 million) was due within one year and the remaining RMB784.0 million (2018: RMB416.4 million) was due over one year.

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

	2019		2018	
Currency	RMB'M	%	%	%
EUR	986.1	81.9	1,051.4	97.8
RMB	178.2	14.8	3.0	0.3
Others	39.5	3.3	21.0	1.9
Total	1,203.8	100.0	1,075.4	100.0

As at 31 December 2019, 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 EUR235.0 million, equivalent to approximately RMB1,836.4 million (2018: EUR239.9 million, equivalent to approximately RMB1,882.6 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB396.2 million (2018: RMB427.8 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the Year 2019, 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**"), Taiwan dollars ("**TWD**") or New Zealand dollars ("**NZD**") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in RMB and EUR, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, EUR, US$, AUD, TWD or NZD against RMB.

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

The management monitors closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact. As at 31 December 2018, the Group had a EUR against RMB capped forward contract of EUR10.0 million to hedge certain of its EUR denominated transactions which was expired during the year.

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 an interest rate swap contract with a bank, effective from 30 September 2015, of a notional amount of EUR12.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 0.42% per annum. The interest rate swap contract will expire in June 2020.

CREDIT RISK

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

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

COMMITMENTS

As at 31 December 2019, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries and intangible assets of a total of RMB212.3 million (2018: RMB13.9 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

USE OF PROCEEDS FROM THE CITIC SUBSCRIPTION

On 4 April 2018, CITIC Agri Fund Management Co., Ltd（中信農業產業基金管理有限公司）("**CITIC Agri Fund**") entered into a subscription agreement with the Company to subscribe an aggregate of 249,000,000 ordinary shares of the Company of HK$0.10 each at a subscription price of HK$5.18 per subscription share (the "**CITIC Subscription**"), representing a discount of 20.67% to the closing price of HK$6.53 per Share as quoted on the Stock Exchange on 4 April 2018. The CITIC Subscription was completed on 26 October 2018 and the gross and net proceeds raised from it amounted to approximately HK$1,289.8 million and HK$1,288.6 million, respectively. The net proceeds from the CITIC Subscription were fully utilised during the year according to the intentions previously disclosed in the circular of the Company dated 17 September 2018.

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
31 December 2019	3,722	9	685	151	122	4,689
31 December 2018	2,984	6	568	126	119	3,803

For the Year 2019, total employee costs, including Directors' emoluments, amounted to RMB1,294.9 million (Year 2018: RMB997.7 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, Australia and New Zealand. The Group also provides various welfare schemes as required by the applicable local laws and regulations to its employees in the PRC and other countries.

The Directors are pleased to present the corporate governance report (the "**Corporate Governance Report**") for the Year 2019.

CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the Year 2019 and up to the date of this report. The Company will continue to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

MODEL CODE FOR TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2019 and up to the date of this report.

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

THE BOARD

Board Composition

As at the date of this report, the Board comprised nine members, including three executive Directors (the "**EDs**"), three non-executive Directors (the "**NEDs**") and three independent non-executive Directors (the "**INEDs**"). Save for Mr. Shi Liang and Mr. Qiao Baijun, both working in CITIC Agri Fund, a substantial Shareholder, the Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure that a strong independence exists across the Board, with diversity in skills, expertise, experience and qualifications concerning the Directors. The biographies of the Directors including, the relationship between the members, if any, are set out in the section headed "Management Profiles" on pages 71 to 76 of this report.

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

The Board currently comprises the following members and each of their roles are as follows:

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

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

During the Year 2019, the Board at all times met the requirements of the Listing Rules of appointing at least three INEDs representing one-third of the Board with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise.

Board Responsibilities

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

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

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

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

The Board acknowledges its responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2019, the Board ensured that (i) the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards, and they have been applied consistently; (ii) judgments and estimates made are prudent, fair and reasonable; and (iii) the consolidated financial statements are prepared on a going concern basis. The Board is also responsible for the timely publication of the consolidated financial statements of the Group.

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

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

Executive Directors

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

Non-Executive Directors

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

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

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

Independent Non-Executive Directors

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

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

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

Each INED is required to inform the Stock Exchange as soon as practicable if there is any change of his or her own personal particulars that may affect his or her independence. No such notification was received during the Year 2019.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers all INEDs are independent in accordance with the definition of the Listing Rules for the Year 2019.

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

Appointment, Re-election and Removal of Directors

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

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

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

Chairman of the Board and Chief Executive Officer

Since the early stage of its incorporation, the Company has segregated the duties of the Chairman and its chief executive officer (the "**CEO**"). During the Year 2019 and as at the date of this report, the Chairman is Mr. Yan Weibin and the CEO is Mr. Bartle van der Meer. The Chairman and the CEO are separately held by different Board members in order to ensure a balance of power and authority, independence and balanced judgment of views. The Chairman is responsible for overseeing and leading the Board, making sure it works effectively, discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. The CEO is responsible for managing and executing the Group's overall business directions and corporate operation decisions. In addition, the Board also comprises INEDs who can provide the Board with independent judgments, knowledge and experience.

Directors' Liability Insurance

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against the Directors arising out of corporate activities. The coverage and the sum insured under the policy are reviewed and renewed on an annual basis. The insurance coverage was renewed on 7 January 2020.

Induction and Continuous Professional Development

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

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

Based on the training records as provided to the Company by the Directors, the Directors have participated in the following training during the Year 2019:

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

A: trainings and seminars

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

Board's Corporate Governance Functions

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

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

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

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

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

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

During the Year 2019, the Board has reviewed (i) the Company's corporate governance policies and practices; (ii) training and continuous professional development of the Directors and senior management; and (iii) the Company's policies and practices on compliance with legal and regulatory requirements.

Board meetings

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

All Directors are provided with appropriate, complete and reliable materials for their review at least 3 working days prior to respective meetings. The agenda for each meeting is prepared and circulated after sufficient consultation with the Board/Board committee members and approved by the respective chairmen. The company secretary department is responsible for circulating the papers of the meetings of the Board and the Board committees, 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 meetings of the Board and the Board committees.

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

BOARD COMMITTEES

The Board has established five Board committees, namely, audit committee (the "**Audit Committee**"), the Nomination Committee, remuneration committee (the "**Remuneration Committee**"), strategic committee (the "**Strategic Committee**") and executive committee (the "**Executive Committee**"). Each Board committee is governed by specific terms of reference approved by the Board, covering its functions, duties and powers.

Audit Committee

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2019, the annual results for the Year 2019, risk management and internal control systems of the Group, the effectiveness of the Company's internal audit function as well as considered and discussed with the external auditors regarding their re-appointment and independence. All issues raised by the external auditors and the Audit Committee have been addressed by the Board. During the Year 2019, no issues brought to the attention of the Board were of sufficient significance for disclosure in this report.

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

Nomination Committee

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

Nomination procedures and process

(i) Appointment by the Board

The Nomination Committee has been delegated authority to identify and recommend potential candidates to the Board on the selection of individuals nominated for directorship through different means, including recommendations from existing Directors or any other means that it deems appropriate.

Once a candidate has been identified, the Company Secretary, on behalf of the Nomination Committee, will request the candidate to provide his/her biographical information and other additional information and documents deemed necessary, including but not limited to (i) information on his/her interests in the securities of the Company (if any); (ii) his/her consent to act as a Director and disclosure of information relating to his/her proposed appointment; and (iii) for an independent non-executive Director candidate, his/her declaration of independence in accordance with the criteria under the Listing Rules.

The Nomination Committee will review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required. The Nomination Committee may, at its discretion, invite the candidate to meet with the Nomination Committee members in order to assist them in their consideration of the proposed nomination or recommendation. The Nomination Committee will then make recommendations for the Board's consideration and approval.

(ii) Appointment by the Shareholders at a general meeting

For the procedures of shareholders' nomination of any proposed candidate for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director", which is available on the Company's website.

(iii) Re-Appointment at a general meeting

The Nomination Committee will review the profile of the existing Directors who have offered themselves for re-appointment to consider their suitability in the light of the Group's corporate strategy, the structure, size and composition of the Board at that time. The Nomination Committee will then make recommendations for the Board's consideration and the Board will, at its discretion, make recommendations to the Shareholders.

For those existing independent non-executive Directors, who have offered themselves for re-appointment and serve the Company more than 9 years, the Nomination Committee shall consider the reason why they are still independent and therefore eligible for re-election. The Nomination Committee will then make recommendations for the Board's consideration and the Board will make recommendations to the Shareholders.

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

During the Year 2019, the Nomination Committee reviewed the board diversity policy, the procedure for the selection, appointment and reappointment of Directors, the structure, size and composition of the Board, the independence of the INEDs and considered the qualifications of the retiring Directors standing for re-election at the AGM.

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

Remuneration Committee

The Remuneration Committee comprises five members, an ED (Mr. Yan Weibin), a NED (Mr. Shi Liang) and all the three INEDs (Mr. Lau Chun Fai Douglas, Mr. Jason Wan, and Mr. Aidan Maurice Coleman). The Remuneration Committee is chaired by Mr. Lau Chun Fai Douglas. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance-based remuneration, and ensure none of the Directors determine their own remuneration. The written terms of reference of the Remuneration Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

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

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

Strategic Committee

The Strategic Committee was established in 2019 and comprises three members, two EDs (Mr. Yan Weibin and Mr. Bartle van der Meer) and a NED (Mr. Qiao Baijun). The primary duties of the Strategic Committee are to draw up long-term development strategies and significant investments on financing plans of the Company, propose significant capital investment for operation projects, and conduct studies and make recommendations on important matters that would affect the development of the Company.

Executive Committee

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

Attendances of the Directors at various Board meetings, Board committee meetings and general meetings during the Year 2019

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meeting	Year 2018 AGM
Executive Directors:					
Mr. Yan Weibin [1]	8/8	3/3	1/1	1/1	1/1
Mr. Bartle van der Meer	8/8	N/A	N/A	N/A	1/1
Ms. Ng Siu Hung	6/8	N/A	N/A	N/A	1/1
Non-executive Directors:					
Mr. Shi Liang	5/8	N/A	1/1	1/1	1/1
Mr. Qiao Baijun	8/8	N/A	N/A	N/A	1/1
Mr. Tsai Chang-Hai	5/8	N/A	N/A	N/A	0/1
Independent Non-executive Directors:					
Mr. Lau Chun Fai Douglas [2]	8/8	3/3	1/1	1/1	1/1
Mr. Jason Wan	8/8	3/3	1/1	1/1	1/1
Mr. Aidan Maurice Coleman	8/8	3/3	1/1	1/1	1/1

Notes:

1. Chairman of the Board and the Nomination Committee.

2. Chairman of the Audit Committee and the Remuneration Committee.

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

Delegation by the Board

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

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

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

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

Remuneration of Directors and Senior Management

The remuneration of Directors and the senior management by band for the Year 2019 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	8
1,000,001 – 1,500,000	3
1,500,001 – 2,000,000	5
2,000,001 – 2,500,000	3
2,500,001 – 3,000,000	3
3,500,001 – 4,000,000	1
4,000,001 – 4,500,000	1
5,000,001 – 5,500,000	1
6,500,001 – 7,000,000	1
	26

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.

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 2019, 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 73 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITORS' REMUNERATION

During the Year 2019, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	RMB'000
Annual audit services	7,590
Review of quarterly results and other assurance services	1,810
Non-audit services	400
Total	9,800

RISK MANAGEMENT AND INTERNAL CONTROL

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. The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage it risks across business operations. Each department or division is responsible for identifying and assessing principal risks within its department or division on a regular basis and establishing mitigation plans to manage the risks identified. The management is responsible for overseeing the Group's risk management and internal control activities, attending regular meetings with each department or division to ensure principal risks are properly managed, and new or changing risks are identified and documented. Anti-fraud and whistleblowing procedures are also in place to facilitate employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. External consultants will be appointed when considered appropriate, to review the Group's internal control, working systems and workflows, as well as the management systems, and to make suggestions on system enhancement.

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. The review process comprises, among other things, meeting with senior management, internal audit department and external auditor, reviewing the relevant work reports and information of key performance indicators, the management's self-assessment on internal control as detailed above and discussing the major risks with the senior management 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 2019, among others, the financial, operational and compliance controls. The Board considered the risk management and internal control systems of the Group are effective and adequate. No material deficiencies nor significant areas of concern that might affect the Shareholders were identified during the review. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

During the Year 2019, the Board noticed two market research reports published by a foreign short seller on 15 and 19 August 2019 which contained certain allegations on the Group (the "**Short Seller Reports**"). To provide its Shareholders and potential investors with an independent review concerning the matters as alleged in the Short Seller Reports (the "**Allegations**"), on 19 August 2019, the Board resolved to voluntarily establish an independent review committee (the "**Independent Review Committee**") comprising all INEDs to review the Allegations, report to the Board on its findings, and make recommendations to the Board on appropriate actions to be taken. One of the big four accounting firms was engaged as independent professional parties to conduct the abovementioned independent review (the "**Independent Consultant**"). Based on the findings of the Independent Consultant, the Independent Review Committee noted that there are certain areas for improvements in the Group including (i) the preparation of marketing information; (ii) the collaboration with its distributors; and (iii) the preparation of the Group's sustainability reports, and had made recommendations to the Board to prevent the reoccurrence of the matters concerned. The Company had duly taken initiatives to address the matters concerned and all recommendations have been adopted. Further details of the independent reviews are set out in the announcements of the Company dated 16 September 2019 and 30 October 2019.

The Company would like to reiterate that all the Allegations are unfounded and not substantiated, and such conclusion is also supported by the results of the independent review conducted by the Independent Consultant. The Company has always been committed to comply with the Listing Rules and relevant regulatory requirements. The Board will continue to ensure long-term success of the Company and safeguard the interests of the Shareholders by maintaining good corporate governance and internal control system.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

The Company encourages the Shareholders to attend the AGM and other general meetings to communicate their views and concerns to the Board directly to ensure a high level of accountability. The Directors acknowledge their responsibility for the timely holding of AGMs. The last Shareholder's meeting was the annual general meeting held on 14 May 2019 at Chatham Room, Level 7, Conrad Hong Kong Hotel, Pacific Place, 88 Queensway, Hong Kong for approval of, among other things, the audited consolidated financial statements and the Directors' Report and of the Auditors Report for the Year 2018, 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 meeting are set out in the circular of the Company dated 4 April 2019. All proposed ordinary resolutions were passed by way of poll at the meeting.

The AGM for the Year 2019 will be held on 28 April 2020. The notice of AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

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

Dividend Policy

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

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

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

Constitutional Documents

During the Year 2019, there had been no significant change in the Company's constitutional documents.

Shareholders' Rights

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

The Directors hereby present their report and the audited financial statements for the Year 2019.

PRINCIPAL ACTIVITIES

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

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

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

There were no significant changes in the nature of the Group's principal activities during the year. 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 2019 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 2019 and the Group's future business development are provided in the section headed "Business Review and Outlook" on pages 20 to 30 of this report. A discussion of the principal risks and uncertainties facing the Group, measures undertaken to manage such risks and an analysis of the Group's performance using key performance indicators are included in the section headed "Management Discussion and Analysis" on pages 31 to 40 of this report. The Company's key relationships with its employees are included in the section headed "Chairman Statement" on pages 16 to 19 of this report while with its customers and suppliers are included in the section headed "Major Customers and Suppliers" on page 58 of this report. In addition, a discussion on relationships with the Company's stakeholders are included in the section headed "Communication with Shareholders and Investors" on pages 53 to 54 of this report. The reviews form part of this directors' report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and has provided guidelines to staff on compliance with laws and regulations. The Group's main operations are carried out by the Company's subsidiaries in the PRC, the Netherlands, Australia and New Zealand while the Company is listed on the Stock Exchange. During the Year 2019 and up to the date of this report, the Board was not aware of any non-compliance with the relevant laws and regulations that has a significant impact on the Company.

SUSTAINABILITY POLICIES AND PERFORMANCE

The Group believes strong sustainability governance is crucial in minimising the potential impact from environmental, social, and governance issues. The Board therefore has oversight of the responsibilities over the Group's sustainability, including the integration of sustainability strategies into its long-term business strategy. The Board is also responsible for evaluating and determining sustainability risks and opportunities and ensuring sustainability-related risk management and control systems are effectively in place.

The Group has formulated a sustainability vision and defined three foundational pillars as the core focus of the Group in driving sustainability: Better Nutrition, Better Life, and Better Environment. This reinforces the Group's commitment to broader international societal goals, the United Nations Sustainable Development Goals set by the UN General Assembly in 2015 for the year 2030. The Group has identified eight that are relevant out of the collection of seventeen goals.

The Group's governance on sustainability further strengthened in recent years, encouraging a more structured integration of the sustainability efforts among subsidiaries. A group-level sustainability committee (the "**Sustainability Committee**") was established in the Year 2018 to support the Board in implementing sustainability strategies across subsidiaries. Chaired by the Chairman of the Board, the Sustainability Committee is comprised of regional senior management representatives from different subsidiaries, to ensure that regional sustainability initiatives are in line with the strategic direction set by the Board. The Sustainability Committee meets regularly to discuss and report on the progress and challenges on sustainability issues to ensure all appropriate matters are effectively and timely reported to the Board for decision-making. Daily implementation of sustainability initiatives is supported by local teams to ensure material sustainability issues are well-managed.

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

RESULTS AND DIVIDENDS

The Group's results for the Year 2019 and the Group's financial position at that date are set out in the financial statements on pages 82 to 187 of this report.

The Board is pleased to recommend the payment of a final dividend of HK$0.22 (2018: HK$0.15) per Share for the Year 2019 to be distributed out of the Company's share premium account. Subject to the approval of the Shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on or around 23 June 2020. 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.

CLOSURE OF REGISTER OF MEMBERS

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

For the purpose of determining shareholders of the Company who are eligible to attend and vote and the forthcoming AGM, the register of members of the Company will be closed from 23 April 2020 to 28 April 2020 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified to attend the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 22 April 2020.

(b) Entitlement for the proposed final dividend

For the purpose of determining shareholders of the Company who are qualified for the proposed final dividend, the register of members of the Company will be closed from 8 June 2020 to 10 June 2020 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 5 June 2020.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 188 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 2019 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 AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the Year 2019 are set out in notes 31 and 32 to the financial statements, respectively.

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

During the Year 2019, in order to demonstrate the Company's confidence in the future business development and prospect of the Company, the Company repurchased 2,679,000 Shares on the Stock Exchange at a total consideration of HK$27,484,040. Details of the Shares repurchased by the Company during the Year 2019 are disclosed as below:

Month of Repurchase	Aggregate number of Shares repurchased	Repurchase Price Highest	Repurchase Price Lowest	Total consideration paid (2)
		HK$	HK$	HK$
September	600,000	10.26	9.22	5,889,640
October	2,079,000	10.76	10.04	21,594,400
Total	2,679,000 (1)			27,484,040

Notes:

1. Subsequent to the end of the reporting period, these repurchased Shares were cancelled on 28 February 2020.

2. The total consideration paid excluded expenses paid for the Share repurchase.

Save for the above, neither the Company nor any of its subsidiaries purchased, redeemed or sold interest in any of the Shares during the Year 2019.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2019 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 2019, the Company's accumulated losses amounted to RMB197,433,000 (2018: RMB142,677,000). As at 31 December 2019, the Company's share premium account available for distribution under certain conditions, amounted to RMB2,385,407,000 (2018: RMB2,412,889,000), of which RMB317,172,000 (2018: RMB207,942,000) has been proposed as a final dividend for the year. The Company also recorded treasury shares with a debit balance of RMB24,733,000 (2018: Nil) that repurchased but not cancelled.

CHARITABLE CONTRIBUTIONS

During the Year 2019, the Group made charitable contributions in cash totaling RMB10,994,000 (2018: RMB2,174,000).

MAJOR CUSTOMERS AND SUPPLIERS

The Group seeks to build, sustain and grow its customer relationships by promoting interactions with and among business partners and customers through different engagement programs and social platforms. This allows the Group to better capture feedback from customers, and for business partners and customers to have a better knowledge on the Group's dairy and nutritional products.

The Group works closely with its suppliers to build long-term partnerships that are mutually beneficial to all. Regarding this aim, the Group has established stringent supplier selection procedures to ensure only suppliers who share the same values with the Group are engaged. Regular performance monitoring and assessments are also in place to ensure compliance and to maintain a reliable and stable supply.

During the Year 2019, sales to the Group's five largest customers accounted for 9.3% (2018: 11.0%) of the total sales for the year and sales to the largest customer included therein amounted to 2.4% (2018: 4.0%). Purchases from the Group's five largest suppliers accounted for 27.5% (2018: 31.1%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 7.8% (2018: 10.7%).

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 2019 and up to the date of this report were as follows:

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

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

Independent Non-executive Directors:
Mr. Lau Chun Fai Douglas
Mr. Jason Wan
Mr. Aidan Maurice Coleman

In accordance with Article 84 of the Articles of Association, Mr. Yan Weibin, Mr. Tsai Chang-Hai and Mr. Lau Chun Fai Douglas 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 annual confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2019. The Company considers all of the INEDs to be independent. The Company has also assessed the independence of Mr. Wan, who has served as an INED for more than ten years, details of which are set out in the session headed "The Board – Independent Non-Executive Directors" on pages 43 to 44 of this report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Management Profiles" on pages 71 to 76 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 2019.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

The Directors' remuneration is determined by the Board, as authorised by the Shareholders at general meeting, with reference to the recommendation by the Remuneration Committee after taking into consideration of the Directors' duties, responsibilities and performance, the results of the Group as well as the prevailing market conditions. Details of remuneration of the Directors during the Year 2019 are set out in note 8 to the financial statements. As at the date of this report, there was no arrangement with any Director under which he/she has waived or agree to waive any emoluments.

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

Save for the transactions as disclosed in the section headed "Connected Transactions" and the related party transactions as disclosed in note 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 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 2019. During the Year 2019, there was no contract of significance for the provision of services to the Group by any controlling Shareholder or any of its subsidiaries.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares of the Company:–

	Number of shares held, capacity and nature of interest			
Name of Director	Beneficial Owner	Interest of a controlled corporation	Total	Approximate percentage of issued share capital [3]
Mr. Yan Weibin	1,200,000	118,739,085 [1]	119,939,085	7.44%
Mr. Bartle van der Meer	1,200,000	124,405,230 [2]	125,605,230	7.79%
Ms. Ng Siu Hung	1,000,000	–	1,000,000	0.06%
Mr. Tsai Chang-Hai	300,000	–	300,000	0.02%
Mr. Lau Chun Fai Douglas	200,000	–	200,000	0.01%
Mr. Jason Wan	300,000	–	300,000	0.02%

Notes:

(1) The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan Weibin ("**Mr. Yan**"). Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.

(2) The Shares are held by Dutch Dairy Investments HK Limited ("**DDIHK**"), which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer ("**Mr. van der Meer**"). Mr. van der Meer is therefore deemed to be interested in 124,405,230 Shares held by DDIHK under the SFO.

(3) As at 31 December 2019, the total number of the issued Shares of the Company was 1,612,106,299.

Long positions in share options of the Company:–

Name of Director	Number of Share options beneficially owned
Mr. Yan Weibin	1,500,000
Mr. Bartle van der Meer	1,500,000
Ms. Ng Siu Hung	1,500,000
Mr. Shi Liang	500,000
Mr. Qiao Baijun	500,000
Mr. Tsai Chang-Hai	500,000
Mr. Lau Chun Fai Douglas	600,000
Mr. Jason Wan	500,000
Mr. Aidan Maurice Coleman	500,000

* Details of the Share Option Scheme are set out in the section headed "Share Option Scheme" of the Directors' Report.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the grant of share options on 21 January 2016 and 15 January 2019 under the Share Option Scheme (as defined below) and as disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", at no time during the year and up to the date of this report were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2019, 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:

Long position in the shares of the Company:

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital [11]
Citagri Easter Ltd.	1	379,000,000	Beneficial owner	23.51%
Changsha Kunxin Xin'Ao Investment LP	2	379,000,000	Interest of controlled corporation	23.51%
Chengtong CITIC Agriculture Investment Fund	2	379,000,000	Interest of controlled corporation	23.51%
CITIC Agri Fund	3	379,000,000	Interest of controlled corporation	23.51%
CITIC Agriculture Technology Co., Ltd.	3	379,000,000	Interest of controlled corporation	23.51%
CITIC Limited	4	379,000,000	Interest of controlled corporation	23.51%
CITIC Group Corporation	4	379,000,000	Interest of controlled corporation	23.51%
China Structural Reform Fund Co., Ltd*（中國國有企業結構調整基金股份有限公司）	5	379,000,000	Interest of controlled corporation	23.51%
CCB (Beijing) Investment Funds Management Co., Ltd.*（建信（北京）投資基金管理有限責任公司）	5	379,000,000	Interest of controlled corporation	23.51%
CCB Trust Co., Ltd.*（建信信託有限責任公司）	5	379,000,000	Interest of controlled corporation	23.51%
Postal Savings Bank of China*（中國郵政儲蓄銀行股份有限公司）	6	379,000,000	Beneficiary of a trust (other than a discretionary interest)	23.51%
Center Laboratories, Inc.	7	327,940,089 47,991,683	Beneficial owner Interest of a controlled corporation	20.34% 2.98%
DDIHK	8	124,405,230	Beneficial owner	7.71%
DDI	8	124,405,230	Interest of a controlled corporation	7.71%

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital (11)
Fan Deming BV	8	124,405,230	Interest of a controlled corporation	7.71%
Ms. Chen Miaoyuan	9	121,439,085	Interest of spouse	7.53%
Ausnutria BVI	10	118,739,085	Beneficial owner	7.37%

Notes:

1. Citagri Easter Ltd. ("**Citagri Easter**") is owned as to approximately 53.14% by Changsha Kunxin Xin'Ao Investment LP*（長沙鯤信信澳股權投資合夥企業（有限合伙））("**Kunxin Xin'Ao**").

2. Kunxin Xin'Ao is owned as to 91.17% by Chengtong CITIC Agriculture Investment Fund (formerly known as Guotiao CITIC Modern Agriculture Investment LP), which is owned as to 34.9% by China Structural Reform Fund Co., Ltd.*（中國國有企業結構調整基金股份有限公司）and indirectly owned as to 37.2% by CITIC Limited respectively.

3. CITIC Agri Fund, who is the GP of Kunxin Xin'Ao, is owned as to 40.41% by CITIC Agriculture Technology Co., Ltd., an indirect wholly-owned company of CITIC Limited (formerly known as CITIC Agriculture Investment Co., Ltd.).

4. CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.

5. China Structural Reform Fund Co., Ltd* is owned as to 38.20% by CCB (Beijing) Investment Funds Management Co., Ltd.*（建信（北京）投資基金管理有限責任公司）, being a wholly-owned subsidiary of CCB Trust Co., Ltd.*（建信信託有限責任公司）.

6. Postal Savings Bank of China*（中國郵政儲蓄銀行股份有限公司）is the beneficiary of CCB Trust Co., Ltd.*.

7. As at 31 December 2019, BioEngine Capital Inc. was the beneficial owner of 47,991,683 Shares and a non-wholly-owned subsidiary of Center Laboratories, Inc. ("**Center Lab**"). Center Lab was therefore deemed to be interested in 47,991,683 Shares held by BioEngine Capital Inc. under the SFO. Subsequent to the end of the reporting period, the Company received notice from Center Lab that since 23 January 2020, Center Lab is beneficially interested in 312,940,089 Shares and BioEngine Capital Inc. is beneficially interested in 37,991,683 Shares. Center Lab is therefore deemed to be interested in 350,931,772 Shares in total under the SFO as at the date of this report.

8. DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. van der Meer. Each of DDI, Fan Deming B.V. and Mr. van der Meer is therefore deemed to be interested in the Shares held by DDIHK under the SFO.

9. Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 119,939,085 Shares held by Mr. Yan (himself and through Ausnutria BVI) and the 1,500,000 shares options held by Mr. Yan under the SFO.

10. Ausnutria BVI is wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.

11. As at the date of this report, the total number of the issued Shares of the Company was 1,612,106,299.

Save as disclosed above, as at 31 December 2019, 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**") which has expired on 7 October 2019:

(a) *Purpose*

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

(b) *The participants*

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

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

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

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

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

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

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

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

(c) Maximum number of Shares

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

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

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

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

(d) Maximum entitlement of each participant and connected persons

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

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

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

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

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

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

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

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

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

(f) Subscription price for Shares

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

(g) Time of exercise of option

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

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

(h) Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional (i.e. valid till 7 October 2019.

Status of the Share Option Scheme

On 15 January 2019, share options to subscribe for a total of 40,000,000 Shares of HK$0.10 each at an exercise price of HK$10.00 per Share were granted to certain eligible participants pursuant to the Share Option Scheme. The closing price of the Shares immediately before the date of grant was HK$7.80 per Share. Further details of the aforementioned share options granted are set out in the announcement of the Company dated 15 January 2019.

As the Share Option Scheme has already expired on 7 October 2019, no further share options would be granted under the Share Option Scheme since then.

Particulars and movements of share options under the Share Option Scheme during the Year 2019 were as follows:

			Number of options			
Grantees	Date of grant	Exercise price per share option	Outstanding as at 2019.01.01	Granted during the Year 2019	Exercised during the Year 2019	Outstanding as at 2019.12.31
Directors						
Mr. Yan Weibin	2016.01.21	HK$2.45	400,000	–	(400,000) [(1)]	–
	2019.01.15	HK$10.00	–	1,500,000	–	1,500,000
Mr. Bartle van der Meer	2016.01.21	HK$2.45	400,000	–	(400,000) [(1)]	–
	2019.01.15	HK$10.00	–	1,500,000	–	1,500,000
Ms. Ng Siu Hung	2016.01.21	HK$2.45	334,000	–	(334,000) [(1)]	–
	2019.01.15	HK$10.00	–	1,500,000	–	1,500,000
Mr. Shi Liang	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Qiao Baijun	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Tsai Chang-Hai	2016.01.21	HK$2.45	100,000	–	(100,000) [(1)]	–
	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Lau Chun Fai Douglas	2016.01.21	HK$2.45	100,000	–	–	100,000
	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Jason Wan	2016.01.21	HK$2.45	100,000	–	(100,000) [(1)]	–
	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Aidan Maurice Coleman	2019.01.15	HK$10.00	–	500,000	–	500,000
Sub-total			1,434,000	7,500,000	(1,334,000)	7,600,000
Other						
Employees and others	2016.01.21	HK$2.45	11,156,000	–	(9,996,000) [(2)]	1,160,000
Employees and others	2016.07.06	HK$2.45	10,881,000	–	(5,403,000) [(3)]	5,478,000
Employees and others	2019.01.15	HK$10.00	–	32,500,000	–	32,500,000
Total			23,471,000	40,000,000	(16,733,000)	46,738,000

Notes:

1. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$13.65.

2. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$14.46.

3. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$11.90.

All options granted pursuant to the Share Option Scheme shall be vested in the grantees in the following manner:

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

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

<u>Share options granted on 15 January 2019</u>
- One-third shall be vested on 15 January 2021;
- One-third shall be vested on 15 January 2022;
- One-third shall be vested on 15 January 2023; and
- Exercise period shall start on 15 January 2021 and shall end on 14 January 2024.

As at the date of this report, the total number of share options granted and available for issue under the Share Option Scheme is 5,205,000, representing approximately 0.32% of the issued Shares. During the Year 2019, no options was cancelled or lapsed.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Company during the Year 2019 are provided in the paragraph headed "Extension of Nutrition Business – Probiotics" in the section headed "Business Review and Outlook – Strategic Steps Taken" on pages 25 to 26 respectively of this report.

FINANCIAL ADVISORS' INTEREST

The Company extended the appointment of Asian Capital Limited as the Company's financial advisor on a retainer basis for consultation on compliance with the Listing Rules for a period of one year commencing from 24 August 2019. 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 2019 and up to the date of this report, neither Asian Capital Limited nor any of its directors, employees or associates had any interests in the Shares or shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares or shares of any member of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public during the Year 2019 and up to the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 41 to 54 of this report.

PERMITTED INDEMNITY PROVISION

The Company has subscribed appropriate and sufficient insurance coverage on directors' and officers' liability insurance throughout the Year 2019, which provides appropriate cover for the Directors and officers of the Company.

AUDITORS

The consolidated financial statements for the Year 2019 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
17 March 2020

Biographical details of the Directors and the senior management of the Group for the Year 2019 and up to the date of this report are set out below:

DIRECTORS

Executive Directors

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

Mr. Yan, aged 54, was appointed as an ED on 8 June 2009 and elected as the Chairman on 7 June 2013. Mr. Yan is the sole shareholder and director of Ausnutria Holding, one of the substantial Shareholders, and also a director of a number of the Company's subsidiaries (including Ausnutria China). He joined the Group in September 2003 when Ausnutria China was established. Mr. Yan is responsible for leading the Board and ensuring that it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Yan is also primarily responsible for the overall corporate strategy, planning and business development of the Group. He also acts as Chancellor of Ausnutria University. Mr. Yan was elected as a member of the twelfth Hunan committee of the Chinese People's Political Consultative Conference in January 2018. Mr. Yan graduated from Hunan University with a bachelor's degree in engineering and a master's degree in business administration. Mr. Yan was a director of Yuan Longping High-tech Agriculture Co., Ltd*（袁隆平農業高科技股份有限公司）("**Longping High-tech**"), a company listed on the Shenzhen Stock Exchange, from 2004 to January 2016. At Longping High-tech, he served as chief executive officer from 2004 to April 2010, vice chairman and chief financial officer from April 2010 to December 2011, chief executive officer and chief financial officer from December 2011 to June 2012 and vice president from June 2012 to January 2016.

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

Mr. van der Meer, aged 74, was appointed as an ED and the CEO on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria B.V. and has been involving in the strategic management since the establishment of Ausnutria B.V. in 1994. He is also a member of the board of directors of Ausnutria B.V. and the chairman of this one-tier board since January 2020. Mr. van der Meer is primarily responsible for managing and executing the Group's overall business directions and corporate operation decisions. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of Fan Deming B.V., a private equity company which owned 100% equity interests in DDI, a substantial Shareholder, since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998.

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

Ms. Ng, aged 51, was appointed as an ED on 19 September 2009. Ms. Ng is also an executive director of Ausnutria China, primarily responsible for the brand and culture building and public relations affairs of the Group in the PRC region. She graduated at University of Westminster, the United Kingdom with a master of arts degree in human resource management. Ms. Ng has been a director of Hunan Yukai Real Estate Co., Ltd*（湖南宇凱房地產有限公司）since 2004.

Non-executive Directors

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

Mr. Shi, aged 36, was appointed as a NED and elected as the vice-Chairman on 6 December 2018. Mr. Shi graduated with a bachelor's degree and a master's degree in management science and engineering from China Agricultural University in 2005 and 2008 respectively. He is currently a director, general manager and a member of the fund investment committee of the CITIC Agri Fund. Mr. Shi joined CITIC Securities Company Limited ("**CITIC Securities**"), a company listed on both the Stock Exchange (stock code: 6030.HK) and the Shanghai Stock Exchange (stock code: 600030.SH) in 2008. He once served as the senior manager of the research department, the chief analyst in agriculture, forestry, animal husbandry and fishery industries and the director of the research department of CITIC Securities. Mr. Shi was awarded the number one of the best analyst in agriculture, forestry, animal husbandry and fishery industries by The New Fortune (新財富) in 2010, 2011 and 2014. Mr. Shi was also awarded "China Securities Analyst – Golden Bull Award" by the China Securities Journal (中國證券報) from 2010 to 2014 consecutively.

Mr. QIAO Baijun ("Mr. Qiao")

Mr. Qiao, aged 49, was appointed as a NED on 6 December 2018. Mr. Qiao graduated with a Bachelor of Science degree from the Faculty of Biology of China Agricultural University in 1993 and graduated with a master of economics degree from the Faculty of Agriculture and Economics from Renmin University of China in 1999. He is currently the deputy general manager and chairman of the investment committee of CITIC Agri Fund. Mr. Qiao joined COFCO Corporation in 2006 and once served as the senior manager of the strategic investment management department, the head of the research department, the general manager of the strategic management department. Prior to joining COFCO Corporation, Mr. Qiao was engaged in the research in agriculture, food and beverage industry in China Galaxy Securities Co Ltd (stock code: 6881.HK) and CITIC Securities.

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

Mr. Tsai, aged 70, was appointed as a NED on 19 January 2016. Mr. Tsai graduated with a bachelor's degree in medicine from China Medical University and holds a doctorate of medical science from The University of Tokyo. Mr. Tsai has extensive knowledge and expertise in biomedicine. Mr. Tsai is the founder and chairman of Asia University and its affiliated hospital. He is also a professor and chairman of China Medical University. Mr. Tsai serves the role of chairman of the board of directors of Lumosa Therapeutics Co., Ltd., a company listed on the Taiwan Stock Exchange. Mr. Tsai is also a director of BioEngine Capital. Mr. Tsai was a member of Supervisory Committee (監理委員會) of the National Health Insurance Administration of the Ministry of Health and Welfare of Taiwan, deputy convener of the Central Medical Review Committee (中區醫療審查委員會), a counsellor of the Ministry of Health and Welfare, a director of the board of directors of the National Health Research Institutes and chairman of Taiwan Hospital Association.

Independent Non-executive Directors

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

Mr. Lau, aged 47, was appointed as an INED on 2 January 2015. Mr. Lau has over 20 years of experience in auditing, accounting and financial and corporate management. Mr. Lau graduated from the University of New South Wales with a bachelor of commerce degree in accounting and finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, Chartered Accountants Australia and New Zealand and CPA Australia and a founding member of the Institute of Accountants Exchange. Before joining the Group, Mr. Lau was a partner at Ernst & Young (Assurance and Advisory Business Services) Hong Kong and Beijing and a regional director (China and Hong Kong) of the Institute of Chartered Accountants in English and Wales. Mr. Lau is an independent non-executive director of Chanjet Information Technology Company Limited (Stock code: 1588) since 2011, and GME Group Holdings Limited (Stock code: 8188) since February 2017.

Mr. Jason WAN ("Mr. Wan")

Mr. Wan, aged 56, was appointed as an INED on 19 September 2009. Mr. Wan is a tenured full professor, 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. Aidan Maurice COLEMAN ("Mr. Coleman")

Mr. Coleman, aged 64, was appointed as an INED on 6 December 2018. Mr. Coleman graduated with a Bachelor of Arts degree in Economics and Psychology from The University of Auckland in 1978 and a Bachelor of Business Studies degree in marketing from The Massey University of New Zealand in 1991. He is a founder and currently the managing director of Longpoint Consulting Pty. Ltd., which provides private consulting and advisory services to various companies in Australia and New Zealand including retailers, dairy trading companies and FMCG marketing businesses. He has over 30 years of extensive experience in the manufacturing and marketing of consumer and food-service food and agricultural product. Prior to joining Longpoint Consulting Pty. Ltd., Mr. Coleman was the chief executive officer of Bega Cheese Limited (stock code: BGA.ASX), a company listed on the Australian Securities Exchange, until 2017. He was also the chief executive officer of Tatura Milk Industries Ltd. ("**Tatura**"), a wholly owned subsidiary of Bega Cheese Limited, from 2008 to 2011 and an executive director of Tatura from 2011 to 2017. Prior to joining Tatura, he was the managing director of Fonterra Brands (Australia) Pty. Ltd from 2005 to 2007, an Australian company which manufactures, markets and distributes dairy and non-dairy products.

SENIOR MANAGEMENT

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

Mr. Wong, aged 47, is the chief financial officer of the Company (the "**CFO**") and the Company Secretary. Mr. Wong joined the Group as the deputy CFO in July 2011 and was appointed as joint Company Secretary (later redesignated as the Company Secretary on 3 December 2012) and the CFO on 26 September 2011. Mr. Wong has over 20 years of experience in auditing and financial and corporate management. Mr. Wong graduated from York University with a bachelor's degree in accounting and a bachelor's degree in mathematics. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in July 2011, he was an audit manager with an international accounting firm, the financial controller of a manufacturing group of companies and the general manager of an investment company principally engaged in mining business in Indonesia.

Mr. DAI Zhiyong ("Mr. Dai")

Mr. Dai, aged 44, is an executive director of Ausnutria China, vice chairman (PRC region) of the Group and principal of Ausnutria Institution of Food and Nutrition（澳優研究院）. 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, factory operation and supply assurance of the Group in the PRC region.

Mr. DENG Shenhui ("Mr. Deng")

Mr. Deng, aged 45, is the chief operation officer (PRC region) of the Group. 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 10 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 manages the operation information centre and is responsible for the budgeting, daily operation management and informatisation in the PRC region, providing assistance to the human resources and finance divisions, providing technical support to the BUs and function centre. He is also responsible for Neolac.

Ms. Froukje DIJKSTRA ("Ms. Dijkstra")

Ms. Dijkstra, aged 50, joined the Group since April 2012. She was appointed as a director and the chief operation officer of Ausnutria B.V. on 1 January 2020. Ms. Dijkstra graduated in business administration. Before joining Ausnutria B.V., Ms. Dijkstra had over 20 years of experience in the chemical industry with different positions.

Mr. Barber EEGDEMAN ("Mr. Eegdeman")

Mr. Eegdeman, aged 49, joined the Group since September 2019. He was appointed as the chief financial officer of Ausnutria B.V. on 1 September 2019 and also appointed as a director of Ausnutria B.V. on 1 January 2020. Mr. Eegdeman graduated in Business Economics and Chartered Accountancy at the University of Tilburg. Before joining Ausnutria B.V., Mr. Eegdeman had several years of international experience in leading positions, latest at Verwater Group as chief financial officer.

Dr. Alfred HAANDRIKMAN ("Dr. Haandrikman")

Dr. Haandrikman, aged 62, is the global chief scientific officer of Ausnutria B.V. He joined the Group in 2012. Dr. Haandrikman graduated with a doctorate degree in molecular biology from the Rijksuniversiteit Groningen in the Netherlands. From 1994 to 2006, he worked as a senior scientist and R&D manager in Hercules European Research Centre, the Netherlands. From 2006 onwards and before joining the Group, he was appointed as the global R&D director in Lipid Nutrition B.V. and IOI-Loders Croklaan group, a leading company in development of lipids for infant nutrition.

Ms. HONG Haoru ("Ms. Hong")

Ms. Hong, aged 37, is the assistant of the chief executive officer of Ausnutria China and secretary of the management committee（中國區管理委員會）(PRC region) of the Group. 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 manages the Executive Administrative Center（董秘及行政中心）of Ausnutria China.

Mr. HU Fangming ("Mr. Hu")

Mr. Hu, aged 43, is a vice president (PRC region) of the Group. He also manages the overseas supply centre and quality management centre and is responsible for overseas supply chain management and quality management. He 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. 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.

Dr. Jeroen KIERS ("Dr. Kiers")

Dr. Kiers, aged 46, joined the Group since September 2018. He was appointed as the director strategy and innovation of Ausnutria B.V. on 1 January 2019 and appointed as a director and the chief executive officer of Ausnutria B.V. on 1 January 2020. Before 2018, Dr. Kier was an employee of Ausnutria B.V. from April 2014 to August 2015. Dr. Kiers graduated in Medical Biology at the University of Amsterdam, additionally Dr. Kiers graduated with a doctorate degree in Nutrition, Health & Food Technology at Wageningen University in the Netherlands. In his career Dr. Kiers had several research and leading positions within the Food & Nutrition Industry. Before he joined the Group, Dr. Kiers had his own company Soundies & JLK Nutrition.

Ms. LI Yimin ("Ms. Li")

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

Mr. LIU Yubiao

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

Mr. LIU Yuehui

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

Mr. LIU Xuecong

Mr. Liu Xuecong, aged 36, is a vice president (PRC region) of the Group. He also manages the special nutrition product centre and is responsible for the businesses of special nutrition products and probiotics. He joined the Group in November 2019. Mr. Liu Xuecong graduated from Tianjin Medical University in 2007 and worked at the relevant department of the China Food and Drug Administration, Lee Kum Kee and Frieslandcampina. He has been the general secretary and branch secretary of the China Nutrition and Health Food Association since 2015 and has extensive experience and resources in the nutrition product and health supplement industry.

Mr. QU Zhishao ("Mr. Qu")

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

Ms. Melinda VLASKAMP ("Ms. Vlaskamp")

Ms. Vlaskamp, aged 50, is the human resource director of Ausnutria B.V. She joined the Group since 2017. Ms. Vlaskamp graduated in education science at the University of Groningen. Before joining Ausnutria B.V., Ms. Vlaskamp had several years of experience in international human resource latest at Pentair Inc. as human resource director in Hygienic Process Solutions.

Mr. ZHAO Li ("Mr. Zhao")

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

* *For identification purpose only*

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

OPINION

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 82 to 187, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 RMB289.8 million as at 31 December 2019. The impairment test is based on the recoverable values of the respective cash-generating units ("**CGUs**") to which the goodwill is assigned. Management's assessment process is complex and highly judgmental, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate. The accounting policies, significant estimates and related disclosures are included in note 2.4 *Business combinations and goodwill*, note 3 *Impairment of goodwill* and note 15 *Goodwill* to the financial statements.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and long-term growth rates, with the assistance of our valuation specialists. We paid specific attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGUs and the business development plan. We also focused on the adequacy of the Group's disclosures of goodwill impairment.
Accounting for the customer loyalty program and the distributor incentive program	
The Group awards end-customers points for their consumptions, and grants distributors incentives based on their fulfilment of purchase targets. The end-customers then can exchange the award points for free products within one year, and the distributors can redeem free products in the next purchase. Under both programs, management allocates the revenue into two parts, the current sales and the deferred income for award points and incentives. The allocation and measurement of revenue are complex and require significant management judgement and estimates of relative fair values. The accounting policies, significant estimates and related disclosures are included in note 2.4 *Revenue recognition* and *Contract liabilities*, note 3 *Judgement* and note 5 *Revenue, other income and gains* to the financial statements.	We assessed and tested the design and operation of the controls over revenue allocation including the quality of underlying data and systems. We obtained the computation schedule, checked the calculation, and evaluated the allocation based on the relative fair values and the key estimates, such as values of free products and percentage of award points redeemed by end-customers, with reference to the historical information, market practice and the subsequent settlement of award points and incentives as at 31 December 2019. We also compared the actual purchase with the target amount for selected distributors to assess whether the calculation of incentives was in accordance with the incentive scheme. We also focused on the adequacy of the Group's disclosures of the customer loyalty program and the distributor incentive program.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
17 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	6,736,153	5,389,568
Cost of sales		(3,202,836)	(2,728,933)
Gross profit		3,533,317	2,660,635
Other income and gains	5	69,191	114,109
Selling and distribution expenses		(1,771,834)	(1,444,237)
Administrative expenses		(558,289)	(461,853)
Other expenses		(138,666)	(59,621)
Finance costs	7	(33,332)	(29,753)
Share of profits and losses of:			
A joint venture		–	1,159
Associates		6,797	11,553
Profit before tax	6	1,107,184	791,992
Income tax expense	10	(228,288)	(147,440)
PROFIT FOR THE YEAR		878,896	644,552
Attributable to:			
Owners of the parent		878,390	635,100
Non-controlling interests		506	9,452
		878,896	644,552
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	12		
Basic			
– For profit for the year (RMB cents)		54.92	47.20
Diluted			
– For profit for the year (RMB cents)		54.50	46.63

	Notes	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR		878,896	644,552
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		8,250	(27,976)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		8,250	(27,976)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement (losses)/gains on the defined benefit plan, net of tax		(1,602)	137
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods		(1,602)	137
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		6,648	(27,839)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		885,544	616,713
Attributable to:			
Owners of the parent		886,744	607,839
Non-controlling interests		(1,200)	8,874
		885,544	616,713

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,471,496	1,580,523
Right-of-use assets	14	349,314	–
Prepaid land lease payments		–	27,112
Goodwill	15	289,803	287,522
Other intangible assets	16	398,100	380,587
Investments in convertible bonds	17	207,352	–
Investments in associates	18	271,831	262,203
Long term prepayments and deposits	21	158,198	–
Deferred tax assets	29	222,890	152,508
Total non-current assets		3,368,984	2,690,455
CURRENT ASSETS			
Inventories	19	2,051,326	1,544,321
Trade and bills receivables	20	419,919	352,617
Prepayments, other receivables and other assets	21	432,272	363,961
Pledged deposits	22	396,152	427,791
Cash and cash equivalents	22	1,674,541	1,449,861
Total current assets		4,974,210	4,138,551
CURRENT LIABILITIES			
Trade and bills payables	23	337,937	283,584
Other payables and accruals	24	2,038,496	1,571,186
Derivative financial instruments	25	1,013	1,858
Interest-bearing bank loans and other borrowings	26	419,787	659,042
Tax payable		215,719	137,485
Total current liabilities		3,012,952	2,653,155
NET CURRENT ASSETS		1,961,258	1,485,396
TOTAL ASSETS LESS CURRENT LIABILITIES		5,330,242	4,175,851

	Notes	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		5,330,242	4,175,851
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	26	784,003	416,400
Defined benefit plan	27	6,440	5,940
Derivative financial instruments	25	300,312	236,227
Deferred revenue	28	65,463	34,158
Other long term liabilities		11,369	–
Deferred tax liabilities	29	98,747	88,578
Total non-current liabilities		1,266,334	781,303
Net assets		4,063,908	3,394,548
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	140,031	137,421
Treasury shares	31	(24,733)	–
Reserves	33	3,900,356	3,116,317
		4,015,654	3,253,738
Non-controlling interests		48,254	140,810
Total equity		4,063,908	3,394,548

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent										
	Share capital RMB'000 (note 31)	Treasury shares RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000 (note 33(i))	Share option reserves RMB'000	Statutory surplus reserve RMB'000 (note 33(ii))	Exchange fluctuation reserve RMB'000 (note 33(iii))	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	137,421	–	2,412,889	(972,882)	13,613	120,440	(126,413)	1,668,670	3,253,738	140,810	3,394,548
Profit for the year	–	–	–	–	–	–	–	878,390	878,390	506	878,896
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	10,828	(872)	9,956	(1,706)	8,250
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	–	–	(1,602)	(1,602)	–	(1,602)
Total comprehensive income for the year	–	–	–	–	–	–	10,828	875,916	886,744	(1,200)	885,544
Exercise of share options	1,461	–	43,422	–	(9,076)	–	–	–	35,807	–	35,807
Acquisition of non-controlling interests	1,149	–	137,900	(85,682)	–	–	–	–	53,367	(92,296)	(38,929)
Final 2018 dividend declared	–	–	(208,804)	–	–	–	–	–	(208,804)	–	(208,804)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(660)	(660)
Equity-settled share option arrangements	–	–	–	–	19,535	–	–	–	19,535	–	19,535
Repurchase of shares	–	(24,733)	–	–	–	–	–	–	(24,733)	–	(24,733)
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	1,600	1,600
Transfer from retained profits	–	–	–	–	–	3,111	–	(3,111)	–	–	–
At 31 December 2019	140,031	(24,733)	2,385,407*	(1,058,564)*	24,072*	123,551*	(115,585)*	2,541,475*	4,015,654	48,254	4,063,908

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

* These components of equity comprise the consolidated reserves of RMB3,900,356,000 (2018: RMB3,116,317,000) as at 31 December 2019 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,107,184	791,992
Adjustments for:			
Finance costs	7	33,332	29,753
Share of profits and losses of a joint venture and associates		(6,797)	(12,712)
Interest income	5	(27,365)	(26,318)
Gain on re-measurement of the previously held interest in a joint venture	5	–	(35,060)
Depreciation of property, plant and equipment	6	103,285	107,200
Amortisation of other intangible assets	6	38,650	45,244
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	6	36,470	848
Write-down of inventories to net realisable value	6	51,131	52,591
Losses on disposal of items of property, plant and equipment	6	5,468	3,696
Losses on disposal of items of other intangible assets	6	606	101
Gain on dilution of interest in a subsidiary to an associate	5	–	(196)
Equity-settled share option arrangements	6	19,535	2,934
Fair value losses/(gains) on derivative instruments			
– transactions not qualifying as hedges	6	2,215	2,620
– subsequent considerations, net	6	57,876	(22,256)
		1,421,590	940,437
Increase in inventories		(559,926)	(509,682)
Increase in trade and bills receivables		(65,570)	(115,059)
Increase in prepayments, other receivables and other assets		(188,425)	(4,552)
Increase/(decrease) in trade payables		53,559	(3,692)
Decrease/(increase) in derivative financial instruments		(3,055)	1,050
Increase in other payables and accruals		493,467	370,585
Increase in other long term liabilities		6,170	–
Cash generated from operations		1,157,810	679,087
Interest received		28,779	29,641
Interest paid		(13,839)	(29,740)
Mainland China corporate income tax paid		(156,859)	(140,840)
Overseas tax paid		(45,102)	(6,340)
Net cash flows from operating activities		970,789	531,808

	Notes	2019 RMB'000	2018 RMB'000
Net cash flows from operating activities		970,789	531,808
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(208,382)	(307,026)
Proceeds from disposal of items of property, plant and equipment		–	3
Receipt of government grants for property, plant and equipment		31,305	34,158
Additions to other intangible assets		(49,681)	(54,240)
Acquisition of a subsidiary	35	(2,784)	48,146
Dilution of an interest in a subsidiary to an associate		–	(422)
Decrease in pledged time deposits		31,639	540,911
Investments in convertible bonds		(207,352)	–
Investment in an associate		(824)	(33,896)
Advance long-term payments to obtain items of property, plant and equipment		(39,093)	–
Net cash flows (used in)/from investing activities		(445,172)	227,634
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares			
– upon allot and issue of shares to CITIC Agri-Fund	31	–	1,144,790
– upon exercise of the share options	31	35,807	27,737
New bank loans and other borrowings		438,669	536,998
Repayments of bank loans		(359,358)	(1,344,234)
Repayments of other loans		(2,998)	(10,647)
Principal portion of lease payments/finance lease rental payments	36(b)	(86,245)	(36,564)
Acquisition of non-controlling interests		(38,929)	(39,131)
Contributions from non-controlling shareholders		1,600	–
Repurchase of own shares		(24,733)	–
Dividends paid		(207,892)	(106,920)
Dividends paid to non-controlling shareholders		(660)	(66,503)
Interest element of finance lease rental payments		(9,747)	(541)
Net cash flows (used in)/from financing activities		(254,486)	104,985
NET INCREASE IN CASH AND CASH EQUIVALENTS		271,131	864,427
Cash and cash equivalents at beginning of year		1,449,861	635,650
Effect of foreign exchange rate changes, net		(46,451)	(50,216)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,674,541	1,449,861

	Notes	2019 RMB'000	2018 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,436,544	1,115,828
Non-pledged time deposits with original maturity of less than three months when acquired		237,997	334,033
Cash and cash equivalents as stated in the consolidated statement of financial position and statement of cash flow		1,674,541	1,449,861

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Spring Choice Limited	British Virgin Islands	US$200	100	–	Investment holding
Ausnutria Dairy Company Limited	Hong Kong	HK$1	–	100	Investment holding and provision of financing services to the Group
Ausnutria Australia Dairy Pty Ltd	Australia	AUD500,000	–	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
Mornring Nutrition Technology (Changsha) Co. Ltd. (2)	PRC/ Mainland China	RMB27,400,000	–	100	Production 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.	The Netherlands	EUR10,465,000	–	100	Investment holding
Ausnutria Ommen B.V.	The Netherlands	EUR18,200	–	100	Manufacturing 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
Ausnutria Kampen B.V.	The Netherlands	EUR21,500	–	100	Manufacturing of dairy and related products
Lypack Leeuwarden B.V.	The Netherlands	EUR18,151	–	100	Processing and packaging of dairy and related products
Ausnutria Heerenveen Hector B.V.	The Netherlands	EUR1,000	–	100	Processing and packaging of dairy and related products
Ausnutria Heerenveen Pluto B.V.	The Netherlands	EUR1,000	–	100	Processing and packaging of dairy and related products
Ausnutria Nutrition B.V.	The Netherlands	EUR18,000	–	100	Marketing and distribution of goat milk nutrition products
Hyproca Nutrition Co. Ltd. [1] ("HNC")	PRC/ Mainland China	RMB10,000,000	–	100	Marketing and distribution of goat milk nutrition products in Mainland China
Ausnutria Private Label B.V.	The Netherlands	EUR30,403	–	100	Marketing and distribution of dairy products under private label
Ausnutria Dairy Ingredients B.V.	The Netherlands	EUR18,200	–	100	Marketing and distribution of dairy and related products
Holland Goat Milk B.V.	The Netherlands	EUR12,953	–	100	Collection of goat milk in the Netherlands
Ausnutria Nutrition Europe B.V.	The Netherlands	EUR18,000	–	100	Marketing and distribution of dairy products in Europe

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hyproca Nutrition East Limited	Hong Kong/ Russia	HK$4,000,000	–	51	Marketing and distribution of dairy products in Russia
Hyproca Nutrition Middle East FZCO	Dubai	AED1,500,000	–	87	Marketing and distribution of dairy products in the Middle East
Hyproca Nutrition USA Inc.	United States of America	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 (Hong Kong) Company Limited	Hong Kong	HK$50,000,000	–	85	Marketing and distribution of dairy products
Hyproca Bio-Science Co. Ltd. (2)	PRC/ Mainland China	RMB10,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Puredo Health Service (Changsha) Co. Ltd. (2)	PRC/ Mainland China	RMB20,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Ausnutria Pty Ltd (formerly Ausnutrition Care Pty Ltd) ("**APL**") (3)	Australia	AUD56,428,571	–	100(4)	Investment holding
ADP Holdings (Australia) Pty Ltd ("**ADP**")	Australia	AUD14,002,000	–	100(4)	Investment holding
Australian Dairy Park Pty Ltd	Australia	AUD14,000,000	–	100(4)	Manufacturing and distribution of dairy and related products
Nutrition Care Pharmaceuticals Pty Ltd ("**NCP**")	Australia	AUD44,000,000	–	100(5)	Manufacturing and distribution of nutrition products
Ozfarm Royal Pty Ltd ("**Ozfarm**")	Australia	AUD3,000,100	–	100	Marketing and distribution of dairy and related products in Australia

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ausnutria Dairy Investments Limited ("ADI")	BVI	US$100	–	100	Investment holding
Pure Nutrition Ltd.	New Zealand	NZD7,500,000	–	60	Manufacturing and distribution of dairy and related products
Nutriunion (Hong Kong) Company Ltd ("Nutriunion HK")	Hong Kong/ Mainland China	HK$100	–	100[6]	Marketing and distribution of nutrition products in Mainland China and Hong Kong
Nutriunion (Guangzhou) Interconnection Technology Co. Ltd. [2]	PRC/ Mainland China	RMB50,000,000	–	100[6]	Marketing and distribution of nutrition products in Mainland China
Aunulife Pty Ltd ("Aunulife") [7]	Australia	AUD250,000	–	100	Development, distribution and sale of probiotic health products

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

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

(3) The former name of the company was changed to the current one with effect from 24 May 2019.

(4) The percentage of equity attributable to the Company change from 70 to 100 due to the acquisition of non-controlling interest.

(5) The percentage of equity attributable to the Company change from 52.5 to 100 due to the acquisition of non-controlling interest.

(6) The percentage of equity attributable to the Company change from 60 to 100 due to the acquisition of non-controlling interest.

(7) Newly acquired during the year (note 35).

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 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9	*Prepayments Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and Annual Improvements to IFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for building and machinery and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB206.1 million that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under IAS 17.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	260,211
Decrease in property, plant and equipment	(206,119)
Decrease in prepaid land lease payments	(27,112)
Increase in total assets	26,980
Liabilities	
Increase in interest-bearing bank loans and other borrowings	26,980
Increase in total liabilities	26,980
Change in retained earnings	–

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	30,725
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,553)
	29,172
Weighted average incremental borrowing rate as at 1 January 2019	3.62%
Discounted operating lease commitments as at 1 January 2019	26,980
Add: Commitments relating to leases previously classified as finance leases	206,119
Lease liabilities as at 1 January 2019	233,099

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

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

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

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

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) 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 (2011) was removed by the IASB in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its derivative financial instruments and equity investments 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 the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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 the statement of 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

(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 the statement of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 to 35 years
Leasehold improvements	5 to 8 years
Plant and machinery	5 to 15 years
Motor vehicles	5 to 10 years
Office equipment	5 to 10 years

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

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

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

Intangible assets (other than goodwill)

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

Non-patent technology and licence

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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.

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 (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	35 years
Building and machinery	3 to 5 years
Motor vehicles	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

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 the statement of 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 the statement of 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 subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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:

Financial assets at amortised cost (debt instruments)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

General approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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

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

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

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

Simplified approach

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

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, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at amortised cost (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 the statement of 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 the statement of profit or loss.

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 the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Initial recognition and subsequent measurement

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

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of 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.

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 the statement of profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 revenue account and is released to the statement of 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 the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

Sales of goods

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

Customer loyalty program and distributor incentive program

The Group operates in Mainland China customer loyalty programs which allow end-user customers to earn points when they purchase products of the Group and distributor incentive programs which allows the Group's distributors customers 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.

Other income

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

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

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

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

Pension scheme

(a) *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 the statement of 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 contributions vest fully with the employees when contributed into the defined contribution pension plan.

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 the statement of 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 the defined contribution Superannuation Fund retirement benefit scheme (the "**SF Scheme**") under the Superannuation Regulations for all of its employees in Australia and New Zealand. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of 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 contributions vest fully with the employees when contributed into the SF Scheme.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension scheme (continued)

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

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Determining whether the customer loyalty programs provide material rights to customers

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

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

Determining whether the distributor incentive programs provide material rights to distributors

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

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 2019 was RMB289,803,000 (2018: RMB287,522,000). Further details are given in note 15.

Provision for expected credit losses on trade receivables and contract assets

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use 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.

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 2019 was RMB103,285,000 (2018: RMB107,200,000). Further details are provided in note 13.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Defined benefit plan

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

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

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had two reportable operating segments in 2019 as follows:

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue (note 5)			
Sales to external customers	6,617,456	118,697	6,736,153
Intersegment sales	–	–	–
	6,617,456	118,697	6,736,153
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			6,736,153
Segment results	1,207,602	(36,628)	1,170,974
Reconciliation:			
Interest income			27,365
Finance costs (other than interest on lease liabilities)			(23,585)
Corporate and other unallocated expenses			(67,570)
Profit before tax			1,107,184
Segment assets	6,314,293	279,013	6,593,306
Reconciliation:			
Elimination of intersegment receivables			(320,805)
Corporate and other unallocated assets			2,070,693
Total assets			8,343,194
Segment liabilities	3,386,474	291,839	3,678,313
Reconciliation:			
Elimination of intersegment payables			(320,805)
Corporate and other unallocated liabilities			921,778
Total liabilities			4,279,286
Other segment information			
Impairment losses recognised in the statement of profit or loss	51,131	–	51,131
Share of profits and losses of associates	6,797	–	6,797
Investments in associates	271,831	–	271,831
Investments in convertible bonds	–	207,352	207,352
Depreciation and amortisation	167,119	11,286	178,405
Capital expenditure*	249,991	8,072	258,063

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

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

* 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

	2019 RMB'000	2018 RMB'000
The PRC	5,918,535	4,299,028
European Union	435,805	530,422
Middle East	119,275	111,465
North and South America	120,198	137,075
Australia	77,752	135,349
New Zealand	8,138	22,486
Others	56,450	153,743
	6,736,153	5,389,568

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
The PRC	881,806	468,551
The Netherlands	1,593,441	1,390,705
Australia	498,521	506,025
New Zealand	172,326	172,666
	3,146,094	2,537,947

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

Information about a major customer

During the year, there was no revenue from a single external customer accounting for 10% or more of the Group's total revenue (2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	6,736,153	5,389,568

Revenue from contracts with customers

(i) Disaggregated revenue information

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

	For the year ended 31 December 2019		
Segments	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or service			
Sale of goods	6,617,456	118,697	6,736,153
Total revenue from contracts with customers	6,617,456	118,697	6,736,153
Geographical markets			
The PRC	5,835,689	82,846	5,918,535
European Union	435,805	–	435,805
Middle East	119,275	–	119,275
North and South America	120,198	–	120,198
Australia	41,901	35,851	77,752
New Zealand	8,138	–	8,138
Others	56,450	–	56,450
Total revenue from contracts with customers	6,617,456	118,697	6,736,153
Timing of revenue recognition			
Goods transferred at a point in time	6,617,456	118,697	6,736,153
Total revenue from contracts with customers	6,617,456	118,697	6,736,153

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

	For the year ended 31 December			
	2019		2018	
	Dairy and related products RMB'000	Nutrition products RMB'000	Dairy and related products RMB'000	Nutrition products RMB'000
Revenue				
External customers	6,617,456	118,697	5,253,460	136,108
Inter-segment	–	–	–	–
	6,617,456	118,697	5,253,460	136,108
Inter-segment adjustments and eliminations	–	–	–	–
Total revenue from contracts with customers	6,617,456	118,697	5,253,460	136,108

(ii) Contract balances

	31 December 2019 RMB'000	31 December 2018 RMB'000
Other payables and accruals		
– Contract liabilities (note 24)	1,153,411	820,368

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Contract balances (continued)

Set out below is the amount of revenue recognised from:

	2019 RMB'000	2018 RMB'000
Amounts included in contract liabilities at the beginning of the year (note 24(i))	820,368	629,284

(iii) Performance obligations

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

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

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

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

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

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

	2019 RMB'000	2018 RMB'000
Within one year (note 24(i))	545,659	408,155

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains

	Notes	2019 RMB'000	2018 RMB'000
Other income and gains			
Interest income		27,365	26,318
Government grants	(i)	28,076	15,984
Gain on re-measurement of the previously held interest in a joint venture		–	35,060
Gain on fair value changes of derivative financial instrument			
– Subsequent HNC Consideration		–	22,256
– Subsequent Ozfarm Consideration	25	5,755	–
Management fees income from associates		2,118	162
Others		5,877	14,329
Total other income and gains		69,191	114,109

(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	2019 RMB'000	2018 RMB'000
Cost of inventories sold		3,151,705	2,676,342
Write-down of inventories to net realisable value		51,131	52,591
Cost of sales		3,202,836	2,728,933
Depreciation of property, plant and equipment	13	103,285	107,200
Depreciation of right-of-use assets			
(2018: amortisation of prepaid land lease payments)	14	36,470	848
Amortisation of other intangible assets	16	38,650	45,244
Research and development costs		132,071	100,092
Minimum lease payments under operating leases		–	12,025
Lease payments not included in the measurement of lease liabilities	14	5,965	–
Losses on disposal of items of property, plant and equipment		5,468	3,696
Losses on disposal of items of other intangible assets		606	101
Foreign exchange differences, net		8,583	30,822
Fair value losses/(gain), net:			
Derivative instruments			
– transactions not qualifying as hedges		2,215	2,620
– Subsequent HNC Consideration	25	63,631	(22,256)
– Subsequent Ozfarm Consideration	25	(5,755)	–
Gain on re-measurement of the previously held interest in a joint venture		–	(35,060)
Auditor's remuneration		9,800	8,080
Advertising and promotion expenses		780,713	589,025
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		851,787	619,819
Temporary staff costs		189,121	142,195
Other employee related expenses		172,220	184,494
Equity share option expense		19,535	2,934
Pension scheme contributions*		62,276	48,223
		1,294,939	997,665

* At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans, overdrafts and other loans	23,639	25,175
Interest on lease liabilities	9,747	–
Interest on finance leases	–	6,721
Total interest expense on financial liabilities not at fair value through profit or loss	33,386	31,896
Less: Interest capitalised	–	(1,616)
	33,386	30,280
Unrealised gain, net on an interest rate swap and an interest rate cap (note 25)	(54)	(527)
	33,332	29,753

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	
	2019 RMB'000	2018 RMB'000
Fees	2,552	1,820
Other emoluments:		
Salaries, allowances and benefits in kind	5,265	4,147
IRC fees	276	–
Performance-related bonuses	5,095	–
Equity-settled share option expense	3,608	379
Pension scheme contributions	112	61
	14,356	4,587
	16,908	6,407

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

During the year and in prior years, share options were granted to the directors in respect of their services provided to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised 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	IRC fees[iii] RMB'000	Performance-related bonus RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019							
Executive directors:							
Yan Weibin	264	2,136	–	–[iv]	724	48	3,172
Bartle van der Meer	264	1,703	–	3,057	724	–	5,748
Ng Siu Hung	264	1,426	–	2,038	723	64	4,515
	792	5,265	–	5,095	2,171	112	13,435
Non-executive directors:							
Shi Liang[i]	264	–	–	–	239	–	503
Qiao Baijun[i]	264	–	–	–	239	–	503
Tsai Chang Hai	264	–	–	–	240	–	504
	792	–	–	–	718	–	1,510
Independent non-executive directors:							
Aidan Maurice Coleman[i]	308	–	41	–	239	–	588
Jason Wan	308	–	41	–	240	–	589
Lau Chun Fai Douglas	352	–	194	–	240	–	786
	968	–	276	–	719	–	1,963
	2,552	5,265	276	5,095	3,608	112	16,908

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

(i) Appointed on 6 December 2018
(ii) Resigned on 6 December 2018
(iii) Represented fees to independent non-executive directors for the capacity as the members of the independent review committee (the "**IRC**") to assist in reviewing the matters as alleged in the short seller reports published by Blue Orca Capital during the year.
(iv) Mr. Yan Weibin will forfeit his performance-related bonus and the Company will donate the related amount to charitable organisations.

Other than the above waiver of the performance-related bonus by Mr. Yan Weibin, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include three (2018: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: four) non-director highest paid employees of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	5,329	8,461
Equity-settled share option expense	734	467
Pension scheme contributions	27	233
	6,090	9,161

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

	Number of employees	
	2019	2018
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	1	2
HK$3,000,001 to HK$3,500,000	–	1
HK$4,000,001 to HK$4,500,000	1	–
Total	2	4

During the year and in prior years, share options were granted to certain eligible participants including two (2018: four) non-director highest paid employees in respect of their services provided to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been recognised over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

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

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

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

	2019 RMB'000	2018 RMB'000
Current charge for the year – Mainland China		
Charge for the year	203,772	130,122
Underprovision in prior years	179	–
Current charge for the year – The Netherlands		
Charge for the year	51,418	–
Current charge for the year – Hong Kong		
Charge for the year	16,297	8,609
Current charge for the year – Taiwan		
Charge for the year	1,318	486
Current charge for the year – Australia		
Charge for the year	9,603	8,887
Underprovision/(overprovision) in prior years	5,596	(2,793)
Deferred income tax (note 29)	(59,895)	2,129
Total tax charge for the year	228,288	147,440

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:

2019

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Australia		New Zealand		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	36,948		243,745		1,045,287		415		(13,151)		(393)		(62,332)		(143,335)		1,107,184	
Income tax at the statutory income tax rate	6,096	16.5	60,844	25.0	260,847	25.0	110	26.5	(2,762)	21.0	(118)	30.0	(17,453)	28.0	(7,532)	5.3	300,032	27.1
Tax effects on preferential tax rates	–	–	–	–	(84,967)	(8.1)	–	–	–	–	–	–	–	–	–	–	(84,967)	(7.7)
Adjustments in respect of current tax in previous periods	–	–	–	–	179	–	–	–	–	–	5,596	(1,423.9)	–	–	–	–	5,775	0.5
Tax losses utilised from previous periods	–	–	–	–	(3,273)	(0.3)	–	–	–	–	–	–	–	–	–	–	(3,273)	(0.3)
Non-deductible items and others, net	2,337	6.3	(222)	(0.1)	9,567	0.9	12	2.9	–	–	1,948	(495.7)	13,066	(21.0)	1,406	(1.0)	28,114	2.5
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	25,381	2.4	–	–	–	–	–	–	–	–	–	–	25,381	2.3
Profits attributable to associates	–	–	(16,197)	(6.7)	–	–	–	–	–	–	–	–	–	–	–	–	(16,197)	(1.4)
Additional deduction of expenses	–	–	–	–	(19,488)	(1.9)	–	–	–	–	–	–	–	–	–	–	(19,488)	(1.8)
Tax losses not recognised	–	–	–	–	982	0.1	–	–	–	–	44	(11.2)	–	–	25	–	1,051	0.1
Income not subject to tax	(145)	(0.4)	–	–	(7,415)	(0.7)	–	–	(149)	1.1	(275)	70.0	(156)	0.3	–	–	(8,140)	(0.7)
Tax charge at the Group's effective rate	8,288	22.4	44,425	18.2	181,813	17.4	122	29.4	(2,911)	22.1	7,195	(1,830.8)	(4,543)	7.3	(6,101)	4.3	228,288	20.6

2018

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

The share of tax attributable to associates and a joint venture totalling RMB4,970,000 (2018: RMB7,690,000) 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

	2019 RMB'000	2018 RMB'000
Proposed final dividend – HK22 cents (2018: HK15 cents) per ordinary share	317,172	207,942

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 1,599,358,534 (2018: 1,345,608,016) 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

	2019 RMB'000	2018 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	878,390	635,100

Shares

	Number of shares	
	2019	2018
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	1,599,358,534	1,345,608,016
Effect of dilution – weighted average number of ordinary shares:		
Share options	12,339,974	16,307,286
	1,611,698,508	1,361,915,302

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building 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 2019							
At 31 December 2018, net of accumulated depreciation and impairment	812,898	415,426	901	201,712	26,968	122,618	1,580,523
Effect of adoption of IFRS 16	–	(206,119)	–	–	–	–	(206,119)
At 1 January 2019 (restated)	812,898	209,307	901	201,712	26,968	122,618	1,374,404
Additions	39,156	33,095	2,844	35,946	3,090	94,251	208,382
Disposals	(36)	(1,045)	(840)	(3,336)	–	(211)	(5,468)
Depreciation provided during the year	(39,539)	(49,172)	(913)	(9,445)	(4,216)	–	(103,285)
Transfers	998	1	3,362	2,325	9,677	(16,776)	(413)
Exchange realignment	(1,841)	(4,539)	50	3,505	94	607	(2,124)
At 31 December 2019, net of accumulated depreciation and impairment	811,636	187,647	5,404	230,707	35,613	200,489	1,471,496
At 31 December 2019:							
Cost	965,477	352,328	13,439	261,129	55,036	200,489	1,847,898
Accumulated depreciation and impairment	(153,841)	(164,681)	(8,035)	(30,422)	(19,423)	–	(376,402)
Net carrying amount	811,636	187,647	5,404	230,707	35,613	200,489	1,471,496

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2019, the Group had pledged the land and building that were attributed to Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") and located in the Netherlands with net carrying amount of EUR87,760,000 (equivalent to approximately RMB685,888,000) (2018: EUR87,495,000, equivalent to approximately RMB686,600,000) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans. At 31 December 2018, the Ausnutiria B.V. Group had also pledged the machinery with net carrying amount of EUR50,534,000 (equivalent to approximately RMB396,555,000).

The Group's lands included in property, plant and equipment with net carrying amounts of EUR7,443,000 (equivalent to approximately RMB58,171,000) (2018: EUR7,354,000, equivalent to approximately RMB58,407,000), AUD4,430,000 (equivalent to approximately RMB21,637,000) (2018: AUD4,430,000, equivalent to approximately RMB21,375,000) and NZD3,000,000 (equivalent to approximately RMB14,092,000) (2018: NZD3,000,000, equivalent to approximately RMB13,786,000) situated in the Netherlands, Australia and New Zealand, respectively, are held as freehold land.

14. LEASES

The Group has lease contracts for building and machinery and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 35 years, and no ongoing payments will be made under the terms of these land leases. Leases of building and machinery generally have lease terms between 3 and 5 years, while motor vehicles generally have lease terms between 2 and 5 years.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	27,960
Recognised in profit or loss during the year	(848)
Carrying amount at 31 December 2018	27,112

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Building and machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2019	27,112	215,888	17,211	260,211
Additions	–	116,379	9,888	126,267
Depreciation charge	(848)	(31,144)	(4,478)	(36,470)
Exchange realignment	–	(723)	29	(694)
As at 31 December 2019	26,264	300,400	22,650	349,314

14. LEASES (continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank loans and other borrowings) and the movements during the year are as follows:

	2019 Lease liabilities RMB'000	2018 Finance lease payables RMB'000
Carrying amount at 1 January	233,099	240,898
New leases	126,267	–
Accretion of interest recognised during the year	9,747	6,591
Payments	(86,245)	(42,136)
Exchange realignment	(856)	766
Carrying amount at 31 December	282,012	206,119
Analysed into:		
Current portion	88,324	36,548
Non-current portion	193,688	169,571
	282,012	206,119

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 43 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	9,747
Depreciation charge of right-of-use assets	36,470
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	5,965
Total amount recognised in profit or loss	52,182

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 36 to the financial statements.

15. GOODWILL

	RMB'000
At 1 January 2018:	
Cost	155,596
Accumulated impairment	–
Net carrying amount	155,596
Cost at 1 January 2018, net of accumulated impairment	155,596
Acquisition of a subsidiary	136,352
Exchange realignment	(4,426)
Cost and net carrying amount at 31 December 2018	287,522
At 31 December 2018:	
Cost	287,522
Accumulated impairment	–
Net carrying amount	287,522
Cost at 1 January 2019, net of accumulated impairment	287,522
Exchange realignment	2,281
Cost and net carrying amount at 31 December 2019	289,803
At 31 December 2019:	
Cost	289,803
Accumulated impairment	–
Net carrying amount	289,803

15. GOODWILL (continued)

Impairment testing of goodwill

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

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

Ausnutria B.V. cash-generating unit

The recoverable amount of the Ausnutria B.V. cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12% (2018:12%). The growth rate used to extrapolate the cash flows of the Ausnutria B.V. unit beyond the five-year period is 3% (2018: 3%).

Nutrition Business cash-generating unit

The recoverable amount of the Nutrition Business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18.6% (2018: 18.6%). The growth rate used to extrapolate the cash flows of the Nutrition Business unit beyond the five-year period is 3% (2018: 3%).

Youluck cash-generating unit

The recoverable amount of the Youluck cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14% (2018: 14%). The growth rate used to extrapolate the cash flows of the Youluck unit beyond the five-year period is 3% (2018: 3%).

ADP cash-generating unit

The recoverable amount of the ADP cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17.5% (2018: 17.5%). The growth rate used to extrapolate the cash flows of the ADP unit beyond the five-year period is 3% (2018: 3%).

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

Ozfarm cash-generating unit

The recoverable amount of the Ozfarm cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14.6% (2018: 14%). The growth rate used to extrapolate the cash flows of the Ozfarm unit beyond the five-year period is 3% (2018: 3%).

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

Cash-generating units	Carrying amount of goodwill	
	2019 RMB'000	2018 RMB'000
Ausnutria B.V.	79,367	79,690
Nutrition Business	59,273	58,553
Youluck	2,672	2,591
ADP	11,549	11,409
Ozfarm	136,942	135,279
	289,803	287,522

Assumptions were used in the value in use calculation of the Ausnutria B.V., Nutrition Business, Youluck, ADP and Ozfarm cash-generating units for 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

16. OTHER INTANGIBLE ASSETS

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2019						
Cost at 1 January 2019, net of accumulated amortisation	185,912	97,243	75,342	8,672	13,418	380,587
Additions	27,215	3,447	14,614	–	4,405	49,681
Disposal	(5)	(4)	(597)	–	–	(606)
Acquisition of a subsidiary (note 35)	–	3,967	–	–	–	3,967
Transfers	413	–	–	–	–	413
Amortisation provided during the year	(22,192)	(8,992)	(3,861)	(1,912)	(1,693)	(38,650)
Exchange realignment	1,828	836	(151)	(77)	272	2,708
At 31 December 2019	193,171	96,497	85,347	6,683	16,402	398,100
At 31 December 2019:						
Cost	251,933	124,040	115,825	27,640	20,689	540,127
Accumulated amortisation	(58,762)	(27,543)	(30,478)	(20,957)	(4,287)	(142,027)
Net carrying amount	193,171	96,497	85,347	6,683	16,402	398,100

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

17. INVESTMENTS IN CONVERTIBLE BONDS

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

Pursuant to the CB Subscription Agreement, the proceeds of US$30.0 million together with the internal resources of the CB Issuer shall be used for the proposed privatisation (the "**Proposed Privatisation**") of Glac Biotech from the Taipei Exchange.

On 31 December 2019, the Proposed Privatisation is completed and the Company has already notified the CB Issuer for the conversion of the Convertible Bonds into equity interest. As at the date of this report, the conversion of the Convertible Bonds is still in progress.

Further details of the investments in the Convertible Bonds are set out in the announcement of the Company dated 6 June 2019.

18. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	111,798	103,526
Goodwill on acquisitions	25,129	25,129
	136,927	128,655
Loan to an associate	134,904	133,548
	271,831	262,203

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

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

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

	2019 RMB'000	2018 RMB'000
Share of the associates' profit for the year	6,797	11,553
Share of the associates' total comprehensive income	6,797	11,553
Aggregate carrying amounts of the Group's investments in the associates	271,831	262,203

19. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	677,374	517,525
Finished goods	1,149,143	858,927
Goods in transit	200,102	140,952
Others	24,707	26,917
Total	2,051,326	1,544,321

At 31 December 2019, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR137,320,000 (equivalent to approximately RMB1,073,224,000) (2018: EUR85,150,000, equivalent to approximately RMB668,198,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group (note 26(b)(ii)).

20. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	403,840	329,444
Bills receivable	16,079	23,173
Total	419,919	352,617

The Group normally allows a credit period from 1 to 12 months (2018: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables is an amount due from associates of EUR12,108,000 (equivalent to approximately RMB94,630,000) (2018: EUR4,706,000, equivalent to approximately RMB36,933,000), which is 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 loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	353,852	317,179
3 to 6 months	36,155	7,807
6 months to 1 year	5,726	4,320
Over 1 year	8,107	138
Total	403,840	329,444

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

There was no provision for impairment as at 31 December 2019 (2018: Nil). The carrying amounts of the trade and bills receivables approximate their fair values.

As at 31 December 2019, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR9,887,000 (equivalent to approximately RMB77,272,000) (2018: EUR16,719,000, equivalent to approximately RMB131,199,000) were pledged to secure general bank loans and overdraft facilities granted to the Ausnutria B.V. Group (note 26(b)(iii)).

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments and deposits paid	424,720	212,364
Interest income receivable	4,425	5,839
Other tax recoverable	90,415	71,262
Others	70,910	74,496
	590,470	363,961
Portion classified as non-current:		
Long term prepayments and deposits	(158,198)	–
Current portion	432,272	363,961

Included in other receivables are amounts due from associates of EUR750,000 (equivalent to approximately RMB5,861,000) (2018: EUR750,000, equivalent to approximately RMB5,885,000).

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	1,436,544	1,115,828
Time deposits	634,149	761,824
	2,070,693	1,877,652
Less: Pledged deposits (note 26(b)(iv))	(396,152)	(427,791)
Cash and cash equivalents	1,674,541	1,449,861

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB891,752,000 (2018: RMB296,406,000). In addition, time deposits of the Group denominated in RMB amounted to RMB633,431,000 (2018: RMB761,824,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

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

	2019 RMB'000	2018 RMB'000
Within 12 months	336,631	282,400
Over 12 months	1,306	1,184
	337,937	283,584

Included in the trade and bills payables are amounts due to associates of EUR3,960,000 (equivalent to approximately RMB30,949,000) (2018: EUR5,257,000, equivalent to approximately RMB41,092,000) which are repayable within 60 days.

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

24. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Contract liabilities	(i)	1,153,411	820,368
Deposits		27,559	31,736
Accrued salaries and welfare		209,799	155,400
Other tax payables		42,182	16,772
Other payables	(ii)	161,833	136,968
Accrued promotion and advertising expenses		404,150	300,683
Other accruals		39,562	109,259
		2,038,496	1,571,186

(i) Details of contract liabilities are as follows:

	2019 RMB'000	2018 RMB'000
Short-term advances received from customers for sale of goods	607,752	412,213
Deferred income	545,659	408,155
Total contract liabilities	1,153,411	820,368

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2019 RMB'000	2018 RMB'000
Forward currency contracts		–	786
Interest rate swaps	(i)	376	1,072
Interest rate caps	(ii)	637	–
Subsequent considerations	(iii)	300,312	236,227
		301,325	238,085
Portion classified as non-current:			
Subsequent considerations	(iii)	(300,312)	(236,227)
Current portion		1,013	1,858

Notes:

(i) The Ausnutria B.V. Group has entered into an interest rate swap contract to manage its interest rate exposures. The interest rate swaps is measured at fair value through profit or loss. A net fair value gain on the interest rate swap amounting to RMB682,000 (2018: RMB527,000) and a net exchange gain amounting to RMB14,000 (2018: a net exchange loss amounting to RMB7,000) were recognised in the statement of profit or loss for the year ended 31 December 2019.

(ii) The Ausnutria B.V. Group has entered into an interest rate cap contract to manage its interest rate exposures. The interest rate cap is measured at fair value through profit or loss. A net fair value loss on the interest rate cap amounting to RMB628,000 (2018: Nil) and a net exchange loss amounting to RMB9,000 (2018: Nil) were recognised in the statement of profit or loss for the year ended 31 December 2019.

25. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(iii) Details of Subsequent Considerations are as follows:

	Notes	2019 RMB'000	2018 RMB'000
Subsequent HNC Consideration	(a)	300,312	230,391
Subsequent Ozfarm Consideration	(b)	–	5,836
		300,312	236,227

(a) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in the Hyproca Nutrition (Hong Kong) Company Limited and Hyproca Nutrition Co., Ltd. (collectively, the "**HNC Group**"). The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 (the "**Subsequent HNC Consideration**"), which is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021. Balance represented the fair value of the Subsequent HNC Consideration which was derived with reference to management's estimation of the future financial performance of the HNC Group for the three years as mentioned in the above and the closing market price of the Share at 31 December 2019 of HK$11.22 (2018: HK$8.80). The Subsequent HNC Consideration is classified as a derivative financial instrument and is measured at fair value through profit or loss. The loss arising from the change in fair value between 31 December 2019 and 31 December 2018 amounted to HK$72.3 million (equivalent to RMB63.6 million).

(b) On 28 June 2018, the Group completed the acquisition of the remaining 50% equity interest in Ozfarm Royal Pty. Ltd. ("**Ozfarm**"). The consideration is subject to certain adjustments, based on the financial performance of the Ozfarm group (namely, Ozfarm, Ozfarm Royal (HK) Limited and its subsidiary) for the two years ending 31 December 2020 and 2021 (the "**Subsequent Ozfarm Consideration**"), which is to be settled by cash or by the issue and allotment of the Shares (or any combination) at the discretion of the Group. The initial amount recognised for the Subsequent Ozfarm Consideration was RMB5.8 million which was determined using the discounted cash flow model and was within Level 3 fair value measurement. The gain arising from the change in fair value between 31 December 2019 and 31 December 2018 amounted to RMB5.8 million.

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Annual effective interest rate (%)	Maturity	RMB'000	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current:							
Lease liabilities (notes 14(c) and 30)	3.1	2020	88,324	63,528	3.0-4.56	2019	36,548
Bank overdrafts – secured	–	–	–	172,631	1-month EURIBOR+1.8	2019	172,631
Bank overdrafts – secured	–	–	–	241	3-month EURIBOR +2.35	2019	241
Bank loan – secured	3-month LIBOR +2.25	2020	22,542	94,168	1-year LIBOR+0.8	2019	94,168
Bank loan – secured	1-4.35	2020	281,489	31,389	3-month LIBOR+2.25	2019	31,389
Bank loan – secured	–	–	–	289,433	1.0-5.00	2019	289,433
Current portion of long-term bank loans – secured	–	–	–	25,442	3-month EURIBOR +2.35	2019	25,442
Other loans – unsecured*	4.22	2020	27,432	9,190	4.22	2019	9,190
			419,787	686,022			659,042
Non-current:							
Lease liabilities (notes 14(c) and 30)	3.1	2021-2024	193,688	169,571	3.0-4.56	2020	169,571
Bank loans – secured	2.25	2021	27,354	85,811	2.25	2020-2021	85,811
Bank loans – secured	1 year LIBOR +0.8	2021	93,786	155,150	3-month EURIBOR +1.35-2.35	2020	155,150
Bank loans – secured	3-month EURIBOR + 1.35-1.70	2023	466,588	–	–	–	–
Bank loans – unsecured	3.99	2023	1,055	1,314	3.99	2023	1,314
Other loans – unsecured*	3-month EURIBOR + 3.0	2021	1,532	1,538	3-month EURIBOR +3.0	2020	1,538
Other loans – unsecured*	–	–	–	3,016	5.00	2023	3,016
			784,003	416,400			416,400
			1,203,790	1,102,442			1,075,442

* Loans from non-controlling shareholders of subsidiaries

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

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	304,031	613,304
In the second year	121,140	210,081
In the third to fifth years, inclusive	467,643	32,194
	892,814	855,579
Other borrowings repayable:		
Within one year or on demand	115,756	45,738
In the second year	81,207	36,247
In the third to fifth years, inclusive	111,529	137,878
After five years	2,484	–
	310,976	219,863
	1,203,790	1,075,442

(a) The Group's bank overdrafts and revolving facilities that were attributed to the Ausnutria B.V. Group amounting to EUR100,000,000 (equivalent to approximately RMB781,550,000) (2018: EUR35,000,000, equivalent to approximately RMB274,656,000), none of the bank overdraft (2018: EUR22,029,000, equivalent to approximately RMB172,872,000) had been utilised as at 31 December 2019, with a certain pledge of the Group's assets.

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

(i) mortgages over the Ausnutria B.V. Group's land and buildings situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR87,760,000 (equivalent to approximately RMB685,888,000) (2018: EUR87,495,000 (equivalent to approximately RMB686,600,000));

(ii) pledges of the Ausnutria B.V. Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR137,320,000 (equivalent to approximately RMB1,073,224,000) (2018: EUR85,150,000 equivalent to approximately RMB668,198,000);

(iii) pledges of the Ausnutria B.V. Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR9,887,000 (equivalent to approximately RMB77,272,000) (2018: EUR16,719,000 (equivalent to approximately RMB131,199,000)); and

(iv) pledges of certain of the Group's time deposits amounting to RMB396,152,000 (2018: RMB427,791,000).

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

(c) The Group's other loans are unsecured, with (i) NZD5,840,000 (equivalent to approximately RMB27,432,000) (2018: NZD2,000,000, equivalent to approximately RMB9,190,000) bearing interest at 4.22% and; (ii) EUR196,000 (equivalent to approximately RMB1,532,000) (2018: EUR196,000, equivalent to approximately RMB1,538,000) bearing interest at 3-month EURIBOR+3.0%. All the loans are repayable within 2 years.

27. DEFINED BENEFIT PLAN

Ausnutria Ommen B.V. operates a funded 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 (2018: 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 2015. All rights from previous years will remain in the old defined benefit plan. Sensitivity on future salary and pension costs is not applicable for the Group's defined benefit plan.

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

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

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

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2019 by the appraiser, using the projected unit credit actuarial valuation method.

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

	2019	2018
Discount rate (%)	1.20	2.10
Expected rate of future pension cost increases (%)	1.20	2.10
Expected rate of salary increases (%)	1.75	1.75
Indexation post activities (%)	0.00	0.00

The actuarial valuation showed that the market value of plan assets was RMB32,763,000 (2018: RMB27,630,000) and that the actuarial value of these assets represented 84% (2018: 82%) of the benefits that had accrued to qualifying employees. The deficiency of RMB6,440,000 (2018: RMB5,940,000) is expected to be cleared over the remaining life expectancy (based on unconditional future indexations for active and post-active participants).

27. DEFINED BENEFIT PLAN (continued)

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
2019				
Discount rate	0.25	(7,339)	0.25	(4,080)

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2018				
Discount rate	0.25	(1,577)	0.25	1,695

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:

	2019 RMB'000	2018 RMB'000
Current service cost		
Interest cost	216	735
Net benefit expenses	216	735
Recognised in cost of sales	216	735
	216	735

27. DEFINED BENEFIT PLAN (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	33,571	33,987
Interest cost	6,478	(172)
Benefit paid	(787)	(438)
Exchange differences on a foreign plan	(60)	194
At 31 December	39,202	33,571

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2019

		Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2019 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 2019 RMB'000
Defined benefit obligations	(33,571)	–	–	(686)	(686)	787	–	–	(6,247)	455	(5,792)	–	60	(39,202)
Fair value of plan assets	27,630	–	(100)	571	471	(787)	–	–	4,843	–	4,843	648	(43)	32,762
Benefit liabilities	(5,941)	–	(100)	(115)	(215)	–	–	–	(1,404)	455	(949)	648	17	(6,440)

2018

		Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2018 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 2018 RMB'000
Defined benefit obligations	(33,987)	–	–	(680)	(680)	438	–	344	641	(133)	852	–	(194)	(33,571)
Fair value of plan assets	27,613	–	(55)	–	(55)	(438)	555	(274)	(547)	242	(24)	375	160	27,631
Benefit liabilities	(6,374)	–	(55)	(680)	(735)	–	555	70	94	109	828	375	(34)	(5,940)

27. DEFINED BENEFIT PLAN (continued)

The fair value of the total plan assets at 31 December 2019 was RMB32,763,000 (2018: RMB27,631,000).

Expected contributions to the defined benefit plan in future years are as follows:

	2019 RMB'000	2018 RMB'000
Within the next 12 months	899	800
Between 2 and 5 years	7,370	8,608
Between 5 and 10 years	7,511	6,316
Total expected contributions	15,780	15,724

The average duration of the defined benefit obligations at the end of the reporting period was 20.5 (2018: 19.2) years.

28. DEFERRED REVENUE

On 22 May 2018, the Company purchased two plots of the land in Changsha city, Hunan province, for building of the future headquarters of the Group in the PRC region (the "**PRC Headquarters**"). In order to support the long term growth of the Group, Ausnutria China received government grants as financial subsidies to support the development. Such government grants received are treated as deferred revenue as at the end of the reporting period and which are to be amortised and recognised as other income over the weighted average of the expected useful life of the PRC Headquarters.

As at the end of the reporting period, the building of the PRC Headquarters was managed and handled by an associate of the Company.

29. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax liabilities

2019

	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
At 1 January 2019	68	74,947	1,815	11,748	88,578
Acquisition of subsidiaries (note 35)	–	1,190	–	–	1,190
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(1,722)	(8,174)	(356)	17,473	7,221
Exchange difference	(23)	1,375	(12)	418	1,758
Gross deferred tax liabilities at 31 December 2019	(1,677)	69,338	1,447	29,639	98,747

2018

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2018	2,160	69,284	2,165	16,757	90,366
Acquisition of Ozfarm	–	13,945	–	–	13,945
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(2,096)	(7,740)	(361)	(5,279)	(15,476)
Exchange difference	4	(542)	11	270	(257)
Gross deferred tax liabilities at 31 December 2018	68	74,947	1,815	11,748	88,578

29. DEFERRED TAX (continued)

Deferred tax assets

2019

	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
At 1 January 2019	1,473	53,519	3,773	5,816	71,690	16,237	152,508
Deferred tax credited/(charged) to profit or loss during the year (note 10)	78	22,987	(430)	4,696	26,726	13,059	67,116
Exchange difference	(5)	3,230	–	–	–	41	3,266
Gross deferred tax assets at 31 December 2019	1,546	79,736	3,343	10,512	98,416	29,337	222,890

2018

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	1,706	67,887	727	34,439	60,222	5,711	170,692
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(242)	(13,774)	3,046	(28,623)	11,468	10,520	(17,605)
Exchange difference	9	(594)	–	–	–	6	(579)
Gross deferred tax assets at 31 December 2018	1,473	53,519	3,773	5,816	71,690	16,237	152,508

Management expects it is probable that taxable profits will be available against which the above tax losses and deductible temporary differences can be utilised in the coming years.

The Group has tax losses arising in Hong Kong of RMB10,846,000 (2018: RMB10,846,000) 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 RMB54,358,000 (2018: RMB63,522,000) 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.

29. DEFERRED TAX (continued)

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% (2018: 5% or 10%). The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2019, the Group has not recognised deferred tax liabilities of RMB187,355,000 (2018: RMB142,103,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB2,304,117,000 (2018: RMB1,538,509,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. FINANCE LEASE PAYABLES

The Group leases certain of machinery for its production business. These leases are classified as financial leases and have remaining lease terms of four years.

At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2018 RMB'000	Present value of minimum lease payments 2018 RMB'000
Amounts payable:		
Within one year	42,441	36,548
In the second year	40,988	36,247
In the third to fifth years, inclusive	140,836	133,324
Total minimum finance lease payments	224,265	206,119
Future finance charges	(18,146)	
Total net finance lease payables	206,119	
Portion classified as current liabilities (note 26)	(36,548)	
Non-current portion (note 26)	169,571	

31. SHARE CAPITAL AND TREASURY SHARES

Share capital

	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
1,612,106,299 (2018: 1,582,150,653) ordinary shares of HK$0.10 each	161,211	158,215

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue '000	Share capital RMB'000
At 1 January 2019		1,582,151	137,421
Share options exercised	(i)	16,733	1,461
Consideration shares issued for acquisition of:			
APL's non-controlling interest	(ii)	4,149	355
NCP's non-controlling interest	(iii)	4,955	423
Nutriunion HK's non-controlling interest	(iv)	4,118	371
Total consideration shares issued		13,222	1,149
At 31 December 2019		1,612,106	140,031

Treasury shares

		Number of shares '000	Amount RMB'000
Repurchase of Shares during the year and at 31 December 2019	(v)	(2,679)	(24,733)

Notes:

(i) The subscription rights attaching to 16,733,000 share options were exercised at the subscription price of HK$2.45 per share (note 32), resulting in the issue of 16,733,000 Shares for a total cash consideration, before expenses, of HK$40,996,000 (equivalent to approximately RMB35,807,000). An amount of RMB9,076,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

(ii) On 11 April 2019, 4,149,567 shares of the Company were allotted and issued to satisfy part of the consideration for the acquisition of the remaining 30% equity interest in APL, at a share price fair value of HK$10.30 each, totally amounting to HK$42,740,000 (equivalent to approximately RMB36,582,000).

(iii) On 18 April 2019, 4,954,824 shares of the Company were allotted and issued to satisfy the consideration for the acquisition of the remaining 25% equity interest in NCP, at a share price fair value of HK$10.68 each, totally amounting to HK$52,918,000 (equivalent to approximately RMB45,128,000).

31. SHARE CAPITAL AND TREASURY SHARES (continued)

Share capital (continued)

Notes (continued)

(iv) On 31 October 2019, 4,118,255 shares of the Company were allotted and issued to satisfy part of the consideration for the acquisition of the remaining 40% equity interest in Nutriunion HK, at a share price fair value of HK$15.47 each, totally amounting to HK$63,709,000 (equivalent to approximately RMB57,339,000).

(v) During the year, the Company repurchased 2,679,000 Shares on the Hong Kong Stock Exchange and fully paid at a total consideration of HK$27,484,000 (equivalent to RMB24,733,000). Subsequent to the end of the reporting period, on 28 February 2020, the concerned Shares were cancelled.

32. SHARE OPTION SCHEME

The Group operated a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme are the directors, and any person belonging to any of the following classes of participants:

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

ii. any supplier of goods or services to the Group or any of 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.

The Scheme became effective on 8 October 2009 and, unless otherwise cancelled or amended, remained in force for 10 years from that date until 7 October 2019.

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 independent non-executive directors (excluding any independent non-executive directors who are the grantees of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value of over HK$5 million (based on the price of the Company's shares at the date of grant), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

32. SHARE OPTION SCHEME (continued)

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:

	2019		2018	
	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	23,471	2.45	37,486
Granted during the year	10.00	40,000	–	–
Exercised during the year	2.45	(16,733)	2.45	(13,815)
Forfeited during the year	–	–	2.45	(200)
At 31 December	9.63	46,738	2.45	23,471

The weighted average share price at the date of exercise for share options exercised during the year was HK$13.65 (2018: HK$9.97) per Share.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019

Number of options '000	Exercise price HK$ per Share	Exercise period
1,260	2.45	21-1-17 to 20-1-21
5,478	2.45	06-7-17 to 20-1-21
40,000	10.00	15-1-21 to 14-1-24
46,738		

32. SHARE OPTION SCHEME (continued)

2018

Number of options '000	Exercise price HK$ per Share	Exercise period
12,590	2.45	21-1-17 to 20-1-21
10,881	2.45	06-7-17 to 20-1-21
23,471		

The fair value of the share options granted was HK$112,131,000 (2018: HK$27,477,000), of which the Group recognised a share option expense of HK$22,207,000 (equivalent to approximately RMB19,535,000) (2018: HK$3,460,000, equivalent to approximately RMB2,934,000) during the year ended 31 December 2019.

The fair value at grant date is estimated using a binomial model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. There is no cash settlement of the options. The fair value of options granted during year was estimated on the date of grant using the following assumptions:

	Granted on 21 January 2016 and 6 July 2016	Granted on 15 January 2019
Dividend yield (%)	0.00	1.26
Expected volatility (%)	47.45 – 49.09	41.59
Risk-free interest rate (%)	1.36 – 1.6	2.33
Contractual life of share options (year)	5	5
Weighted average share price (HK$)	2.45	10.00

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 16,733,000 share options exercised during the year resulted in the issue of 16,733,000 ordinary shares of the Company and new share capital of HK$1,673,300 (equivalent to approximately RMB1,461,000) (before issue expenses), as further detailed in note 32 to the financial statements.

32. SHARE OPTION SCHEME (continued)

On 15 January 2019, a total of 40,000,000 share options were granted to certain eligible participants in respect of their services provided to the Group. These share options shall be vested in the following manner:

- One-third shall be vested on 15 January 2021;
- One-third shall be vested on 15 January 2022; and
- One-third shall be vested on 15 January 2023.

These share options shall have an exercise price of HK$10.0 per share and an exercise period ranging from 15 January 2021 to 14 January 2024. The price of the Share at the date of grant was HK$7.95.

At the end of the reporting period, the Company had 46,738,000 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 46,738,000 additional ordinary shares of the Company and additional share capital of HK$4,673,800 (equivalent to approximately RMB4,186,700) (before issue expenses).

Subsequent to the end of the reporting period, 1,533,000 share options were exercised from 8 January 2020 to 16 January 2020.

At the date of approval of these financial statements, the Company had 45,205,000 share options outstanding under the Scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 86 to 87 of the financial statements.

(i) Capital reserve

Capital reserve represents the net difference of the aggregate issued paid-in capital of subsidiaries comprising the Group in 2009 and contribution from the then owners of certain property, plant and equipment, and a lease prepayment for land use rights at nil consideration in 2007 and after offsetting the effect arising from the acquisitions of non-controlling interest of subsidiaries.

(ii) Statutory surplus reserve

According to the PRC Company Law, each of the PRC subsidiaries of the Group is required to transfer 10% of its after tax profit, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that such fund is maintained at a minimum level of 25% of the registered capital.

(iii) Foreign exchange reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with presentation currencies other than RMB.

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that have material non-controlling interests as at 31 December 2019 are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Pure Nutrition Limited ("**PNL**")	40%	40%

	2019 RMB'000	2018 RMB'000
Loss for the year allocated to non-controlling interests:		
PNL	(23,352)	(12,904)
Accumulated balances of non-controlling interests at the reporting date:		
PNL	(25,833)	(1,677)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2019 RMB'000	2018 RMB'000
Revenue	4,195	–
Cost	(41,596)	–
Total expenses	(20,978)	(32,259)
Loss for the year	(58,379)	(32,259)
Attributable to non-controlling interests	–	–
Total comprehensive loss attributable to owners of the parent	(58,379)	(32,259)
Current assets	22,973	31,770
Non-current assets	190,503	185,844
Current liabilities	(278,059)	(221,808)
Net cash flows used in operating activities	(33,554)	(16,758)
Net cash flows used in investing activities	(1,128)	(15,020)
Net cash flows from financing activities	33,654	30,910
Net decrease in cash and cash equivalents	(1,028)	(868)

35. BUSINESS COMBINATION

Pursuant to a share purchase deed (the "**Deed**") entered into between the Group and the vendors of Aunulife (the "**Aunulife Vendor**") on 6 June 2019, the Group agreed to purchase and the Aunulife Vendor agreed to sell the entire equity interest in Aunulife at a consideration of AUD800,000 (equivalent to approximately RMB3,878,000) (the "**Consideration**") which was settled by cash upon completion.

Aunulife is a company established in Australia which is principally engaged in the development, distribution and sales of probiotic health products. Aunulife became an indirect wholly-owned subsidiary of the Company on 31 October 2019.

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

	Fair value recognised on acquisition RMB'000
Non-patent technology and licence	3,967
Prepayments, other receivables and other assets	7
Cash and cash equivalents	1,094
Deferred tax liabilities	(1,190)
Total identifiable net assets at fair value	3,878
Goodwill on acquisition	–
Total consideration	3,878
Satisfied by:	
Cash	3,878

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

	RMB'000
Cash consideration	(3,878)
Cash and bank balances acquired	1,094
Net outflow of cash and cash equivalents included in cash flows from investing activities	(2,784)

As the acquisition completed on 31 October 2019 and the Group is in the process of formulating and implementing the business plan on Aunulife, there was no contribution by Aunulife to the Group's revenue and the consolidated profit for the year ended 31 December 2019.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB126,267,000 and RMB126,267,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Bank and other loans RMB'000	Finance lease payables/lease liabilities RMB'000
At 31 December 2018	869,323	206,119
Effect of adoption of IFRS 16	–	26,980
At 1 January 2019 (restated)	869,323	233,099
Changes from financing cash flow	76,313	(86,245)
Foreign exchange movement	(23,858)	(856)
New lease	–	126,267
Interest expense	–	9,747
At 31 December 2019	921,778	282,012

2018

	Bank and other loans RMB'000	Finance lease payables RMB'000
At 1 January 2018	1,731,286	240,898
Changes from financing cash flows	(818,424)	(36,564)
Foreign exchange movement	(43,539)	1,785
At 31 December 2018	869,323	206,119

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	5,965
Within financing activities	95,992
	101,957

37. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2018: Nil).

38. 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 and 22, respectively, to the financial statements.

39. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Land and buildings	54,226	–
Plant and machinery	157,574	9,654
Intangible assets	528	4,244
	212,328	13,898

39. COMMITMENTS (continued)

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its plant and machinery, motor vehicles and office equipment under operating lease arrangements. Leases for plant and machinery were negotiated for terms ranging from three to five years, and those for motor vehicles were for terms ranging between two and six years. Leases for office equipment were with terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	13,311
In the second to fifth years, inclusive	16,255
After five years	1,159
	30,725

40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2019 RMB'000	2018 RMB'000
Purchases of products from a joint venture	(i)	–	476
Sales of products to a joint venture	(i)	–	48,085
Purchases of products from the associates	(i)	172,920	270,510
Sales of products to the associates	(i)	156,959	232,701
Management fees received from an associate	(ii)	2,118	162

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.

40. RELATED PARTY TRANSACTIONS (continued)

(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 and 23 to the financial statements.

(c) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	32,812	24,760
Performance-related bonuses	7,133	–
Retirement benefit contributions	1,115	793
Equity-settled share option expense	7,273	2,194
Total compensation paid to key management personnel	48,333	27,747

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:

2019

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	419,919	419,919
Financial assets included in prepayments, other receivables and other assets	4,425	4,425
Pledged deposits	396,152	396,152
Cash and cash equivalents	1,674,541	1,674,541
	2,495,037	2,495,037

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	337,937	337,937
Financial liabilities included in other payables and accruals	–	166,374	166,374
Derivative financial instruments	301,325	–	301,325
Interest-bearing bank loans and other borrowings	–	1,203,790	1,203,790
	301,325	1,708,101	2,009,426

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)

2018

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	352,617	352,617
Financial assets included in prepayments, other receivables and other assets	5,839	5,839
Pledged deposits	427,791	427,791
Cash and cash equivalents	1,449,861	1,449,861
	2,236,108	2,236,108

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	283,584	283,584
Financial liabilities included in other payables and accruals	–	176,096	176,096
Derivative financial instruments	238,085	–	238,085
Interest-bearing bank loans and other borrowings	–	1,075,442	1,075,442
	238,085	1,535,122	1,773,207

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	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Derivative financial instruments	301,325	238,085	301,325	238,085
Interest-bearing bank loans and other borrowings	1,203,790	1,075,442	1,210,882	1,076,709
	1,505,115	1,313,527	1,512,207	1,314,794

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and amounts due from/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.

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 2019 was assessed to be insignificant.

The Group enters into derivative financial instruments with various financial institutions. Derivative financial instruments, including interest rate swaps and interest rate caps, 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 and interest rate caps are the same as their fair values.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the Subsequent HNC Consideration have been estimated based on market share prices and the expected numbers of settlement shares, details are included in note 25 (iii)(a). The directors believe that the estimated fair values, which are recorded in the consolidated statement 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 2019.

The fair values of the Subsequent Ozfarm Consideration have been estimated using a Probabilistic model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future EBIT growth. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement 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 2019.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

As at 31 December 2019

	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	300,312	1,013	–	301,325

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 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	230,391	1,858	5,836	238,085

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 (2018: Nil).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and overdrafts, finance leases, other interest-bearing loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and interest rate caps. The purpose is to manage the interest rate risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings with a floating interest rate.

The Group manages its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, after taking into account the effect of the interest rate swaps, approximately 87% (2018: 90%) of the Group's interest-bearing borrowings bore interest at fixed rates.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2019		
EUR	100	(9,064)
EUR	(100)	9,064
AUD	100	(42)
AUD	(100)	42
NZD	100	(777)
NZD	(100)	777
TWD	100	(177)
TWD	(100)	177
2018		
EUR	100	(12,897)
EUR	(100)	12,897
AUD	100	(113)
AUD	(100)	113
NZD	100	(175)
NZD	(100)	175
TWD	100	(271)
TWD	(100)	271

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.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

	12-month ECLs		Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019					
Trade and bills receivables*	–	–	–	419,919	419,919
Financial assets included in prepayments, other receivables and other assets					
– Normal**	4,425	–	–	–	4,425
Pledged deposits					
– Not yet past due	396,152	–	–	–	396,152
Cash and cash equivalents					
– Not yet past due	1,674,541	–	–	–	1,674,541
	2,075,118	–	–	419,919	2,495,037
As at 31 December 2018					
Trade and bills receivables*	–	–	–	352,617	352,617
Financial assets included in prepayments, other receivables and other assets					
– Normal**	5,839	–	–	–	5,839
Pledged deposits					
– Not yet past due	427,791	–	–	–	427,791
Cash and cash equivalents					
– Not yet past due	1,449,861	–	–	–	1,449,861
	1,883,491	–	–	352,617	2,236,108

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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.

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.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, interest-bearing bank loans, finance leases and other interest-bearing loans.

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:

	2019					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible bonds	–	–	–	207,352	–	207,352
Lease liabilities	–	–	88,324	191,204	2,484	282,012
Interest-bearing bank loans and other borrowings (excluding lease liabilities)	26,089	39,653	275,198	595,107	–	936,047
Trade and bills payables	–	326,693	11,244	–	–	337,937
Financial liabilities included in other payables and accruals	28,043	24,623	113,708	–	–	166,374
Derivative financial instruments	–	1,013	–	300,312	–	301,325
Total	54,132	391,982	488,474	1,293,975	2,484	2,231,047

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	–	275,877	7,707	–	–	283,584
Finance lease payables	–	–	42,441	181,824	–	224,265
Financial liabilities included in other payables and accruals	15,865	34,824	125,407	–	–	176,096
Derivative financial instruments	–	1,858	–	236,227	–	238,085
Interest-bearing bank loans and other borrowings	175,979	–	454,315	252,565	–	882,859
Total	191,844	312,559	629,870	670,616	–	1,804,889

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 2019 and 31 December 2018.

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:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank loans and other borrowings	1,203,790	1,075,442
Less: Pledged deposits	(396,152)	(427,791)
Cash and cash equivalents	(1,674,541)	(1,449,861)
Surplus cash	(866,903)	(802,210)
Total assets	8,343,194	6,829,006
Gearing ratio	N/A	N/A

44. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in this report, the Group had no significant event which took place subsequent to the end of the reporting period.

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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	463,979	463,979
Total non-current assets	463,979	463,979
CURRENT ASSETS		
Due from subsidiaries	2,088,247	1,734,329
Prepayments, other receivables and other assets	1,862	1,333
Cash and cash equivalents	62,999	445,726
Total current assets	2,153,108	2,181,388
CURRENT LIABILITIES		
Due to subsidiaries	49,576	40,437
Other payables	14,728	2,266
Total current liabilities	64,304	42,703
NET CURRENT ASSETS	2,088,804	2,138,685
TOTAL ASSETS LESS CURRENT LIABILITIES	2,552,783	2,602,664
Net assets	2,552,783	2,602,664
EQUITY		
Issued capital	140,031	137,421
Treasury shares	(24,733)	–
Reserves (note)	2,437,485	2,465,243
Total equity	2,552,783	2,602,664

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 2018	876,049	171,320	17,658	(118,306)	(35,886)	910,835
Total comprehensive profit/(loss) for the year	–	–	–	(24,371)	45,984	21,613
Issue of shares	1,122,882	–	–	–	–	1,122,882
Exercise of share options	33,585	–	(6,979)	–	–	26,606
Equity-settled share option arrangements	–	–	2,934	–	–	2,934
Final 2017 dividend declared	(106,742)	–	–	–	–	(106,742)
Acquisition of a subsidiary	92,800	–	–	–	–	92,800
Acquisition of non-controlling interests	394,315	–	–	–	–	394,315
At 31 December 2018 and 1 January 2019	2,412,889	171,320	13,613	(142,677)	10,098	2,465,243
Total comprehensive profit/(loss) for the year	–	–	–	(54,756)	44,021	(10,735)
Exercise of share options	43,422	–	(9,076)	–	–	34,346
Equity-settled share option arrangements	–	–	19,535	–	–	19,535
Final 2018 dividend declared	(208,804)	–	–	–	–	(208,804)
Acquisition of non-controlling interests	137,900	–	–	–	–	137,900
At 31 December 2019	2,385,407	171,320	24,072	(197,433)	54,119	2,437,485

* The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganisation 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 17 March 2020.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
RESULTS					
REVENUE	6,736,153	5,389,568	3,926,466	2,740,262	2,103,534
Cost of sales	(3,202,836)	(2,728,933)	(2,236,267)	(1,615,403)	(1,513,568)
Gross profit	3,533,317	2,660,635	1,690,199	1,124,859	589,966
Other income and gains	69,191	114,109	57,463	62,631	45,652
Selling and distribution expenses	(1,771,834)	(1,444,237)	(969,127)	(646,411)	(497,613)
Administrative expenses	(558,289)	(461,853)	(298,025)	(215,656)	(116,281)
Other expenses	(138,666)	(59,621)	(28,466)	(14,055)	(8,907)
Finance costs	(33,332)	(29,753)	(22,110)	(17,849)	(16,045)
Share of profits and losses of:					
A joint venture	–	1,159	940	–	–
Associates	6,797	11,553	7,671	4,233	7,019
PROFIT BEFORE TAX	1,107,184	791,992	438,545	297,752	3,791
Income tax expense	(228,288)	(147,440)	(103,765)	(63,756)	(680)
PROFIT FOR THE YEAR	878,896	644,552	334,780	233,996	3,111
Attributable to:					
Owners of the parent	878,390	635,100	308,133	212,672	50,645
Non-controlling interests	506	9,452	26,647	21,324	(47,534)
	878,896	644,552	334,780	233,996	3,111

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	8,343,194	6,829,006	5,621,130	3,923,646	3,030,522
Total liabilities	(4,279,286)	(3,434,458)	(3,674,124)	(2,333,995)	(1,702,979)
Net assets	4,063,908	3,394,548	1,947,006	1,589,651	1,327,543
Non-controlling interests	(48,254)	(140,810)	(206,515)	(121,582)	(14,864)
	4,015,654	3,253,738	1,740,491	1,468,069	1,312,679

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