ANNUAL REPORT 2020

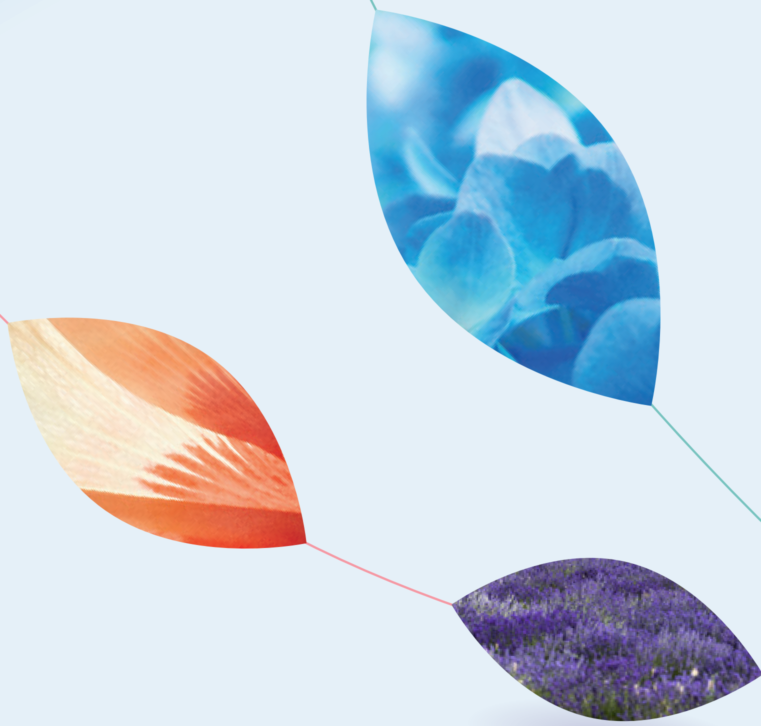
NOURISHING LIFE & GROWTH

澳优 Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)



NOURISHING LIFE & GROWTH

AUSNUTRIA DAIRY CORPORATION LTD
ANNUAL REPORT 2020

CONTENTS

MISSION

Nourishing Life & Growth.

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

VISION

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.

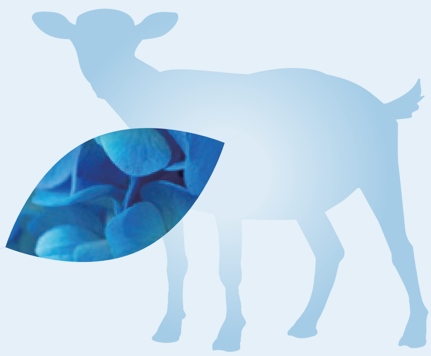
Revenue Contribution

Own-branded Cow milk formula

RMB 3,820.2M Y2020	RMB 3,167.2M Y2019

↑ 20.6%

Own-branded Goat milk formula



RMB 3,106.2M Y2020	RMB 2,856.2M Y2019

↑ 8.8%

Private Label and others

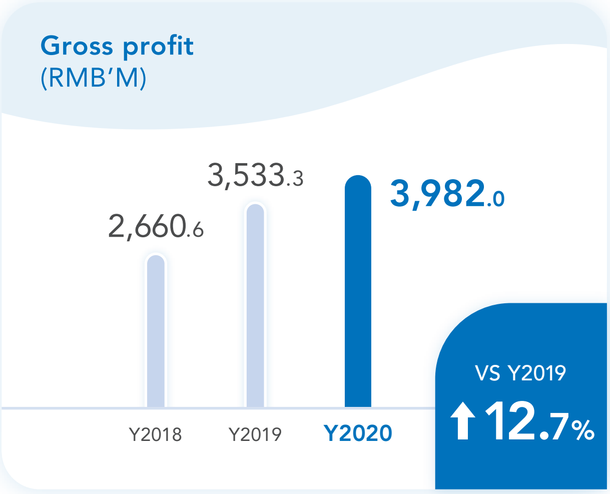
RMB 917.1M Y2020	RMB 594.1M Y2019

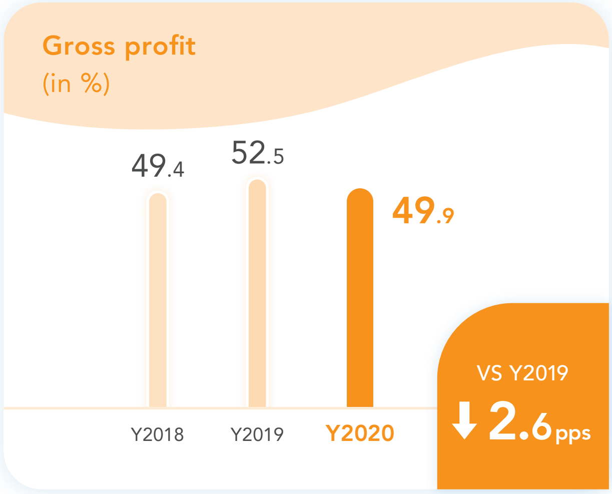
↑ 54.4%

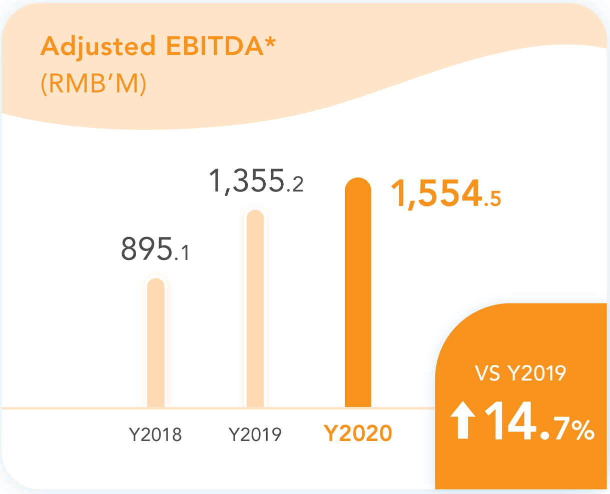
Nutrition products

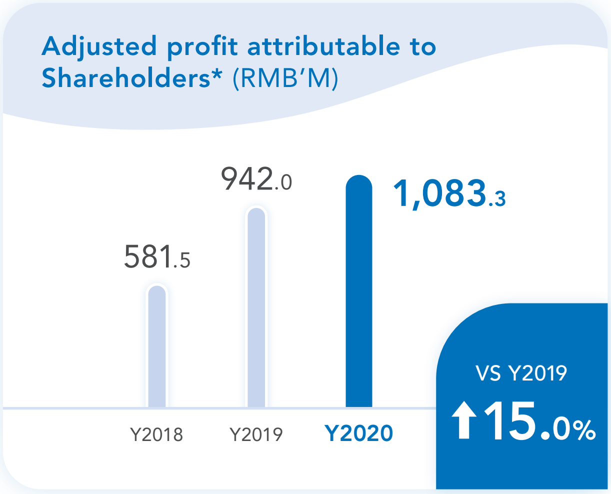
RMB 142.3M Y2020	RMB 118.7M Y2019

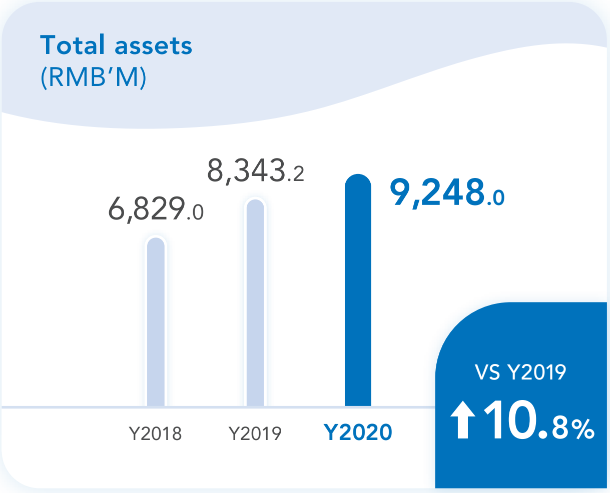
↑ 19.9%

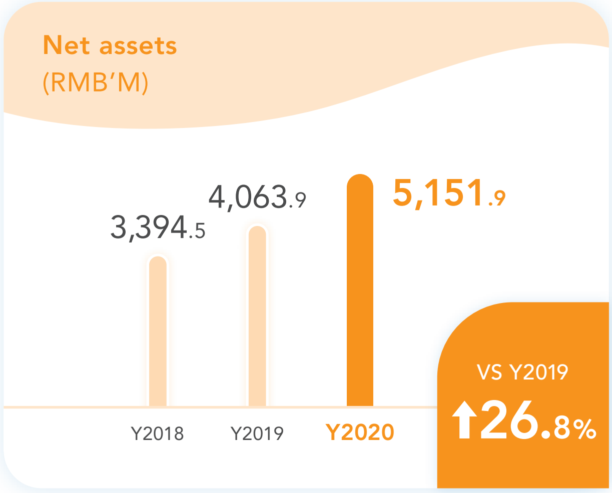




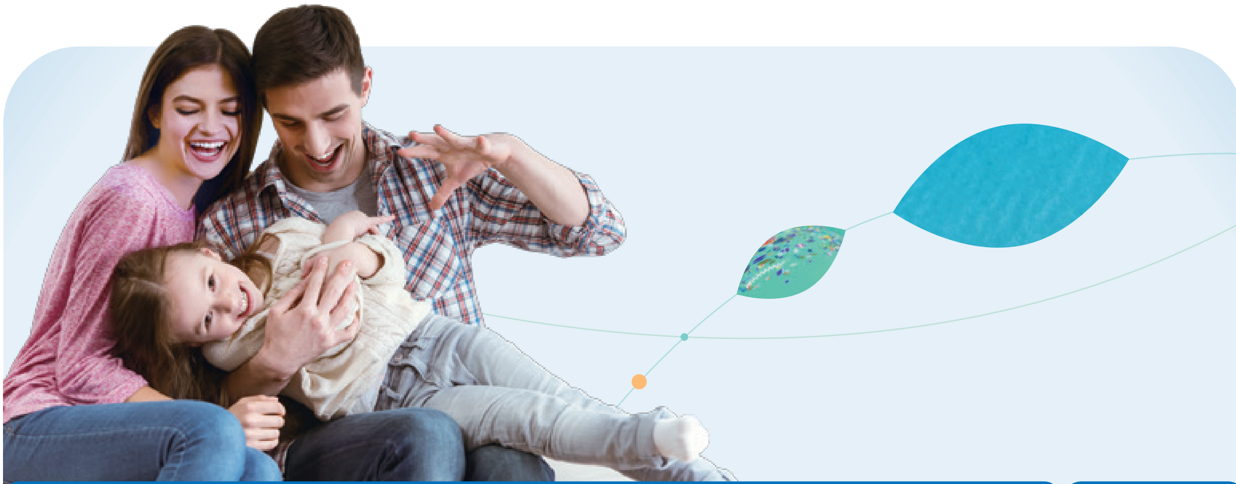








* Adjusted for the loss on the fair value change of a derivative financial instrument for the Year 2020 of RMB43.0 million (Year 2019: RMB63.6 million) and one-off BUs integration expenses of RMB48.3 million (net of tax of RMB36.2 million) (Year 2019: Nil).



(RMB'M, unless otherwise stated)	2016	2017	2018	2019	2020
Revenue	2,740.3	3,926.5	5,389.6	6,736.2	7,985.8
Gross profit	1,124.9	1,690.2	2,660.6	3,533.3	3,982.0
Gross profit (in %)	41.1	43.0	49.4	52.5	49.9
EBITDA	333.3	503.3	948.7	1,291.6	1,463.2
Profit before tax	297.8	438.5	792.0	1,107.2	1,220.8
Profit attributable to Shareholders	212.7	308.1	635.1	878.4	1,004.1
EPS (in RMB cent)	17.0	24.6	47.2	54.9	60.9
Cash inflows from operating activities	294.4	512.5	531.8	970.8	1,130.2
Net assets	1,589.7	1,947.0	3,394.5	4,063.9	5,151.9
Total assets	3,923.6	5,621.1	6,829.0	8,343.2	9,248.0
Net cash	112.3	(367.8)	802.3	866.9	983.3

BOARD OF DIRECTORS

Executive Directors
Mr. Yan Weibin *(Chairman)*
Mr. Bartle van der Meer *(CEO)*
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

NOMINATION COMMITTEE
Mr. Yan Weibin *(Chairman)*
Mr. Shi Liang
Mr. Lau Chun Fai Douglas
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

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.,
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

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

In the Netherlands
Dokter van Deenweg 150
8025 BM Zwolle
The Netherlands

In Australia
25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Trust Company
(Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

PRINCIPAL BANKERS
ABN AMRO Bank N.V.
Rabobank
Bank of China

STOCK CODE
1717

INVESTORS' CONTACT
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 2020.

AUSNUTRIA

Better Nutrition, Better Life

2020 was one of the most extraordinary years for many of us where COVID-19 challenged and changed the way we live. We are very grateful to all the healthcare professionals and supporting staff who have devoted themselves to keeping our communities safe. Our thoughts remain with those affected by the pandemic.

In 2020, businesses around the globe faced immense challenges as the world economy was clouded by the unforeseen pandemic. Despite the challenging situation, we enhanced innovation, responded in a swift manner and took solid steps forward by adhering to our principle of "Responding to Market Uncertainty with Firm Strategies". Our core businesses steadily grew, brand recognition and reputation were further enhanced, supply chains were secured, teams grew stronger and business operations consolidated.

As soon as the pandemic broke out, we quickly and actively participated in the fight against it to fulfil Ausnutria's social obligations and responsibilities. For instance, Ausnutria U-Foundation, together with our subsidiaries around the world, repeatedly made batches of donations to various communities. The pandemic also tested Ausnutria's global management capabilities. In the face of such challenges, our global teams worked together to secure our global supply chain through a whole year of remote working and collaboration. As a result, supply for our customers worldwide is secured and stable, and the Company was listed by the Ministry of Industry and Information Technology in China (MIIT) in the fifth batch of "National Models for Green Supply Chain Management (國家綠色供應鏈管理示範企業)" in 2020. Besides securing the global supply chain, our worldwide brand operation also maintained growth amidst the difficult and adverse condition, both in China and overseas markets.

In 2020, Ausnutria's brands continued to be deeply entrenched and we had remarkable brand building activities. Hyproca 1897 BU focused on the details and appointed Mr. Lang Lang (郎朗), a world-famous pianist, as its global ambassador, and also revamped and upgraded organic Neolac. Hyproca 1897 BU became the fastest growing BU of the year. Kabrita continued to take root in the premium market by successfully further enhancing its popularity and recognition through a TV series, 'Sisters Riding the Winds and Breaking the Waves (《乘風破浪的姐姐》)', as well as other brand activities. Other than in China, Europe, the United States of America, the Middle East, the Commonwealth of Independent States and Brazil, Kabrita has extended its presence to Mexico and South Korea in early 2020. Allnutria resumed its growth with a clearer brand strategy after some adjustments. Our nutrition and special food segments are gradually building solid foundations with the commencement of internal consolidation. New products like probiotics, children formulas and adult formulas, were launched on schedule. Our group, together with its BUs, showcased our global layout strength by participating in the China International Import Expo for the third consecutive year.

Technology greatly enhanced our business as a traditional food enterprise and we also elevated our R&D to another level in 2020. In April 2020, the Company entered into an in-depth strategic cooperation with Jiangnan University in China. It is our privilege that Professor Chen Wei, an Academician of China Engineering Academy and the president of Jiangnan University, relocated his only academician R&D station to Ausnutria. In May, the Company upgraded its global R&D program on breast milk through closer collaboration with the Central South University on the breast milk bank in central China (中部母乳庫), along with the Wageningen University in the Netherlands. During the year, the Company has also made steady progress in upgrading its infant formulas, developing foods for special medical purpose and nutritional products, as well as making better progress in other foundational scientific research projects. Other than the aforementioned, our other R&D projects also yielded some encouraging outcomes. For example, Ausnutria was recognised as a "National Postdoctoral Program Station (國家級博士後科研工作站)" and a "Hunan Provincial Engineering Research Centre (湖南省工程技術研究中心)". Furthermore, with the advancement of genetic science and the upgrade of consumer experience, preventive medicine and personalized services are gradually pursued by consumers. In view of this, Ausnutria's personalised intelligent nutrition services based on nutrigenomics and other health data were trial launched November 2020 with Ausnutria's proprietary genechip and genetic test to provide higher quality service to consumers in the future.

In 2020, the Company continued to steadily improve its infrastructure. In the Netherlands, new facilities including a new base powder facility and other related facilities for the processing of goat milk (with a capacity of 35,000 metric tonnes) and goat whey were being constructed on schedule. The goat milk processing facility will have a high level of automation, fulfilling the high new environmental and climate requirements including free of natural gas, heating by electricity and zero nitrogen emission. In Changsha, China, our second factory commenced operation, while our third factory (which will be our future logistic center to expand our logistic and warehouse capacity) has commenced construction.

"Enhancing innovation for operational excellence" was the main management focus of the Company in 2020. To enhance our operating efficiency and management standard, we simultaneously upgraded our operating platforms and implemented excellence management. Ausnutria's digitalisation has entered into a new stage, prompting MIIT to certify the Company as an "Integration of Informatisation and Industrialisation Management System (兩化融合管理體系)" in May 2020. Ausnutria University continued to take an important role in the Group's strategy study and implementation, talent development, culture building and the empowerment to our business ecosystem. In December 2020, Ausnutria University was in the first batch to be certified as "China Corporate University Prototype", and was recognised as one of the best corporate universities in China three years in a row. In the Netherlands, the senior managements attended a leadership training from the Nijenrode University. All in all, our global teams worked together in building effective and efficient headquarters and business or regional entities reached new heights during the year. Increased in Ausnutria's capabilities in digitalisation and innovation ensure that we are ready for new opportunities.

2021 is going to be the eighteenth anniversary of the founding of Ausnutria. The Company has always been persevering with improvement and betterment amidst challenges and difficulties. Though relatively young, we have combined and inherited decades and centuries of tradition from its Dutch and Australian predecessors. We have been always focusing on consumers and employees, committed to innovation, cultural difference competition, win-win cooperations, as well as pursuing operational excellence. These are the leading factors for our continuous progress as a new contestant in the market.

Today, the world has shifted from an era of commercial internet to industrial internet value chain. Business models that rely on information asymmetry will quickly dwindle. Following the widespread adoption of 5G, big data, cloud computing, artificial intelligence and mobile devices, as well as enterprises equipped with modern management concept, platforms and skills will have better growth prospects. Those enterprises who can create real values for their consumers, partners, employees, shareholders and their communities will succeed in the future. Looking forward, Ausnutria's ambitious nutrition business plans are implemented in order, we will adhere to our result-driven business philosophy and long-term strategy in all our work. We will use scientific research for better products and services, digitalisation and intelligence for upgrading our businesses, as well as hard work and innovation for enhancing our operational level.

In particular, we will enhance the value of our products through even higher nutritional and safety standards, generate value for our customers with attentive care, create value for the ecosystem via cooperation and collaboration, realise value for our employees with up-to-date training and mutual support and contribute value to society by serving its demands. Furthermore, we will fight for sustainable personal, corporate and environmental development for the benefit of the ecosystem as a whole.

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 continued 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 2021, let us stick to our founding aspiration and keep striving.

Yan Weibin
Chairman

The People's Republic of China
16 March 2021

佳贝艾特 kabrita
佳贝艾特 悦白
佳贝艾特 悠装
佳贝艾特
佳贝艾特 营嘉
佳贝艾特 睛滢
Aunulife
Neolac 悠蓝
hyproca 海普诺凯
海普诺凯 荷致
海普诺凯 1897
海普诺凯 萃护
allnutria 能立多
澳优爱优
Eurence
Puredo 美纳多
淳璀
Augood 珀淳
睿活 美纳珍
Puredovita 启活
Growkey
NC
Soforla 苏芙拉
KIDSBON
Oz Farm
营养联邦 Nutriunion
HOPS 优贺普
FDORA
益萃质
PRONULIFE
Bioflag 锦旗生物
mygood 美优高
HOLiSURE 合力素
澳优 Ausnutria
NOURISHING LIFE & GROWTH

Business Review and Outlook

BUSINESS OVERVIEW

The year ended 31 December 2020 (the "**Year 2020**") is a year of challenges to many people. Unexpected events, including the outbreak of the coronavirus disease (COVID-19) (the "**Pandemic**"), have been casting uncertainty over the global economy, market sentiment and consumption behaviour. These unexpected events have caused some short-term interruptions in the business development of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (collectively, the "**Group**"), particularly in: (i) the Group's own-branded formula milk powder business (both in the PRC and the overseas) which had fewer marketing and promotional activities conducted for the concerned period due to lockdowns; and (ii) the dairy commodities trading business due to lower dairy related commodity prices. Nevertheless, the Group successfully contained the negative impact of these challenges to the Group's operations at a manageable level by rapidly adjusting its strategies (mainly on the marketing aspects) and by leveraging on its global network (particularly on the supply chain) to minimise the interruption to the lowest level. For the Year 2020, the Group recorded a revenue of RMB7,985.8 million (Year 2019: RMB6,736.2 million), representing a year-on-year ("**YoY**") increase of RMB1,249.6 million or 18.6%. Among which, the performance of the own-branded formula milk powder business (being the Group's core operations) recorded revenue of RMB6,926.4 million (Year 2019: RMB6,023.4 million), representing a YoY increase of RMB903.0 million or 15.0%, and accounted for 86.7% (Year 2019: 89.4%) of the total revenue of the Group.

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

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

As a result of the one-off expenses derived from the BUs integration exercise, the additional stock provision made and the trading loss derived as mentioned above, the gross profit margin, and hence the net profit margin of the Group, decreased for the Year 2020. Excluding the aforementioned factors, the Group's gross profit and net profit margins remained fairly stable when compared with the year ended 31 December 2019 (the "**Year 2019**"). The Company believes that it will continue to benefit from the product premiumisation trend in the PRC and, with the continuous effort in streamlining its internal structure and enhancing the upstream operational efficiency, the overall profit margin of the Group will improve progressively.

During the Year 2020, the Group recorded an accounting loss of RMB43.0 million (Year 2019: RMB63.6 million) in respect of the fair value change of a derivative financial instrument (the "**HNC FV Loss**"), which represents a contingent consideration liability for the settlement by the Group (the "**Subsequent HNC Consideration**") in its acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hongkong) Company Limited and its subsidiaries (the "**HNC Group**") (the "**HNC Group Acquisition**") in 2018. On 27 August 2020, the Subsequent HNC Consideration was settled and a loss of RMB43.0 million (Year 2019: RMB63.6 million) was recognised for the Year 2020. With the settlement of the Subsequent HNC Consideration, the significant accounting impact of the derivative financial instrument arising from the Subsequent HNC Consideration has ceased. The Group's profit attributable to equity holders of the Company for the Year 2020 amounted to RMB1,004.1 million (Year 2019: RMB878.4 million), representing a YoY increase of RMB125.7 million or 14.3%. Excluding the accounting loss and the one-off after tax BUs integration expenses mentioned above, the Group recorded an adjusted profit attributable to equity holders of the Company of RMB1,083.3 million (Year 2019: RMB942.0 million), representing a YoY increase of RMB141.3 million or 15.0%.

Formula Milk Powder Business

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

(a) Own-branded Cow Milk Formulas

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

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

During the year under review, all own-branded cow milk formula segment BUs endeavoured in various ways to improve their brand competitiveness. In March 2020, Hyproca 1897 BU appointed Mr. Lang Lang (郎朗), a world-famous pianist, as its global ambassador and established a close connection with him through multidimensional promotions. Such promotional activities included making an online live premiere of a micro film with Mr. Lang Lang named 'With Love and Music (《用愛成就》)' as well as the phenomenal world premiere of an original piano piece, namely《致愛心聲》, written by Mr. Lang Lang for Hyproca 1897 BU. Hyproca 1897 BU also acted as the sole title sponsor of two popular variety shows, namely 'Mr. Housework 2 (《做家務的男人2》)' and 'Mars Intelligence Agency《火星情報局》'. It further sponsored popular TV series in the PRC such as 'Go Ahead (《以家人之名》)', 'Like a Flowing River 2 (《大江大河2》)' and 'My Best Friend's Story (《流金歲月》)' in order to promote its brand exposure through in-depth placement marketing. Furthermore, Allnutria BU sponsored 2020 China Tennis Tour (Changsha Wangcheng Station) (2020年中國網球巡迴賽(長沙望城站)). It also held a large-scale baby crawling contest named 'Go Allnutria Babies! – For Better Health (《能寶總動員—金牌體「質」創造營》)' in collaboration with retail stores with the aim of increasing interaction with the consumers.

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

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

(b) Own-branded Goat Milk Formulas

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

The PRC Market

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

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

During the year under review, Kabrita continued to increase its investment in strengthening and spreading its brand influence. The continual success of 'I Will Find You a Better Home (《安家》)' and 'Three Lives Three Worlds, The Pillow Book (《三生三世枕上書》)', both being popular TV series in the year, generated tens of billions of views for Kabrita and introduced the brand to more target consumers. Intensive placement marketing via 'Sisters Riding the Winds and Breaking the Waves (《乘風破浪的姐姐》)', a recent popular variety TV show, also created increased exposure and discussion of the brand. Kabrita also co-organised the 'Chinese Cuties (中國嬰你更美)' project with the People's Daily and acted as a leading philanthropist in the goat milk industry. The brand also got a lot of exposure on five major word-of-mouth platforms, including Xiaohongshu (小紅書), Zhihu (知乎) and TikTok, as well as three major maternity platforms. As for offline activities, more advertisements were posted on common modes of transportation such as buses, high-speed trains and in airports.

Overseas Markets

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

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

Nutrition Business

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

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

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

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

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

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

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

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

Private Label and Other Businesses

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

STRATEGIC STEPS TAKEN

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

HBC Acquisition

On 9 April 2020, the Company (through its wholly-owned subsidiary) entered into a sale and purchase agreement (the "**HBC Sale and Purchase Agreement**") with two individuals for the acquisition of the remaining 15.0% equity interest in Hyproca Bio-Science (Hong Kong) Company Limited (together with its subsidiary, the "**HBC Group**") (the "**HBC Acquisition**"), at a consideration of HK$898.8 million by way of issuance and allotment of 70,000,000 new shares of the Company (the "**Shares**") at a price of HK$12.84 each by the Company. Such consideration is subject to a downward adjustment of up to 20,000,000 Shares upon exercising of call options by the Group at its absolute discretion should the future financial performance of the HBC Group fail to meet certain performance indicators for the three years ending 31 December 2022 pursuant to the terms as set out in the HBC Sale and Purchase Agreement.

The HBC Group is principally engaged in the marketing and distribution of the Hyproca 1897 Series in Mainland China and Hong Kong through the Hyproca 1897 BU. Since the establishment of the Hyproca 1897 BU in 2013, sale of the Hyproca 1897 Series products has increased significantly and become a major momentum for the Group's business growth. The board (the "**Board**") of directors (the "**Directors**") of the Company is of the view that the HBC Acquisition is in line with the development of the Group to continue to develop its cow milk based infant formula products sector, which is expected to make a positive impact on the operations, financial results and profitability of the Group.

The Company considers the HBC Acquisition will (i) enable the Group to obtain full control in the HBC Group for better internal resources allocation; (ii) facilitate the operations of the HBC Group and hence improve the operation efficiency and create better synergy with the Group as a whole, as the interest of the HBC Group management team will be aligned with that of the Company; (iii) provide a good incentive scheme to the HBC Group management team, as part of the consideration is linked to the performance of the HBC Group up to 2022; and (iv) strengthen the Group's position for the long term growth and development in the infant formula business, which is one of the major long-term visions of the Company.

As one of the vendors of the HBC Acquisition is a director of both Hyproca Bio-Science (Hong Kong) Company Limited and its subsidiary, and hence is a connected person of the Company. Accordingly, the HBC Acquisition constitutes a connected transaction for the Company. The HBC Acquisition was approved by shareholders of the Company (the "**Shareholders**") who are not interested or involved in the HBC Acquisition in an extraordinary general meeting of the Company on 30 July 2020, and completed on 27 August 2020. Since then, the HBC Group became indirect wholly-owned subsidiaries of the Company. Further details of the above are set out in the announcement and circular of the Company dated 9 April 2020 and 13 July 2020 respectively.

HNC Amendments

On 30 May 2018, the Group completed the HNC Group Acquisition. Pursuant to the sale and purchase agreement for the HNC Group Acquisition, the consideration is subject to a subsequent consideration, which shall be settled by the issuance and allotment of 29,879,876 new Shares in around April 2021. Having considered the outstanding financial performance of the HNC Group, and to recognise the contribution of the management team (being the vendors of the HNC Group Acquisition (the "**HNC Vendors**")) in the continued strong profitable growth momentum of the HNC Group to the Group, on 9 April 2020, the Company (through its wholly-owned subsidiary) and the HNC Vendors entered into a supplemental deed pursuant to which the parties have conditionally agreed to amend certain terms regarding, among others, the early settlement of the above subsequent consideration (the "**HNC Amendments**"). The Company has the absolute discretion to buy back the subsequent consideration Shares issued (i.e. 29,879,876 Shares) from the HNC Vendors at nil consideration, subject to the financial performance indicators of the HNC Group for the three years ended 31 December 2020.

As the owners of two of the HNC Vendors are a director of HNC and a chief executive of the Company, and hence are considered to be connected persons of the Company. The HNC Group Acquisition constituted a connected transaction for the Company and relevant resolutions were approved in the extraordinary general meeting of the Company held on 11 May 2018. Given that the HNC Amendments are considered as material changes in substance, and give rise to a new transaction, the Company is required to re-comply with the requirement of obtaining approval from the Shareholders who are not interested or involved in the HNC Group Acquisition on the HNC Amendments. The HNC Amendments were approved by Shareholders independent of the HNC Group Acquisition in the extraordinary general meeting of the Company on 30 July 2020, and completed on 27 August 2020. Further details of the above are set out in the announcement and the circular of the Company dated 9 April 2020 and 13 July 2020 respectively.

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 Changsha AnEr Nutrition Co. Ltd. (長沙安爾營養有限公司) (formerly 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, was holding a plot of land (the "**Changsha Land**") with a site area of approximately 84,000 square metres 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 RMB80.7 million) (the "**Changsha Land Acquisition**"). 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.

The Changsha Land Acquisition was completed on 31 March 2020.

New IFBP Facility

In early 2020, the Board has approved the Group to invest in a new infant formula base powder facility (the "**New IFBP Facility**") and other related facilities principally for the processing of goat milk (with a capacity of 35,000 metric tonnes) and goat whey in the Netherlands. The goat milk processing facility will have a high level of automation, fulfilling the high new environmental and climate requirements including free of natural gas, heating by electricity and zero nitrogen emission. The projects have been progressing as planned despite being slightly interrupted by the lockdowns.

INDUSTRY OVERVIEW

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

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

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

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

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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

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

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

OUTLOOK

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

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

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

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

FINANCIAL REVIEW

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

Revenue

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

Notes:

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

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

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

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

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

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

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

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

Gross profit and gross profit margin

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

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

Other income and gains

An analysis of other income and gains is as follows:

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

Notes:

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

(ii) The amount mainly represented incentive income received from the government of the Hunan province, the PRC for the contribution made by Ausnutria China in the Hunan province, the PRC during the Year 2020. Current year amount also included subsidies from the respective local governments to support entities as a result of the lockdowns due to the Pandemic.

Selling and distribution expenses

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

Administrative expenses

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

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB20.2 million (Year 2019: RMB19.5 million)), travelling expenses, auditor's remuneration, professional fees, depreciation and R&D costs. The increase in administrative expenses was primarily attributed to the continuous increase in the scale of operations of the Group and the increase in R&D costs by RMB49.2 million, from RMB132.1 million for the Year 2019 to RMB181.3 million for the Year 2020 for the R&D of new products.

Other expenses

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

Finance costs

The finance costs of the Group for the Year 2020 amounted to RMB28.9 million (Year 2019: RMB33.3 million), representing mainly interest on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

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

Share of profits and losses of associates

Balance mainly represented the share of profits of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**") for the Year 2020. The Farmel Group is principally engaged in the collection and trading of milk in Europe. The purpose for the investment in the Farmel Group is to secure the long-term milk supply for the Group's operations in the Netherlands.

Income tax expenses

The profits generated by the Group for the Year 2020 were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the 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 2020. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 16.5% (Year 2019: 19%) for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000. The standard CIT rates in Australia, New Zealand, the United States, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 20%, respectively.

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

Profit attributable to ordinary equity holders of the Company

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

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

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

Analysis on Consolidated Statement of Financial Position

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

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

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

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

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

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

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

Working Capital Cycle

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

An analysis of key working capital cycle is as follows:

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

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

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

Analysis on Consolidated Statement of Cash Flows

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

Net cash flows from operating activities

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

Net cash flows used in investing activities

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

Net cash flows used in financing activities

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

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

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

TREASURY POLICY

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

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

Notes:

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

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

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

	2020		2019	
Currency	RMB'M	%	RMB'M	%
RMB	1,534.8	82.6	1,129.8	67.5
EUR	90.4	4.9	275.0	16.4
HK$	53.0	2.9	125.6	7.5
US$	50.5	2.7	61.3	3.7
AUD	92.1	5.0	42.4	2.5
TWD	16.8	0.9	10.9	0.6
NZD	4.8	0.2	3.3	0.2
Others	15.1	0.8	26.2	1.6
Total	1,857.5	100.0	1,674.5	100.0

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

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

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

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

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

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

As at 31 December 2020, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR243.6 million, equivalent to approximately RMB1,955.0 million (2019: EUR235.0 million, equivalent to approximately RMB1,836.4 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB212.1 million (2019: RMB396.2 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the Year 2020, revenue, cost of sales and operating expenses of the Group are mainly denominated in 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, EUR and AUD, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, EUR, US$, AUD, TWD or NZD against RMB.

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

The management monitors closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. As at 31 December 2019, the Group had an interest rate swap contract with a bank of a notional amount of EUR12.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 0.42% per annum, which was expired during the year. As at 31 December 2020, the Group did not have any outstanding interest rate swap contract.

CREDIT RISK

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

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

COMMITMENTS

As at 31 December 2020, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries and intangible assets of a total of RMB89.0 million (2019: RMB212.3 million).

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
31 December 2020	4,158	11	733	150	150	5,202
31 December 2019	3,722	9	685	151	122	4,689

For the Year 2020, total employee costs, including Directors' emoluments, amounted to RMB1,380.7 million (Year 2019: RMB1,294.9 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 "**CG Report**") for the Year 2020.

CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the Year 2020 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 2020 and up to the date of this report.

The Group has a written guideline "Employees' Code of Dealing the Securities of the Company" for its senior management and employees who are likely to be in possession of unpublished inside information 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**"). The aforementioned guideline provides a general guide and standards for the Company's senior management, officers and relevant employees in dealing in the securities of the Company.

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 Management Co., Ltd ("**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 62 to 68 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	Nomination Committee	Remuneration Committee
Director			
Executive Directors:			
Mr. Yan Weibin *(Chairman)*	N/A	Chairman	Member
Mr. Bartle van der Meer *(Chief Executive Officer)*	N/A	N/A	N/A
Ms. Ng Siu Hung	N/A	N/A	N/A
Non-Executive Directors:			
Mr. Shi Liang *(Vice-Chairman)*	N/A	Member	Member
Mr. Qiao Baijun	N/A	N/A	N/A
Mr. Tsai Chang-Hai	N/A	N/A	N/A
Independent Non-Executive Directors:			
Mr. Lau Chun Fai Douglas	Chairman	Member	Chairman
Mr. Jason Wan	Member	Member	Member
Mr. 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 2020, 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 2020, 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 2020.

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 2020. The chairman of the Board (the "**Chairman**") had a meeting with the INEDs without the presence of other Directors present in the Year 2020 pursuant to Rule A.2.7 of the CG Code.

Mr. Jason Wan ("**Mr. Wan**") has served as an INED for more than ten years, the Board has assessed and reviewed the annual confirmation of independence from Mr. Wan and affirmed that Mr. Wan remains independent; the nomination committee of the Company (the "**Nomination Committee**") has assessed and is satisfied of the independence of Mr. Wan; and 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, 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 2020 and as at the date of this report, Mr. Yan Weibin is the Chairman and Mr. Bartle van der Meer is the CEO. The Chairman and the CEO are separately held by different Board members in order to ensure a balance of power and authority, independence and balanced judgment of views. The Chairman is responsible for overseeing and leading the Board, making sure it works effectively, performs 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 2021.

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 2020:

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

Notes:

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 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 CG Report).

During the Year 2020, 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 and Board Committee meetings

The Board meets regularly, no less than four times a year pursuant to Rule A.1.1 of the CG Code, 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.

Full minutes of the Board and the Board committee meetings are kept by the Company Secretary and are open for inspection by any Director. Draft and final versions of minutes were sent to all Directors for their comments and records respectively within a reasonable time after the meeting.

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, who is a fellow member of the Hong Kong Institute of Certified Public Accountants pursuant to Rules 3.21 of the Listing Rules. 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 had reviewed the Company's interim results for the six months ended 30 June 2020, the annual results for the Year 2020, 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 2020, 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 and are open for inspection by any committee members. Draft and final versions of minutes 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 INED 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 INEDs, who have offered themselves for re-appointment and served 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 2020, 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 on an annual basis.

Full minutes of the Nomination Committee meetings are kept by the Company Secretary and are open for inspection by any committee members. Draft and final versions of 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 emolument 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.

During the Year 2020, the Remuneration Committee has reviewed the emolument 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 on an annual basis.

Full minutes of the Remuneration Committee meetings are kept by the Company Secretary and are open for inspection by any committee members. Draft and final versions of minutes 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 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.

During the Year 2020, the Strategic Committee has reviewed the 5-year strategic plan of the Company covering significant capital investment plans and the adequacy of working capital of the Group for the coming five years.

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

Executive Committee

The Executive Committee comprises three members, two EDs (Mr. Yan Weibin and Mr. Bartle van der Meer) and the chief financial officer of the Company (the "**CFO**") 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 2020

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meeting	Year 2019 AGM	Extraordinary general meeting
Executive Directors:						
Mr. Yan Weibin [(1)]	6/6	2/3	1/1	1/1	1/1	1/1
Mr. Bartle van der Meer	6/6	N/A	N/A	N/A	1/1	1/1
Ms. Ng Siu Hung	6/6	N/A	N/A	N/A	1/1	1/1
Non-executive Directors:						
Mr. Shi Liang	2/6	N/A	1/1	1/1	0/1	0/1
Mr. Qiao Baijun	6/6	N/A	N/A	N/A	1/1	1/1
Mr. Tsai Chang-Hai	4/6	N/A	N/A	N/A	0/1	0/1
Independent Non-executive Directors:						
Mr. Lau Chun Fai Douglas [(2)]	6/6	3/3	1/1	1/1	1/1	1/1
Mr. Jason Wan	6/6	3/3	1/1	1/1	1/1	1/1
Mr. Aidan Maurice Coleman	6/6	3/3	1/1	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 2020 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	8
1,000,001 – 1,500,000	2
1,500,001 – 2,000,000	5
2,000,001 – 2,500,000	3
2,500,001 – 3,000,000	5
3,000,001 – 3,500,000	3
3,500,001 – 4,000,000	2
	28

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 2020, 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 64 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITOR'S REMUNERATION

During the Year 2020, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	RMB'000
Annual audit services	6,570
Review of quarterly results and other assurance services	1,950
Non-audit services*	420
Total	8,940

* Advisory service on sustainability report and valuation service on pension scheme.

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 2020, among others, the financial, operational and compliance controls. The Board considered the risk management and internal control systems of the Group are effective and adequate. No material deficiencies nor significant areas of concern that might affect the Shareholders were identified during the review. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

The Company encourages the Shareholders to attend the AGM and other general meetings to communicate their views and concerns to the Board directly to ensure a high level of accountability. The Directors acknowledge their responsibility for the timely holding of AGMs. The last Shareholder's meeting was the extraordinary general meeting held on 30 July 2020 at 8th Floor, XinDaXin Building A, No. 168 Huangxing Middle Road, Changsha City, Hunan Province, the PRC for the purpose of considering, and if thought fit, approving, among other things, (i) the sale and purchase agreement dated 9 April 2020 and the transactions contemplated thereunder, including the issuance and allotment of the 70,000,000 new Shares; and (ii) the supplemental deed dated 9 April 2020 and the transactions contemplated thereunder, including the issuance and allotment of 29,879,876 new Shares. Particulars of the major items considered at the meeting are set out in the circular of the Company dated 13 July 2020. All proposed ordinary resolutions were passed by way of poll at the meeting.

The AGM for the Year 2020 will be held on 11 May 2021. 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 financial status, the capital sufficiency, 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 2020, 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.

Directors' Report

The Directors hereby present their report and the audited financial statements for the Year 2020.

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 2020 by operating segment is set out in note 4 to the financial statements of this report.

BUSINESS REVIEW

Discussion on the business and performance can be found throughout this report and the cross reference are set out below. The business reviews form part of this directors' report.

Topics	Sections
A fair review of the business of the Group during the Year 2020 and the Group's future business development	Business Review and Outlook (pages 12 to 20)
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	Management Discussion and Analysis (pages 21 to 31)
The Company's key relationships with its employees	Chairman Statement (pages 8 to 10)
The Company's key relationships with its customers and suppliers	Directors's Report (page 49)
A discussion on relationships with the Company's stakeholders	Corporate Governance Report (pages 44 to 45)

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 2020 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 (UNSDG) set by the UN General Assembly in 2015 for the year 2030. The Group has identified eight UNSDGs that are relevant to the Group out of the collection of seventeen UNSDGs.

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 2018 to support the Board in implementing sustainability strategies across subsidiaries. Chaired by Mr. Yan Weibin, the Chairman of the Board, the Sustainability Committee is comprised of regional senior management 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 five months after the end of the financial year, 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 2020 and the Group's financial position at that date are set out in the financial statements on pages 73 to 175 of this report.

The Board is pleased to recommend the payment of a final dividend of HK$0.27 (2019: HK$0.22) per Share for the Year 2020 to be distributed out of the Company's share premium account. Subject to the approval of the Shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on or around 24 June 2021. As at the date of this 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 who are eligible to attend and vote and the forthcoming AGM, the register of members of the Company will be closed from 6 May 2021 to 11 May 2021 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified to attend the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 5 May 2021.

(b) Entitlement for the proposed final dividend

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

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 176 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 2020 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 2020 are set out in notes 30 and 31 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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2020.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2020 are set out in note 43 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's accumulated losses amounted to RMB81,574,000 (2019: RMB197,433,000). As at 31 December 2020, the Company's share premium account available for distribution under certain conditions, amounted to RMB3,186,678,000 (2019: RMB2,385,407,000), of which RMB389,927,000 (2019: RMB317,172,000) has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the Year 2020, the Group made charitable contributions totaling RMB35,016,000 (2019: RMB10,994,000).

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 2020, sales to the Group's five largest customers accounted for 7.9% (2019: 9.3%) of the total sales for the year and sales to the largest customer included therein amounted to 2.1% (2019: 2.4%). Purchases from the Group's five largest suppliers accounted for 33.9% (2019: 27.5%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 14.3% (2019: 7.8%).

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 2020 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, Ms. Ng Siu Hung, Mr. Shi Liang and Mr. Qiao Baijun 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 2020. 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 34 to 35 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 62 to 68 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 2020.

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.

EMOLUMENT POLICY

The remuneration of the Directors 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' experience, duties, responsibilities, performance, time devoted to the Group, the results of the Group as well as the prevailing market conditions. Details of remuneration of the Directors during the Year 2020 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. The remuneration of the senior management of the Group is recommended to the Board by the Remuneration Committee on the basis of their merit, qualifications and competence.

The Company has adopted a share option scheme (the "**Share Option Scheme**") as an incentive to the Directors and employees of the Group, details of these are set out in the section headed "Share Option Scheme" of the Directors' Report and in note 31 to the consolidated financial statements.

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

Save for the transactions as disclosed in the section headed "Connected Transactions" and the related party transactions (which are not defined as "connected transactions" or "continuing connected transactions" under the Listing Rules) as disclosed in note 39 to the financial statements, 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 2020. During the Year 2020, 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 2020, 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	6.99%
Mr. Bartle van der Meer	1,009,000	124,205,230 [2]	125,214,230	7.30%
Ms. Ng Siu Hung	2,000,000	–	2,000,000	0.12%
Mr. Tsai Chang-Hai	300,000	–	300,000	0.02%
Mr. Lau Chun Fai Douglas	300,000	–	300,000	0.02%
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 124,205,230 Shares held by DDIHK under the SFO.

(3) As at 31 December 2020, the total number of the issued Shares of the Company was 1,715,903,508.

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	500,000
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 of this report.

Save as disclosed above, as at 31 December 2020, 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 there 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 2020, 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	22.09%
Changsha Kunxin Xin'Ao Investment LP	2	379,000,000	Interest of controlled corporation	22.09%
Chengtong CITIC Agriculture Investment Fund	2	379,000,000	Interest of controlled corporation	22.09%
CITIC Agri Fund	3	379,000,000	Interest of controlled corporation	22.09%
CITIC Agriculture Technology Co., Ltd.	3	379,000,000	Interest of controlled corporation	22.09%
CITIC Limited	4	379,000,000	Interest of controlled corporation	22.09%
CITIC Group Corporation	4	379,000,000	Interest of controlled corporation	22.09%
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	22.09%
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	22.09%
CCB Trust Co., Ltd.* (建信信託有限責任公司)	5	379,000,000	Interest of controlled corporation	22.09%
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)	22.09%
Center Laboratories, Inc.	7	307,940,089 35,991,683	Beneficial owner Interest of a controlled corporation	17.94% 2.10%
DDIHK	8	124,205,230	Beneficial owner	7.24%
DDI	8	124,205,230	Interest of a controlled corporation	7.24%
Fan Deming BV	8	124,205,230	Interest of a controlled corporation	7.24%
Ms. Chen Miaoyuan	9	121,439,085	Interest of spouse	7.08%
Ausnutria BVI	10	118,739,085	Beneficial owner	6.92%

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(有限合夥))("**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. Center Laboratories, Inc. ("**Center Lab**") is beneficially interested in 307,940,089 Shares and BioEngine Capital Inc., a non-wholly-owned subsidiary of Center Lab, is beneficially interested in 35,991,683 Shares. Center Lab is therefore deemed to be interested in 343,931,772 Shares in total under the SFO.

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 31 December 2020, the total number of the issued Shares of the Company was 1,715,903,508.

Save as disclosed above, as at 31 December 2020, 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:

(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

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 2020 were as follows:

			Number of options		
Grantees	Date of grant	Exercise price per share option	Outstanding as at 2020.01.01	Exercised during the Year 2020	Outstanding as at 2020.12.31
Directors					
Mr. Yan Weibin	2019.01.15	HK$10.00	1,500,000	–	1,500,000
Mr. Bartle van der Meer	2019.01.15	HK$10.00	1,500,000	–	1,500,000
Ms. Ng Siu Hung	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	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)[1]	–
	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Jason Wan	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			7,600,000	(100,000)	7,500,000
Other					
Employees	2016.01.21	HK$2.45	1,160,000	(1,160,000)[2]	–
Employees	2016.07.06	HK$2.45	5,478,000	(5,336,333)[3]	141,667[4]
Employees	2019.01.15	HK$10.00	32,000,000	–	32,000,000
Consultant of the Company	2019.01.15	HK$10.00	500,000	–	500,000
Total			46,738,000	(6,596,333)	40,141,667[4]

Notes:

1. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$11.97.

2. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$15.18.

3. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$14.35.

4. Subsequent to the Year 2020, on 8 January 2021, 141,667 share options were exercised by the employees. As at the date of this report, there are 40,000,000 share options outstanding.

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

Share options granted on 21 January 2016 (Exercise period ended)
- 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 ended on 20 January 2021.

Share options granted on 6 July 2016 (Exercise period ended)
- 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 ended on 20 January 2021.

Share options granted on 15 January 2019
- One-third was 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 started 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 13,333,333, representing approximately 0.78% of the issued Shares. During the Year 2020, no options was cancelled or lapsed.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Company during the Year 2020 are provided in the section headed "Business Review and Outlook – Strategic Steps Taken" on pages 17 to 18 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 2020. 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 2020 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.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section head "Share Option Schemes" on pages 55 to 60 of this report, the HBC Sale and Purchase Agreement and the HNC Amendments set out in the section headed "Business Review and Outlook – Strategic Steps Taken" on pages 17 to 18 of this report, no equity-linked agreement was entered into by the Company during the Year 2020 or subsisted at the end of the Year 2020.

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 2020 and up to the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the CG Report on pages 32 to 45 of this report.

PERMITTED INDEMNITY PROVISION

The Company has subscribed appropriate and sufficient insurance coverage on directors' and officers' liability insurance throughout the Year 2020, which provides appropriate cover for the Directors and officers of the Company.

AUDITORS

The consolidated financial statements for the Year 2020 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
16 March 2021

Management Profiles

Biographical details of the Directors and the senior management of the Group for the Year 2020 and up to the date of this report are set out below:

DIRECTORS

Executive Directors

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

Mr. Yan, aged 55, 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 BVI, one of the substantial Shareholders, and also a director of a number of the Company's subsidiaries (including Ausnutria China). He was one of the principal founders of the Group and joined the Group in September 2003 when Ausnutria China was established, and has been acting as the Chairman of Ausnutria China since its establishment. 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, and was elected to be the Vice-Chairman of Hunan Provincial Federation of Industrial and Commerce in June 2020. 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 75, 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 52, 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. 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 37, 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 and chairman of the fund investment committee of the CITIC Agri Fund, a substantial Shareholder. 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 50, 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 general manager of the investment committee of CITIC Agri Fund, a substantial Shareholder. 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 71, 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 48, 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 57, 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 65, 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 48, is 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 double bachelor's degree in accounting and 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 45, is an executive director of Ausnutria China, vice chairman of the Group in the PRC region, principal of Ausnutria Institution of Food and Nutrition (澳優研究院) and chairman of Ausnutria Science and Technology Association (澳優科學技術協會). 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 operation management of Ausnutria Institution of Food and Nutrition ("**Ausnutria Research Institute**") in the PRC region, and assists Mr. HU Fangming in the supply centre.

Mr. DENG Shenhui ("Mr. Deng")

Mr. Deng, aged 46, is the vice president of the Group in the PRC region, general manager of the Allnutria BU and 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 is primarily responsible for the overall operation management of the Allnutria BU, and assists with the budgeting, daily operation management and informatisation in the PRC region.

Ms. Nicolette DIEKEMA ("Ms. Diekema")

Ms. Diekema, aged 51, is the quality assurance director of Ausnutria B.V. She joined the Group since 2020. Ms. Diekema graduated from Wageningen University & Research with a master's degree in food science and technology. Before joining Ausnutria B.V., Ms. Diekema had several years of international experience in the field of Quality Assurance & Quality Control in the Dairy & Food Industry latest at CSK Food Enrichment as global quality, environment, safety and health manager.

Ms. Froukje DIJKSTRA ("Ms. Dijkstra")

Ms. Dijkstra, aged 51, is the chief operations Officer of Ausnutria B.V. She joined the Group since April 2012. Ms. Dijkstra graduated in Technical Business Administration at the Noordelijke Hogeschool Leeuwarden. Before joining Ausnutria B.V., Ms. Dijkstra had over 20 years of experience in the chemical industry with different positions, latest at Enitor B.V.

Mr. Barber EEGDEMAN ("Mr. Eegdeman")

Mr. Eegdeman, aged 50, is the chief financial officer of Ausnutria B.V. He joined the Group since 2019. 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. Jeroen KIERS ("Dr. Kiers")

Dr. Kiers, aged 47, is the chief executive officer of Ausnutria B.V. He joined the Group since 2019. 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. HONG Haoru ("Ms. Hong")

Ms. Hong, aged 38, is the secretary of the management committee (中國區管理委員會) of the Group in the PRC region and assistant of the chief executive officer. 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 44, is a vice president of the Group in the PRC region, general manager of the supply center and vice principal of Ausnutria Research Institute. He manages domestic production, overseas supply chain management and quality management for the supply centre and assists Mr. Dai in managing the new R&D product projects in Ausnutria Research Institute. 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.

Mr. Mark KAPTEIN ("Mr. Kaptein")

Mr. Kaptein, aged 55, is the sales director of Ausnutria B.V. He joined the Group since 2020. Mr. Kaptein graduated from Erasmus University Rotterdam with a master's degree in healthcare management and policy. Before joining Ausnutria B.V., Mr. Kaptein had several years of international experience in Sales and General management positions, latest at Dr. Schar in Italy as Business Head in Metabolic Nutrition & Allergy Nutrition.

Ms. LI Yimin ("Ms. Li")

Ms. Li, aged 45, is a vice president of the Group in the PRC region and the general manager of the Kabrita BU. 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 the Kabrita BU 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 center and Ausnutria University.

Mr. LIU Yubiao

Mr. Liu Yubiao, aged 47, is a vice president of the Group in the PRC region and the general manager of Hyproca Bio-science Co., Ltd.* (海普諾凱生物科技有限公司), a 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 worldwide operations of Hyproca Bio-science Co., Ltd and the Neolac BU.

Mr. LIU Yuehui

Mr. Liu Yuehui, aged 56, 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 party working committee* (黨工辦) and audit department in the PRC region.

Mr. LIU Xuecong

Mr. Liu Xuecong, aged 37, is a vice president of the Group in the PRC region and vice principal of Ausnutria Research Institute. He is responsible for the businesses of FSMP, Bioflag International Corporation, a non-wholly-owned subsidiary of the Company, HOPS BU, assists Mr. Dai in managing the new R&D FSMP product projects in Ausnutria Institution of Food and Nutrition and ensures scientific regulatory (科學法規工作). 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 42, is a vice president of the Group in the PRC region, the general manager of Puredo Health Service (Changsha) Co., Ltd.* (美納多健康服務(長沙)有限公司), a non-wholly-owned subsidiary of Ausnutria China. He joined the Group upon the establishment of Ausnutria China and was head of the marketing department, regional manager, assistant to the chief executive officer and sales director for the southern region in the PRC, chief marketing officer and general manager of the marketing department. 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 51, 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. Johan WESTHOFF ("Mr. Westhoff")

Mr. Westhoff, aged 41, is the finance director of Ausnutria B.V. He joined the Group since 2009. Mr. Westhoff graduated in Business Economics at the Chr. Hogeschool Windesheim, and finalized a Post-academic education in Financial Controlling at the University of Amsterdam. Before joining Ausnutria B.V., Mr. Westhoff had several years of experience in finance related positions.

Mr. ZHAO Li ("Mr. Zhao")

Mr. Zhao, aged 51, joined the Group in April 2016 as a vice president of the Group in the PRC region and general manager of Nutriunion (Guangzhou) Interconnection Technology Co. Ltd. He is responsible for overseeing the global development of Nutriunion (Guangzhou) Interconnection Technology Co. Ltd. and the Nutrition Care branded business. 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.

Mr. Remco ZIELEMAN ("Mr. Zieleman")

Mr. Zieleman, aged 45, is the supply chain director of Ausnutria B.V. He joined the Group since 2018. Mr. Zieleman graduated from Fontys Hogeschool in Venlo with a bachelor's degree in Logistics and Technical Transport. Before joining Ausnutria B.V., Mr. Zieleman had several years of international experience in supply chain positions latest at Mylan as global planning director.

* *For identification purpose only*

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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

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

OPINION

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 73 to 175, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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	
As at 31 December 2020, the Group had goodwill amounting to approximately RMB297.5 million. According to the requirements of IAS 36 *Impairment of Assets*, the Group made impairment assessment annually based on the recoverable amounts of the respective cash-generating units ("**CGUs**") to which the goodwill is allocated. Management's assessment process is complex and involved significant management judgements and estimates, such as the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate. More details are set out in note 2.4 *Business combinations and goodwill*, note 3 *Impairment of goodwill* and note 15 *Goodwill* to the consolidated financial statements.	We involved internal valuation specialists to assist us in evaluating the methodology used in the impairment assessment and the inputs used by the Group including the discount rate and long-term growth rates. We assessed the key assumptions of the forecasts for the following 5 years used to determine the recoverable amounts of various CGUs, by comparing the forecasts with the historic performance of CGUs and the business development plan. We assessed the adequacy of the related disclosures of goodwill impairment.
Accounting for the customer loyalty program and the distributor incentive program	
The Group operates the customer loyalty program and the distributor incentive program to grant awards points to end-customers or baby stores and grant incentives to distributors. End-customers or baby stores can redeem the awards points for free products within one year and distributors can redeem incentives for free products in the future purchase. Management determined that the both programs provide a material right to customer and allocated the consideration received or receivable into two parts, the current sales and the deferred income, based on a relative stand-alone selling price of goods and awards points or incentives. The estimation of the stand-alone selling prices of awards points and incentives is complex and requiring significant management judgement and estimates. 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 consolidated financial statements.	We obtained an understanding of, assessed and tested the design and operation of the controls over the estimation of the stand-alone selling prices of awards points and incentives. We assessed the estimation of percentage of awards points or incentives that may be redeemed by end-customers and baby stores or distributors, with reference to the historical information, market practice and the subsequent settlement of awards points and incentives as at 31 December 2020. We recalculated the stand-alone selling prices of awards points and incentives and evaluated the allocation results of the transaction price based on a relative stand-alone prices of the good sold and awards points entitled to end-customers and baby stores or the incentives entitled to distributors. We assessed 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.

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

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

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

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

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

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

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

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, actions taken to eliminate treats or safeguards applied.

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
16 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	7,985,816	6,736,153
Cost of sales		(4,003,859)	(3,202,836)
Gross profit		3,981,957	3,533,317
Other income and gains	5	90,105	69,191
Selling and distribution expenses		(2,066,765)	(1,771,834)
Administrative expenses		(692,996)	(558,289)
Other expenses		(88,707)	(138,666)
Finance costs	7	(28,850)	(33,332)
Share of profits and losses of associates		26,102	6,797
Profit before tax	6	1,220,846	1,107,184
Income tax expense	10	(220,812)	(228,288)
PROFIT FOR THE YEAR		1,000,034	878,896
Attributable to:			
Owners of the parent		1,004,106	878,390
Non-controlling interests		(4,072)	506
		1,000,034	878,896
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	12		
Basic			
– For profit for the year (RMB cents)		60.93	54.92
Diluted			
– For profit for the year (RMB cents)		60.57	54.50

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

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,840,357	1,471,496
Right-of-use assets	14	359,731	349,314
Goodwill	15	297,541	289,803
Other intangible assets	16	411,642	398,100
Investments in convertible bonds	17	–	207,352
Investments in associates	18	581,188	271,831
Prepayments, deposits and other assets	21	136,992	158,198
Deferred tax assets	29	257,981	222,890
Total non-current assets		3,885,432	3,368,984
CURRENT ASSETS			
Inventories	19	2,400,946	2,051,326
Trade and bills receivables	20	456,425	419,919
Prepayments, other receivables and other assets	21	435,576	432,272
Pledged deposits	22	212,062	396,152
Cash and cash equivalents	22	1,857,516	1,674,541
Total current assets		5,362,525	4,974,210
CURRENT LIABILITIES			
Trade and bills payables	23	409,247	337,937
Other payables and accruals	24	2,267,673	2,038,496
Derivative financial instruments	25	109	1,013
Interest-bearing bank loans and other borrowings	26	558,973	419,787
Tax payable		156,666	215,719
Total current liabilities		3,392,668	3,012,952
NET CURRENT ASSETS		1,969,857	1,961,258
TOTAL ASSETS LESS CURRENT LIABILITIES		5,855,289	5,330,242

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		5,855,289	5,330,242
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	26	527,299	784,003
Defined benefit plan	27	8,932	6,440
Derivative financial instruments	25	–	300,312
Deferred revenue	28	65,121	65,463
Other long term liability		7,477	11,369
Deferred tax liabilities	29	94,520	98,747
Total non-current liabilities		703,349	1,266,334
Net assets		5,151,940	4,063,908
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	149,267	140,031
Treasury shares	30	–	(24,733)
Reserves	32	5,022,105	3,900,356
		5,171,372	4,015,654
Non-controlling interests		(19,432)	48,254
Total equity		5,151,940	4,063,908

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent										
	Share capital RMB'000 (note 30)	Treasury shares RMB'000 (note 30)	Share premium account RMB'000	Capital reserve RMB'000 (note 32(i))	Share option reserve RMB'000	Statutory surplus reserve RMB'000 (note 32(ii))	Exchange fluctuation reserve RMB'000 (note 32(iii))	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	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
Profit for the year	–	–	–	–	–	–	–	1,004,106	1,004,106	(4,072)	1,000,034
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	64,290	–	64,290	272	64,562
Remeasurement losses on the defined benefit plan, net of tax	–	–	–	–	–	–	–	(2,195)	(2,195)	–	(2,195)
Total comprehensive income for the year	–	–	–	–	–	–	64,290	1,001,911	1,066,201	(3,800)	1,062,401
Exercise of share options	597	–	17,720	–	(3,701)	–	–	–	14,616	–	14,616
Acquisition of non-controlling interests	8,879	–	1,131,289	(762,192)	–	–	–	–	377,976	(36,886)	341,090
Final 2019 dividend declared	–	–	(323,245)	–	–	–	–	–	(323,245)	–	(323,245)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(27,000)	(27,000)
Equity-settled share option arrangements	–	–	–	–	20,170	–	–	–	20,170	–	20,170
Cancellation of repurchased shares	(240)	24,733	(24,493)	–	–	–	–	–	–	–	–
At 31 December 2020	149,267	–	3,186,678*	(1,820,756)*	40,541*	123,551*	(51,295)*	3,543,386*	5,171,372	(19,432)	5,151,940

	Attributable to owners of the parent										
	Share capital RMB'000 (note 30)	Treasury shares RMB'000 (note 30)	Share premium account RMB'000	Capital reserve RMB'000 (note 32(i))	Share option reserves RMB'000	Statutory surplus reserve RMB'000 (note 32(ii))	Exchange fluctuation reserve RMB'000 (note 32(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 losses 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

* These components of equity comprise the consolidated reserves of RMB5,022,105,000 (2019: RMB3,900,356,000) as at 31 December 2020 in the consolidated statement of financial position.

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,220,846	1,107,184
Adjustments for:			
Finance costs	7	28,850	33,332
Share of profits and losses of associates		(26,102)	(6,797)
Interest income	5	(31,603)	(27,365)
Depreciation of property, plant and equipment	6	126,124	103,285
Depreciation of right-of-use assets	6	63,688	36,470
Amortisation of other intangible assets	6	55,288	38,650
Write-down of inventories to net realisable value	6	174,593	51,131
Losses on disposal of items of property, plant and equipment	6	1,993	5,468
Losses on disposal of items of other intangible assets	6	5,294	606
Equity-settled share option arrangements	6	20,170	19,535
Fair value losses on derivative instruments			
– transactions not qualifying as hedges	6	380	2,215
– subsequent consideration	6	43,020	57,876
		1,682,541	1,421,590
Increase in inventories		(556,065)	(559,926)
Increase in trade and bills receivables		(43,174)	(65,570)
Decrease/(increase) in prepayments, deposits, other receivables and other assets		19,770	(188,425)
Increase in trade and bills payables		78,620	53,559
Increase in derivative financial assets		(386)	(3,055)
Increase in other payables and accruals		217,905	493,467
Increase in other long term liabilities		–	6,170
Cash generated from operations		1,399,211	1,157,810
Interest received		28,405	28,779
Interest paid		(12,654)	(13,839)
Mainland China corporate income tax paid		(228,261)	(156,859)
Overseas tax paid		(56,477)	(45,102)
Net cash flows from operating activities		1,130,224	970,789

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Net cash flows from operating activities		1,130,224	970,789
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(439,893)	(208,382)
Receipt of government grants for property, plant and equipment		–	31,305
Additions to other intangible assets		(66,742)	(49,681)
Acquisition of a subsidiary	34	(80,037)	(2,784)
Decrease in pledged time deposits		184,090	31,639
Investment in convertible bonds		–	(207,352)
Investment in an associate		–	(824)
Advance long-term payments to obtain items of property, plant and equipment		–	(39,093)
Net cash flows used in investing activities		(402,582)	(445,172)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of the share options	30	14,616	35,807
New bank loans and other borrowings		265,845	438,669
Repayments of bank loans		(329,651)	(359,358)
Repayments of other loans		(386)	(2,998)
Principal portion of lease payments	35(b)	(87,782)	(86,245)
Acquisition of non-controlling interests		–	(38,929)
Contributions from non-controlling shareholders		–	1,600
Repurchase of own shares		–	(24,733)
Dividends paid		(322,410)	(207,892)
Dividends paid to non-controlling shareholders		(27,000)	(660)
Interest element of lease liabilities		(8,098)	(9,747)
Net cash flows used in financing activities		(494,866)	(254,486)
NET INCREASE IN CASH AND CASH EQUIVALENTS		232,776	271,131
Cash and cash equivalents at beginning of year		1,674,541	1,449,861
Effect of foreign exchange rate changes, net		(49,801)	(46,451)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,857,516	1,674,541

	Notes	2020 RMB'000	2019 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,296,509	1,436,544
Non-pledged time deposits with original maturity of less than three months when acquired		561,007	237,997
Cash and cash equivalents as stated in the consolidated statement of financial position and statement of cash flows		1,857,516	1,674,541

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 address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located at (i) Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong; (ii) 8th Floor, XinDaXin Building A, No. 168, Huangxing Middle Road, Changsha City, Hunan Province, the People's Republic of China (the "**PRC**"); (iii) Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands; and (iv) 25-27 Keysborough Avenue, Keysborough VIC 3173, Australia. The shares 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 the 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. (1)	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 Kampen B.V.	The Netherlands	EUR21,500	–	100	Manufacturing of dairy and related products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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
Hyproca Nutrition (Hongkong) Company Limited	Hong Kong/ Mainland China	HK$1,000,000	–	100	Marketing and distribution of goat milk nutrition products in Hong Kong and Mainland China
Ausnutria Private Label B.V.	The Netherlands	EUR30,403	–	100	Marketing and distribution of dairy products under a 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
Hyproca Nutrition East Limited	Hong Kong/Russia	HK$4,000,000	–	51	Marketing and distribution of dairy products in Russia

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (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 Middle East FZCO	Dubai	AED1,500,000	–	87	Marketing and distribution of dairy products in 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	–	100[2]	Marketing and distribution of dairy products in Hong Kong
Hyproca Bio-Science Co. Ltd. [1]	PRC/ Mainland China	RMB10,000,000	–	100[2]	Marketing and distribution of dairy products in Mainland China
Puredo Health Service (Changsha) Co. Ltd. [1]	PRC/ Mainland China	RMB20,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Changsha AnEr Nutrition Co. Ltd. [1]	PRC/ Mainland China	RMB86,458,140	–	100[3]	Production and distribution of dairy and related products in Mainland China
Ausnutria Pty Ltd	Australia	AUD56,428,571	–	100	Investment holding
ADP Holdings (Australia) Pty Ltd ("ADP")	Australia	AUD14,002,000	–	100	Investment holding
Australian Dairy Park Pty Ltd	Australia	AUD14,000,000	–	100	Manufacturing and distribution of dairy and related products
Nutrition Care Pharmaceuticals Pty Ltd	Australia	AUD44,000,000	–	100	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)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Aunulife Pty Ltd	Australia	AUD250,000	–	100	Development, distribution and sale of probiotic products
Ausnutria Dairy Investments Limited	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	Hong Kong/ Mainland China	HK$100	–	100	Marketing and distribution of nutrition products in Mainland China and Hong Kong
Nutriunion (Guangzhou) Interconnection Technology Co. Ltd. (1)	PRC/ Mainland China	RMB50,000,000	–	100	Marketing and distribution of nutrition products in Mainland China

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

(2) The percentage of equity attributable to the Company changed from 85 to 100 due to the acquisition of non-controlling interest during the year.

(3) Newly acquired during the year (note 34).

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 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

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	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRSs standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in RMB and foreign currencies based on the Euro Interbank Offered Rate ("**EURIBOR**") and the London Interbank Offered Rate ("**LIBOR**") as at 31 December 2020 and 2019. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

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

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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.

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 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
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

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 (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 to 50 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 lease. 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 (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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

Financial assets at fair value through other comprehensive income (debt instruments)
For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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 uses derivative financial instruments,such as 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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, and 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, for 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 industrial products. The Group operates the customer loyalty program and the distributor incentive program to provide additional incentive to customer and distributor that provide material right to each of them.

Customer loyalty program and distributor incentive program

The Group operates customer loyalty programs, with two policies, i) which allow end-customers to earn award points and ii) which allow baby stores to earn award points when they purchase products of the Group. The Group also operates distributor incentive programs which allows distributors to earn incentive when they purchase products of the Group.

The award points and incentives can then be redeemed for free products, subject to a minimum number of award points and incentives being obtained. The consideration received or receivable from the products sold is allocated between the award points earned by the customer loyalty program members or the incentives earned by the distributor incentive program members and the other components of the sales transactions. The amount allocated to the award points earned by the customer loyalty program members and allocated to the incentives earned by the distributor incentive program members based on the relative stand-alone selling prices are deferred until the award 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Other income (continued)

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.

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 31 to the financial statements.

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

Defined contribution plan

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

Pension scheme

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefit plan

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

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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 judgements, apart from those involving estimations, which have 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 award points can be redeemed for free products, subject to a minimum number of points obtained. The Group assessed whether the award 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 when their purchase accumulated to certain purchase amount. Free goods can only be redeemed in their future purchase. 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 in future purchase 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 described 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 2020 was RMB297,541,000 (2019: RMB289,803,000). 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 the 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 a 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 2020 was RMB126,124,000 (2019: RMB103,285,000). Further details are provided in note 13.

Defined benefit plan

One of the Group's subsidiaries in the Netherlands operates a defined benefit plan. Pension costs for the defined benefit plan are assessed using the projected unit credit method in accordance with IAS 19 Employee Benefits. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on high quality corporate bonds with currencies and terms to the estimated terms 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Defined benefit plan (continued)

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 for determining 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.

Deferred tax assets

Deferred tax assets are mainly recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2020 was RMB86,182,000 (2019: RMB79,736,000). The amount of unrecognised tax losses for the year ended 31 December 2020 was RMB20,714,000 (2019: RMB1,051,000). Further details are contained in note 29 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had two reportable operating segments in 2020 as follows:

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2020

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue (note 5)			
Sales to external customers	7,843,554	142,262	7,985,816
Intersegment sales	–	–	–
	7,843,554	142,262	7,985,816
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			7,985,816
Segment results	1,264,735	(11,974)	1,252,761
Reconciliation:			
Interest income			31,603
Finance costs (other than interest on lease liabilities)			(20,752)
Corporate and other unallocated expenses			(42,766)
Profit before tax			1,220,846
Segment assets	7,091,341	326,075	7,417,416
Reconciliation:			
Elimination of intersegment receivables			(239,037)
Corporate and other unallocated assets			2,069,578
Total assets			9,247,957
Segment liabilities	3,063,923	390,012	3,453,935
Reconciliation:			
Elimination of intersegment payables			(239,037)
Corporate and other unallocated liabilities			881,119
Total liabilities			4,096,017
Other segment information			
Impairment losses recognised in the statement of profit or loss	170,280	4,313	174,593
Share of profits and losses of associates	27,140	(1,038)	26,102
Investments in associates	374,874	206,314	581,188
Depreciation and amortisation	232,659	12,441	245,100
Capital expenditure*	519,454	11,499	530,953

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customer

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

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

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 2020		
Segments	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or service			
Sale of goods	7,843,554	142,262	7,985,816
Total revenue from contracts with customers	7,843,554	142,262	7,985,816
Geographical markets			
The PRC	6,817,816	114,251	6,932,067
European Union	647,940	–	647,940
Middle East	165,947	–	165,947
North and South America	144,175	–	144,175
Australia	26,805	28,011	54,816
New Zealand	3,599	–	3,599
Others	37,272	–	37,272
Total revenue from contracts with customers	7,843,554	142,262	7,985,816
Timing of revenue recognition			
Goods transferred at a point in time	7,843,554	142,262	7,985,816
Total revenue from contracts with customers	7,843,554	142,262	7,985,816

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

	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)

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			
	2020		2019	
	Dairy and related products RMB'000	Nutrition products RMB'000	Dairy and related products RMB'000	Nutrition products RMB'000
Revenue				
External customers	7,843,554	142,262	6,617,456	118,697
Inter-segment	–	–	–	–
	7,843,554	142,262	6,617,456	118,697
Inter-segment adjustments and eliminations	–	–	–	–
Total revenue from contracts with customers	7,843,554	142,262	6,617,456	118,697

(ii) Contract balances

	31 December 2020 RMB'000	31 December 2019 RMB'000
Other payables and accruals		
– Contract liabilities (note 24(i))	1,383,009	1,153,411

Contract liabilities included in other payables and accruals include consideration received from customers in advance and deferred income that represents the amount of portion allocated from considerations based on the relative stand-alone selling prices 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:

	2020 RMB'000	2019 RMB'000
Amounts included in contract liabilities at the beginning of the year (note 24(i))	1,153,411	820,368

(iii) Performance obligations

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

Sales of goods

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

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

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

	2020 RMB'000	2019 RMB'000
Within one year (note 24(i))	541,850	545,659

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains

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

(i) The amount mainly represented various government grants received for investments in Hunan province, the PRC, where the Company's subsidiaries operate. All these grants are related to expenses and there were no unfulfilled conditions or contingencies relating to these grants. Current year amount also included subsidies from the respective local governments to support entities as a result of the lockdowns due to the Pandemic.

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

6. PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold		3,829,266	3,151,705
Write-down of inventories to net realisable value		174,593	51,131
Cost of sales		4,003,859	3,202,836
Depreciation of property, plant and equipment	13	126,124	103,285
Depreciation of right-of-use assets	14	63,688	36,470
Amortisation of other intangible assets	16	55,288	38,650
Research and development costs		181,292	132,071
Lease payments not included in the measurement of lease liabilities	14	6,292	5,965
Losses on disposal of items of property, plant and equipment		1,993	5,468
Losses on disposal of items of other intangible assets		5,294	606
Foreign exchange differences, net		3,603	8,583
Fair value losses/(gains), net:			
Derivative instruments			
– transactions not qualifying as hedges		380	2,215
– Subsequent HNC Consideration	25	43,020	63,631
– Subsequent Ozfarm Consideration	5(ii)	–	(5,755)
Auditor's remuneration		8,940	9,800
Advertising and promotion expenses		1,095,096	780,713
Employee benefit expenses (including Directors' remuneration) (note 8):			
Wages, salaries and staff welfare		970,928	851,787
Temporary staff costs		212,151	189,121
Other employee related expenses		127,483	172,220
Equity share option expense		20,170	19,535
Pension scheme contributions*		49,972	62,276
		1,380,704	1,294,939

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans, overdrafts and other loans	21,670	23,639
Interest on lease liabilities	8,098	9,747
Total interest expense on financial liabilities not at fair value through profit or loss	29,768	33,386
Unrealised gain, net on an interest rate swap and an interest rate cap (notes 25(i) and (ii))	(918)	(54)
	28,850	33,332

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:

	2020 RMB'000	2019 RMB'000
Fees	2,579	2,552
Other emoluments:		
Salaries, allowances and benefits in kind	5,240	5,265
IRC fees [(i)]	–	276
Performance-related bonus	–	5,095
Equity-settled share option expense	3,780	3,608
Pension scheme contributions	72	112
	9,092	14,356
	11,671	16,908

(i) 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 ended 31 December 2019.

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

There were no share options granted during the year ended 31 December 2020. 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 31 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	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020					
Executive directors:					
Yan Weibin	267	2,088	756	28	3,139
Bartle van der Meer	267	1,720	756	–	2,743
Ng Siu Hung	267	1,432	756	44	2,499
	801	5,240	2,268	72	8,381
Non-executive directors:					
Shi Liang	267	–	252	–	519
Qiao Baijun	267	–	252	–	519
Tsai Chang Hai	267	–	252	–	519
	801	–	756	–	1,557
Independent non-executive directors:					
Aidan Maurice Coleman	311	–	252	–	563
Jason Wan	311	–	252	–	563
Lau Chun Fai Douglas	355	–	252	–	607
	977	–	756	–	1,733
	2,579	5,240	3,780	72	11,671

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
2019							
Executive directors:							
Yan Weibin	264	2,136	–	–(i)	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	264	–	–	–	239	–	503
Qiao Baijun	264	–	–	–	239	–	503
Tsai Chang Hai	264	–	–	–	240	–	504
	792	–	–	–	718	–	1,510
Independent non-executive directors:							
Aidan Maurice Coleman	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

(i) Mr. Yan Weibin had forfeited his performance-related bonus during the year ended 31 December 2019 and the Company had donated the related amount to charitable organisations.

Other than the above waiver of the performance-related bonus by Mr. Yan Weibin for the year ended 31 December 2019, there was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2020 and 2019.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include two (2019: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2019: two) non-director highest paid employees of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	8,006	5,329
Equity-settled share option expense	1,260	734
Pension scheme contributions	124	27
	9,390	6,090

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

	Number of employees	
	2020	2019
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	2	–
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	–	1
Total	3	2

There were no share options granted during the year ended 31 December 2020. Share options were granted to certain eligible participants including two non-director highest paid employees during the year ended 31 December 2019 in respect of their services provided to the Group, further details of which are included in note 31 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 16.5% (2019: 19%) for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the United States tax laws, enterprises are subject to the United States CIT rate of 21%. Under the Canada tax laws, enterprises are subject to the Canada CIT rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia CIT rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand CIT rate of 28%. Under the Taiwan tax laws, enterprises are subject to the Taiwan CIT rate of 20%.

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

	2020 RMB'000	2019 RMB'000
Current charge for the year – Mainland China		
Charge for the year	231,314	211,314
Underprovision in prior years	–	179
Current charge for the year – The Netherlands		
Charge for the year	39,427	51,418
Overprovision in prior years	(10,278)	–
Current charge for the year – Hong Kong		
Charge for the year	5,630	8,755
Current charge for the year – Taiwan		
Charge for the year	491	1,318
Current charge for the year – Australia		
Charge for the year	–	9,603
Underprovision in prior years	–	5,596
Deferred tax (note 29)	(45,772)	(59,895)
Total tax charge for the year	220,812	228,288

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:

2020

	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	15,508		297,302		1,133,321		(236)		(11,134)		(30,842)		(47,361)		(135,712)		1,220,846	
Income tax at the statutory income tax rate	2,559	16.5	74,231	25.0	283,248	25.0	(63)	26.5	(2,338)	21.0	(9,253)	30.0	(13,261)	28.0	(11,137)	8.2	323,986	26.5
Tax effects on preferential tax rates	–	–	(5,534)	(1.9)	(91,612)	(8.1)	–	–	–	–	–	–	–	–	–	–	(97,146)	(8.0)
Adjustment in respect of current tax in previous periods	–	–	(10,278)	(3.5)	–	–	–	–	–	–	–	–	–	–	–	–	(10,278)	(0.8)
Tax losses utilised from previous periods	–	–	–	–	(1,266)	(0.1)	–	–	–	–	–	–	–	–	–	–	(1,266)	(0.1)
Non-deductible items and others, net	1,380	8.9	–	–	6,566	0.6	–	–	–	–	324	(1.1)	–	–	629	(0.5)	8,899	0.7
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	–	–	–	–	31,442	2.8	–	–	–	–	–	–	–	–	–	–	31,442	2.6
Profits attributable to associates	–	–	(6,882)	(2.3)	–	–	–	–	–	–	–	–	–	–	208	(0.2)	(6,674)	(0.5)
Additional deduction of expenses	–	–	(1,234)	(0.4)	(21,345)	(1.9)	–	–	–	–	(52)	0.2	–	–	–	–	(22,631)	(1.9)
Tax losses in previous years not recognised	–	–	–	–	–	–	–	–	–	–	–	–	5,806	(12.3)	–	–	5,806	0.5
Tax losses not recognised	–	–	–	–	1,126	0.1	–	–	–	–	501	(1.6)	13,261	(28.0)	20	–	14,908	1.2
Income not subject to tax	(98)	(0.6)	(23,425)	(7.9)	(576)	(0.1)	(5)	2.1	–	–	(1,922)	6.2	–	–	(208)	0.2	(26,234)	(2.1)
Tax charge at the Group's effective rate	3,841	24.8	26,878	9.0	207,583	18.3	(68)	28.6	(2,338)	21.0	(10,402)	33.7	5,806	(12.3)	(10,488)	7.7	220,812	18.1

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 subsidiaries	–	–	–	–	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

The share of tax attributable to associates totalling RMB6,841,000 (2019: RMB4,970,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

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

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

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 1,648,004,506 (2019: 1,599,358,534) in issue during the year.

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

Earnings

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

Shares

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

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 2020							
At 1 January 2020,							
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
At 1 January 2020, net of accumulated depreciation and impairment	811,636	187,647	5,404	230,707	35,613	200,489	1,471,496
Additions	74,415	57,687	3,787	13,126	4,262	286,616	439,893
Acquisition of a subsidiary (note 34)	22,799	–	–	–	1,519	–	24,318
Disposals	(389)	(980)	(202)	(422)	–	–	(1,993)
Depreciation provided during the year	(57,522)	(52,350)	(1,014)	(10,073)	(5,165)	–	(126,124)
Transfers	116,716	73,761	–	5	226	(190,708)	–
Transfer to other intangible assets	–	–	–	–	–	(131)	(131)
Exchange realignment	21,116	5,014	107	968	(89)	5,782	32,898
At 31 December 2020, net of accumulated depreciation and impairment	988,771	270,779	8,082	234,311	36,366	302,048	1,840,357
At 31 December 2020:							
Cost	1,202,026	469,381	15,478	263,839	60,717	302,048	2,313,489
Accumulated depreciation and impairment	(213,255)	(198,602)	(7,396)	(29,528)	(24,351)	–	(473,132)
Net carrying amount	988,771	270,779	8,082	234,311	36,366	302,048	1,840,357

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 2019							
At 1 January 2019, 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	(16,363)	–
Transfer to other intangible assets	–	–	–	–	–	(413)	(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

At 31 December 2020, 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 a net carrying amount of EUR92,549,000 (equivalent to approximately RMB742,706,000) (2019: EUR87,760,000, equivalent to approximately RMB685,888,000) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

The Group's land included in property, plant and equipment with net carrying amount of EUR7,443,000 (equivalent to approximately RMB59,730,000) (2019: EUR7,443,000, equivalent to approximately RMB58,171,000), AUD5,854,000 (equivalent to approximately RMB29,365,000) (2019: AUD4,430,000, equivalent to approximately RMB21,637,000) and NZD3,000,000 (equivalent to approximately RMB14,115,000) (2019: NZD3,000,000, equivalent to approximately RMB14,092,000) 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 to 50 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) 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 and 1 January 2020	26,264	300,400	22,650	349,314
Additions	–	42,153	1,910	44,063
Additions as a result of acquisition of a subsidiary (note 34)	64,157	–	–	64,157
Depreciation charge	(2,597)	(58,924)	(2,167)	(63,688)
Exchange realignment	–	5,675	580	6,255
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(40,175)	(195)	(40,370)
As at 31 December 2020	87,824	249,129	22,778	359,731

14. LEASES (continued)

(b) Lease liabilities

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

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	282,012	233,099
New leases	44,063	126,267
Accretion of interest recognised during the year	8,098	9,747
Payments	(87,782)	(86,245)
Exchange realignment	4,771	(856)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(46,009)	–
Carrying amount at 31 December	205,153	282,012
Analysed into:		
Current portion	79,551	88,324
Non-current portion	125,602	193,688
	205,153	282,012

The maturity analysis of lease liabilities is disclosed in note 42 to the financial statements.

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

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	8,098	9,747
Depreciation charge for right-of-use assets	63,688	36,470
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2020/2019	6,292	5,965
Total amount recognised in profit or loss	78,078	52,182

(d) The total cash outflow for leases is disclosed in note 35(b) to the financial statements.

15. GOODWILL

	RMB'000
At 1 January 2019:	
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
Cost at 1 January 2020, net of accumulated impairment	289,803
Exchange realignment	7,738
Cost and net carrying amount at 31 December 2020	297,541
At 31 December 2020:	
Cost	297,541
Accumulated impairment	–
Net carrying amount	297,541

15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the product cash-generating units 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% (2019:12%). The growth rate used to extrapolate the cash flows of the Ausnutria B.V. unit beyond the five-year period is 3% (2019: 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 14% (2019: 18.6%). The growth rate used to extrapolate the cash flows of the Nutrition Business unit beyond the five-year period is 3% (2019: 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% (2019: 14%). The growth rate used to extrapolate the cash flows of the Youluck unit beyond the five-year period is 3% (2019: 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 14.5% (2019: 17.5%). The growth rate used to extrapolate the cash flows of the ADP unit beyond the five-year period is 3% (2019: 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 14.5% (2019: 14.6%). The growth rate used to extrapolate the cash flows of the Ozfarm unit beyond the five-year period is 3% (2019: 3%).

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

Cash-generating units	Carrying amount of goodwill	
	2020 RMB'000	2019 RMB'000
Ausnutria B.V.	81,494	79,367
Nutrition Business	60,874	59,273
Youluck	2,668	2,672
ADP	11,864	11,549
Ozfarm	140,641	136,942
	297,541	289,803

Assumptions were used in the value-in-use calculation of the Ausnutria B.V., Nutrition Business, Youluck, ADP and Ozfarm cash-generating units for the years ended 31 December 2020 and 31 December 2019. 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 the market development of Ausnutria B.V., Nutrition Business, Youluck, ADP and Ozfarm cash-generating units, 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 2020						
Cost at 1 January 2020, net of accumulated amortisation	193,171	96,497	85,347	6,683	16,402	398,100
Additions	1,048	9,436	56,222	–	36	66,742
Disposal	(170)	(185)	–	–	(4,939)	(5,294)
Transfer from property, plant and machinery	131	–	–	–	–	131
Amortisation provided during the year	(24,631)	(12,749)	(14,918)	(1,522)	(1,468)	(55,288)
Exchange realignment	3,128	2,244	1,774	156	(51)	7,251
At 31 December 2020	172,677	95,243	128,425	5,317	9,980	411,642
At 31 December 2020:						
Cost	257,794	135,441	171,755	26,720	15,917	607,627
Accumulated amortisation	(85,117)	(40,198)	(43,330)	(21,403)	(5,937)	(195,985)
Net carrying amount	172,677	95,243	128,425	5,317	9,980	411,642

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 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	–	3,967	–	–	–	3,967
Transfer from property, plant and equipment	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

17. INVESTMENTS IN CONVERTIBLE BONDS

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

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

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

18. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	386,166	111,798
Goodwill on acquisitions	25,129	25,129
	411,295	136,927
Loan to an associate	169,893	134,904
	581,188	271,831

The loan to an associate is unsecured, interest-free and repayable on demand. In the opinion of the directors, this loan is not requested for repayment 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:

	2020 RMB'000	2019 RMB'000
Share of the associates' profit for the year	26,102	6,797
Share of the associates' total comprehensive income	26,102	6,797
Aggregate carrying amount of the Group's investments in the associates	581,188	271,831

19. INVENTORIES

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

At 31 December 2020, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR142,195,000 (equivalent to approximately RMB1,141,115,000) (2019: EUR137,320,000, equivalent to approximately RMB1,073,224,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group (note 26(b)(ii)).

20. TRADE AND BILLS RECEIVABLES

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

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

Included in the Group's trade receivables is an amount due from associates of EUR8,754,000 (equivalent to approximately RMB70,251,000) (2019: EUR12,108,000, equivalent to approximately RMB94,630,000), 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:

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

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 2020 (2019: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

As at 31 December 2020, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR8,868,000 (equivalent to approximately RMB71,166,000) (2019: EUR9,887,000, equivalent to approximately RMB77,272,000) were pledged to secure general bank loans and overdraft facilities granted to the Ausnutria B.V. Group (note 26(b)(iii)).

21. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments and deposits paid	342,237	424,720
Interest income receivable	7,623	4,425
Other tax recoverable	138,263	90,415
Others	84,445	70,910
	572,568	590,470
Position classified as non-current:		
Prepayments, deposits and other assets	(136,992)	(158,198)
	435,576	432,272

There are no amounts due from associates included in other receivables (2019: EUR750,000, equivalent to approximately RMB5,861,000).

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

	2020 RMB'000	2019 RMB'000
Cash and bank balances	1,296,509	1,436,544
Time deposits	773,069	634,149
	2,069,578	2,070,693
Less: Pledged deposits (note 26(b)(iv))	(212,062)	(396,152)
Cash and cash equivalents	1,857,516	1,674,541

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB973,802,000 (2019: RMB891,752,000). In addition, time deposits of the Group denominated in RMB amounted to RMB772,239,000 (2019: RMB633,431,000). 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:

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

Included in the trade and bills payables are amounts due to associates of EUR4,998,000 (equivalent to approximately RMB40,109,000) (2019: EUR3,960,000, equivalent to approximately RMB30,949,000), which are repayable within 60 days.

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

24. OTHER PAYABLES AND ACCRUALS

	Notes	2020 RMB'000	2019 RMB'000
Contract liabilities	(i)	1,383,009	1,153,411
Deposits		31,496	27,559
Accrued salaries and welfare		170,303	209,799
Other tax payables		65,928	42,182
Other payables	(ii)	183,727	161,833
Accrued promotion and advertising expenses		367,293	404,150
Other accruals		65,917	39,562
		2,267,673	2,038,496

(i) Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000	1 January 2019 RMB'000
Short-term advances received from customers for sale of goods	841,159	607,752	412,213
Deferred income	541,850	545,659	408,155
Total contract liabilities	1,383,009	1,153,411	820,368

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2020 RMB'000	2019 RMB'000
Interest rate swaps	(i)	–	376
Interest rate caps	(ii)	109	637
Subsequent HNC Consideration	(iii)	–	300,312
		109	301,325
Portion classified as non-current:			
Subsequent HNC Consideration	(iii)	–	(300,312)
Current portion		109	1,013

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 was measured at fair value through profit or loss. A net fair value gain on the interest rate swap amounting to RMB381,000 (2019: RMB682,000) and a net exchange loss amounting to RMB5,000 (2019: a net exchange gain amounting to RMB14,000) were recognised in the statement of profit or loss for the year ended 31 December 2020. The interest rate swap contract was expired during the year.

(ii) The Ausnutria B.V. Group has entered into an interest rate cap contract to manage its interest rate exposures. The interest rate cap was measured at fair value through profit or loss. A net fair value gain on the interest rate cap amounting to RMB537,000 (2019: a net fair value loss amounting to RMB628,000) and a net exchange loss amounting to RMB9,000 (2019: RMB9,000) were recognised in the statement of profit or loss for the year ended 31 December 2020.

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

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

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current:						
Lease liabilities (note 14(b))	3.3	2021	79,551	3.1	2020	88,324
Bank loan – secured	3-month EURIBOR + 1.35 – 1.70	2021	79,194	–	–	–
Bank overdrafts – secured	3-month EURIBOR + 1.35 – 1.70	2021	160,500	–	–	–
Bank loan – secured	3-month EURIBOR + 1.0	2021	112,350	3-month LIBOR + 2.25	2020	22,542
Bank loan – secured	2.05 – 2.3	2021	3,601	1.0 – 4.35	2020	281,489
Bank loan – secured	3-month EURIBOR + 0.9	2021	96,300	–	–	–
Other loans – unsecured*	4.22	2021	27,477	4.22	2020	27,432
			558,973			419,787
Non-current:						
Lease liabilities (note 14(b))	3.3	2022-2037	125,602	3.1	2021-2037	193,688
Bank loans – secured	–	–	–	2.25	2021	27,354
Bank loans – secured	–	–	–	3-month EURIBOR + 0.9	2021	93,786
Bank loans – secured	3-month EURIBOR + 1.35 – 1.70	2023	399,441	3-month EURIBOR + 1.35 – 1.70	2023	466,588
Bank loans – unsecured	4.79	2023	801	4.79	2023	1,055
Other loans – unsecured*	3-month EURIBOR + 3.0	2022	1,455	3-month EURIBOR + 3.0	2021	1,532
			527,299			784,003
			1,086,272			1,203,790

* Loans from non-controlling shareholders of a subsidiary

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

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	451,945	304,031
In the second year	80,250	121,140
In the third to fifth years, inclusive	319,992	467,643
	852,187	892,814
Other borrowings repayable:		
Within one year or on demand	107,028	115,756
In the second year	57,540	81,207
In the third to fifth years, inclusive	67,784	111,529
After five years	1,733	2,484
	234,085	310,976
	1,086,272	1,203,790

Notes:

(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 RMB802,500,000) (2019: EUR100,000,000, equivalent to approximately RMB781,550,000), EUR20,000,000 (equivalent to approximately RMB160,500,000) (2019: Nil) of the bank overdraft had been utilised as at 31 December 2020, 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 EUR92,549,000 (equivalent to approximately RMB742,706,000) (2019: EUR87,760,000 (equivalent to approximately RMB685,888,000));

(ii) pledges of the Ausnutria B.V. Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR142,195,000 (equivalent to approximately RMB1,141,115,000) (2019: EUR137,320,000 equivalent to approximately RMB1,073,224,000);

(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 EUR8,868,000 (equivalent to approximately RMB71,166,000) (2019: EUR9,887,000 (equivalent to approximately RMB77,272,000)); and

(iv) pledges of certain of the Group's time deposits amounting to RMB212,062,000 (2019: RMB396,152,000).

27. DEFINED BENEFIT PLAN

Ausnutria Ommen B.V. operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 67 (2019: 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 the rights from previous years will remain in the old defined benefit plan. Sensitivity on future salaries 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 2020 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:

	2020	2019
Discount rate (%)	0.60	1.20
Expected rate of future pension cost increases (%)	0.60	1.20
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 RMB38,384,000 (2019: RMB32,762,000) and that the actuarial value of these assets represented 81% (2019: 84%) of the benefits that had accrued to qualifying employees. The deficiency of RMB8,932,000 (2019: RMB6,440,000) 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
2020				
Discount rate	0.25	(2,287)	0.25	2,456

	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)

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:

	2020 RMB'000	2019 RMB'000
Current service cost	–	–
Interest cost	150	216
Net benefit expenses	150	216
Recognised in cost of sales	150	216
	150	216

27. DEFINED BENEFIT PLAN (continued)

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

	2020 RMB'000	2019 RMB'000
At 1 January	39,202	33,571
Interest cost	7,171	6,478
Benefit paid	(213)	(787)
Exchange differences on a foreign plan	1,156	(60)
At 31 December	47,316	39,202

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

2020

		Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2020 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 the employer RMB'000	Foreign exchange difference RMB'000	31 December 2020 RMB'000
Defined benefit obligations	(39,202)	–	–	(490)	(490)	213	–	917	(5,123)	(2,475)	(6,681)	–	(1,156)	(47,316)
Fair value of plan assets	32,762	–	(55)	395	340	(530)	–	(791)	4,309	901	4,419	444	949	38,384
Benefit liabilities	(6,440)	–	(55)	(95)	(150)	(317)	–	126	(814)	(1,574)	(2,262)	444	(207)	(8,932)

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 the 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)

27. DEFINED BENEFIT PLAN (continued)

The fair value of the total plan assets at 31 December 2020 was RMB38,384,000 (2019: RMB32,762,000).

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

	2020 RMB'000	2019 RMB'000
Within the next 12 months	3,836	899
Between 2 and 5 years	5,818	7,370
Between 5 and 10 years	7,824	7,511
Total expected contributions	17,478	15,780

The average duration of the defined benefit obligations at the end of the reporting period was 20.6 (2019: 20.5) 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 headquarters of the Group in the PRC region (the "**PRC Headquarters**"). In order to support the long term growth of the Group, Ausnutria China received government grants as financial subsidies to support the development.

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

As at the end of the reporting period, the construction of the PRC Headquarters was in progress and 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

2020

	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 2020	(1,677)	69,338	1,447	29,639	98,747
Deferred tax credited to profit or loss during the year (note 10)	(858)	(4,750)	(366)	(514)	(6,488)
Exchange difference	(58)	2,286	33	–	2,261
Gross deferred tax liabilities at 31 December 2020	(2,593)	66,874	1,114	29,125	94,520

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	–	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

29. DEFERRED TAX (continued)

Deferred tax assets

2020

	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 2020	1,546	79,736	3,343	10,512	98,416	29,337	222,890
Deferred tax credited to profit or loss during the year (note 10)	636	10,816	5,357	–	11,033	11,442	39,284
Exchange difference	51	(4,370)	–	–	–	126	(4,193)
Gross deferred tax assets at 31 December 2020	2,233	86,182	8,700	10,512	109,449	40,905	257,981

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

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

The Group has tax losses arising in Hong Kong of RMB11,154,000 (2019: 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 RMB53,798,000 (2019: RMB54,358,000) that will expire in one to five years for offsetting against future taxable profits. The Group also has tax losses arising in New Zealand of RMB68,096,000 (2019: Nil) that are available 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% (2019: 5%). 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 2020, the Group has not recognised deferred tax liabilities of RMB223,954,000 (2019: RMB187,355,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB2,161,036,000 (2019: RMB2,304,117,000), 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. SHARE CAPITAL AND TREASURY SHARES

Share captial

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

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

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

30. SHARE CAPITAL AND TREASURY SHARES (continued)

Share Captial (continued)

Treasury shares

	Note	Number of shares '000	Amount RMB'000
At 1 January 2020		(2,679)	(24,733)
Shares cancelled	(ii)	2,679	24,733
At 31 December 2020		–	–

Notes:

(i) The subscription rights attaching to 6,596,000 share options were exercised at the subscription price of HK$2.45 per Share (note 31), resulting in the issue of 6,596,000 Shares for a total cash consideration, before expenses, of HK$16,161,000 (equivalent to approximately RMB14,616,000). An amount of RMB3,701,000 was transferred from the share option reserve to share capital and share premium account upon the exercise of the share options.

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

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

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

31. 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 subsidiaries or any entity (the "**Invested Entity**") in which the Group holds an equity interest;

ii. any supplier of goods or services to the Group or any of subsidiaries of any Invested Entity;

iii. any customer of the Group or any Invested Entity;

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

v. any shareholder of the Company or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity.

31. SHARE OPTION SCHEME (continued)

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 directors (excluding any independent non-executive directors who are the grantees of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period which is not later than ten years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The following share options were outstanding under the Scheme during the year:

	2020		2019	
	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	8.91	46,738	2.45	23,471
Granted during the year	–	–	10.00	40,000
Exercised during the year	2.45	(6,596)	2.45	(16,733)
At 31 December	9.97	40,142	8.91	46,738

The weighted average share price at the date of exercise for share options exercised during the year was HK$14.33 (2019: HK$13.65) per share.

31. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2020

Number of options '000	Exercise price HK$ per Share	Exercise period
–	2.45	21-1-17 to 20-1-21
142	2.45	06-7-17 to 20-1-21
40,000	10.00	15-1-21 to 14-1-24
40,142		

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		

The total fair value of the share options granted was HK$112,131,000 (2019: HK$112,131,000), of which the Group recognised a share option expense of HK$22,696,000 (equivalent to approximately RMB20,170,000) (2019: HK$22,207,000, equivalent to approximately RMB19,535,000) during the year ended 31 December 2020.

The fair value at the 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:

31. SHARE OPTION SCHEME (continued)

	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 6,596,000 share options exercised during the year resulted in the issue of 6,596,000 ordinary shares of the Company and new share capital of HK$659,600 (equivalent to approximately RMB597,000) (before issue expenses).

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 was 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 from 15 January 2021 to 14 January 2024. The price of the shares at the date of grant was HK$7.95.

At the end of the reporting period, the Company had 40,142,000 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 40,142,000 additional ordinary shares of the Company and additional share capital of HK$4,014,200 (equivalent to approximately RMB3,378,500).

Subsequent to the end of the reporting period, 142,000 share options were exercised on 8 January 2021.

At the date of approval of these financial statements, the Company had 40,000,000 share options outstanding under the Scheme, which represented approximately 2.3% of the Company's shares in issue as at that date.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 77 to 78 of the financial statements.

(i) Capital reserve

The capital reserve represents the net difference between the aggregate of the 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 after offsetting the effect arising from the acquisitions of non-controlling interests 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) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with presentation currencies other than RMB.

33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests as at 31 December 2020 are set out below:

	2020	2019
Percentage of equity interest held by non-controlling interests:		
Pure Nutrition Limited ("**PNL**")	40%	40%

	2020 RMB'000	2019 RMB'000
Loss for the year allocated to non-controlling interests:		
PNL	(20,987)	(23,352)
Accumulated balances of non-controlling interests at the reporting date:		
PNL	(47,780)	(25,833)

33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2020 RMB'000	2019 RMB'000
Revenue	3,449	4,195
Cost of sales	(28,511)	(41,596)
Total expenses	(27,405)	(20,978)
Loss for the year	(52,467)	(58,379)
Total comprehensive loss for the year	(52,467)	(58,379)
Current assets	8,097	22,973
Non-current assets	171,780	190,503
Current liabilities	(299,328)	(278,059)
Net cash flows used in operating activities	(8,044)	(33,554)
Net cash flows used in investing activities	(149)	(1,128)
Net cash flows from financing activities	8,040	33,654
Net decrease in cash and cash equivalents	(153)	(1,028)

34. BUSINESS COMBINATION

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

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

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

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

34. BUSINESS COMBINATION (continued)

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

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

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

35. 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 RMB44,063,000 and RMB44,063,000, respectively, in respect of lease arrangements for building and machinery and motor vehicles (2019: non-cash additions to right-of-use assets and lease liabilities of RMB126,267,000 and RMB126,267,000).

(b) Changes in liabilities arising from financing activities

2020

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2020	921,778	282,012
Changes from financing cash flows	(64,192)	(87,782)
Foreign exchange movement	23,533	4,771
New lease	–	44,063
Interest expense	–	8,098
Revision of a lease-term arising from a change in the non-cancellable period of a lease	–	(46,009)
At 31 December 2020	881,119	205,153

2019

	Bank and other loans RMB'000	Finance lease payables/lease liabilities RMB'000
At 31 December 2019	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 flows	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

35. 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:

	2020 RMB'000	2019 RMB'000
Within operating activities	6,292	5,965
Within financing activities	95,880	95,992
	102,172	101,957

36. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2019: Nil).

37. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 13, 19, 20 and 22, respectively, to the financial statements.

38. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Land and buildings	–	54,226
Plant and machinery	85,501	157,574
Intangible assets	3,500	528
	89,001	212,328

39. 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	2020 RMB'000	2019 RMB'000
Purchases of products from the associates	(i)	325,283	172,920
Sales of products to the associates	(i)	273,087	156,959
Management fees received from an associate	(ii)	217	2,118

Notes:

(i) These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

(ii) The management fees were charged based on the management time incurred by the management of the Ausnutria B.V. Group for the associates.

(b) **Outstanding balances with related parties:**
Details of the balances with 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:**

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	39,415	32,812
Performance-related bonus	–	7,133
Retirement benefit contributions	1,090	1,115
Equity-settled share option expense	7,510	7,273
Total compensation paid to key management personnel	48,015	48,333

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

40. 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:

2020

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	456,425	456,425
Financial assets included in prepayments, other receivables and other assets	7,623	7,623
Pledged deposits	212,062	212,062
Cash and cash equivalents	1,857,516	1,857,516
	2,533,626	2,533,626

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	–	409,247	409,247
Financial liabilities included in other payables and accruals	–	226,491	226,491
Derivative financial instruments	109	–	109
Interest-bearing bank loans and other borrowings	–	1,086,272	1,086,272
	109	1,722,010	1,722,119

40. 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)

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. 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	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Financial liabilities				
Derivative financial instruments	109	301,325	109	301,325
Interest-bearing bank loans and other borrowings	1,086,272	1,203,790	1,198,443	1,210,882
	1,086,381	1,505,115	1,198,552	1,512,207

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, 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 2020 was assessed to be insignificant.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

As at 31 December 2020

	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	–	109	–	109

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

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 (2019: Nil).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and overdrafts, lease liabilities, 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 entered into an interest rate swap contract, in which the Group agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount, which was expired during the year. At 31 December 2020, the Group did not have any outstanding interest rate swap contract. At 31 December 2020, approximately 96.8% (2019: 74.2%) of the Group's interest bearing borrowings bore interest at floating rates.

42. 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
2020		
EUR	100	(8,492)
EUR	(100)	8,492
TWD	100	(36)
TWD	(100)	36
2019		
EUR	100	(6,765)
EUR	(100)	6,765
TWD	100	(77)
TWD	(100)	77

42. 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 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
As at 31 December 2020					
Trade and bills receivables*	–	–	–	456,425	456,425
Financial assets included in prepayments, other receivables and other assets					
– Normal**	7,623	–	–	–	7,623
Pledged deposits					
– Not yet past due	212,062	–	–	–	212,062
Cash and cash equivalents					
– Not yet past due	1,857,516	–	–	–	1,857,516
	2,077,201	–	–	456,425	2,533,626
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

42. 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, lease liabilities 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:

	2020					
	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
Lease liabilities	–	–	79,551	123,869	1,733	205,153
Interest-bearing bank loans and other borrowings (excluding lease liabilities)	–	314,649	169,406	404,988	–	889,043
Trade and bills payables	–	370,735	36,234	2,278	–	409,247
Financial liabilities included in other payables and accruals	19,618	35,471	171,402	–	–	226,491
Derivative financial instruments	–	109	–	–	–	109
Total	19,618	720,964	456,593	531,135	1,733	1,730,043

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2019					
	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
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

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 2020 and 31 December 2019.

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:

	2020 RMB'000	2019 RMB'000
Interest-bearing bank loans and other borrowings	1,086,272	1,203,790
Less: Pledged deposits	(212,062)	(396,152)
Cash and cash equivalents	(1,857,516)	(1,674,541)
Surplus cash	(983,306)	(866,903)
Total assets	9,247,957	8,343,194
Gearing ratio	N/A	N/A

43. 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:

	2020 RMB'000	2019 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	2,910,852	2,088,247
Prepayments, other receivables and other assets	3,516	1,862
Cash and cash equivalents	18,304	62,999
Total current assets	2,932,672	2,153,108
CURRENT LIABILITIES		
Due to subsidiaries	48,569	49,576
Other payables	3,351	14,728
Total current liabilities	51,920	64,304
NET CURRENT ASSETS	2,880,752	2,088,804
TOTAL ASSETS LESS CURRENT LIABILITIES	3,344,731	2,552,783
Net assets	3,344,731	2,552,783
EQUITY		
Issued capital	149,267	140,031
Treasury shares	–	(24,733)
Reserves (note)	3,195,464	2,437,485
Total equity	3,344,731	2,552,783

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Capital reserve* RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 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 and 1 January 2020	2,385,407	171,320	24,072	(197,433)	54,119	2,437,485
Total comprehensive profit/(loss) for the year	–	–	–	115,859	(175,620)	(59,761)
Exercise of share options	17,720	–	(3,701)	–	–	14,019
Equity-settled share option arrangements	–	–	20,170	–	–	20,170
Final 2019 dividend declared	(323,245)	–	–	–	–	(323,245)
Acquisition of non-controlling interests	1,131,289	–	–	–	–	1,131,289
Cancellation of repurchased shares	(24,493)	–	–	–	–	(24,493)
At 31 December 2020	3,186,678	171,320	40,541	(81,574)	(121,501)	3,195,464

* 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.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 March 2021.

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				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	7,985,816	6,736,153	5,389,568	3,926,466	2,740,262
Cost of sales	(4,003,859)	(3,202,836)	(2,728,933)	(2,236,267)	(1,615,403)
Gross profit	3,981,957	3,533,317	2,660,635	1,690,199	1,124,859
Other income and gains	90,105	69,191	114,109	57,463	62,631
Selling and distribution expenses	(2,066,765)	(1,771,834)	(1,444,237)	(969,127)	(646,411)
Administrative expenses	(692,996)	(558,289)	(461,853)	(298,025)	(215,656)
Other expenses	(88,707)	(138,666)	(59,621)	(28,466)	(14,055)
Finance costs	(28,850)	(33,332)	(29,753)	(22,110)	(17,849)
Share of profits and losses of:					
A joint venture	–	–	1,159	940	–
Associates	26,102	6,797	11,553	7,671	4,233
PROFIT BEFORE TAX	1,220,846	1,107,184	791,992	438,545	297,752
Income tax expense	(220,812)	(228,288)	(147,440)	(103,765)	(63,756)
PROFIT FOR THE YEAR	1,000,034	878,896	644,552	334,780	233,996
Attributable to:					
Owners of the parent	1,004,106	878,390	635,100	308,133	212,672
Non-controlling interests	(4,072)	506	9,452	26,647	21,324
	1,000,034	878,896	644,552	334,780	233,996

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	9,247,957	8,343,194	6,829,006	5,621,130	3,923,646
Total liabilities	4,096,017	(4,279,286)	(3,434,458)	(3,674,124)	(2,333,995)
Net assets	5,151,940	4,063,908	3,394,548	1,947,006	1,589,651
Non-controlling interests	19,432	(48,254)	(140,810)	(206,515)	(121,582)
	5,171,372	4,015,654	3,253,738	1,740,491	1,468,069

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