INTERIM REPORT 2017

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

澳优·海普诺凯
Ausnutria

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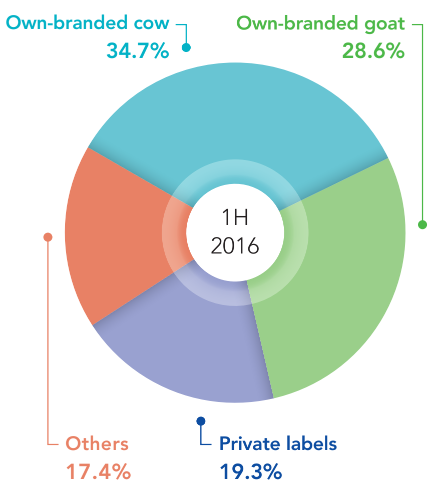
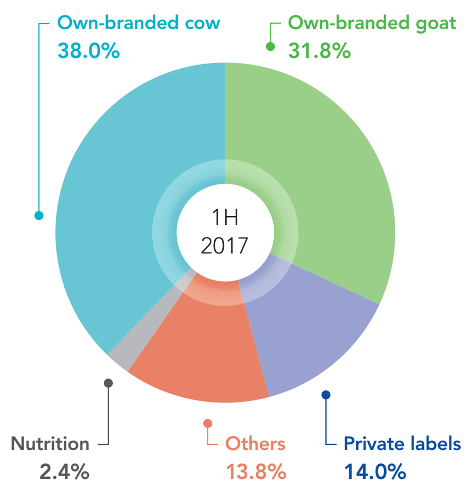
Contents

Financial Highlights

(RMB'M)	FY 2014	FY 2015	FY 2016	1H 2016	1H 2017	Changes (in %)
Revenue	1,966.0	2,103.5	2,740.3	1,251.0	**1,702.9**	36.1
Gross profit	567.2	590.0	1,124.9	511.0	**713.0**	39.5
Gross profit (in %)	28.9	28.0	41.1	40.8	**41.9**	1.1 pps
EBITDA	168.3	33.4	333.3	163.6	**250.7**	53.2
Profit before tax	137.3	3.8	297.8	144.8	**221.9**	53.2
Profit attributable to Shareholders	90.2	50.6	212.7	101.5	**153.3**	51.0
EPS (in RMB cent)	9.1	4.9	17.0	8.1	**12.3**	50.9
Cash inflows/(outflows) from operating activities	85.9	(45.4)	294.4	56.5	**351.1**	521.4
Net assets	1,214.9	1,327.5	1,589.7	1,433.0	**1,777.1**	24.0
Total assets	2,433.3	3,030.5	3,923.6	3,501.6	**4,764.3**	36.1
Net cash	391.2	317.1	112.3	251.6	**141.6**	(43.7)

REVENUE BY SEGMENT





KEY OWN-BRANDED SALES INCREASED FROM 63.3% TO 69.8% OF THE TOTAL REVENUE

	1H 2016 RMB'M	1H 2017 RMB'M	Changes RMB'M	%
Own-branded Cow Infant Formula	434.1	**647.4**	213.3	49.1
Own-branded Goat Infant Formula	358.1	**541.3**	183.2	51.2
	792.2	**1,188.7**	396.5	50.1
Private Labels	241.7	**238.4**	(3.3)	(1.4)
Nutrition Products	–	**41.4**	n/a	n/a
Others	217.1	**234.4**	17.3	8.0
Total	1,251.0	**1,702.9**	451.9	36.1

Corporate Information

BOARD OF DIRECTORS

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

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

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

COMPANY SECRETARY
Mr. Wong Wei Hua Derek

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

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

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

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

AUDITORS
Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER
Asian Capital (Corporate Finance) 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
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No. 168 Huangxing Middle Road
Changsha City, Hunan Province, the PRC

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

In Australia
25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

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

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

PRINCIPAL BANKERS
ABN AMRO Bank N.V.
Rabobank
The Hongkong and Shanghai Banking Corporation
Bank of China, Hunan Province branch, Changsha
China Construction Bank, Huangxing Road branch, Changsha
Shanghai Pudong Development Bank Co., Limited, Shanghai

STOCK CODE
1717

COMPANY'S WEBSITE
www.ausnutria.com.hk

The board (the "**Board**") of directors (the "**Directors**") of Ausnutria Dairy Corporation Ltd (the "**Company**") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 (the "**2017 Interim Period**").

BUSINESS REVIEW

The 2017 Interim Period is the beginning of the second year of the "Golden Decade" strategic plan which was formulated by the Company at the end of 2015. During the period, the Company continued to implement its strategic plans, including (i) increase its effort on the building of global supply chain on infant formula; (ii) streamline the operations of the overseas nutritional business to cater for the industry change and market demand; and (iii) strengthen the organisation structure, sales network and team building in order to accommodate the long-term vision of the Group. The above steps pay off in terms of operation performance, product diversification as well as strengthened the business chain of the Group. In addition, the Group has achieved satisfactory results in developing its market network and enhancing consumer services during the period.

For the 2017 Interim Period, the Group recorded a revenue of RMB1,702.9 million, representing an increase of RMB451.9 million, or 36.1%, when compared with the six months ended 30 June 2016 (the "**2016 Interim Period**"). In particular, the revenue of the Group's key sector, own-branded goat milk and cow milk infant formula increased by 50.1% to RMB1,188.7 million and accounted for 69.8% of the total revenue of the Group. The Group's profit attributable to ordinary equity holders of the parent increased by 51.0% to RMB153.3 million for the 2017 Interim Period.

Despite the dairy industry, particularly in the People's Republic of China (the "**PRC**") which is the Group's principal market, continued to be challenging due to new rules and regulations implemented by respective governments from time to time, the Group achieved a continuous growth in both revenue and operating results for the 2017 Interim Period. The continuous growth was mainly driven by:

(i) the preliminary success of the restructuring of the strategic plans of the Group's core business, the own-branded infant formula;

(ii) the continuous improvements in the Group's sales network, organisation structure and team building;

(iii) the increasing recognition of the high quality standards of infant formula produced by the Group which are principally manufactured by the Group's wholly-owned facilities that have been invested and established by the Group in recent years. The Company believes that the Group is one of the very few players in the PRC market that possesses the entire business chain from sourcing of milk supply with production facilities based in overseas and having an extensive firmly-established distribution network in the PRC; and

(iv) the clear brand positioning and the implementation of innovative business strategies which facilitated the Group to penetrate into different sectors and hence cater for the different demands in the market effectively.

Besides, with the continuous stable growth in demand for infant formula in the PRC attributable by the continuous steady growth in newborns and the increasingly high industry entry barrier as a result of the new industry regulatory standards implemented by the PRC government, the Company believes that the Group will benefit from the industry reforms in the long run as a result of the factors set out above.

Infant Formula Business

(A) Own-branded "Cow milk"

The Group commenced its business of marketing and distribution of cow milk infant formula in the PRC with its milk source principally based in Australia and under the brand names of *Allnutria*, *A-Choice* and *Best-Choice* in 2003. In order to meet the continuous growth in demand for infant formula in the PRC, cater for the different needs of the wide range of consumers in the PRC and follow the establishment of its overseas production facilities, apart from the continuous development of the Company's original brand *Allnutria*, the Group has also launched a number of other brands, including *Puredo*, *Hyproca 1897*, *Neolac*, *Mygood* and *Eurlate* in recent years. For marketing and strategic reasons, these brands are managed and operated by different business units of the Group. Furthermore, in order to ensure stable and sufficient infant formula supply and mitigate the risk of milk source concentration, the Group diversified its infant formula supply to a number of countries in recent years. For the 2017 Interim Period, the infant formula sold by the Group in the PRC are supplied by different manufacturers which are located in New Zealand, Australia, France as well as the Group's own factories in the Netherlands and the PRC. The Board believes that the above strategies will facilitate the long-term steady growth of the Group.

For the 2017 Interim Period, sales of own-branded cow milk infant formula increased by 49.1% to RMB647.4 million as compared with the 2016 Interim Period.

(B) Own-branded "Goat milk"

During the 2017 Interim Period, sales of *Kabrita* continued to be promising and the number one imported goat milk infant formula in the PRC.

All *Kabrita* products are manufactured by the production facilities of the Group in the Netherlands since their launch in 2011. The continuous success in *Kabrita* is mainly attributable to (i) the effective and innovative marketing strategy launched by the Group; (ii) the increasing market recognition of the higher nutrition value and the fact that it is more easy to be digested when compared with cow milk infant formula; (iii) the strong management team; (iv) the well-established supply network established over the years which enable the Group to secure all of the major ingredients, in particular the goat whey, for the production of *Kabrita*; and (v) the geographical location of the Group's manufacturing plant in the Netherlands which enabled ample supply of quality goat milk to support the unceasing growth of *Kabrita*.

For the 2017 Interim Period, sales of *Kabrita* in the PRC and overseas amounted to RMB449.7 million and RMB91.6 million, representing an increase of RMB159.6 million, or 55.0% and RMB23.6 million, or 34.7%, respectively, when compared with the 2016 Interim Period.

The Group will continue to launch *Kabrita* in other major countries and aim to become a global market leader in goat milk infant nutrition products. This ambition will be leveraged by the studies and clinical trials conducted by (i) the medical school of Peking University; (ii) the clinical studies in Europe; and (iii) the in-house research and development team in the Netherlands and North America during the course of applying for the US Food and Drug Administration approval.

(C) Private Label business

Other than the development of its own-branded business, the Group also produces infant formula for other worldwide customers on an OEM basis (the "**Private Label**"). For the 2017 Interim Period, sales of the Private Label business decreased by 1.4% to RMB238.4 million, represented 14.0% of the total revenue of the Group. The decrease in sales of the Private Label business was mainly due to a higher proportion of the production capacities has been allocated to the Group's own-branded infant formula business during the period.

The Company believes that the Private Label business continues to be an important sector in the fast-growing stage of the Group, in particular with the completion of the New Factories, as it can help to maximize the operation efficiency of respective production facilities and hence to achieve economies of scale while, on the other hand, provides a reasonable return to the Group.

Nutrition Business

The Group commenced the business in the manufacture and distribution of nutrition products through the acquisition of nutrition business from Nutrition Care Pharmaceuticals Pty Ltd, a company incorporated in Australia which, together with its founder, has been engaged in the nutrition business sector since the 1970s. The acquisition of this nutrition business was completed in October 2016. Such business mainly includes the development, manufacturing, packaging and distribution of complementary medicine, nutritional and health care products under the brand names of "*Nutrition Care*" and "*Brighthope*" and the provision of contract manufacturing services (the "**Nutrition Business**") under its manufacturing facilities, which is TGA certified and located in Australia. Prior to acquiring the Nutrition Business by the Group, the products of the Nutrition Business are mainly marketed and distributed in Australia and New Zealand. Besides, the Group also commenced the marketing and distribution of import functional milk under the Group's own brand name *Globlait* in the PRC since the fourth quarter of 2016. For the 2017 Interim Period, revenue and operating performance derived from this sector amounted to RMB41.4 million (2016 Interim Period: Nil) and loss of RMB8.9 million (2016 Interim Period: Nil), respectively.

Since the acquisition of the Nutrition Business, the Group has been active in streamlining the operations of the Nutrition Business and identifying the key and potential products to be introduced and launched into potential overseas market, particularly the PRC, which are considered to be the future principal market of these products, since the fourth quarter of 2016. The Group has launched a number of nutrition products under the brand name *Nutrition Care* through JD, Tmall and several well-known e-commerce platforms and Daigous in the PRC. As consumers in the PRC are becoming more health-conscious over time, the Group believes that the Nutrition Business will benefit from the increasing market demand of nutrition products by leveraging on its infrastructure and wide distribution network.

In anticipation of the continuous increase in the demand for the products produced by the Group particularly the infant formula, and the long-term strategies of the Group to become a nutrition service provider, the Group has undertaken the following steps during the 2017 Interim Period.

The Youluck Acquisition

On 23 March 2017 and 28 April 2017, the Group respectively entered into share transfer agreements and share transfer supplementary agreements with six independent parties (the "**Youluck Vendors**") for the purchase of an aggregate 60.0% equity interest in Youluck International Inc. 權鋒國際股份有限公司 ("**Youluck**") at a total consideration of TWD45.3 million (equivalent to approximately RMB10.4 million) (the "**Youluck Acquisition**"). Youluck is a company established in Taiwan with principal activity as marketing and distribution of infant formula and infant food products under the brand name "*Youluck*" and the trading of nutrition products in Taiwan.

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

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

The ADP Acquisition

On 22 May 2017, Ausnutrition Care Pty Ltd. ("**Ausnutrition Care**"), a wholly-owned subsidiary of the Company, entered into a share purchase deed with an independent party (the "**ADP Vendor**") to acquire the entire equity interest in ADP Holdings (Australia) Pty Ltd. ("**ADP Holdings**") (the "**ADP Acquisition**"). The consideration for the ADP Acquisition amounted to AUD23.7 million (equivalent to approximately RMB121.6 million) (the "**ADP Consideration**"), was satisfied by cash of AUD10.0 million (equivalent to approximately RMB51.3 million) and by the issuance of 13.9 million new shares, representing 30% of the enlarged issued capital of Ausnutrition Care (the "**Ausnutrition Care Shares**"). ADP Holdings and its subsidiaries (the "**ADP Group**") are principally engaged in the manufacturing, packaging and sale of dairy and milk powder products and related research and development activities with production facilities and business located at the Victoria state, Australia, where more than 65% of the milk supply in Australia is produced.

In anticipation of the continuous growth in demand of the Group's dairy products, the Group has been exploring investment opportunities, including the expansion of its production and upstream sourcing capability, in recent years in order to diversify the Group's milk source supply and product mix. Australian Dairy Park Pty Ltd. ("**ADP**"), a wholly-owned subsidiary of ADP Holdings, which was one of the first two factories in Australia that has been granted the license by the PRC government for the import of infant formula products to the PRC, and is currently one of the eight infant formula manufacturing enterprises in Australia that has succeeded in fulfilling the registration requirements approved by the Certification and Accreditation Administration of the PRC (the "**CNCA**"). The Group is of the view that the ADP Group has established a sound production and management system over the years and, through the ADP Acquisition, can complement the Group's existing production portfolio by diversifying the Group's supply mix and supply from the Netherlands and New Zealand to Australia as well as improve its global presence in the industry.

The ADP Consideration was determined after arm's length negotiations between the Group and the ADP Vendor with reference to, among others, the net asset value, production capability, future prospects of the ADP Group and the fact that ADP is currently one of the eight infant formula manufacturing enterprises in Australia with registration in the PRC approved by the CNCA.

Upon completion of the ADP Acquisition, ADP Holdings will be wholly-owned by Ausnutrition Care. The Company's interest in Ausnutrition Care will be diluted to 70.0% as a result of the issuance of the Ausnutrition Care Shares as part of the ADP Consideration. As a result, Ausnutrition Care and ADP Holdings will become indirect non-wholly owned subsidiaries of the Company.

Further details regarding the ADP Acquisition are set out in the announcement of the Company dated 22 May 2017. The ADP Acquisition was completed subsequent to the reporting period on 5 July 2017.

The Ozfarm Acquisition

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

Ozfarm is principally engaged in the sale and marketing of nutrition products, particularly on formula milk products from infant, children, pregnant mother to elderly in Australia, Singapore and the PRC under its own brand name *Oz Farm*, and the marketing and export of any other dairy, honey or other food and health care products. All the milk powder products of Ozfarm is manufactured by ADP.

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

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

Upon completion of the Ozfarm Acquisition, Ozfarm will be equally owned by the Group and the Ozfarm Vendors and will become a jointly-controlled company of the Company.

Further details regarding the Ozfarm Acquisition are set out in the announcement of the Company dated 22 May 2017. The Ozfarm Acquisition was completed subsequent to the reporting period on 5 July 2017.

INDUSTRY OVERVIEW

Currently, there are over 2,500 brands of infant formula in the PRC manufactured by about 108 and 77 factories in the PRC and overseas, respectively, which are registered with the CNCA. As a result of the increasing public health awareness and the demand for higher food quality and safety standards worldwide, in particular for infant nutrition products, new regulations and policies have been proposed from time to time in order to maintain the related industry's healthy growth and improve the quality and safety standards.

Following the implementation of a number of new policies in the PRC in recent years which imposed stringent quality controls of infant milk formula in the PRC, on 6 June 2016, the China Food and Drug Administration further promulgated the Administrative Measures for the Registration of Formulas for Infant Milk Formula Powder（《嬰幼兒配方乳粉產品配方註冊管理辦法》）(hereinafter referred to as the "**Measures**"). The purposes of implementing the Measures are to strengthen the supervision over the research and development and the formulation of the infant milk powder by enterprise and improve their research and development, production and inspection capabilities with an aim to further enhance the quality and safety standards of infant formula in the PRC. The Measures are considered to be one of the most stringent regulations on infant milk powder in the world and will come into effect on 1 January 2018.

Firstly, the Measures specify that domestic and imported infant formula sold in the PRC will be subject to the registration system which is designed with reference to the more stringent quality control system in the pharmaceutical sector in the PRC. Registration for infant formula shall be approved only if the manufacturers possess the required research and development, production and inspection capabilities, and can meet the relevant regulatory requirements for the production of infant formula according to the relevant laws and regulations and the national food safety requirements in the PRC.

Secondly, the number of formula to be manufactured by each enterprise is limited in order to assist consumers' evaluation of different formulae in the market. The Measures stipulate that in principle, each enterprise shall own not more than three brands.

Thirdly, labelling and advertising of infant milk formula will be regulated to avoid delivering misleading information to the consumers. The Measures require industry participants to submit supporting materials for the functions set forth on the labels of their products during their registration process.

Fourthly, the regulatory requirements and the legal liability of market participants will be clearly stated under the Measures.

With the implementation of the Measures, it is believed that the infant milk formula market in the PRC will grow in a more healthy and positive direction in the long run. Given the solid foundation that the Group has established over the years, the stringent and high quality controls and research and development capabilities of the Group, the Board believes that the Group will benefit from the implementation of the Measures.

As at the end of the reporting period, the Group has already submitted the applications for the registration of a number of its brands in accordance with the requirements.

OUTLOOK

According to the National Bureau of Statistics of China, the number of newborns in the PRC increased by 7.9% from 16.6 million in 2015 to 17.9 million in 2016. The Company believes the increase was the result of the relaxation of the one-child policy as well as the increase in household income in the PRC which enables more families to consider a second child. The Company also believes that the number of newborns, and hence the demand for infant formula, will continue to increase in the future. Furthermore, according to various market reports, the market size of the nutrition business sector in the PRC amounted to RMB120.0 billion in 2015 and is expected to increase to RMB180.0 billion in 2020. The Company believes the anticipated increase was the result of the increasing health awareness of the general consumers in the PRC.

In order to support the Group's continuous expansion of the market position in infant formula sector for cow own-brands in the PRC and the goat own-brands as well as the Private Label business worldwide and to realise the long-term business strategies of the Group of serving consumers with a full range of nutrition products, other than the continuous adjustments on or launch of effective marketing strategies to cope with the rapid change in market conditions, the Group will focus on the followings:

Construction of new factories in the Netherlands and New Zealand

In order to support the anticipated continuous growth in the demand for infant formula products of the Group, in 2014 and 2016, the Group has approved the construction of new factories in the Netherlands and New Zealand. The purpose of investing in new factories is to improve the blending and packaging capacity as well as to diversify the milk source of the Group. According to the current status of the two projects, the construction of both new factories will be completed in late 2017.

As at 30 June 2017, the Group has already invested a total of EUR94.1 million (equivalent to approximately RMB729.2 million) (31 December 2016: EUR71.8 million (equivalent to approximately RMB527.1 million)) and NZD16.9 million (equivalent to approximately RMB83.8 million) (31 December 2016: NZD4.9 million (equivalent to approximately RMB23.5 million)) in the Netherlands and New Zealand factories, respectively. Upon completion of the construction of the two new factories, the blending and packaging capacity of the Group in the Netherlands will increase progressively from approximately 30,000 tons to 90,000 tons by 2019 and there will be an additional capacity in New Zealand for approximately 15,000 tons.

The Board believes that the Group's productivity and quality standards and hence the turnover and profitability of the Group will be greatly enhanced when the operations of the new factories commence in late 2017.

Construction of new factory in the PRC

In July 2016, the Group acquired a plot of land (the "**Changsha Land**") that is adjacent to the Group's existing production facility in Changsha city, the PRC, through acquiring the entire equity interest in Mornring Nutrition Technology (Changsha) Co., Ltd. 沐林營養科技(長沙)有限公司(formerly known as Hunan Mornring Foodstuff Co., Ltd. 湖南沐林現代食品有限公司) at a consideration of RMB28.5 million.

During the 2017 Interim Period, the Group started constructing a new infant formula blending and packaging factory on the Changsha Land (the "**Changsha Factory**"). The total investment cost (including the cost of the Changsha Land) is estimated to be approximately RMB200.0 million. The investment in the Changsha Factory, which has a designed annual production capacity of 30,000 tons, is financed by banking facilities and the Group's internal working capital.

As at 30 June 2017, the Group has already invested a total of RMB55.2 million (31 December 2016: RMB28.5 million) in the Changsha Land and the Changsha Factory and the construction of the Changsha Factory is expected to be completed by early 2018.

The Board believes that with the completion of the construction of the new factories in the Netherlands, New Zealand and the PRC (the "**New Factories**"), together with the ADP Acquisition, the Group's strategic plan to build the global supply chain and hence strengthen the Group's production capability, which the Board believes is the critical success factor in the industry, is considered to be completed.

Extension into the Nutrition Business sector

The Group realises the business potentials and the importance to continue the supply of quality nutrition products to serve the infants as they grow into adulthood. In order to meet the needs of the consumers, the Group has commenced the business in the marketing and distribution of imported functional liquid milk in the PRC and has, through acquiring the Nutrition Business, commenced the launch of the nutrition products in the PRC. The Group will continue to strengthen its marketing and business strategies in the nutrition sector by leveraging on the resources, particularly the strong research and development capability and well-established TGA certified production facilities in Australia, the extensive distribution network of the Group and the strong demand for quality nutrition products worldwide, particularly in the PRC.

FINANCIAL REVIEW

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

Revenue

	Notes	Six months ended 30 June 2017 RMB'M (Unaudited)	2016 RMB'M (Unaudited)	Change %
Own-branded infant formula:				
Goat milk (in the PRC)	(i)	**449.7**	290.1	55.0
Goat milk (elsewhere)	(i)	**91.6**	68.0	34.7
		541.3	358.1	51.2
Cow milk (in the PRC)	(i)	**647.4**	434.1	49.1
		1,188.7	792.2	50.1
Private labels	(ii)	**238.4**	241.7	(1.4)
Milk powder	(iii)	**119.5**	120.8	(1.1)
Butter	(iv)	**74.9**	47.8	56.7
Nutrition products*	(v)	**41.4**	–	–
Others	(vi)	**40.0**	48.5	(17.5)
		1,702.9	1,251.0	36.1

* New businesses commenced in the fourth quarter of 2016.

Notes:

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

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

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

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

(v) Mainly represented the sale of nutrition products in the PRC, Australia and New Zealand that were produced by Nutrition Care Pharmaceuticals Pty Ltd and the sale of functional milk in the PRC.

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

For the 2017 Interim Period, the Group recorded revenue of RMB1,702.9 million, representing an increase of RMB451.9 million, or 36.1%, from RMB1,251.0 million for the 2016 Interim Period. Despite the competition of the infant milk formula market in the PRC continued to be intense during the 2017 Interim Period, revenue of the Group continued to increase and this was mainly attributable to the continuous increase in the sales of own-branded business which has been driven by the clear brand positioning and the effective marketing strategies adopted by the Group. Besides, the commencement of the Nutrition Business in the fourth quarter of 2016 also contributed an increase in revenue by RMB41.4 million for the 2017 Interim Period.

Gross profit and gross profit margin

	Six months ended 30 June		Six months ended 30 June	
	2017 RMB'M (Unaudited)	2016 RMB'M (Unaudited)	**2017 % (Unaudited)**	2016 % (Unaudited)
Own-branded infant formula:				
Goat milk	**300.1**	207.3	**55.4**	57.9
Cow milk	**331.6**	239.9	**51.2**	55.3
	631.7	447.2	**53.1**	56.5
Nutrition products	**20.0**	–	**48.3**	–
Others	**63.9**	72.1	**13.5**	15.7
	715.6	519.3	**42.0**	41.5
Less: provision for inventories	**(2.6)**	(8.3)	**(0.1)**	(0.7)
Total	**713.0**	511.0	**41.9**	40.8

The Group's gross profit for the 2017 Interim Period was RMB713.0 million, representing an increase of RMB202.0 million, or 39.5%, when compared with the 2016 Interim Period. The increase in the gross profit margin of the Group from 40.8% for the 2016 Interim Period to 41.9% for the 2017 Interim Period was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded business as compared with the other business sectors. Overall contribution to revenue by the own-branded business increased to 69.8% during the 2017 Interim Period (2016 Interim Period: 63.3%).

The decrease in the gross profit margin of the own-branded business was mainly due to the adjusted promotion strategies of the Group which have increased the portion of granting free infant formula products to the consumers as compared with other promotion activities. The gross profit margin of the own-branded business decreased by 3.4 percentage points while the ratio of selling and distribution expenses to revenue reduced by 1.2 percentage points during the period under review.

Other income and gains

Other income and gains mainly represented interest income from the Group's deposits with banks of RMB16.0 million (2016 Interim Period: RMB19.4 million) and incentive granted from the PRC government of RMB3.0 million (2016 Interim Period: RMB1.0 million).

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expense, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 21.8% (2016 Interim Period: 23.0%) of the revenue for the 2017 Interim Period. The slight decrease in the selling and distribution expenses to revenue ratio was for the same reason as set out in the above.

Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB4.0 million (2016 Interim Period: RMB6.4 million)), travelling expenses, auditors' remuneration, professional fees, depreciation and research and development costs. The increase in administrative expenses was primarily attributed to the continuous increase in the scale of operations of the Group. Besides, the commencement of the Nutrition Business in the fourth quarter of 2016 also accounted for an increase in administrative expenses by RMB12.9 million.

The administrative expenses accounted for 7.5% (2016 Interim Period: 6.7%) of the revenue of the Group for the 2017 Interim Period. Excluding for the impact of the Nutrition Business, the administrative expenses accounted for 6.9% of the revenue of the Group.

Other expenses

Other expenses for the 2017 Interim Period mainly comprised exchange losses of RMB1.1 million (2016 Interim Period: RMB3.4 million) arising from the foreign currency trading transactions, legal and professional fees incurred for the various acquisition projects and write-off of trade receivables of a total of RMB0.7 million (2016 Interim Period: RMB3.6 million).

Finance costs

The finance costs of the Group for the 2017 Interim Period amounted to RMB9.0 million (2016 Interim Period: RMB8.8 million), representing mainly the interest on bank loans and other borrowings raised principally for the financing of the capital expenditures of the Group's operations in the Netherlands.

Share of profit of an associate

Balance mainly represented the share of profits of Farmel Holding B.V. (the "**Farmel Group**"), which is principally engaged in the collection and trading of milk in Europe, for the 2017 Interim Period. 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 were mainly derived from its 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 Dairy (China) Co., Ltd. ("**Ausnutria China**"), a wholly-owned subsidiary of the Company, was designated as a High-tech Enterprise and was granted a preferential CIT rate of 15%. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25% during the 2017 Interim Period. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000. The standard CIT rates in Australia and New Zealand are 30% and 28%, respectively.

The Group's effective tax rate for the 2017 Interim Period was 24.3%, representing a decrease of 2.4 percentage points when compared with the 2016 Interim Period. This was mainly due to the proportionate increase in profit contributed by Ausnutria China for the sale of the cow milk products which are subject to the preferential CIT rate of 15%.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity owners of the Company for the 2017 Interim Period amounted to RMB153.3 million, representing an increase of RMB51.8 million, or 51.0% when compared with the 2016 Interim Period. The improvement in the Group's financial performance which results from the continuous growth in the sales of own-branded cow and goat milk infant formula was mainly driven by the clear brand positioning, the effective business strategy implemented by the Group as well as the increasing market demands for the products of the Group.

Analysis on Condensed Consolidated Statement of Financial Position

As at 30 June 2017, the total assets and net asset value of the Group amounted to RMB4,764.3 million (31 December 2016: RMB3,923.6 million) and RMB1,777.1 million (31 December 2016: RMB1,589.7 million), respectively.

The increase in total assets of the Group as at 30 June 2017 was mainly contributed by:

(i) the increase in construction in progress as a result of the investment in the New Factories made during the 2017 Interim Period of a total of RMB210.8 million (2016 Interim Period: RMB45.7 million);

(ii) the increase in inventories of RMB170.4 million (2016 Interim Period: RMB254.5 million); and

(iii) the increase in cash and cash equivalents and pledged deposits of a total of RMB270.4 million (2016 Interim Period: RMB65.1 million).

The increase in total assets of the Group as at 30 June 2017 was mainly financed by the drawdown of new bank loans, internal working capital and the cash flows generated from operating activities of the Group of RMB351.1 million (2016 Interim Period: RMB56.5 million) during the period.

The increase in net assets of the Group as at 30 June 2017 was mainly contributed by the net profit generated for the period of RMB168.0 million (2016 Interim Period: RMB106.2 million).

Working Capital Cycle

As at 30 June 2017, the current assets to current liabilities ratio of the Group was 1.3 times (31 December 2016: 1.4 times) which remained fairly stable when compared with the ratio as at 31 December 2016.

An analysis of key working capital cycle is as follows:

	Six months ended 30 June		
	2017 Number of days	2016 Number of days	Change Number of days
Debtors' turnover days	**23**	25	(2)
Inventory turnover days	**161**	172	(11)
Creditors' turnover days	**42**	50	(8)

The decrease in inventory turnover days of the Group for the 2017 Interim Period was mainly due to the improvement in the Group's overall operation flow in the Netherlands since the production upgrading plan of the facilities was completed in 2015, and the increase in demand of the Group's own-branded business.

The turnover days of the Group's trade and bills receivables for the 2017 Interim Period remained fairly stable when compared with the 2016 Interim Period. The turnover days of the Group's trade payables were in line with the credit periods granted by the suppliers.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

The Group adopts conservative financial management policies. A summary of liquidity and financial resources is set out below:

	Notes	30 June 2017 RMB'M (Unaudited)	31 December 2016 RMB'M (Audited)
Interest-bearing bank loans and other borrowings		**(1,453.7)**	(1,212.6)
Less: Pledged deposits	(i)	**823.2**	778.4
Cash and cash equivalents	(ii)	**772.1**	546.5
Net cash		**141.6**	112.3
Total assets		**4,764.3**	3,923.6
Shareholders' equity		**1,640.9**	1,468.1
Gearing ratio	(iii)	**N/A**	N/A
Solvency ratio	(iv)	**34.4%**	37.4%

Notes:

(i) All denominated in RMB.

(ii) 91.2% (31 December 2016: 75.1%) of which are denominated in RMB.

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

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

The Group is dedicated to maintain its overall liquidity by maximising the cashflows generated from operating activities and increasing the facilities with banks to reserve sufficient funding to support its business development, in particular to meet the Group's strategy of building the global supply chain by completing the construction of the New Factories. As at 30 June 2017, the Group had outstanding borrowings of RMB1,453.7 million (31 December 2016: RMB1,212.6 million), of which RMB870.4 million (31 December 2016: RMB761.5 million) was due within one year and the remaining RMB583.3 million (31 December 2016: RMB451.1 million) due over one year. As at 30 June 2017, except for two bank loans of a total of RMB67.0 million which were denominated in RMB (31 December 2016: RMB48.7 million) and bore interest at 4.4% to 5.0% (31 December 2016: 5.0%) per annum, all the borrowings of the Group were denominated in EUR and bore interest at floating rates with reference to London Interbank Offered Rate or The Euro Interbank Offered Rate.

As at 30 June 2017, the Group had pledged 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 EUR211.4 million, equivalent to approximately RMB1,638.0 million (31 December 2016: EUR146.8 million, equivalent to approximately RMB1,072.4 million) and the time deposits that were placed in the PRC of RMB823.2 million (31 December 2016: RMB778.4 million) for the banking facilities granted to the Group for the financing of the daily working capital and capital expenditure plans of the Group.

FOREIGN EXCHANGE RISK

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

Starting from 2016, 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 depreciation.

As at 30 June 2017, the Group had a EUR against RMB capped forward contract of EUR5.0 million (31 December 2016: EUR5.0 million) to hedge certain of its EUR denominated indebtedness. The management monitors closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Group entered into interest rate swap contracts with bank, effective from 1 October 2007 and 30 September 2015, of a notional amount of EUR2.5 million and EUR19.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 4.45% and 2.77% per annum, respectively. The aforesaid derivative financial instrument will expire in October 2017 and June 2020, respectively.

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 bill 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 30 June 2017, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounted to RMB18.9 million (31 December 2016: RMB19.1 million).

As at 30 June 2017, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries and the building of the New Factories of a total of RMB476.2 million (31 December 2016: RMB461.3 million).

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
30 June 2017	2,125	5	461	69	97	2,757
31 December 2016	1,993	4	452	62	120	2,631

For the 2017 Interim Period, total employee costs, including Directors' emoluments, amounted to RMB219.3 million (2016 Interim Period: RMB197.6 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

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 of the Company (the "**Shares**") during the 2017 Interim Period (2016 Interim Period: Nil).

DIVIDEND DISTRIBUTION

The Board does not recommend a payment of an interim dividend for the 2017 Interim Period (2016 Interim Period: Nil).

DIRECTORS' SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE

The Board is committed to raising the standard of corporate governance within the Group at all times and believes that good corporate governance helps the Group to safeguard the interests of the shareholders of the Company (the "**Shareholders**") and improve its performance.

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

In the opinion of the Directors, the Company has complied with the respective code provisions of the CG Code during the 2017 Interim Period and up to the date of this report.

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

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code, were as follows:

Name	Number of Shares or underlying Shares[1]	Nature of interest	Approximate percentage of issued share capital[6]
Mr. Yan Weibin ("**Mr. Yan**")	1,200,000 (L)	Beneficial owner[2]	0.09%
	106,539,085 (L)	Interest of a controlled corporation[3]	8.54%
Mr. Lin Jung-Chin ("**Mr. Lin**")	1,200,000 (L)	Beneficial owner[2]	0.09%
	551,500 (L)	Interest of spouse[4]	0.04%
Mr. Bartle van der Meer ("**Mr. van der Meer**")	1,200,000 (L)	Beneficial owner[2]	0.09%
	162,205,230 (L)	Interest of a controlled corporation[5]	13.00%
Ms. Ng Siu Hung	1,000,000 (L)	Beneficial owner[2]	0.08%
Mr. Tsai Chang-Hai	300,000 (L)	Beneficial owner[2]	0.02%
Mr. Zeng Xiaojun	300,000 (L)	Beneficial owner[2]	0.02%
Ms. Ho Mei-Yueh	300,000 (L)	Beneficial owner[2]	0.02%
Mr. Jason Wan	300,000 (L)	Beneficial owner[2]	0.02%
Mr. Lau Chun Fai Douglas	300,000 (L)	Beneficial owner[2]	0.02%

Notes:

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

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

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

4. The Shares are held by Ms. Lin O, Li-Chu, the spouse of Mr. Lin. Mr. Lin is therefore deemed to be interested in 551,500 Shares under the SFO.

5. The Shares are held by Dutch Dairy Investments HK Limited, which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is owned as to 50.00% by PMH Investments B.V., which is beneficially owned as to 60.10% by Mr. van der Meer and 39.90% by Mr. Durk Andries van der Meer, being the son of Mr. van der Meer. Mr. van der Meer is therefore deemed to be interested in 162,205,230 Shares under the SFO.

6. As at 30 June 2017, the total number of the issued Shares of the Company was 1,247,732,530.

Save as disclosed above, as at 30 June 2017, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2017, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	Number of ordinary share	Nature of interest	Approximate percentage of issued share capital
Ausnutria BVI (Note 1)	106,539,085	Beneficial owner	8.54%
BioEngine Capital Inc. ("**BioEngine Capital**") (Note 2)	123,355,375	Beneficial owner	9.89%
Center Laboratories, Inc. ("**Center Lab**") (Note 2)	361,738,129 144,193,643	Beneficial owner Interest of controlled corporations	28.99% 11.56%
DDI (Notes 3 and 4)	162,205,230	Interest of controlled corporation	13.00%
Dutch Dairy Investments HK Limited (Note 4)	162,205,230	Beneficial owner	13.00%
Fan Deming BV (Notes 5 and 7)	162,205,230	Interest of controlled corporation	13.00%
Manids B.V. (Notes 3 and 6)	162,205,230	Interest of controlled corporation	13.00%
PMH Investments BV (Notes 3 and 7)	162,205,230	Interest of controlled corporation	13.00%
Reditus Holding BV (Notes 7 and 8)	162,205,230	Interest of controlled corporation	13.00%
Ms. Chen Miaoyuan (Note 10)	106,539,085	Interest of spouse	8.54%
Mr. Durk Andries van der Meer (Notes 8 and 9)	162,205,230	Interest of controlled corporation	13.00%
Mr. Ignatius Petrus Jorna (Note 6)	162,205,230	Interest of controlled corporation	13.00%

Notes:

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

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

3. DDI is owned as to 50.00% by each of PMH Investments BV and Manids B.V.

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

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

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

7. PMH Investments BV is owned as to 60.10% by Fen Deming BV and 39.90% by Reditus Holding BV.

8. Reditus Holding BV is wholly-owned by Mr. Durk Andries van der Meer.

9. Mr. Durk Andries van der Meer is the son of Mr. van der Meer.

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

Save as disclosed above, as at 30 June 2017, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" 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

A share option scheme was conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009 (the "**Share Option Scheme**") whereby the Board was authorised, at their discretion, to invite, among other eligible participants, employees of the Group (including proposed employees, whether full-time or part-time and including any executive Director), non-executive Directors (including independent non-executive Directors), advisers and consultants, to take up options to subscribe for the Shares. The purpose of the Share Option Scheme is to enable the Company to grant options to the selected participants as incentives or rewards for their contribution to the Group. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 24 September 2009.

The total number of the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the total number of the Shares in issue as at the date of approval of the Share Option Scheme (i.e. 100,000,000 Shares), which represents approximately 8.01% of the issued Shares as at 30 June 2017.

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 aggregate exceed 30% of the issued share capital of the Company from time to time.

Present status of the Share Option Scheme

Particulars and movements of share options under the Share Option Scheme during the 2017 Interim Period were as follows:

				Number of options					
Grantees	Date of grant	Exercise period	Exercise price per option	Outstanding as at 1 January 2017	Granted during the 2017 Interim Period	Exercised during the 2017 Interim Period	Cancelled during the 2017 Interim Period	Lapsed during the 2017 Interim Period	Outstanding as at 30 June 2017
Directors									
Mr. Yan Weibin	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,200,000	–	–	–	–	1,200,000
Mr. Lin Jung-Chin	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,200,000	–	–	–	–	1,200,000
Mr. Bartle van der Meer	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,200,000	–	–	–	–	1,200,000
Ms. Ng Siu Hung	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	1,000,000	–	–	–	–	1,000,000
Mr. Tsai Chang-Hai	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	–	–	–	300,000
Mr. Zeng Xiaojun	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	–	–	–	300,000
Ms. Ho Mei-Yueh	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	–	–	–	300,000
Mr. Jason Wan	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	–	–	–	300,000
Mr. Lau Chun Fai Douglas	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	300,000	–	–	–	–	300,000
Sub-total				6,100,000	–	–	–	–	6,100,000
Other									
Eligible participants	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	28,500,000	–	–	–	–	28,500,000
Eligible participants	06/07/2017	06/07/2017 – 20/01/2021	HK$2.45	12,015,000	–	–	–	–	12,015,000
Total				46,615,000	–	–	–	–	46,615,000

Notes:

1. On 21 January 2016 and 6 July 2016, options to subscribe respectively for 34,800,000 Shares (the "**First Batch of Options Granted**") and 12,015,000 Shares (the "**Second Batch of Options Granted**") of HK$0.10 each were granted to certain eligible participants pursuant to the Share Option Scheme. Further details of the First Batch of Options Granted and the Second Batch of Options Granted are set out in the announcements of the Company dated 21 January 2016 and 6 July 2016 respectively.

2. The closing prices of the Shares immediately before the dates of grant were HK$2.32 and HK$2.25 per Share respectively. All options granted pursuant to the Share Option Scheme in 2016 shall vest in the grantees in the following manner:

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

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

3. Subsequent to the 2017 Interim Period, on 4 July 2017, options to subscribe for 8,329,000 Shares were exercised, of which 2,033,000 options were exercised by the Directors.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference. The audit committee comprises three independent non-executive Directors, namely, Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas (Chairman). The unaudited interim condensed consolidated financial statements of the Group for the 2017 Interim Period have been reviewed by the audit committee.

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	4	**1,702,947**	1,251,011
Cost of sales		**(989,962)**	(740,059)
Gross profit		**712,985**	510,952
Other income and gains	4	**20,341**	24,985
Selling and distribution expenses		**(371,368)**	(287,807)
Administrative expenses		**(128,279)**	(83,655)
Other expenses		**(8,605)**	(13,008)
Finance costs	5	**(9,029)**	(8,769)
Share of profits of associates		**5,828**	2,124
Profit before tax	6	**221,873**	144,822
Income tax expense	7	**(53,869)**	(38,644)
PROFIT FOR THE PERIOD		**168,004**	106,178
Attributable to:			
Owners of the parent		**153,282**	101,546
Non-controlling interests		**14,722**	4,632
		168,004	106,178
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted	9		
Basic			
– For profit for the period (RMB cents)		**12.28**	8.14
Diluted			
– For profit for the period (RMB cents)		**12.22**	8.14

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD		168,004	106,178
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		15,353	(2,356)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		15,353	(2,356)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on the defined benefit plan		355	(4,866)
Income tax effect		(133)	1,168
Net other comprehensive income/(loss) not being reclassified to profit or loss in subsequent periods		222	(3,698)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		15,575	(6,054)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		183,579	100,124
Attributable to:			
Owners of the parent		168,847	96,261
Non-controlling interests		14,732	3,863
		183,579	100,124

Interim Condensed Consolidated Statement of Financial Position

30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,098,305	830,891
Prepaid land lease payments		28,419	28,808
Goodwill		145,060	135,069
Other intangible assets		168,016	150,648
Investments in associates		61,422	52,103
Deposit paid	11	67,232	35,000
Deferred tax assets		180,193	154,085
Total non-current assets		1,748,647	1,386,604
CURRENT ASSETS			
Inventories	12	970,671	800,259
Trade and bills receivables	13	221,711	216,990
Prepayments, deposits and other receivables		225,869	194,834
Derivative financial instruments		610	–
Tax recoverable		1,443	–
Pledged deposits	14	823,241	778,427
Cash and cash equivalents	14	772,141	546,532
Total current assets		3,015,686	2,537,042
CURRENT LIABILITIES			
Trade payables	15	306,560	151,934
Other payables and accruals		1,028,225	797,007
Derivative financial instruments		1,840	2,482
Interest-bearing bank loans and other borrowings		870,361	761,455
Tax payable		140,890	115,711
Total current liabilities		2,347,876	1,828,589
NET CURRENT ASSETS		667,810	708,453
TOTAL ASSETS LESS CURRENT LIABILITIES		2,416,457	2,095,057

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,416,457	2,095,057
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		583,315	451,155
Defined benefit plan		5,859	6,138
Deferred tax liabilities		50,171	48,113
Total non-current liabilities		639,345	505,406
Net assets		1,777,112	1,589,651
EQUITY			
Equity attributable to owners of the parent			
Issued capital	16	108,455	108,455
Reserves		1,532,455	1,359,614
		1,640,910	1,468,069
Non-controlling interests		136,202	121,582
Total equity		1,777,112	1,589,651

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium account RMB'000	Share option reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Six months ended 30 June 2017 (unaudited)										
At 1 January 2017	108,455	911,574	11,793	(317,246)	84,243	(91,518)	760,768	1,468,069	121,582	1,589,651
Profit for the period	–	–	–	–	–	–	153,282	153,282	14,722	168,004
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	–	15,343	–	15,343	10	15,353
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	–	222	222	–	222
Total comprehensive income for the period	–	–	–	–	–	15,343	153,504	168,847	14,732	183,579
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(5,869)	(5,869)
Acquisition of a subsidiary (note 22)	–	–	–	–	–	–	–	–	5,757	5,757
Equity-settled share option arrangements (note 19)	–	–	3,994	–	–	–	–	3,994	–	3,994
Transfer from retained profits	–	–	–	–	9,800	–	(9,800)	–	–	–
At 30 June 2017	108,455	911,574*	15,787*	(317,246)*	94,043*	(76,175)*	904,472*	1,640,910	136,202	1,777,112
Six months ended 30 June 2016 (unaudited)										
At 1 January 2016	108,455	945,159	–	(302,835)	64,237	(65,244)	562,907	1,312,679	14,864	1,327,543
Profit for the period	–	–	–	–	–	–	101,546	101,546	4,632	106,178
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(1,587)	–	(1,587)	(769)	(2,356)
Remeasurement losses on the defined benefit plan, net of tax	–	–	–	–	–	–	(3,698)	(3,698)	–	(3,698)
Total comprehensive income/(loss) for the period	–	–	–	–	–	(1,587)	97,848	96,261	3,863	100,124
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(4,153)	(4,153)
Acquisition of non-controlling interest	–	–	–	(3,763)	–	–	–	(3,763)	746	(3,017)
Equity-settled share option arrangements (note 19)	–	–	6,434	–	–	–	–	6,434	–	6,434
Transfer from retained profits	–	–	–	–	3,170	–	(3,170)	–	–	–
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	6,100	6,100
At 30 June 2016	108,455	945,159	6,434	(306,598)	67,407	(66,831)	657,585	1,411,611	21,420	1,433,031

* These reserve accounts comprise the consolidated reserves of RMB1,532,455,000 in the interim condensed consolidated statement of financial position as at 30 June 2017.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		221,873	144,822
Adjustments for:			
Finance costs	5	9,029	8,769
Share of profits of associates		(5,828)	(2,124)
Interest income	4	(15,963)	(19,396)
Depreciation and amortisation	6	35,796	29,402
Write-down of inventories to net realisable value	6	2,609	8,283
Write-off of trade receivables	6	718	3,642
Equity-settled share option expense	19	3,994	6,434
Derivative instruments – transactions not qualifying as hedges		(610)	–
		251,618	179,832
Increase in inventories		(168,681)	(246,150)
Decrease in trade and bills receivables		675	26,366
Increase in prepayments, deposits and other receivables		(84,225)	(78,019)
Increase in trade payables		151,846	60,276
Increase in other payables and accruals		225,660	135,523
Cash generated from operations		376,893	77,828
Interest received		36,788	15,697
Interest paid		(9,586)	(6,423)
Mainland China corporate income tax paid		(50,906)	(31,976)
Overseas tax refunded/(paid)		(2,074)	1,368
Net cash flows from operating activities		351,115	56,494
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to items of property, plant and equipment		(247,891)	(71,829)
Additions to other intangible assets		(21,220)	(6,867)
Proceeds from disposal of items of property, plant and equipment		–	68
Proceeds from disposal of other intangible assets		–	134
Acquisition of a subsidiary	22	(7,470)	–
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(358,140)	(236,391)
Decrease/(increase) in pledged time deposits		(44,814)	38,961
Net cash flows used in investing activities		(679,535)	(275,924)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		**317,227**	133,306
Repayment of bank loans and other borrowings		**(130,001)**	(13,755)
Acquisition of non-controlling interests		**–**	(3,017)
Contributions from non-controlling shareholders		**–**	6,100
Dividends paid to non-controlling shareholders		**(5,869)**	(4,153)
Interest element of finance lease rental payments		**(145)**	(799)
Net cash flows from financing activities		**181,212**	117,682
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(147,208)**	(101,748)
Cash and cash equivalents at beginning of period		**448,262**	307,620
Effect of foreign exchange rate changes, net		**14,677**	(30,585)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**315,731**	175,287
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	14	**315,731**	175,287
Non-pledged time deposits with original maturity of more than three months when acquired		**456,410**	422,381
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position		**772,141**	597,668
Non-pledged time deposits with original maturity of more than three months when acquired		**(456,410)**	(422,381)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows		**315,731**	175,287

1. CORPORATE INFORMATION

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

The Company acts as an investment holding company of the Group. The Group is principally engaged in the dairy industry with activities ranging from research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands and other overseas countries. The Group also commenced the business in research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC, Australia and New Zealand in 2016.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting issued by the International Accounting Standards Board ("**IASB**").

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016. The Interim Condensed Consolidated Financial Statements are presented in RMB and all values are rounded to nearest thousand (RMB'000), except when otherwise indicated.

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations as of 1 January 2017 noted below.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures (continued)

In the current interim period, the Group has applied, for the first time, the following new or revised standards (the "**New or Revised IFRSs**") issued by the IASB.

Amendments to IAS 7	Statement of Cash Flows: Disclosure Initiative
Amendments to IAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The adoption of the New or Revised IFRSs did not have significant impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had three reportable operating segments for the six months ended 30 June 2017 as follows:

(a) the Ausnutria segment comprises the manufacture and sale of own-branded cow milk infant formula products in Mainland China and Hong Kong;

(b) the Ausnutria Hyproca segment comprises the manufacture of dairy products in the Netherlands for sale to its worldwide customers as well as the sale of its own-branded goat milk infant formula products in Mainland China and other overseas countries; and

(c) the Nutrition and Others segment comprises mainly the manufacture of nutrition products in Australia for sale to its worldwide customers as well as the marketing and distribution of its own-branded functional liquid milk products in Mainland China.

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

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

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

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2017 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Nutrition and Others RMB'000	Total RMB'000
SEGMENT REVENUE				
Sales to external customers	595,545	1,065,984	41,418	1,702,947
Intersegment sales	16,843	130,466	–	147,309
	612,388	1,196,450	41,418	1,850,256
Reconciliation:				
Elimination of intersegment sales				(147,309)
Revenue from operations				1,702,947
SEGMENT RESULTS	119,359	133,160	(18,368)	234,151
Reconciliation:				
Elimination of intersegment results				(2,325)
Interest income				15,963
Finance costs				(9,029)
Corporate and other unallocated expenses				(16,887)
Profit before tax				221,873
OTHER SEGMENT INFORMATION				
Impairment losses recognised in profit or loss	–	3,327	–	3,327
Share of profits of associates	–	5,828	–	5,828
Depreciation and amortisation	7,680	22,450	5,666	35,796
Capital expenditure*	28,593	178,592	61,926	269,111

As at 30 June 2017 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Nutrition and Others RMB'000	Total RMB'000
SEGMENT ASSETS	657,858	2,393,248	341,952	3,393,058
Reconciliation:				
Elimination of intersegment receivables				(224,107)
Corporate and other unallocated assets				1,595,382
Total assets				4,764,333
SEGMENT LIABILITIES	574,392	1,053,468	129,792	1,757,652
Reconciliation:				
Elimination of intersegment payables				(224,107)
Corporate and other unallocated liabilities				1,453,676
Total liabilities				2,987,221

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2016 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Nutrition and Others RMB'000	Total RMB'000
SEGMENT REVENUE				
Sales to external customers	434,126	816,885	–	1,251,011
Intersegment sales	–	112,464	–	112,464
	434,126	929,349	–	1,363,475
Reconciliation:				
Elimination of intersegment sales				(112,464)
Revenue from operations				1,251,011
SEGMENT RESULTS	67,216	87,851	–	155,067
Reconciliation:				
Elimination of intersegment results				(4,927)
Interest income				19,396
Finance costs				(8,769)
Corporate and other unallocated expenses				(15,945)
Profit before tax				144,822
OTHER SEGMENT INFORMATION				
Impairment losses recognised in profit or loss	–	11,925	–	11,925
Share of profits of associates	–	2,124	–	2,124
Depreciation and amortisation	5,077	24,325	–	29,402
Capital expenditure*	5,867	72,829	–	78,696

As at 31 December 2016 (audited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Nutrition and Others RMB'000	Total RMB'000
SEGMENT ASSETS	709,576	1,932,040	271,303	2,912,919
Reconciliation:				
Elimination of intersegment receivables				(314,232)
Corporate and other unallocated assets				1,324,959
Total assets				3,923,646
SEGMENT LIABILITIES	422,541	948,359	64,717	1,435,617
Reconciliation:				
Elimination of intersegment payables				(314,232)
Corporate and other unallocated liabilities				1,212,610
Total liabilities				2,333,995

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

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	**1,162,583**	807,117
European Union	**312,371**	271,842
Middle East	**60,096**	54,726
United States	**55,895**	50,671
Australia and New Zealand	**40,411**	3,171
Others	**71,591**	63,484
	1,702,947	1,251,011

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

(b) Non-current assets

	30 June 2017	31 December 2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	**232,417**	177,430
The Netherlands	**1,069,696**	852,094
Australia	**145,028**	143,247
New Zealand	**121,313**	59,748
	1,568,454	1,232,519

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

Information about major customers

During the six months ended 30 June 2017, there was no revenue from a single external customer which accounted for 10% or more of the Group's total revenue (six months ended 30 June 2016: Nil).

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of the Group's revenue, other income and gains is as follows:

	Note	Six months ended 30 June 2017 RMB'000 (Unaudited)	 2016 RMB'000 (Unaudited)
REVENUE			
Sale of goods		**1,702,947**	1,251,011
OTHER INCOME AND GAINS			
Interest income		**15,963**	19,396
Government incentives	(i)	**3,014**	964
Management fee income from an associate		**148**	1,173
Others		**1,216**	3,452
Total		**20,341**	24,985

(i) There were no unfulfilled conditions or contingencies attaching to these incentives.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June 2017 RMB'000 (Unaudited)	 2016 RMB'000 (Unaudited)
Interest on bank loans, overdrafts and other loans	**11,304**	8,790
Interest on finance leases	**280**	799
Total interest expense on financial liabilities not at fair value through profit or loss	**11,584**	9,589
Less: Interest capitalised	**(1,790)**	(2,367)
	9,794	7,222
Unrealised loss/(gain) on an interest rate swap	**(765)**	1,547
Total	**9,029**	8,769

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2017 **RMB'000** **(Unaudited)**	2016 RMB'000 (Unaudited)
Cost of inventories sold	**987,353**	731,776
Write-down of inventories to net realisable value	**2,609**	8,283
Cost of sales	**989,962**	740,059
Depreciation	**26,916**	23,824
Amortisation of lease payments for land use rights	**389**	28
Amortisation of other intangible assets	**8,491**	5,550
Minimum lease payments under operating leases for buildings	**5,866**	5,253
Write-off of trade receivables	**718**	3,642
Auditors' remuneration	**3,382**	2,779
Research and development costs	**14,270**	5,984
Foreign exchange losses	**1,121**	3,437
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**200,896**	171,574
Pension scheme contributions*	**14,387**	19,618
Equity-settled share option expense	**3,994**	6,434
	219,277	197,626

* As at 30 June 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2016: Nil).

7. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

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 the CIT at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the USA tax laws, enterprises are subject to the USA CIT rate of 34%. 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 CIT rate of 17%.

Ausnutria China was designated as a High-tech Enterprise and was granted a preferential CIT rate of 15% for the three years ending 31 December 2019.

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – charge for the period		
The Netherlands	**573**	1,570
Mainland China	**75,743**	52,605
Deferred income tax	**(22,447)**	(15,531)
Total	**53,869**	38,644

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,247,732,530 (six months ended 30 June 2016: 1,247,732,530) in issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period 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 period, 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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**153,282**	101,546

Shares

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,247,732,530**	1,247,732,530
Effect of dilution – weighted average number of ordinary shares:		
Share options	**6,444,651**	–
	1,254,177,181	1,247,732,530

No adjustment had been made to the basic earnings per share amounts presented for the six months ended 30 June 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group's additions to property, plant and equipment amounted to RMB247,891,000 (six months ended 30 June 2016: RMB71,829,000), of which RMB210,818,000 (six months ended 30 June 2016: RMB45,700,000) was related to the construction of the New Factories.

The carrying amount of the New Factories as at 30 June 2017 was RMB638,648,000 (31 December 2016: RMB403,221,000). The amount of borrowing costs capitalised during the six months ended 30 June 2017 was RMB1,790,000 (six months ended 30 June 2016: RMB2,367,000). The weighted average rate used to determine the amount of the borrowing costs eligible for capitalisation was 1.6% (six months ended 30 June 2016: 2.4%), which is the effective interest rate of the specific borrowings.

As at 30 June 2017, certain of the Group's land and buildings, and plant and equipment that were attributed to Ausnutria Dutch Holding B.V. and its subsidiaries (the "**Ausnutria Hyproca Group**") and located in the Netherlands with net carrying amounts of EUR20,417,000 (equivalent to approximately RMB158,215,000) (31 December 2016: EUR19,892,000, equivalent to approximately RMB145,347,000) and EUR89,174,000 (equivalent to approximately RMB691,062,000) (31 December 2016: EUR49,733,000, equivalent to approximately RMB363,389,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

As at 30 June 2017, the Group's land included in property, plant and equipment with a net carrying amount of EUR7,354,000 (equivalent to approximately RMB56,991,000) (31 December 2016: EUR7,354,000, equivalent to approximately RMB53,668,000), AUD1,990,000 (equivalent to approximately RMB10,368,000) (31 December 2016: AUD1,990,000, equivalent to approximately RMB9,981,000) and NZD3,000,000 (equivalent to approximately RMB14,871,000) (31 December 2016: NZD3,000,000, equivalent to approximately RMB14,492,000) are situated in the Netherlands, Australia and New Zealand, respectively, and are held as freehold land.

11. DEPOSIT PAID

Balance mainly represented deposit paid for the purchase of a plot of land with a site area of approximately 34,425 square meters in Changsha, the PRC, for the building of the headquarters of the Group in the PRC. Pursuant to the land purchase agreement, the total cost of the land amounted to RMB115,700,000.

12. INVENTORIES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Raw materials	175,229	239,805
Finished goods	790,855	555,059
Others	4,587	5,395
Total	970,671	800,259

As at 30 June 2017, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR83,392,000 (equivalent to approximately RMB646,255,000) (31 December 2016: EUR63,841,000, equivalent to approximately RMB466,473,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

13. TRADE AND BILLS RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	194,448	161,943
Bills receivable	27,263	55,047
Total	221,711	216,990

The Group normally allows a credit period from 1 to 12 months (31 December 2016: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from associates of EUR1,064,000 (equivalent to approximately RMB8,246,000) (31 December 2016: EUR624,000, equivalent to approximately RMB4,559,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

13. TRADE AND BILLS RECEIVABLES (continued)

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 3 months	183,903	151,471
3 to 6 months	8,198	2,709
6 months to 1 year	1,258	5,510
Over 1 year	1,089	2,253
Total	194,448	161,943

There was no provision for impairment as at 30 June 2017 (31 December 2016: Nil).

As at 30 June 2017, certain of the Group's trade receivables (including intra-group trade receivables of the Ausnutria Hyproca Group) that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR18,379,000 (equivalent to approximately RMB142,430,000 (31 December 2016: EUR13,305,000, equivalent to approximately RMB97,217,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

14. CASH AND CASH EQUIVALENTS AND OTHER BANK DEPOSITS AND PLEDGED DEPOSITS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Cash and bank balances	315,731	448,262
Time deposits	1,279,651	876,697
	1,595,382	1,324,959
Less: Pledged deposits	(823,241)	(778,427)
Cash and cash equivalents	772,141	546,532

14. CASH AND CASH EQUIVALENTS AND OTHER BANK DEPOSITS AND PLEDGED DEPOSITS (continued)

As at 30 June 2017, the Group's cash and bank balances denominated in RMB amounted to RMB248,147,000 (31 December 2016: RMB312,225,000). In addition, all the time deposits of the Group were denominated in RMB. 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.

15. TRADE PAYABLES

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 12 months	**299,936**	151,001
Over 12 months	**6,624**	933
Total	**306,560**	151,934

Included in the Group's trade payables are amounts due to associates of EUR3,992,000 (equivalent to approximately RMB30,936,000) (31 December 2016: EUR1,603,000, equivalent to approximately RMB11,712,000), which are repayable within 45 days.

Trade payables are interest-free and are normally settled within 12 months (31 December 2016: within 12 months).

16. SHARE CAPITAL

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
1,247,732,530 (31 December 2016: 1,247,732,530) ordinary shares of HK$0.10 each	**124,773**	**108,455**	124,773	108,455

During the period, there was no movement in share capital (six months ended 30 June 2016: Nil).

Subsequent to the end of the reporting period, on 4 July 2017, a total of 8,329,000 share options were exercised, resulting in the issuance of 8,329,000 ordinary shares with proceeds from the issuance of shares amounted to HK$20,406,050 (equivalent to approximately RMB17,711,000) was received by the Company.

17. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

18. PLEDGE OF ASSETS

Details of the Group's assets that were pledged as securities for the Group's banking facilities are set out in notes 10, 12, 13 and 14 to the Interim Condensed Consolidated Financial Statements.

19. SHARE OPTION SCHEME

The Group 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. Eligible participants of the Share Option Scheme are the directors, and any person belonging to any of the following classes of participants:

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

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

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

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

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

19. SHARE OPTION SCHEME (continued)

The Share Option Scheme became effective on 19 September 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option 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 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Group are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive directors who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value of over HK$5 million (based on the price of the Company's shares at the date of grant), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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 Share Option Scheme, if earlier.

The following share options were outstanding under the Share Option Scheme during the period:

	2017		2016	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**2.45**	**46,615**	–	–
Granted during the period	**–**	**–**	2.45	34,800
Lapsed during the period	**–**	**–**	2.45	(200)
At 30 June	**2.45**	**46,615**	2.45	34,600

No share options were exercised for during the period.

19. SHARE OPTION SCHEME (continued)

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

2017	Number of options '000	Exercise price HK$ per share	Exercise period
	34,600	2.45	20-1-2016 to 20-1-2021
	12,015	2.45	06-7-2016 to 20-1-2021
	46,615		

The fair value of the share options estimated at the date of grant was HK$27,477,000, of which the Group recognised a share option expense of HK$4,529,000 (equivalent to approximately RMB3,994,000) (six months ended 30 June 2016: HK$7,671,000, equivalent to approximately RMB6,434,000) during the period ended 30 June 2017.

The fair value at grant date is estimated using a binomial tree model, taking into account the terms and conditions upon which the options were granted. The contractual life of options granted is 4.5-5 years. There is no cash settlement of the options. The fair value of options granted during the year 2016 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	0.00
Expected volatility (%)	47.45-49.09
Risk-free interest rate (%)	1.36-1.6
Expected life of share options (year)	5
Weighted average share price (HK$)	2.45

At the end of the reporting period, the Company had 46,615,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,615,000 additional ordinary shares of the Company and additional share capital of HK$4,661,500 (before issue expenses).

Subsequent to the end of the reporting period, on 4 July 2017, a total of 8,329,000 share options were exercised, resulting in the issuance of 8,329,000 ordinary shares with proceeds from the issuance of shares amounted to HK$20,406,050 (equivalent to approximately RMB17,711,000), was received by the Company.

20. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	8,265	8,048
In the second to fifth years, inclusive	10,595	10,825
After five years	–	198
Total	18,860	19,071

21. COMMITMENTS

In addition to the operating lease commitment detailed in note 20 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machineries	343,875	335,512
Buildings	132,282	125,820
Total	476,157	461,332

22. BUSINESS COMBINATION

Pursuant to the agreements and supplementary agreements entered into between the Group and the Youluck Vendors on 23 March 2017 and 28 April 2017, respectively, the Group agreed to purchase and the Youluck Vendors agreed to sell of an aggregate 60.0% equity interest in Youluck International Inc. 權鋒國際股份有限公司, which is principally engaged in the marketing and distribution of infant formula and infant food products and the trading of nutrition products in Taiwan, at a cash consideration of TWD45.3 million (equivalent to approximately RMB10.4 million). The Youluck Acquisition was completed on 28 April 2017.

The Group has elected to measure the non-controlling interest in Youluck at the non-controlling interest's proportionate share of Youluck's identifiable net assets.

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

	Fair value recognised on acquisition RMB'000 (Unaudited)
Inventories	7,231
Prepayments, trade and other receivables	7,886
Cash and cash equivalents	2,892
Property, plant and equipment	5
Intangible assets	7,070
Trade and other payables	(4,258)
Bank and other borrowings	(5,233)
Deferred tax liabilities	(1,202)
Total identifiable net assets at fair value	14,391
Non-controlling interest	(5,757)
Goodwill on acquisition	1,728
Satisfied by cash	10,362

22. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition of Youluck are as follows:

	RMB'000 (Unaudited)
Cash consideration	(10,362)
Cash and cash equivalents acquired	2,892
Net outflow of cash and cash equivalents included in cash flows from investing activities	(7,470)

Since the acquisition, Youluck contributed revenue and profit to the Group for the period ended 30 June 2017 of RMB6,677,000 and RMB1,320,000, respectively.

Had the combination taken place at the beginning of the period, the revenue from continuing operations of the Group and the profit of the Group for the period would have been RMB1,713,717,000 and RMB169,017,000, respectively.

23. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Interim Condensed Consolidated Financial Statements, the Group had the following material transactions with related parties during the period:

		Six months ended 30 June	
	Notes	**2017 RMB'000 (Unaudited)**	2016 RMB'000 (Unaudited)
Purchases of products from the associates	(i)	**112,421**	85,672
Sales of products to the associates	(i)	**35,468**	10,404
Management fees received from the associates	(ii)	**148**	1,173
Management fees paid to BioEngine Technology Development Inc.		**–**	1,920

Notes:

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

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

23. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

Details of the trade balances with the associates as at the end of the reporting period are disclosed in notes 13 and 15 to the Interim Condensed Consolidated Financial Statements.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	**14,416**	7,693
Retirement benefit contributions	**553**	325
Equity-settled share-based payment expense	**3,387**	1,674
Total	**18,356**	9,692

24. 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:

30 June 2017

Financial assets

	Financial assets at fair value through profit or loss RMB'000 (Unaudited)	Loans and receivables RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Trade and bills receivables	–	221,711	221,711
Financial assets included in prepayments, deposits and other receivables	–	7,605	7,605
Derivative financial instruments	610	–	610
Pledged deposits	–	823,241	823,241
Cash and cash equivalents	–	772,141	772,141
Total	610	1,824,698	1,825,308

24. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000 (Unaudited)	Financial liabilities at amortised cost RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Trade payables	–	306,560	306,560
Financial liabilities included in other payables and accruals	–	167,354	167,354
Derivative financial instruments	1,840	–	1,840
Interest-bearing bank loans and other borrowings	–	1,453,676	1,453,676
Total	1,840	1,927,590	1,929,430

31 December 2016

Financial assets

	Loans and receivables RMB'000 (Audited)
Trade and bills receivables	216,990
Financial assets included in prepayments, deposits and other receivables	28,429
Pledged deposits	778,427
Cash and cash equivalents	546,532
Total	1,570,378

24. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000 (Audited)	Financial liabilities at amortised cost RMB'000 (Audited)	Total RMB'000 (Audited)
Trade payables	–	151,934	151,934
Financial liabilities included in other payables and accruals	–	135,795	135,795
Derivative financial instruments	2,482	–	2,482
Interest-bearing bank loans and other borrowings	–	1,212,610	1,212,610
Total	2,482	1,500,339	1,502,821

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these 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	
	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)
Financial assets				
Derivative financial instruments	**610**	–	**610**	–
Financial liabilities				
Derivative financial instruments	**1,840**	2,482	**1,840**	2,482
Interest-bearing bank loans and other borrowings	**1,453,676**	1,212,610	**1,440,771**	1,203,007
	1,455,516	1,215,092	**1,442,611**	1,205,489

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

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the 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 loans 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 loans and other borrowings as at 30 June 2017 was assessed to be insignificant.

The Group enters into derivative financial instruments with various financial institutions such as ABN AMRO Bank N.V., Rabobank and the Hongkong and Shanghai Banking Corporation Limited. Derivative financial instruments, including interest rate swaps and forward currency contract are measured using valuation techniques similar to swap models and forward pricing, using present value calculation. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of interest rate swaps and forward currency contract are the same as their fair values.

As at 30 June 2017, the mark to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2017 (unaudited)

	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	–	610	–	610

As at 31 December 2016 (audited)

	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	–	–	–	–

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 30 June 2017 (unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	1,840	–	1,840

As at 31 December 2016 (audited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	2,482	–	2,482

During the reporting period, 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 (six months ended 30 June 2016: Nil).

26. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, the Group has the following events which took place subsequent to the end of the reporting period:

(a) On 22 May 2017, Ausnutrition Care entered into a share purchase deed with the ADP Vendor to acquire the entire equity interest in ADP Holdings. The consideration for the ADP Acquisition amounted to AUD23.7 million (equivalent to approximately RMB121.6 million), was satisfied by cash of AUD10.0 million (equivalent to approximately RMB51.3 million) and by the issuance of 13.9 million new shares, representing 30% of the enlarged issued capital, of Ausnutrition Care. The ADP Group is principally engaged in the manufacturing, packaging and sale of dairy and milk powder products and related research and development activities with production facilities and business located at the Victoria state, Australia.

Upon the completion of the ADP Acquisition, ADP Holdings will be wholly-owned by Ausnutrition Care. The Company's interest in Ausnutrition Care will be diluted to 70.0% as a result of the issuance of the Ausnutrition Care Shares as part of the ADP Consideration. As a result, Ausnutrition Care and ADP Holdings will become indirect non-wholly owned subsidiaries of the Company.

Further details regarding the ADP Acquisition are set out in the "Management Discussion and Analysis" section of this report and the announcement of the Company dated 22 May 2017. The ADP Acquisition was completed subsequent to the reporting period on 5 July 2017.

(b) On 22 May 2017, the Group entered into a share purchase deed with the Ozfarm Vendors, pursuant to which the Group agreed to purchase and the Ozfarm Vendors agreed to sell certain of the existing shares in Ozfarm. In addition, Ozfarm agreed to issue and the Group agreed to subscribe for certain of the new shares in Ozfarm so that upon completion of the above, Ozfarm will be equally owned by the Group and the Ozfarm Vendors. The total consideration for the Ozfarm Acquisition amounted to AUD11.0 million (equivalent to approximately RMB56.4 million).

Ozfarm is principally engaged in the sale and marketing of nutrition products, in particular on formula milk products from infant, children, pregnant mother to elderly in Australia, Singapore and the PRC under its own brand name *Oz Farm*, and the marketing and export of any other dairy, honey or other food and health care products.

Upon completion of the Ozfarm Acquisition, Ozfarm will be equally owned by the Group and the Ozfarm Vendors and will become a jointly-controlled company of the Company.

Further details regarding the Ozfarm Acquisition are set out in the"Management Discussion and Analysis" section of this report and the announcement of the Company dated 22 May 2017. The Ozfarm Acquisition was completed subsequent to the reporting period on 5 July 2017.

27. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Statements were approved and authorised for issue by the Board on 11 August 2017.