INTERIM REPORT 2018

NOURISHING LIFE & GROWTH

澳优 Ausnutria

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

Contents

THE GROUP'S OWN BRANDS

佳贝艾特 kabrita	佳贝艾特 悦白, 佳贝艾特 悠装, 佳贝艾特 睛滢, 佳贝艾特
澳优 Ausnutria, allnutria 能力多	allnutria 能立多, 澳优爱优, Augood 珀淳, 淳璀 ExtraPure
hyproca 海普诺凯	海普诺凯 荷致, 悠蓝 Neolac, 海普诺凯 萃护
Puredo 美纳多	美纳多, PuredoNu 美纳优, 美纳珍, Puredovita 启活
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Eurlate	欧选 Eurlate, Eurence
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Nutrition Care Products you can trust	营养联邦 Nutriunion
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Ausnutria Principles

執行力強
Utmost Execution

不斷創新
Non-stop Innovation

團隊合作
Team Working

國際化
Internationalization

A u s n u t r i a

Accountable
誠信可靠

Socially Responsible
勇於承擔社會責任

Uncompromising to Quality
質量至上

Respect
尊重

All for Nutrition
致力於營養事業

澳优
Ausnutria

Mission

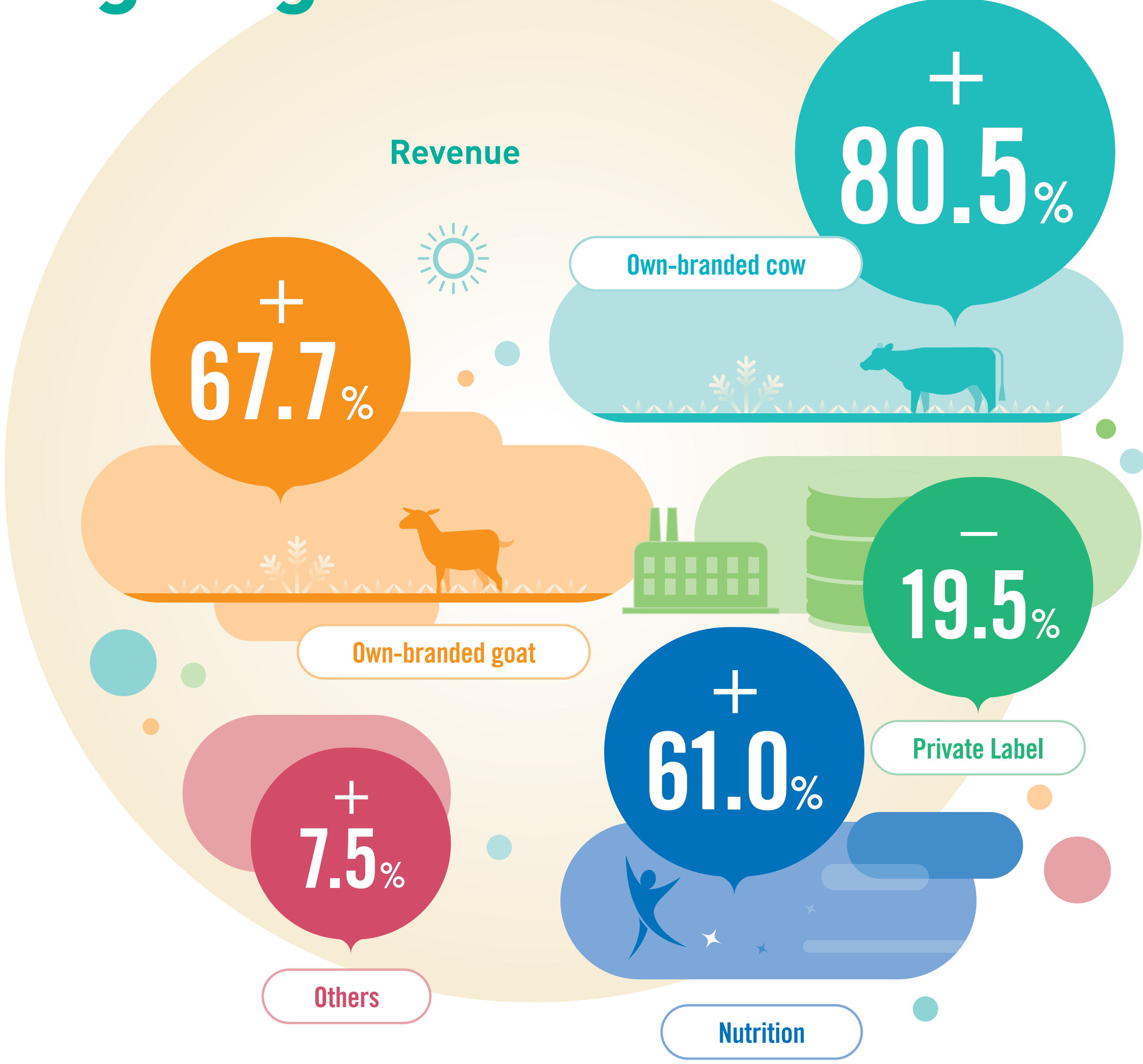
Nourishing Life & Growth
全球營養　呵護成長

Vision

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

成為全球最受信賴的配方奶粉及營養健康企業

Financial Highlights



RMB'M
1,197.6
Gross Profit
+68.0%

%
46.4
Gross Profit Margin
+4.5pps

RMB'M
412.1
Adjusted EBITDA*
+64.4%

RMB'M
265.5
Adjusted Profit Attributable to Shareholders*
+73.2%

* Adjusted for a one-off gain arising from the re-measurement of an asset and gain on the fair value change of a derivative financial instrument in the 2018 Interim Period

Corporate Information

BOARD OF DIRECTORS

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

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

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

COMPANY SECRETARY
Mr. Wong Wei Hua Derek

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

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

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

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

AUDITORS
Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER
Asian Capital Limited

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

PRINCIPAL PLACES OF BUSINESS

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

In Mainland China
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In the Netherlands
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8025 BM Zwolle
The Netherlands

In Australia
25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

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

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

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

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 2018 (the "**2018 Interim Period**").

BUSINESS REVIEW

The 2018 Interim Period is the beginning of the third year of the "Golden Decade" strategic plan of the Company. During the period, the Company continued to implement its strategic plans, including (i) increasing its effort on streamlining the global supply chain on formula milk powder products with its overseas factories located in the Netherlands, Australia and New Zealand; (ii) strengthening its global sales network, particularly in the People's Republic of China (the "**PRC**") for own-branded cow and goat milk infant formula products and in the overseas for own-branded goat milk formula products; (iii) streamlining the operations of the overseas nutritional business to cater for the development in the PRC market; and (iv) increasing the investment in team building and human resources, in order to accommodate the long-term vision of the Group. The above steps continue paying off in terms of operation performance, product diversification and a strengthened business chain for the Group. In addition, the Group has achieved satisfactory results in developing its global market network and enhancing consumer services during the period.

For the 2018 Interim Period, the Group recorded a revenue of RMB2,582.4 million, representing an increase of RMB879.5 million, or 51.6%, when compared with the six months ended 30 June 2017 (the "**2017 Interim Period**"). The performance of the own-branded dairy business, one of the Group's core operations, was particularly outstanding, with a recorded revenue of RMB2,076.5 million, representing an increase of RMB887.8 million, or 74.7% when compared with the 2017 Interim Period and accounted for 80.4% (2017 Interim Period: 69.8%) of the total revenue of the Group. The Group's profit attributable to ordinary equity owners of the Company increased by 113.5% to RMB327.3 million for the 2018 Interim Period. Excluding the Ozfarm One-Off Gain (as defined below) and the HNC FV Gain (as defined below) of a total of RMB61.8 million, the adjusted profit attributable to ordinary equity owners of the Company amounted to RMB265.5 million, representing an increase of RMB112.2 million, or 73.2% when compared with the 2017 Interim Period.

The dairy industry continues to be challenging during the 2018 Interim Period, in the form of tightened rules and regulations from governments, especially in the PRC, the Group's principal market. Nevertheless, the Group achieved a continuous growth in both revenue and operating results for the 2018 Interim Period. The growth was mainly driven by:

(i) the growing market recognition of the Group's own-branded formula milk products as a result of its persistent effort in building distribution channels and delivering quality products and consumer service;

(ii) the rising worldwide awareness for the Group's own-branded goat milk formula products *Kabrita* for its quality and high nutrition value;

(iii) the increase in the Group's production capacity following the commencement of production of the two new factories in the Netherlands and the acquisition of a factory in Australia; and

(iv) the ongoing enhancement of the Group's management and operation efficiency.

Additionally, because of the stable growth in demand for infant formula in the PRC (attributable to the steady growth in newborns), and the increasingly high industry entry barriers that result from the PRC's new regulations, the Company believes that the Group will continue to grow by leveraging on the above strategies and the stringent quality controls that have been established and implemented by the Group over the years.

Formula Milk Powder Business

(A) Own-branded Cow Milk Formula

Since 2014, the Group has adopted the multi-branding strategies by establishing a number of business units (the "**BUs**") for the marketing and distribution of formula milk powder products that are produced in different formula, milk source and hence price range in order to meet the wide range of different demands from the consumers in the PRC. Each of the BUs has a unique vision and marketing strategy since their respective dates of establishment in order to effectively penetrate into the different market segments in the PRC. For the 2018 Interim Period, the formula milk powder products distributed by the Group in the PRC are mainly produced by the Group with factories located in the Netherlands, New Zealand, Australia and the PRC. The Board believes that the above strategies will facilitate the steady, long term growth of the Group.

Over the years, the Group invested billions of Renminbi for building its global upstream production facilities. The Company believes that the Group is one of the very few players in the PRC market that possesses the entire business chain with sourcing of milk supply, research and development ("**R&D**"), production facilities based in overseas and an extensive firmly-established distribution network in the PRC. The Group has gradually turned from an asset light enterprise to a group which now owns over RMB1.5 billion (31 December 2017: RMB1.5 billion) in property, plant and equipment and will have ten factories located over the globe by the end of 2018. The Company believes such strategical moves is an important milestone as it enables the Group to control the entire production process and hence to implement effective controls on the quality of the products that are produced by the Group. The Company believes effective internal control on the quality of the products is very crucial for its long term success.

For the 2018 Interim Period, sales of own-branded cow milk formula products amounted to RMB1,168.7 million, representing an increase of RMB521.3 million, or 80.5% as compared with the 2017 Interim Period.

(B) Own-branded Goat Milk Formula

The Group's goat milk infant formula is marketed under the brand name of *Kabrita*. During the 2018 Interim Period, sales of *Kabrita* continued to be promising. In particular, it continues to be ranked as the number one imported goat milk infant formula in the PRC, accounting for 66.6% (2017 Interim Period: 38.0%) of total imported volume.

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 excellent research and product development contributed by the joint efforts of the Group and some renowned scientific institutions; (iii) the well-established distribution network built up by the Group over the years; (iv) the increasing market recognition of the higher nutritional value of goat milk formula and the fact that it is more easily digested than cow milk formula; (v) the well-established supply network, which enables the Group to secure all the major ingredients (particularly goat whey) for the production of *Kabrita*; and (vi) the geographical location of the Group's manufacturing plants in the Netherlands, which enables ample supply of quality goat milk to support the unceasing growth of *Kabrita*.

For the 2018 Interim Period, sales of *Kabrita* in the PRC and overseas amounted to RMB796.0 million and RMB111.8 million, representing an increase of RMB346.3 million, or 77.0% and RMB20.2 million, or 22.1%, respectively, when compared with the 2017 Interim Period.

The presence of *Kabrita* has expanded to sixty-six countries and regions during the 2018 Interim Period. The Group will continue to launch *Kabrita* in other countries and aim to become a global leader in goat milk infant nutrition products. This ambition will be facilitated by (i) studies and clinical trials conducted by the medical school of Peking University; (ii) clinical studies in Europe; (iii) in-house R&D in the Netherlands and North America, per the application for US Food and Drug Administration approval; and (iv) continuous development and launch of upgraded new goat milk related nutrition products. As it is anticipated that more markets will recognise the nutritional value and superior quality of *Kabrita*, business of the Group will expand.

In order to sustain the long term growth and development of goat milk related nutrition products, in particular *Kabrita*, on 28 February 2018, the Group acquired the remaining 44% equity interest in Holland Goat Milk B.V. (formerly Hyproca Goat Milk B.V.) ("**HGM**") from Farmel Holding B.V. ("**Farmel**"), an associate of the Company, and an independent party at a total consideration of EUR7.0 million (equivalent to approximately RMB53.9 million). The purpose of the acquisition is to further strengthen the control and strategic position of the Group on the supply of quality goat milk in the Netherlands. HGM was established in the Netherlands and was beneficially owned by the Group, Farmel and an independent party as to 56%, 22% and 22% respectively. The principal activity of HGM is souring goat milk, and all the goat milk consumed by the Group is provided by HGM. The above acquisition was completed on 28 February 2018 and since then, HGM became a wholly-owned subsidiary of the Company.

As at 30 June 2018, HGM has entered into long term supply contracts with 55 goat milk farmers in the Netherlands and the total goat milk delivered by these farmers was approximately 70 million kilograms, representing approximately 20% of the total goat milk produced in the Netherlands, for the 2018 Interim period. Besides, the Group has also entered into sole distribution agreements with a number of reputable dairy or food factories in the Netherlands for the stable supply of certain key ingredients for the production of goat milk related nutrition products by the Group. The Company will continue to assess its leading worldwide position on the development of goat milk related nutrition products.

(C) Private Label

Alongside the development of its own-branded dairy business, the Group also produces formula milk powder products for other worldwide customers on an original equipment manufacturing basis (the "**Private Label**"). For the 2018 Interim Period, sales of the Private Label business, which represented 7.4% (2017 Interim Period: 14.0%) of the total revenue of the Group, decreased by 19.5% to RMB192.0 million. The decrease in sales of the Private Label business was due mainly to a higher proportion of the production capacity and resources being allocated to serve the Group's own-branded dairy business, which recorded an increase in sales by 74.7% during the 2018 Interim Period.

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

Nutrition Business

The Group commenced its manufacturing, marketing and distribution of nutrition products through the acquisition of nutrition business in Australia in October 2016. It includes the development, manufacturing, packaging, and distribution of complementary medicine, nutritional and health care products, under the brand names of *Nutrition Care* and *Brighthope*. It also includes the provision of contract manufacturing services in its facilities, which are Therapeutic Goods Administration (TGA) certified and located in Australia (the "**Nutrition Business**"). For the 2018 Interim Period, revenue and operating performance derived from this sector amounted to RMB52.5 million (2017 Interim Period: RMB32.6 million) and loss attributable to the Company was RMB5.6 million (2017 Interim Period: RMB6.9 million).

The Group has been actively streamlining operations of the Nutrition Business and identifying the key and potential products to be introduced into and launched in overseas markets, particularly the PRC. The Group has launched a number of nutrition products including Gut Relief in late 2016 (*Nutrition Care* brand), which has a beneficial effect on the gastrointestinal tract, and Soforla in late 2017, a supplement that resolves lactose intolerance in infants. Gut Relief is distributed mainly in the PRC through e-commerce platforms such as JD and Tmall, along with daigou. Soforla is distributed mainly through the Group's existing channels of formula milk powder products. Total sales of Gut Relief and Soforla during the 2018 Interim Period amounted to RMB33.3 million (2017 Interim Period: RMB3.6 million). As consumers in the PRC are becoming more health-conscious over time, the Group believes that the Nutrition Business will benefit from the increasing market demand of nutrition products by leveraging on its infrastructure and wide distribution network.

The Group plans to launch another two to three nutrition products, which mainly target to improve human digestive system, in the PRC during the second half of 2018.

In order to accommodate the vision set out by the Company, the Group has executed the following strategic steps during the 2018 Interim Period.

HNC Group Acquisition

On 14 February 2018, the Group entered into a sale and purchase agreement (the "**HNC Purchase Agreement**") in relation to the acquisition of the remaining 15% equity interest (the "**HNC Shares**") in Hyproca Nutrition (Hongkong) Company Limited and Hyproca Nutrition Co., Ltd ("**HNC**") (collectively, the "**HNC Group**") (the "**HNC Group Acquisition**"). The HNC Group is principally engaged in the marketing and distribution of goat milk nutrition products, in particular under the brand name of *Kabrita*, in Hong Kong, Macau, and Mainland China. Pursuant to the HNC Purchase Agreement, the Group has conditionally agreed to acquire and the vendors (the "**HNC Group Vendors**"), who are all existing employees of the HNC Group, have conditionally agreed to sell the HNC Shares at a consideration based on 15% of 8.5 times the audited consolidated net profit of the HNC Group for the year ended 31 December 2017 (the "**Upfront HNC Consideration**"). The consideration is subject to certain adjustments, based on the financial performance for the HNC Group for the three years ending 31 December 2018, 2019, and 2020 (the "**Subsequent HNC Consideration**"). Both the Upfront HNC Consideration and the Subsequent HNC Consideration will be settled by issue and allotment of shares of the Company (the "**Shares**"). In any case, the total consideration of the HNC Group Acquisition is capped at 80,174,000 Shares which is calculated at a maximum consideration amount of HK$400,870,000 at a price of HK$5.0 per Share pursuant to the HNC Purchase Agreement.

As two of the beneficial owners of the HNC Group are connected persons of the Company by virtue of Rule 14.A.07(1) of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the entering into the HNC Purchase Agreement and the transactions contemplated thereunder constituted connection transactions for the Company, a circular regarding the HNC Group Acquisition was despatched to the shareholders of the Company (the "**Shareholders**") by the Company on 12 April 2018.

As the audited consolidated net profit of the HNC Group for the year ended 31 December 2017 amounted to approximately HK$197.2 million, a total of 50,294,123 Shares were issued and allotted to the HNC Group Vendors to settle the Upfront HNC Consideration. The Subsequent HNC Consideration (if any) is therefore limited to 29,879,877 Shares (the "**Maximum Subsequent Consideration Shares**") accordingly and is to be paid out no later than twentieth business days following the date of the announcement of the Company's annual results for the year ending 31 December 2020 pursuant to the HNC Purchase Agreement.

For the 2018 Interim Period, the turnover and profit after tax of the HNC Group continue to be promising and amounted to RMB814.6 million (2017 Interim Period: RMB454.6 million) and RMB126.9 million (2017 Interim Period: RMB81.3 million), respectively.

The HNC Group Acquisition was approved by the Shareholders at the extraordinary general meeting of the Company on 11 May 2018 and was completed on 30 May 2018. Since then, the HNC Group became a wholly-owned subsidiary of the Company. The Subsequent HNC Consideration is classified as financial instrument and is measured at fair value through profit or loss. The gain arising from the change in fair value between the date of completion of the HNC Group Acquisition and the reporting date of RMB26.8 million (the "**HNC FV Gain**") was included as "other income and gains" in the consolidated statement of profit or loss.

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

The Company believes that the HNC Group Acquisition will enable the Group to further enhance its operating results and fully benefit from 100% of the cash flow and profits of the HNC Group. It will enable the Group to further increase its stake in the HNC Group, the operations of which the Group is familiar with through its existing 85% equity interest therein. Finally, it will facilitate better implementation of the operating philosophies and strategies of the Company into the HNC Group for the vision of building *Kabrita* to be ranked as the global number one brand of goat milk infant formula, create better synergy with the Group as a whole, and hence improve the operational efficiency.

Further details regarding the HNC Group Acquisition are set out in the announcement and circular of the Company dated 14 February 2018 and 12 April 2018, respectively.

Ozfarm Acquisition

Ozfarm Royal Pty Ltd ("**Ozfarm**") was founded in 1998 in Australia and is principally engaged in the infant formula and nutrition business, operates on formula milk products for infant, children, pregnant mothers and elderlies under its own brand name *Oz Farm®*.

In July 2017, the Group completed the acquisition of certain of the existing shares in Ozfarm from two independent parties (the "**Ozfarm Vendors**") and the subscription for certain of the new shares in Ozfarm which, in aggregate, represent 50% of the enlarged share capital of Ozfarm (the "**First Ozfarm Acquisition**") for a total cash consideration of AUD11.0 million (equivalent to RMB56.4 million). Since then, Ozfarm is equally owned by the Group and the Ozfarm Vendors, and became a joint venture of the Company.

On 1 June 2018, 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 the remaining 50% interest in Ozfarm at a consideration of HK$129.8 million (equivalent to approximately AUD21.8 million) by the issue and allotment of 12,980,000 Shares at a share price of HK$10.0 each by the Company to the Ozfarm Vendors, (the "**Upfront Ozfarm Consideration**"). Pursuant to the share purchase deed, the consideration is subject to an adjustment, to be determined based on the financial performance of Ozfarm for the two years ending 31 December 2020 and 2021 (the "**Subsequent Ozfarm Consideration**") (the "**Second Ozfarm Acquisition**"). In any case, the total consideration of the Second Ozfarm Acquisition shall not exceed AUD80.0 million. The Upfront Ozfarm Consideration was settled by the issue and allotment of 12,980,000 Shares to the Ozfarm Vendors. The Subsequent Ozfarm Consideration, if any, will be settled by cash or by the issue and allotment of Shares (or any combination) at the discretion of the Group.

For the year ended 31 December 2017 and the period from 1 January 2018 to 28 June 2018 (being the date immediately prior to completion of the Second Ozfarm Acquisition), the share of profit of Ozfarm by the Group amounted to RMB0.9 million and RMB1.0 million, respectively.

In accordance with IFRS 3, the Group's previously held equity interest in Ozfarm shall be remeasured at its acquisition-date fair value and the resulting gain or loss be recognised in profit or loss. The gain arising from the re-measurement of the initial 50% equity interest in Ozfarm for the 2018 Interim Period of RMB35.0 million (the "**Ozfarm One-Off Gain**") was included as "other income and gains" in the consolidated statement of profit or loss.

The Board is of the view that Ozfarm will continue to grow steadily and positively contribute to the Group based on (i) the rapid growth in the nutrition product market in and outside the PRC; (ii) Ozfarm owns the number one maternal women's milk powder brand in Australia; and (iii) Ozfarm has obtained the registration of its infant formula with the Chinese Food and Drug Administration ("**CFDA**").

As such, the Board considers the Second Ozfarm Acquisition, which in turn made Ozfarm become a wholly-owned subsidiary of the Company, will (i) enable the Group to own 100% of the brands and products of Ozfarm for better allocation of internal resources of the Group; (ii) enable the Group to further expand and develop its markets in Australia, the PRC and overseas by taking advantage of the reputation of Ozfarm; (iii) facilitate the perfection of the Group's current product range offered; and (iv) create better synergy with the Group as a whole, and hence improve the operational efficiency.

The Second Ozfarm Acquisition was completed on 29 June 2018 and since then, Ozfarm became a wholly-owned subsidiary of the Company.

Further details regarding the Second Ozfarm Acquisition are set out in the announcement of the Company dated 1 June 2018.

Building the Group's Headquarter in the PRC

In 2017, the Group, through its wholly-owned subsidiary ("**HQ Development Company**"), purchased two adjacent plots of land in the PRC at a total consideration of RMB139.0 million principally for the construction of the future headquarters for the Group. Their areas measure 34,424 square meters (the "**Land A**") and 6,922 square meters (the "**Land B**"), and are located in Changsha city, the PRC (the "**HQ Land**").

On 12 February 2018, in order to facilitate the development of the HQ Land, the Group entered into an agreement with an independent property developer (the "**HQ Land Development Partner**") for the investment in the HQ Development Company. Pursuant to the agreement, the HQ Land Development Partner will contribute RMB100.0 million immediately after entering into the agreement. After the capital injection made by HQ Land Development Partner on 25 May 2018, HQ Development Company is owned by the Group and the HQ Land Development Partner as to 51% and 49%, respectively. Further, except for the bank account which is jointly controlled by the Group and the HQ Land Development Partner, the HQ Land Development Partner will be responsible for the future management, daily operations, funding, and financing arrangements of the HQ Development Company. In return, the Group will be entitled to two office building blocks on the HQ Land. The buildings specifications are already agreed upon, with 40,000 square meters of floor area and 400 car parking spaces. Pursuant to the agreement, the office buildings have to be completed within thirty months from the date when all of the land use rights have been obtained by the Group. In February and May 2018, the Group obtained the land use rights for the Land A and the Land B, respectively, and the development of the HQ Land has already been commenced since July 2018. The construction of the headquarter is expected to be completed in late 2020.

As a result of the above arrangement, the Group's interest in the HQ Development Company was reduced from 100% to 51% and the Group's investment for the headquarters was limited to the initial land costs. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company is accounted for as an associate of the Company.

INDUSTRY OVERVIEW

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

Currently, there are about 107 and 98 infant formula blending and packaging factories in the PRC and overseas, respectively, which are registered with the Certification and Accreditation Administration of the PRC (the "**CNCA**"). In 2016, the CFDA issued the Administrative Measures for the Registration of Formulas for Infant Milk Formula Powder(《嬰幼兒配方乳粉產品配方註冊管理辦法》)whereby each registered infant formula blending and packaging factory with the CNCA is allowed to register no more than three series (equivalent to nine formulas) subject to the fulfillment of respective requirements, with effect from 1 January 2018. As of the date of this report, there are a total of 390 series and 1,156 formulas duly approved by the CFDA.

The high industry entry barriers as a result of the raising industry regulatory standards implemented by the PRC government are expected to provide a healthier growth in the industry in the long run, which will be beneficial to and in the interest of those industry participants who possess strong R&D and production capability.

OUTLOOK

On 4 April 2018, CITIC Agri Fund Management Co., Ltd（中信農業產業基金管理有限公司）(the "**Subscriber**") entered into a subscription agreement (the "**Subscription Agreement**") with the Company to subscribe an aggregate of 249,000,000 Shares (the "**Subscription Shares**") at the subscription price of HK$5.18 per Subscription Share (the "**Subscription**"). The Subscription Shares represents 18.69% of the total number of issued Shares as at 30 June 2018. The gross proceeds of the Subscription will be HK$1,289,820,000 and the Company intends to apply the majority of the net proceeds for the repayment of bank loans and future investments.

Furthermore, on 4 April 2018, the Board is notified by Center Laboratories, Inc. that on the same date, the Subscriber entered into a sale and purchase agreement with Center Laboratories, Inc. and its non-wholly-owned subsidiaries, BioEngine Capital Inc. and BioEngine Technology Development Inc. to purchase 130,000,000 Shares at a total consideration of HK$673,400,000 (i.e. HK$5.18 per Share). Pursuant to the sale and purchase agreement, completion of such transfer is conditional upon completion of the Subscription.

Upon completion of the Subscription and transfer, the Subscriber will be interested in 379,000,000 Shares, representing 23.97% of the then issued Shares. The Subscriber will become a substantial Shareholder and the single largest Shareholder thereafter.

On 22 June 2018, the Company received a letter from the Stock Exchange notifying the Company that its decision to deem the Subscriber a connected person of the Company pursuant to Rule 14A.19 and 14A.20 of the Listing Rules. As such, the Subscription constitutes a connected transaction and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Therefore, other than fulfillment of the conditions set out in the Subscription Agreement, the Subscription is also subject to approval from the Shareholders who are not interested or involved in the Subscription Agreement and the transactions contemplated thereunder at an extraordinary general meeting to be convened by the Company.

As at 30 June 2018, the Company has been informed by the Subscriber that it has substantially completed its due diligence review of the Group's business, affairs, operations and financial positions, and is not aware of material adverse conditions that will affect the Subscription, the Subscriber will next start its internal and external approval processes according to established procedures. Details of the Subscription and its status are set out in the announcements of the Company dated 6 April 2018 and 3 July 2018.

The Subscriber is a professional investment institution jointly established by CITIC Agriculture Investment Co. Ltd（中信現代農業投資股份有限公司）, a wholly-owned subsidiary of CITIC Group Corporation Ltd., and a number of companies established in the PRC. The Subscriber has a large state-owned conglomerate established in the PRC as its shareholder and is principally engaged in investment in agricultural biotechnology and branded consumer products sectors, it is also committed to improve the long-term interests of the shareholders of its invested companies.

The Board considers the Subscription will enlarge its shareholder base and significantly strengthen the shareholder profile of the Company by introducing a reputable investor, namely, the Subscriber. It is expected that the Company will be benefited from the investment opportunities available to CITIC Group Corporation Ltd., which is a largest state-owned conglomerate established in the PRC, after the Subscriber becoming the Shareholders. The Board also considers the Subscription offers a good opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group so as to facilitate its future development.

Besides, subsequent to the end of the reporting period and on 13 July 2018, the Group completed the acquisition of 50% equity interest in Ausnutria Joannusmolen B.V. (formerly Joannusmolen Nutrition B.V.) ("**AJM**") and AJM became an associate of the Company since then. Further details regarding the AJM acquisition are set out in note 31 to the interim condensed consolidated financial statements of this report.

Apart from the above, the Company will endeavor to continue (i) completing the filing of the new factory registration in New Zealand with the CNCA; (ii) completing the construction of the new factory in Changsha, the PRC as well as the filing of the respective registrations; and (iii) ramping up the productivity of the two factories in the Netherlands which have commenced operations in the beginning of this year, in order to meet the continuous growth in demand of the products that are produced by the Group.

FINANCIAL REVIEW

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

Revenue

	Notes	Six months ended 30 June 2018 RMB'M (Unaudited)	2017 RMB'M (Unaudited)	Change %
Own-branded formula milk powder products:				
Goat milk (in the PRC)	(i)	**796.0**	449.7	77.0
Goat milk (elsewhere)	(i)	**111.8**	91.6	22.1
		907.8	541.3	67.7
Cow milk (in the PRC)	(i)	**1,168.7**	647.4	80.5
		2,076.5	1,188.7	74.7
Private Label	(ii)	**192.0**	238.4	(19.5)
Milk powder	(iii)	**88.9**	119.5	(25.6)
Butter	(iv)	**83.8**	74.9	11.9
Others	(v)	**88.7**	48.8	81.8
Dairy and related products		**2,529.9**	1,670.3	51.5
Nutrition products	(vi)	**52.5**	32.6	61.0
Total		**2,582.4**	1,702.9	51.6

Notes:

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

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

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

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

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

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

For the 2018 Interim Period, the Group recorded revenue of RMB2,582.4 million, representing an increase of RMB879.5 million, or 51.6%, from RMB1,702.9 million for the 2017 Interim Period. Despite the competition of the formula milk powder products market in the PRC continued to be intense during the 2018 Interim Period, revenue of the Group continued to increase and this was mainly attributable to the continuous increase in the sales of own-branded dairy business which has been driven by the clear brand positioning and the effective marketing strategies adopted by the Group.

Gross profit and gross profit margin

	Six months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'M	RMB'M	**%**	%
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Own-branded formula milk powder products:				
Goat milk	**496.2**	300.1	**54.7**	55.4
Cow milk	**631.2**	331.6	**54.0**	51.2
	1,127.4	631.7	**54.3**	53.1
Others	**82.0**	66.0	**18.1**	13.7
Dairy and related products	**1,209.4**	697.7	**47.8**	41.8
Nutrition products	**31.7**	17.9	**60.4**	54.9
	1,241.1	715.6	**48.1**	42.0
Less: provision for inventories	**(43.5)**	(2.6)	**(1.7)**	(0.1)
Total	**1,197.6**	713.0	**46.4**	41.9

The Group's gross profit for the 2018 Interim Period was RMB1,197.6 million, representing an increase of RMB484.6 million, or 68.0%, when compared with the 2017 Interim Period. The increase in the gross profit margin of the Group from 41.9% for the 2017 Interim Period to 46.4% for the 2018 Interim Period was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded dairy business as compared with the other business sectors. Overall contribution to revenue by the own-branded dairy business increased to 80.4% during the 2018 Interim Period (2017 Interim Period: 69.8%).

Other income and gains

Other income and gains mainly represented (i) the Ozfarm One-Off Gain of RMB35.0 million (2017 Interim Period: Nil); (ii) the HNC FV Gain of RMB26.8 million (2017 Interim Period: Nil); (iii) incentive granted from the PRC government of RMB12.5 million (2017 Interim Period: RMB3.0 million); and (iv) interest income from the Group's deposits with banks of RMB12.9 million (2017 Interim Period: RMB16.0 million).

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 27.0% (2017 Interim Period: 21.8%) of the revenue for the 2018 Interim Period. The increase in the selling and distribution expenses to revenue ratio was mainly due to (i) the increase in air-freight charges of approximately RMB53.1 million in order to shorten the delivery time of the products and to meet the market demand of the Group's own-branded products in the PRC; and (ii) the proportionate increase in the sales of the higher profit margin own-branded business which incurred on average a higher selling and distribution expenses to revenue ratio when compared with other sectors. Excluding the impact of the additional air-freight charges incurred, the selling and distribution expenses to revenue ratio for the 2018 Interim Period was 24.9% (2017 Interim Period: 21.2%).

Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB1.4 million (2017 Interim Period: RMB4.0 million)), travelling expenses, auditors' remuneration, professional fees, depreciation and R&D costs. The increase in administrative expenses was primarily attributed to the continuous increase in the scale of operations of the Group.

The administrative expenses accounted for 6.9% (2017 Interim Period: 7.5%) of the revenue of the Group for the 2018 Interim Period.

Other expenses

Other expenses for the 2018 Interim Period mainly comprised (i) compensation to a customer in relation to the termination of a sales contract of RMB8.5 million (2017 Interim Period: Nil); (ii) the loss on fair value change of derivative financial instrument in relation to a call option granted by the Ozfarm Vendors upon completion of the First Ozfarm Acquisition of RMB3.1 million (2017 Interim Period: Nil) (such call option is lapsed upon completion of the Second Ozfarm Acquisition); and (iii) legal and professional fees incurred for the various acquisition projects of RMB1.8 million (2017 Interim Period: RMB0.7 million).

Finance costs

The finance costs of the Group for the 2018 Interim Period amounted to RMB21.7 million (2017 Interim Period: RMB9.0 million), representing mainly the interest on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

The increase in finance costs was mainly attributable to the cessation of capitalisation of loan interest upon completion of the construction of the new factories in the Netherlands at the end of 2017.

Share of profit of a joint venture

Balance represented the share of profit of Ozfarm, which was acquired by the Group in July 2017. Ozfarm is principally engaged in the sale and marketing of nutrition products, particularly formula milk powder products for infants, children, pregnant mothers, and elderlies in Australia, Singapore and the PRC under its own brand name *Oz Farm*, and the marketing and export of other dairy, health care, and miscellaneous food products, such as honey.

Ozfarm became a wholly-owned subsidiary of the Company on 29 June 2018. Further details regarding the Second Ozfarm Acquisition are set out in the "Management Discussion and Analysis" section of this report.

Share of profits of associates

Balance mainly represented the share of profits of Farmel and its subsidiaries (the "**Farmel Group**") for the 2018 Interim Period. The Farmel Group is principally engaged in the collection and trading of milk in Europe. The purpose for the investment in the Farmel Group is to secure the long-term milk supply for the Group's operations in the Netherlands.

Income tax expenses

The profits generated by the Group for the 2018 Interim Period were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**") and HNC, both being wholly-owned subsidiaries of the Company at 30 June 2018, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the 2018 Interim Period. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000. The standard CIT rates in Australia, New Zealand, the United States, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 17%, respectively.

The decrease in the Group's effective tax rate from 24.3% for the 2017 Interim Period to 17.2% (excluding the Ozfarm One-Off Gain and the HNC FV Gain of a total of RMB61.8 million) for the 2018 Interim Period was mainly due to the granting of a preferential CIT rate to HNC of 15% (2017 Interim Period: 25%) as HNC is designated as a High-tech Enterprise during the period. The profit before tax derived from HNC has accounted for 40.4% (2017 Interim Period: 50.2%) of the Group's profit before tax for the 2018 Interim Period.

Profit attributable to equity owners of the Company

The Group's profit attributable to equity owners of the Company for the 2018 Interim Period amounted to RMB327.3 million, representing an increase of RMB174.0 million, or 113.5% when compared with the 2017 Interim Period.

Excluding the Ozfarm One-Off Gain and the HNC FV Gain of a total of RMB61.8 million, the adjusted profit attributable to equity owners of the Company amounted to RMB265.5 million, representing an increase of RMB112.2 million, or 73.2% when compared with the 2017 Interim Period.

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

Analysis on Condensed Consolidated Statement of Financial Position

As at 30 June 2018, the total assets and net asset value of the Group amounted to RMB6,210.3 million (31 December 2017: RMB5,621.1 million) and RMB1,925.5 million (31 December 2017: RMB1,947.0 million), respectively.

The increase in total assets of the Group as at 30 June 2018 was mainly contributed by:

(i) the Second Ozfarm Acquisition which resulted in a net increase in total assets (mainly goodwill and other intangible assets) of RMB180.9 million;

(ii) the increase in inventories of RMB209.4 million (2017 Interim Period: RMB170.4 million) as a result of the increase in scale of operations of the Group, in particular the effect of commencement of the production of the two new factories in the Netherlands; and

(iii) the net increase in cash and cash equivalents and pledged deposits of a total of RMB31.8 million (2017 Interim Period: RMB270.4 million).

The increase in total assets of the Group as at 30 June 2018 was mainly financed by issue of new Shares for the HNC Group Acquisition and the Second Ozfarm Acquisition, internal working capital and the cash flows generated from operating activities of the Group of RMB177.7 million (2017 Interim Period: RMB351.1 million) during the 2018 Interim Period.

The decrease in net assets of the Group as at 30 June 2018 was mainly a result of the net effect of (i) the increase in the net profit of the Group generated for the 2018 Interim Period of RMB336.6 million (2017 Interim Period: RMB168.0 million); (ii) the increase in the share capital and share premium of the Company of a total of RMB492.3 million (2017 Interim Period: Nil) deriving as a result of the HNC Group Acquisition and the Second Ozfarm Acquisition; and (iii) the decrease in capital reserve arising from the elimination of the goodwill for the acquisition of the minority interests in the HNC Group and HGM during the 2018 Interim Period of a total of RMB655.6 million (2017 Interim Period: Nil).

Working Capital Cycle

As at 30 June 2018, the current assets to current liabilities ratio of the Group was 1.1 times (31 December 2017: 1.2 times). The decrease in current assets to current liabilities ratio when compared with the prior year was mainly due to the increase in current portion of interest-bearing bank loans and other borrowings for the financing of the Group's overseas operations.

An analysis of key working capital cycle is as follows:

	Six months ended 30 June		
	2018 Number of days	2017 Number of days	Change Number of days
Inventories turnover days	**155**	161	(6)
Debtors' turnover days	**18**	23	(5)
Creditors' turnover days	**40**	42	(2)

The decrease in turnover days of the Group's inventories was mainly due to the increase in proportion of products being delivered by air which shortened the delivery time in order to meet the continuous growth in demand of the Group's products.

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

The turnover days of the Group's trade payables for the 2018 Interim Period remained fairly stable when compared with the prior period.

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 2018 RMB'M (Unaudited)	31 December 2017 RMB'M (Audited)
Interest-bearing bank loans and other borrowings		**(2,144.1)**	(1,972.2)
Less: Pledged deposits	(i)	**923.1**	968.7
Cash and cash equivalents	(ii)	**713.1**	635.7
		(507.9)	(367.8)
Total assets		**6,210.3**	5,621.1
Shareholders' equity		**1,777.3**	1,740.5
Gearing ratio	(iii)	**8.2%**	6.5%
Solvency ratio	(iv)	**28.6%**	31.0%

Notes:

(i) All denominated in RMB.

(ii) 65.1% (31 December 2017: 60.5%) of which was denominated in RMB. The remaining 34.9% (31 December 2017: 39.5%) was mainly denominated in EUR, HK$, AUD and NZD.

(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.

As at 30 June 2018, the Group had outstanding borrowings of RMB2,144.1 million (31 December 2017: RMB1,972.2 million), of which RMB1,611.0 million (31 December 2017: RMB1,158.0 million) was due within one year and the remaining RMB533.1 million (31 December 2017: RMB814.2 million) was due over one year. As at 30 June 2018, except for certain bank loans of a total of RMB158.5 million (31 December 2017: RMB74.6 million) which are denominated in RMB and bear interest at rates ranging from 4.4% to 5.3% (31 December 2017: 4.4% to 5.0%) per annum, all borrowings of the Group were denominated in EUR and bear interest at floating rates with reference to London Interbank Offered Rate or The Euro Interbank Offered Rate. As at 31 December 2017, other than the borrowings denominated in RMB and EUR, the Group has two bank loans of a total of RMB27.1 million which were denominated in AUD and bore interest at rates ranging from 5.4% to 5.7% per annum which were fully repaid during the period.

As at 30 June 2018, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR258.8 million, equivalent to approximately RMB1,980.2 million (31 December 2017: EUR221.8 million, equivalent to approximately RMB1,730.8 million); and (ii) the time deposits that were placed in the PRC of RMB923.1 million (31 December 2017: RMB968.7 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans. As at 31 December 2017, the Group had also pledged the land and buildings in Australia with a carrying value of AUD6.6 million, equivalent to approximately RMB33.6 million, for the banking facilities granted to the operations of the Group in Australia. Such bank loans were repaid during the period and the corresponding pledged of the land and buildings in Australia was released during the period accordingly.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the 2018 Interim Period, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), EURO ("**EUR**"), United States dollars ("**US$**"), Australian dollars ("**AUD**") or New Zealand dollars ("**NZD**") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in RMB and EUR, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, EUR, US$, AUD or NZD against RMB.

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

As at 30 June 2018, the Group had a EUR against RMB capped forward contract of EUR5.0 million (31 December 2017: 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 30 September 2015, of a notional amount of EUR16.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 2.77% per annum. The interest rate swap contract will expire in June 2020.

CREDIT RISK

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

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

COMMITMENTS

As at 30 June 2018, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to RMB18.5 million (31 December 2017: RMB18.5 million).

As at 30 June 2018, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries and the building of the factories of a total of RMB28.1 million (31 December 2017: RMB109.0 million).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
30 June 2018	2,459	6	495	150	107	3,217
31 December 2017	2,373	5	495	121	98	3,092

For the 2018 Interim Period, total employee costs, including Directors' emoluments, amounted to RMB394.0 million (2017 Interim Period: RMB219.3 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.

CORPORATE GOVERNANCE CODE

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 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 Board, the Company has complied with the respective code provisions of the CG Code during the 2018 Interim Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors by the Company, the Directors confirmed that they have complied with the required standard set out in the Model Code during the 2018 Interim Period.

The Company has a written guideline "Employees' Code of Dealing the Securities of the Company" on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance with the "Employees' Code of Dealing the Securities of the Company" by relevant employees was noted by the Company for the 2018 Interim Period.

REVIEW OF INTERIM FINANCIAL STATEMENTS

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 of the Company had reviewed this interim report and the unaudited interim condensed consolidated financial statements of the Group for the 2018 Interim Period.

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 (i.e. valid till 20 January 2026). 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 7.51% of the issued Shares as at 30 June 2018.

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 2018 Interim Period were as follows:

			Number of options			
Grantees	Date of grant	Exercise price per share option	Outstanding as at 1 January 2018	Exercised during the 2018 Interim Period	Lapsed during the 2018 Interim Period	Outstanding as at 30 June 2018
Directors						
Mr. Yan Weibin	21/01/2016	HK$2.45	800,000	(400,000)	–	400,000
Mr. Bartle van der Meer	21/01/2016	HK$2.45	800,000	(400,000)	–	400,000
Ms. Ng Siu Hung	21/01/2016	HK$2.45	667,000	(333,000)	–	334,000
Mr. Tsai Chang-Hai	21/01/2016	HK$2.45	200,000	(100,000)	–	100,000
Mr. Zeng Xiaojun	21/01/2016	HK$2.45	200,000	(100,000)	–	100,000
Ms. Ho Mei-Yueh	21/01/2016	HK$2.45	200,000	(100,000)	–	100,000
Mr. Jason Wan	21/01/2016	HK$2.45	200,000	(100,000)	–	100,000
Mr. Lau Chun Fai Douglas	21/01/2016	HK$2.45	200,000	(100,000)	–	100,000
Sub-total			3,267,000	(1,633,000)(1)	–	1,634,000
Other						
Employees and others	21/01/2016	HK$2.45	22,204,000	(11,048,000)(1)	–	11,156,000
Employees and others	06/07/2017	HK$2.45	12,015,000	(234,000)(2)	–	11,781,000
Total			37,486,000	(12,915,000)	–	24,571,000

Notes:

1. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$9.67.

2. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$9.94.

On 21 January 2016 and 6 July 2016, share options to subscribe respectively for 34,800,000 Shares and 12,015,000 Shares of HK$0.10 each were granted to certain eligible participants pursuant to the Share Option Scheme. The closing prices of the Shares immediately before the dates of grant were HK$2.32 and HK$2.25 per Share respectively. Further details of these two batches of share options granted are set out in the announcements of the Company dated 21 January 2016 and 6 July 2016 respectively. No further share options were granted in the 2018 Interim Period.

Share options granted on 21 January 2016

- One-third was vested on 21 January 2017;
- One-third was vested on 21 January 2018;
- One-third shall vest on 21 January 2019; and
- Exercise period started on 21 January 2017 and shall end on 20 January 2021.

Share options granted on 6 July 2016

- One-third was vested on 6 July 2017;
- One-third was vested on 6 July 2018;
- One-third shall vest on 6 July 2019; and
- Exercise period started on 6 July 2017 and shall end on 20 January 2021.

During the 2018 Interim Period, no options was cancelled or lapsed.

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

As at 30 June 2018, 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 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[5]
Mr. Yan Weibin	800,000 (L)	Beneficial owner	0.06%
	400,000 (L)	Beneficial owner[2]	0.03%
	118,539,085 (L)	Interest of a controlled corporation[3]	8.90%
Mr. Bartle van der Meer	800,000 (L)	Beneficial owner	0.06%
	400,000 (L)	Beneficial owner[2]	0.03%
	124,205,230 (L)	Interest of a controlled corporation[4]	9.32%
Ms. Ng Siu Hung	666,000 (L)	Beneficial owner	0.05%
	334,000 (L)	Beneficial owner[2]	0.03%
Mr. Tsai Chang-Hai	200,000 (L)	Beneficial owner	0.02%
	100,000 (L)	Beneficial owner[2]	0.01%
Mr. Zeng Xiaojun	200,000 (L)	Beneficial owner	0.02%
	100,000 (L)	Beneficial owner[2]	0.01%
Ms. Ho Mei-Yueh	200,000 (L)	Beneficial owner	0.02%
	100,000 (L)	Beneficial owner[2]	0.01%
Mr. Jason Wan	200,000 (L)	Beneficial owner	0.02%
	100,000 (L)	Beneficial owner[2]	0.01%
Mr. Lau Chun Fai Douglas	200,000 (L)	Beneficial owner	0.02%
	100,000 (L)	Beneficial owner[2]	0.01%

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. Details of the Share Option Scheme are set out in the section headed "Share Option Scheme" above.

3. The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan Weibin. Mr. Yan Weibin is therefore deemed to be interested in 118,539,085 Shares under the SFO.

4. The Shares are held by Dutch Dairy Investments HK Limited ("**DDIHK**"), which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer. Mr. Bartle van der Meer is therefore deemed to be interested in 124,205,230 Shares held by DDIHK under the SFO.

5. As at 30 June 2018, the total number of the issued Shares of the Company was 1,332,250,630.

Save as disclosed above, as at 30 June 2018, 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 2018, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	Number of Shares (1 & 2)	Nature of interest	Approximate percentage of issued share capital (9)
Center Laboratories, Inc. (3)	361,738,129 (L)	Beneficial owner	27.15%
	33,798,040 (S)	Beneficial owner	2.54%
	144,193,643 (L)	Interest of a controlled corporation	10.82%
	96,201,960 (S)	Interest of a controlled corporation	7.22%
Beijing State-owned Capital Operations & Management Center (4)	124,205,230 (L)	Interest of a controlled corporation	9.32%
China Securities (International) Finance Company Limited (4)	124,205,230 (L)	Beneficial owner	9.32%
China Securities (International) Finance Holding Company Limited (4)	124,205,230 (L)	Interest of a controlled corporation	9.32%
CSC Financial Co. Ltd. (4)	124,205,230 (L)	Interest of a controlled corporations	9.32%
DDI (5)	124,205,230 (L)	Interest of a controlled corporation	9.32%
DDIHK (5)	124,205,230 (L)	Beneficial owner	9.32%
Fan Deming BV (5)	124,205,230 (L)	Interest of a controlled corporation	9.32%
BioEngine Capital Inc. (3)	123,355,375 (L)	Beneficial owner	9.26%

Name	Number of Shares[1 & 2]	Nature of interest	Approximate percentage of issued share capital[9]
Ms. Chen Miaoyuan [8]	119,739,085 (L)	Interest of spouse	8.99%
Ausnutria BVI [6]	118,539,085 (L)	Beneficial owner	8.90%
Babyland Holdings Limited [7]	71,301,949 (L)	Beneficial owner	5.35%
Chengwei Evergreen Capital L.P. [7]	71,301,949 (L)	Interest of controlled corporations	5.35%
Chengwei Evergreen Management, LLC [7]	71,301,949 (L)	Interest of controlled corporations	5.35%

Notes:

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

2. The letter "S" denotes a person's "short position" (as defined under Part XV of the SFO) in such Shares.

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

4. China Securities (International) Finance Company Limited is wholly-owned by China Securities (International) Finance Holding Company Limited. China Securities (International) Finance Holding Company Limited is wholly-owned by CSC Financial Co. Ltd. CSC Financial Co. Ltd is listed on the Main Board of the Stock Exchange (stock code: 6066) and owned as to 37.04% by Beijing State-owned Capital Operations & Management Center.

5. DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V.. Fan Deming B.V. is wholly-owned by Mr. Bartle van der Meer.

6. Ausnutria BVI is wholly-owned by Mr. Yan Weibin. Mr. Yan Weibin is therefore deemed to be interested in 118,539,085 Shares held by Ausnutria BVI under the SFO.

7. Babyland Holdings Limited is owned as to 93.88% by Chengwei Evergreen Capital, L.P. Chengwei Evergreen Capital, L.P. is wholly-owned by Chengwei Evergreen Management, LLC.

8. Ms. Chen Miaoyuan is the spouse of Mr. Yan Weibin. Ms. Chen Miaoyuan is therefore deemed to be interested in 119,739,085 Shares held by Mr. Yan Weibin under the SFO.

9. As at 30 June 2018, the total number of the issued Shares was 1,332,250,653.

Save as disclosed above, as at 30 June 2018, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the 2018 Interim Period (2017 Interim Period: Nil).

DIVIDEND DISTRIBUTION

The Board does not recommend a payment of an interim dividend for the 2018 Interim Period (2017 Interim Period: Nil).

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

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
REVENUE	4	**2,582,355**	1,702,947
Cost of sales		**(1,384,805)**	(989,962)
Gross profit		**1,197,550**	712,985
Other income and gains	4	**104,629**	20,341
Selling and distribution expenses		**(696,554)**	(371,368)
Administrative expenses		**(176,350)**	(128,279)
Other expenses		**(17,133)**	(8,605)
Finance costs	6	**(21,700)**	(9,029)
Share of profits and losses of:			
A joint venture		**1,033**	–
Associates		**2,636**	5,828
Profit before tax	5	**394,111**	221,873
Income tax expense	7	**(57,341)**	(53,869)
PROFIT FOR THE PERIOD		**336,770**	168,004
Attributable to:			
Owners of the parent		**327,329**	153,282
Non-controlling interests		**9,441**	14,722
		336,770	168,004
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted	9		
Basic			
– For profit for the period (RMB cents)		**25.92**	12.28
Diluted			
– For profit for the period (RMB cents)		**25.60**	12.22

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD		**336,770**	168,004
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		**(36,220)**	15,353
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**(36,220)**	15,353
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains on the defined benefit plan		**–**	355
Income tax effect		**–**	(133)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	222
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**(36,220)**	15,575
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**300,550**	183,579
Attributable to:			
Owners of the parent		**286,142**	168,847
Non-controlling interests		**14,408**	14,732
		300,550	183,579

Interim Condensed Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**1,547,307**	1,537,068
Prepaid land lease payments		**27,536**	27,960
Goodwill		**273,885**	155,596
Other intangible assets		**372,460**	330,027
Investment in a joint venture	11	**–**	43,122
Investments in associates	12	**215,910**	65,183
Deposit paid	13	**–**	58,543
Derivative financial instruments	14	**–**	13,856
Deferred tax assets		**167,538**	170,692
Total non-current assets		**2,604,636**	2,402,047
CURRENT ASSETS			
Inventories	15	**1,292,833**	1,083,385
Trade and bills receivables	16	**301,874**	225,412
Prepayments, deposits and other receivables		**373,995**	305,206
Derivative financial instruments		**764**	729
Pledged deposits	17	**923,108**	968,701
Cash and cash equivalents	17	**713,077**	635,650
Total current assets		**3,605,651**	3,219,083
CURRENT LIABILITIES			
Trade payables	18	**344,941**	271,925
Contract liabilities		**319,803**	282,399
Other payables and accruals		**1,014,612**	918,679
Derivative financial instruments		**1,381**	1,592
Interest-bearing bank loans and other borrowings		**1,611,031**	1,158,040
Tax payable		**133,076**	130,605
Total current liabilities		**3,424,844**	2,763,240
NET CURRENT ASSETS		**180,807**	455,843
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,785,443**	2,857,890

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,785,443	2,857,890
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		533,093	814,144
Defined benefit plan		6,251	6,374
Derivative financial instruments	19	221,981	–
Other long-term liability		2,576	–
Deferred tax liabilities		96,015	90,366
Total non-current liabilities		859,916	910,884
Net assets		1,925,527	1,947,006
EQUITY			
Equity attributable to owners of the parent			
Share capital	20	115,434	109,172
Reserves		1,668,345	1,631,319
		1,783,779	1,740,491
Non-controlling interests		141,748	206,515
Total equity		1,925,527	1,947,006

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Share option 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
At 1 January 2018 (audited)	**109,172**	**876,049**	**(317,246)**	**17,658**	**120,064**	**(98,293)**	**1,033,087**	**1,740,491**	**206,515**	**1,947,006**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**327,329**	**327,329**	**9,441**	**336,770**
Other comprehensive income/(loss) for the period:										
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(41,187)**	**–**	**(41,187)**	**4,967**	**(36,220)**
Total comprehensive income for the period	**109,172**	**876,049**	**(317,246)**	**17,658**	**120,064**	**(139,480)**	**1,360,416**	**2,026,633**	**220,923**	**2,247,556**
Exercise of share option (note 21)	**1,052**	**30,851**	**–**	**(6,112)**	**–**	**–**	**–**	**25,791**	**–**	**25,791**
Acquisition of a subsidiary (note 22)	**1,094**	**92,800**	**–**	**–**	**–**	**–**	**–**	**93,894**	**(96)**	**93,798**
Acquisition of non-controlling interests	**4,116**	**394,315**	**(655,636)**	**–**	**–**	**–**	**–**	**(257,205)**	**(18,635)**	**(275,840)**
Final 2017 dividend declared	**–**	**(106,743)**	**–**	**–**	**–**	**–**	**–**	**(106,743)**	**–**	**(106,743)**
Dividends paid to non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(60,444)**	**(60,444)**
Equity-settled share option arrangements (note 21)	**–**	**–**	**–**	**1,409**	**–**	**–**	**–**	**1,409**	**–**	**1,409**
Transfer from retained profits	**–**	**–**	**329**	**–**	**–**	**–**	**(329)**	**–**	**–**	**–**
At 30 June 2018 (unaudited)	**115,434**	**1,287,272***	**(972,553)***	**12,955***	**120,064***	**(139,480)***	**1,360,087***	**1,783,779**	**141,748**	**1,925,527**
At 1 January 2017 (audited)	108,455	911,574	(317,246)	11,793	84,243	(91,518)	760,768	1,468,069	121,582	1,589,651
Profit for the 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
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	5,757	5,757
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(5,869)	(5,869)
Equity-settled share option arrangements (note 21)	–	–	–	3,994	–	–	–	3,994	–	3,994
Transfer from retained profits	–	–	–	–	9,800	–	(9,800)	–	–	–
At 30 June 2017 (unaudited)	108,455	911,574*	(317,246)*	15,787*	94,043*	(76,175)*	904,472*	1,640,910	136,202	1,777,112

* These components of equity comprise the consolidated reserves of RMB1,668,345,000 (31 December 2017: RMB1,631,319,000) as at 30 June 2018 in the consolidated statement of financial position.

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**394,111**	221,873
Adjustments for:			
Finance costs	6	**21,700**	9,029
Share of profits and losses of a joint venture and associates		**(3,669)**	(5,828)
Interest income	4	**(12,857)**	(15,963)
Gain on re-measurement of previously held interest in a joint venture	4	**(35,036)**	–
Loss on disposal of items of property, plant, and equipment	10	**85**	–
Depreciation and amortisation	5	**70,907**	35,796
Write-down of inventories to net realisable value	5	**43,510**	2,609
Write-off of trade receivables	5	**79**	718
Equity-settled share option arrangements	5	**1,409**	3,994
Fair value gain on derivative instruments – transaction not qualifying as hedges	5	**(24,107)**	(610)
		456,132	251,618
Increase in inventories		**(266,910)**	(168,681)
Decrease/(increase) in trade and bills receivables		**(70,132)**	675
Increase in prepayments, deposits and other receivables		**(65,842)**	(84,225)
Increase in trade payables		**64,320**	151,846
Increase in other payables and accruals		**133,964**	225,660
Cash generated from operations		**251,532**	376,893
Interest received		**12,135**	36,788
Interest paid		**(18,656)**	(9,586)
Mainland China corporate income tax paid		**(62,652)**	(50,906)
Overseas tax paid		**(4,702)**	(2,074)
Net cash flows from operating activities		**177,657**	351,115
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(188,748)**	(247,891)
Proceeds from disposal of items of property, plant and equipment		**450**	–
Proceeds from disposal of intangible assets		**366**	–
Additions to other intangible assets		**(21,447)**	(21,220)
Acquisition of a subsidiary	22	**48,146**	(7,470)
Dilution of interest in a subsidiary to an associate	23	**(422)**	–
Increase in time deposits		**–**	(358,140)
Decrease/(increase) in pledged time deposits		**45,593**	(44,814)
Net cash flows used in investing activities		**(116,062)**	(679,535)

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of the share options		25,791	–
New bank loans and other borrowings		475,788	317,227
Repayments of bank loans and other borrowings		(267,095)	(130,001)
Acquisition of non-controlling interests		(39,131)	–
Dividends paid		(106,707)	–
Dividends paid to non-controlling shareholders of subsidiaries		(60,444)	(5,869)
Interest element of finance lease rental payments		(3,256)	(145)
Net cash flows from financing activities		24,946	181,212
NET INCREASE IN CASH AND CASH EQUIVALENTS		86,541	(147,208)
Cash and cash equivalents at beginning of period		635,650	448,262
Effect of foreign exchange rate changes, net		(9,114)	14,677
CASH AND CASH EQUIVALENTS AT END OF PERIOD		713,077	315,731
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	713,077	315,731
Non-pledged time deposits with original maturity of more than three months when acquired		923,108	456,410
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position		1,636,185	772,141
Non-pledged time deposits with original maturity of more than three months when acquired		(923,108)	(456,410)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows		713,077	315,731

1. CORPORATE AND GROUP 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 and its subsidiaries are hereinafter collectively referred to as the Group.

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

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

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 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 2017. The interim condensed consolidated financial statements are presented in RMB and all values are rounded to nearest thousand (RMB'000), except when otherwise indicated.

New standards, interpretations and amendments adopted by the Group

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 2017, except for the adoption of new standards and interpretations as of 1 January 2018 noted below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

New standards, interpretations and amendments adopted by the Group (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.

IFRS 15	*Revenue from Contracts with Customers*
IFRS 9	*Financial Instruments*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IAS 28	*Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

IFRS 15 *Revenue from Contracts with Customers* (continued)

The Group adopted IFRS 15 using the full retrospective method of adoption. The effect of adopting IFRS 15 is, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2017:

	Adjustment	*RMB'000*
Liabilities		
Contract liabilities	(a)	282,399
Other payables and accruals	(a)	(282,399)
Total current liabilities		–
Total liabilities		–

The Group's principal activities consist of the production and distribution of dairy and related products and nutrition products to its worldwide customers.

(a) Sale of goods

The Group's contracts with customers for the sale of dairy and related products and nutrition products generally include one performance obligation. The Group has concluded that revenue from sale of dairy and related products and nutrition products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the dairy and related products and nutrition products. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Customer loyalty programs

The Group operates a customer loyalty programs in Mainland China, which allows customers to accumulate award points when they purchase the Group's products. The points can be redeemed for free products, subject to a minimum number of points obtained. Prior to adoption of IFRS 15, the customer loyalty programs offered by the Group resulted in the allocation of a portion of the transaction price to the customer loyalty programs using the fair value of award points issued and recognition of the deferred revenue in relation to award points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the award points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programme should be same compared to the previous accounting policy. The *Deferred revenue* related to this award points was reclassified to *Contract liabilities*.

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

IFRS 15 *Revenue from Contracts with Customers* (continued)

(a) Sale of goods (continued)

Sales incentive programs

The Group's operates a sales incentive promotional policy in Mainland China, which grants distributors free goods who have fulfilled the target of purchase amount. Prior to adoption of IFRS 15, the sales incentive programs offered by the Group resulted in the allocation of a portion of the transaction price to the sales incentive programs using the fair value of free goods granted and recognition of the deferred revenue in relation to free goods granted but not yet transferred. The Group concluded that under IFRS 15 the free good granted gives rise to a separate performance obligation because they provide a material right to the distributor and allocated a portion of the transaction price to the free good granted to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the incentive programme should be same compared to the previous accounting policy. The Deferred revenue related to this free goods granted was reclassified to *Contract liabilities*.

(b) Presentation and disclosure requirements

As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 for the disclosure on disaggregated revenue.

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

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group adopted IFRS 9 from 1 January 2018. The Group has performed a detailed assessment of the impact of the adoption of IFRS 9, and concluded IFRS 9 does not have material impact on the Group's consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 28 *Investments in Associates and Joint Ventures Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have any impact on the Group's consolidated financial statements.

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2018 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	2,529,817	52,538	2,582,355
Intersegment sales	–	–	–
	2,529,817	52,538	2,582,355
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			2,582,355
Segment results	429,803	(15,164)	414,639
Reconciliation:			
Interest income			12,857
Finance costs			(21,700)
Corporate and other unallocated expenses			(11,685)
Profit before tax			394,111
Other segment information			
Impairment losses recognised in profit or loss	43,589	–	43,589
Share of profits and losses of a joint venture	1,033	–	1,033
Share of profits and losses of associates	2,636	–	2,636
Depreciation and amortisation	65,614	5,293	70,907
Capital expenditure*	207,244	2,951	210,195

As at 30 June 2018 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment assets	4,486,481	265,412	4,751,893
Reconciliation:			
Elimination of intersegment receivables			(177,791)
Corporate and other unallocated assets			1,636,185
Total assets			6,210,287
Segment liabilities	2,168,944	149,483	2,318,427
Reconciliation:			
Elimination of intersegment payables			(177,791)
Corporate and other unallocated liabilities			2,144,124
Total liabilities			4,284,760
Other segment information			
Investments in associates	215,910	–	215,910

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2017 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,670,352	32,595	1,702,947
Intersegment sales	–	–	–
	1,670,352	32,595	1,702,947
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			1,702,947
Segment results	246,700	(14,874)	231,826
Reconciliation:			
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 and losses of associates	5,828	–	5,828
Depreciation and amortisation	30,130	5,666	35,796
Capital expenditure*	268,749	362	269,111

As at 31 December 2017 (audited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment assets	3,873,877	217,485	4,091,362
Reconciliation:			
Elimination of intersegment receivables			(74,583)
Corporate and other unallocated assets			1,604,351
Total assets			5,621,130
Segment liabilities	1,683,882	92,641	1,776,523
Reconciliation:			
Elimination of intersegment payables			(74,583)
Corporate and other unallocated liabilities			1,972,184
Total liabilities			3,674,124
Other segment information			
Investment in a joint venture	43,122	–	43,122
Investments in associates	65,183	–	65,183

* 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	**1,866,386**	1,162,583
European Union	**287,503**	312,371
Middle East	**36,516**	60,096
United States of America	**63,270**	55,895
Australia	**125,369**	40,411
New Zealand	**18,841**	–
Others	**184,470**	71,591
	2,582,355	1,702,947

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

(b) Non-current assets

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	**437,862**	343,055
The Netherlands	**1,325,955**	1,352,371
Australia	**511,944**	365,646
New Zealand	**161,337**	170,283
	2,437,098	2,231,355

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

Information about a major customer

During the six months ended 30 June 2018, 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 2017: 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 revenue, other income and gains is as follows:

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue			
Sale of goods		**2,582,355**	1,702,947
Timing of revenue recognition			
Goods transferred at a point in time		**2,582,355**	1,702,947
Other income and gains			
Gain on re-measurement of previously held interest in a joint venture	(i)	**35,036**	–
Gain on fair value changes of derivative financial instrument	19	**26,778**	–
Interest income		**12,857**	15,963
Government grants	(ii)	**12,529**	3,014
Foreign exchange gains		**3,310**	–
Management fees income from an associate		**61**	148
Others		**14,058**	1,216
Total other income and gains		**104,629**	20,341

(i) On 29 June 2018, the Group completed the acquisition of the remaining 50% equity interest in Ozfarm, which was accounted for as a joint venture of the Company immediately prior to the acquisition (note 22). Balance represented gain on re-measurement of previously held 50% equity interest in Ozfarm as a result of the Second Ozfarm Acquisition.

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

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,341,295**	987,353
Write-down of inventories to net realisable value	**43,510**	2,609
Cost of sales	**1,384,805**	989,962
Depreciation	**51,062**	26,916
Amortisation of prepaid land lease payments	**424**	389
Amortisation of other intangible assets	**19,421**	8,491
Research and development costs	**23,447**	14,270
Minimum lease payments under operating leases	**7,264**	5,866
Foreign exchange differences, net	**(3,310)**	1,121
Fair value gain on derivative instruments		
– transactions not qualifying as hedges	**(24,107)**	(610)
Write-off of trade receivables	**79**	718
Auditor's remuneration	**3,610**	3,382
Advertising and promotion expenses	**335,168**	165,181
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**372,716**	200,896
Equity-settled share option expense	**1,409**	3,994
Pension scheme contributions*	**19,911**	14,387
	394,036	219,277

* At 30 June 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2017: Nil).

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans, overdrafts and other loans	**18,829**	11,304
Interest on finance leases	**3,256**	280
Total interest expense on financial liabilities not at fair value through profit or loss	**22,085**	11,584
Less: Interest capitalised	**–**	(1,790)
	22,085	9,794
Other finance costs:		
Unrealised gain on an interest rate swap	**(385)**	(765)
	21,700	9,029

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the six months ended 30 June 2018 (six months ended 30 June 2017: 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 corporate income tax ("**CIT**") at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the United States tax laws, enterprises are subject to the United States CIT rate of 21%. Under the Canada tax laws, enterprises are subject to the Canada CIT rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia CIT rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand CIT rate of 28%. Under the Taiwan tax laws, enterprises are subject to the Taiwan CIT rate of 17%.

7. INCOME TAX (continued)

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current charge for the period		
Mainland China	**57,707**	75,743
The Netherlands	**12,047**	573
Hong Kong	**1,864**	–
Taiwan	**228**	–
Deferred income tax	**(14,505)**	(22,447)
Total	**57,341**	53,869

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 1,262,763,359 (six months ended 30 June 2017: 1,247,732,530) in issue during the period.

The calculation of the diluted earnings per share amount 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.

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

Earnings

	Six months ended 30 June	
	2018	2017
	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	**327,329**	153,282

Shares

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,262,763,359**	1,247,732,530
Effect of dilution – weighted average number of ordinary shares:		
Share options	**16,106,954**	6,444,651
	1,278,870,313	1,254,177,181

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired assets with a cost of RMB36,616,000 (six months ended 30 June 2017: RMB33,179,000), excluding property, plant and equipment acquired through the Second Ozfarm Acquisition (note 22).

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 30 June 2018 was EUR29,768,000 (equivalent to approximately RMB227,772,000) (31 December 2017: EUR30,875,000, equivalent to approximately RMB240,896,000).

Assets with a net book value of RMB526,000 were disposed by the Group during the six months ended 30 June 2018 (31 December 2017: RMB189,000), resulting in a net loss on disposal of RMB85,000 (31 December 2017: RMB73,000).

10. PROPERTY, PLANT AND EQUIPMENT (continued)

At 30 June 2018, the Group had pledged the land and buildings, plant and machineries and construction in progress that were attributed to Ausnutria B.V. (formerly Ausnutria (Dutch) Holdings B.V.) and its subsidiaries (the "**Ausnutria B.V. Group**") and located in the Netherlands with net carrying amounts of EUR87,715,000 (equivalent to approximately RMB671,153,000) (31 December 2017: EUR20,216,000, equivalent to approximately RMB157,731,000) and EUR51,579,000 (equivalent to approximately RMB394,660,000) (31 December 2017: EUR104,178,000, equivalent to approximately RMB812,828,000), respectively for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans. As at 31 December 2017, the Group also pledged the land and buildings in Australia with a carrying value of AUD6,600,000, equivalent to approximately RMB33,612,000, for the banking facilities granted to the operations of the Group in Australia. Such bank loans were repaid during the period and the corresponding pledge of the land and buildings in Australia was released during the period accordingly.

As at 30 June 2018, the Group's land included in property, plant and equipment with a net carrying amount of EUR7,443,000 (equivalent to approximately RMB56,950,000) (31 December 2017: EUR7,354,000, equivalent to approximately RMB57,378,000), AUD4,430,000 (equivalent to approximately RMB21,545,000) (31 December 2017: AUD4,430,000, equivalent to approximately RMB22,561,000) and NZD3,000,000 (equivalent to approximately RMB13,411,000) (31 December 2017: NZD3,000,000, equivalent to approximately RMB12,981,000) are situated in the Netherlands, Australia and New Zealand, respectively, and are held as freehold land.

11. INVESTMENT IN A JOINT VENTURE

Balance as at 31 December 2017 represented the Group's 50% equity interest in Ozfarm. During the period, the Group acquired the remaining 50% equity interest in Ozfarm and Ozfarm is accounted for as a wholly-owned subsidiary of the Company thereafter.

Further details regarding the investment in Ozfarm are set out in note 22 to the interim condensed consolidated financial statements.

12. INVESTMENTS IN ASSOCIATES

During the period, the Group's interest in the HQ Development Company was diluted to 51% subsequent to the subscription of 49% interest in the HQ Development Company by the HQ Land Development Partner. The HQ Development Company is principally engaged in the development of the HQ Land for the future headquarter of the Group. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company was then accounted for as an associate of the Company. The increase in balance was mainly due to the inclusion of the interest in the HQ Development Company with the carrying value of RMB152,853,000 (31 December 2017: Nil) as at 30 June 2018.

Further details are set out in note 23 to the interim condensed consolidated financial statements.

13. DEPOSIT PAID

Balance as at 31 December 2017 represented deposit paid by the HQ Development Company for the purchase of the HQ Land. During the period, the Group entered into an agreement with the HQ Land Development Partner for the development of the HQ Land. Following the subscription of 49% interest in the HQ Development Company by the HQ Land Development Partner, the Group's interest in the HQ Development Company was diluted to 51% and the deposit paid was transferred to "Investments in associates" account during the period accordingly (note 12).

Further details are set out in note 23 to the interim condensed consolidated financial statements.

14. DERIVATIVE FINANCIAL INSTRUMENTS

Pursuant to the share purchase deed of the First Ozfarm Acquisition, the Group was granted with a call option (the "**Ozfarm Call Option**") to acquire the remaining 50% equity interest in Ozfarm from the Ozfarm Vendors for a prescribed period. Balance as at 31 December 2017 represented fair value of the Ozfarm Call Option.

The Ozfarm Call Option became lapsed upon completion of the Second Ozfarm Acquisition.

Further details in relation to the Second Ozfarm Acquisition are set out in note 22 to the interim condensed consolidated financial statements.

15. INVENTORIES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Raw materials	510,647	369,011
Finished goods	766,076	703,833
Others	16,110	10,541
Total	1,292,833	1,083,385

At 30 June 2018, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR98,735,000 (equivalent to approximately RMB755,467,000) (31 December 2017: EUR84,741,000, equivalent to approximately RMB661,175,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

16. TRADE AND BILLS RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables	277,417	200,855
Bills receivable	24,457	24,557
Total	301,874	225,412

The Group normally allows a credit period from 1 to 12 months (31 December 2017: 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' trade receivables are amounts due from associates of EUR3,317,000 (equivalent to approximately RMB25,380,000) (31 December 2017: EUR1,450,000, equivalent to approximately RMB11,313,000) which are repayable on similar credit terms to those offered to the major customers of the Group.

An ageing 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 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	228,933	187,246
3 to 6 months	40,276	7,413
6 months to 1 year	5,664	3,298
Over 1 year	2,544	2,898
Total	277,417	200,855

There was no provision for impairment as at 30 June 2018 (31 December 2017: Nil). The carrying amounts of the trade and bills receivables approximate their fair values.

16. TRADE AND BILLS RECEIVABLES (continued)

As at 30 June 2018, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR20,774,000 (equivalent to approximately RMB158,952,000) (31 December 2017: EUR12,694,000, equivalent to approximately RMB99,042,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Cash and bank balances	487,147	398,361
Time deposits	1,149,038	1,205,990
	1,636,185	1,604,351
Less: Pledged deposits	(923,108)	(968,701)
Cash and cash equivalents	713,077	635,650

As at 30 June 2018, the Group's cash and bank balances denominated in RMB amounted to RMB238,221,000 (31 December 2017: RMB147,600,000). In addition, time deposits of the Group denominated in RMB amounted to RMB1,149,038,000 (31 December 2017: RMB1,205,271,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

18. TRADE PAYABLES

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 12 months	343,929	271,326
Over 12 months	1,012	599
	344,941	271,925

Included in the trade payables are amounts due to associates of EUR7,634,000 (equivalent to approximately RMB58,415,000) (31 December 2017: EUR3,072,000, equivalent to approximately RMB23,972,000). As at 31 December 2017, the balance also included an amount due to a joint venture of AUD19,000 (equivalent to approximately RMB97,000). The amounts due to associates and a joint venture are repayable within 60 days.

Trade payables are interest-free and are normally settled within 12 months (31 December 2017: within 12 months).

19. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Subsequent HNC Consideration	(i)	216,145	–
Subsequent Ozfarm Consideration	22	5,836	–
		221,981	–

(i) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in the HNC Group. The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 which is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021. Balance as at 30 June 2018 represented the fair value of the Subsequent HNC Consideration which was derived with reference to management's estimation of the future financial performance of the HNC Group for the three years as mentioned in the above and the closing market price of the Shares at 30 June 2018. The Subsequent HNC Consideration is classified as derivative financial instrument and is measured at fair value through profit or loss. The gain arising from the change in fair value between the date of completion of the HNC Group Acquisition and the reporting date amounted to RMB26.8 million.

20. SHARE CAPITAL

Shares

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Issued and fully paid:		
1,332,250,653 (2017: 1,256,061,530) ordinary shares of HK$0.10 each	133,225	125,606

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

	Notes	Number of shares in issue	Share capital RMB'000
At 1 January 2018		1,256,061,530	109,172
Share options exercised	(i)	12,915,000	1,052
Acquisition of non-controlling interests	(ii)	50,294,123	4,116
Acquisition of subsidiaries	(iii)	12,980,000	1,094
At 30 June 2018		1,332,250,653	115,434

Notes:

(i) The subscription rights attaching to 12,915,000 share options were exercised at the subscription price of HK$2.45 per share (note 21), resulting in the issue of shares 12,915,000 for a total cash consideration before expenses, of HK$31,642,000 (equivalent to approximately RMB25,791,000). An amount of RMB6,112,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

(ii) On 30 May 2018, 50,294,123 new ordinary shares of the Company were allotted and issued to satisfy the HNC Group Acquisition, at each share price fair value of HK$9.68, amounting to HK$486,847,110 (equivalent to approximately RMB398,431,000).

(iii) On 26 June 2018, 12,980,000 new ordinary shares of the Company were allotted and issued to satisfy the Second Ozfarm Acquisition, at each share price fair value of HK$8.58, amounting to HK$111,368,400 (equivalent to approximately RMB93,894,000).

21. SHARE OPTION SCHEME

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

i. any employee or proposed employee (whether full-time or part-time), consultants or advisers of or to the Group, any of 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 or any Invested Entity;

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

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

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

The Scheme became effective on 19 September 2009 and, unless otherwise cancelled or amended, will be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional (i.e. valid till 20 January 2016).

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Group are subject to approval in advance by the directors (excluding any independent non-executive directors who are the grantees of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of 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.

21. SHARE OPTION SCHEME (continued)

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

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

	2018		2017	
	Weighted average exercise price HK$ per share (Unaudited)	**Number of options '000 (Unaudited)**	Weighted average exercise price HK$ per share (Unaudited)	Number of options '000 (Unaudited)
At 1 January	**2.45**	**37,486**	2.45	46,615
Exercised during the period	**2.45**	**(12,915)**	–	–
At 30 June	**2.45**	**24,571**	2.45	46,615

The weighted average exercise price at the date of exercise for share options exercised during the period was HK$2.45 per share (six months ended 30 June 2017: No share options were exercised).

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

30 June 2018 (Unaudited)	**Number of options '000**	**Exercise price HK$ per share**	**Exercise period**
	12,790	**2.45**	**21-1-2017 to 20-1-2021**
	11,781	**2.45**	**06-7-2017 to 20-1-2021**
	24,571		

21. SHARE OPTION SCHEME (continued)

31 December 2017 (Audited)	Number of options '000	Exercise price HK$ per share	Exercise period
	25,471	2.45	21-1-2017 to 20-1-2021
	12,015	2.45	06-7-2017 to 20-1-2021
	37,486		

The fair value of the share options granted was HK$27,477,000 (31 December 2017: HK$27,477,000), of which the Group recognised a share option expense of HK$1,730,000 (equivalent to approximately RMB1,409,000) during the period ended 30 June 2018 (six months ended 30 June 2017: HK$4,529,000, equivalent to approximately RMB3,994,000).

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

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

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 12,915,000 share options exercised during the period resulted in the issue of 12,915,000 ordinary shares of the Company and new share capital of HK$1,291,500 (equivalent to approximately RMB1,052,000) (before issue expenses), as further detailed in note 20 to the interim condensed consolidated financial statements.

21. SHARE OPTION SCHEME (continued)

At the end of the reporting period, the Company had 24,571,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 24,571,000 additional ordinary shares of the Company and additional share capital of HK$2,457,100 (equivalent to approximately RMB2,096,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 24,571,000 share options outstanding under the Scheme, which represented approximately 1.8% of the Company's shares in issue as at that date.

22. BUSINESS COMBINATION

Pursuant to a share purchase deed entered into between the Group and the Ozfarm Vendors on 1 June 2018, the Group agreed to purchase and the Ozfarm Vendors agreed to sell the remaining 50% equity interest in Ozfarm at the Upfront Ozfarm Consideration. According to the share purchase deed, the consideration is subject to an adjustment, to be determined based on the financial performance of Ozfarm for the two years ending 31 December 2020 and 2021. The Subsequent Ozfarm Consideration, if any, will be settled by cash or by the issue and allotment of the Shares (or any combination) at the discretion of the Group.

Ozfarm is principally engaged in the infant formula and nutrition business, operates on formula milk products for infant, children, pregnant mothers and elderlies under its own brand name Oz Farm®.

Ozfarm was accounted for as a joint venture of the Company previously. Upon completion of the Second Ozfarm Acquisition on 29 June 2018, Ozfarm became an indirect wholly-owned subsidiary of the Company.

Apart from the above, on 29 June 2018, the Group also completed the acquisition of 42.5% equity interest in Ozfarm Royal (HK) Limited ("Ozfarm HK") at a cash consideration of AUD1. Ozfarm HK was accounted for as an associate of the Company previously and became an indirect 85% owned subsidiary of the Company upon completion of the acquisition.

22. BUSINESS COMBINATION (continued)

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

	Note	Fair value recognised on Second Ozfarm Acquisition RMB'000 (Unaudited)
Property, plant and equipment		972
Intangible assets		51,645
Inventories		1,307
Trade receivables		10,735
Prepayments, deposits and other receivables		1,916
Cash and cash equivalents		48,146
Trade payables		(14,348)
Other payables and accruals		(6,663)
Tax payable		(8,357)
Deferred tax liabilities		(15,028)
Total identifiable net assets at fair value		70,325
Non-controlling interests		96
Goodwill on acquisition		123,172
Total consideration		193,593
Satisfied by:		
Upfront Ozfarm Consideration		93,894
Subsequent Ozfarm Consideration	19	5,836
Previously held interest in Ozfarm		82,676
Ozfarm Call Option		11,187
		193,593

The Group incurred transaction costs of RMB251,000 for the Second Ozfarm Acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

22. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the Second Ozfarm Acquisition are as follows:

	RMB'000 (Unaudited)
Cash consideration	–
Cash and bank balances acquired	48,146
Net inflow of cash and cash equivalents included in cash flows from investing activities	48,146
Transaction costs of the acquisitions included in cash flows from operating activities	(251)
	47,895

As the completion of the Second Ozfarm Acquisition took place on 29 June 2018, the above acquired company's contribution to the Group's revenue or to the consolidated profit for the period ended 30 June 2018 is not significant.

Assuming combination took place at the beginning of the period, the revenue from the continuing operations of the Group and the profit of the Group for the period would have been RMB2,613,887,000 and RMB337,803,000, respectively.

23. DILUTION OF INTEREST IN A SUBSIDIARY TO AN ASSOCIATE

In 2017, the Group, through HQ Development Company, purchased two adjacent plots of land in the PRC at a total consideration of RMB139.0 million principally for the construction of the future headquarters for the Group. Their areas measure 34,424 square meters (the "**Land A**") and 6,922 square meters (the "**Land B**"), and are located in Changsha city, the PRC.

On 12 February 2018, in order to facilitate the development of the HQ Land, the Group entered into an agreement with HQ Land Development Partner for the investment in the HQ Development Company. Pursuant to the agreement, the HQ Land Development Partner will contribute RMB100.0 million immediately after entering into the agreement. After the capital injection made by HQ Land Development Partner on 25 May 2018, HQ Development Company is owned by the Group and the HQ Land Development Partner as to 51% and 49%, respectively. Further, except for the bank account which is jointly controlled by the Group and the HQ Land Development Partner, the HQ Land Development Partner will be responsible for the future management, daily operations, funding, and financing arrangements of the HQ Development Company. In return, the Group will be entitled to two office building blocks on the HQ Land. The buildings specifications are already agreed upon, with 40,000 square meters of floor area and 400 car parking spaces. Pursuant to the agreement, the office buildings have to be completed within thirty months from the date when all of the land use rights have been obtained by the Group. In February and May 2018, the Group obtained the land use rights for the Land A and the Land B, respectively, and the development of the HQ Land has already been commenced since July 2018. The construction of the headquarter is expected to be completed in late 2020.

23. DILUTION OF INTEREST IN A SUBSIDIARY TO AN ASSOCIATE (continued)

As a result of the above arrangement, the Group's interest in the HQ Development Company was reduced from 100% to 51% and the Group's investment for the headquarters was limited to the initial land costs. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company is accounted for as an associate of the Company.

	Six months ended 30 June 2018 RMB'000
Net assets disposed of:	
Property, plant and equipment	152,368
Cash and bank balances	422
Prepayments and other receivables	2,462
Accruals and other payables	(2,595)
	152,657
Gain arising upon dilution of interest in a subsidiary to an associate	196
Satisfied by:	
Investment in an associate	152,853

An analysis of the net outflow of cash and cash equivalents in respect of the dilution of interest in a subsidiary to an associate is as follows:

	Six months ended 30 June 2018 RMB'000
Cash consideration	–
Cash and bank balances disposed of	422
Net outflow of cash and cash equivalents in respect of the dilution of interest in a subsidiary to an associate	(422)

24. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

25. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 10, 15 and 16, respectively, to the interim condensed consolidated financial statements.

26. 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 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	8,123	8,161
In the second to fifth years, inclusive	10,338	10,293
	18,461	18,454

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	24,486	46,825
Buildings	811	57,981
Intangible assets	2,764	4,144
	28,061	108,950

28. 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:

	Notes	Six months end 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Purchases of products from a joint venture	(i)	**461**	–
Sales of products to a joint venture	(i)	**56,342**	–
Purchases of products from the associates	(i)	**131,491**	112,421
Sales of products to the associates	(i)	**116,831**	35,468
Management fees received from the associates	(ii)	**61**	148

Notes:

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

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

(b) Outstanding balances with related parties:

Details of the balances with the associates as at the end of the reporting period are disclosed in notes 16 and 18 to the interim condensed consolidated financial statements.

28. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	**14,913**	14,416
Retirement benefit contributions	**805**	553
Equity-settled share option expense	**845**	3,387
Total	**16,563**	18,356

29. 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 2018 (unaudited)

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	301,874	301,874
Financial assets included in prepayments, deposits and other receivables	–	9,883	9,883
Pledged deposits	–	923,108	923,108
Derivative financial instruments	764	–	764
Cash and cash equivalents	–	713,077	713,077
	764	1,947,942	1,948,706

29. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	344,941	344,941
Financial liabilities included in other payables and accruals	–	68,612	68,612
Derivative financial instruments	223,362	–	223,362
Interest-bearing bank loans and other borrowings	–	2,144,124	2,144,124
	223,362	2,557,677	2,781,039

31 December 2017 (audited)

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	225,412	225,412
Financial assets included in prepayments, deposits and other receivables	–	12,086	12,086
Pledged deposits	–	968,701	968,701
Derivative financial instruments	14,585	–	14,585
Cash and cash equivalents	–	635,650	635,650
	14,585	1,841,849	1,856,434

29. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	271,925	271,925
Financial liabilities included in other payables and accruals	–	97,970	97,970
Derivative financial instruments	1,592	–	1,592
Interest-bearing bank loans and other borrowings	–	1,972,184	1,972,184
	1,592	2,342,079	2,343,671

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2018 Unaudited RMB'000	31 December 2017 Audited RMB'000	**30 June 2018 Unaudited RMB'000**	31 December 2017 Audited RMB'000
Financial assets				
Derivative financial instruments	**764**	14,585	**764**	14,585
Financial liabilities				
Derivative financial instruments	**223,362**	1,592	**223,362**	1,592
Interest-bearing bank loans and other borrowings	**2,144,124**	1,972,184	**2,145,309**	1,943,952
	2,367,486	1,973,776	**2,368,671**	1,945,544

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

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due to associates, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2018 was assessed to be insignificant.

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

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

The fair values of the Subsequent HNC Consideration are based on quoted market prices. The fair value of the Subsequent Ozfarm Consideration have been estimated using an option pricing model based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected risk free rate and expected volatility. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values as at 30 June 2018.

As at 30 June 2018, 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.

Below is a summary of significant unobservable inputs to the valuation of the Subsequent Ozfarm Consideration together with a quantitative sensitivity analysis as at 30 June 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Subsequent Ozfarm Consideration	option pricing method	Risk Free Rate	2.01%	1% increase (decrease) in risk free rate would result in increase (decrease) in fair value by RMB490,000
		Volatility	40%	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB1,470,000

30. 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 2018 (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	–	764	–	764

As at 31 December 2017 (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	–	729	13,856	14,585

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 30 June 2018 (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	216,145	1,381	5,836	223,362

As at 31 December 2017 (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	–	1,592	–	1,592

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 2017: Nil).

31. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in this report, the Group has the following significant event which took place subsequent to the end of the reporting period.

Subsequent to the end of the reporting period, on 13 July 2018, the Group entered into a sale and purchase agreement with an independent third party (the "**AJM Vendor**") in relation to the acquisition of the 50% equity interest in Ausnutria Joannusmolen B.V. (formerly Joannusmolen Nutirtion B.V.) ("**AJM**") for a consideration of EUR4.0 million (the "**AJM Acquisition**").

The AJM Vendor and its associates (the "**AJM Group**") was established in 1982 and is currently one of the Private Label customers of the Group since 2011. The principal activities of the AJM Group are the sale and marketing of nutrition products, particularly formula milk powder products and cereals under the brand name of *Ekobaby* and *Biobim* with principal markets in Europe and the PRC. The purpose of the AJM Acquisition is to facilitate the extension of the Group's sales and distribution network in Europe. The Company believes that the AJM Acquisition not only facilitates the Group's presence in Europe, but also provides an immediate and well-established platform for the Group to launch its *Kabrita* and other products in Europe.

The AJM Acquisition was completed on 13 July 2018. Since then, AJM is equally owned by the Group and the AJM Vendor, and become an associate of the Company as the management of AJM is vested with the AJM Vendor.

32. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 14 August 2018.