INTERIM REPORT 2019

NOURISHING
LIFE & GROWTH

澳优
Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

INTERIM REPORT 2019

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 能立多	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, 睿活, PuredoNu 美纳优, Puredovita 启活, 美纳珍, puredo, Growkey 萃可舒
mygood 美优高	美优高, 美优高经典, 萃爱
Eurlate 纽莱可	Eurlate 欧选, Eurence, Hollisure
Oz Farm	
营养联邦 Nutriunion	NC Nutrition Care, Soforla 苏芙拉, KIDSBON

Utmost Execution

Non-stop Innovation

Team Working

Internationalisation

A u s n u t r i a

Accountable

Socially Responsible

Uncompromising on Quality

Respect

All for Nutrition

MISSION

Nourishing Life & Growth

VISION

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

SUSTAINABILITY VISION

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

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

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

COMPANY SECRETARY
Mr. Wong Wei Hua Derek

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

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

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

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

AUDITORS
Ernst & Young
Certified Public Accountants

FINANCIAL ADVISER ON RETAINER BASIS
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PRINCIPAL BANKERS
ABN AMRO Bank N.V.
Rabobank
The Hongkong and Shanghai Banking Corporation Limited
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The board (the "**Board**") of directors (the "**Directors**") of Ausnutria Dairy Corporation Ltd (the "**Company**"or "**Ausnutria**") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 (the "**2019 Interim Period**").

BUSINESS REVIEW

The 2019 Interim Period marked the beginning of the fourth year of the "Golden Decade" strategic plan and also signifies the tenth anniversary of Ausnutria's public listing. For the 2019 Interim Period, the Group recorded a revenue of RMB3,147.6 million, representing an increase of RMB565.2 million, or 21.9%, when compared with the corresponding period of 2018 (the "**2018 Interim Period**"). The performance of the own-branded formula milk powder business, one of the Group's core operations, was particularly outstanding, with a recorded revenue of RMB2,729.5 million, representing an increase of RMB653.0 million, or 31.4%, when compared with the 2018 Interim Period, and accounted for 86.7% (2018 Interim Period: 80.4%) of the total revenue of the Group. Such increase was partly offset by the decrease in revenue of the original equipment manufacturing for other worldwide customers (the "**Private Label**") and sales of dairy ingredients businesses, as a result of the Company's strategy to prioritise more resources to better serve its own-branded formula milk powder business. Such move has resulted in a temporary interruption of both the Private Label and sales of dairy ingredients businesses (in particular, butter) for the 2019 Interim Period.

During the 2019 Interim Period, the Group recorded a loss on the fair value change of derivative financial instrument of RMB174.4 million. On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hongkong) Company Limited and Hyproca Nutrition Co., Ltd (collectively, the "**HNC Group**") (the "**HNC Group Acquisition**"). The HNC Group is principally engaged in the marketing and distribution of goat milk nutrition products, in particular under the brand name of *Kabrita*, in Hong Kong, Macau, and the People's Republic of China (the "**PRC**"). Pursuant to the sale and purchase agreement for the HNC Group Acquisition, the consideration is subject to certain adjustments (the "**Subsequent HNC Consideration**"), which will be settled by the issuance and allotment of no more than 29,879,877 shares of the Company (the "**Shares**") (the "**Subsequent Consideration Shares**") around April 2021.

In accordance with International Accounting Standard 32, the Subsequent HNC Consideration, being a contingent consideration, is classified as a financial instrument and is measured at fair value through profit or loss. Accordingly, valuation of the Subsequent HNC Consideration and thus the fair value of the financial instrument hinges on the market price of the Shares. During the 2019 Interim Period, the Group recorded an other expense attributable to the loss on fair value changes of financial instrument arising from the Subsequent HNC Consideration of HK$202.0 million, equivalent to RMB174.4 million (the "**HNC FV Loss**") (2018 Interim Period: gain of RMB26.8 million). Such loss was calculated by multiplying the Subsequent Consideration Shares by the difference of the closing market price of the Shares between the last reporting date (i.e. HK$8.80 as at 31 December 2018) and at the end of the reporting period (i.e. HK$15.56 as at 30 June 2019). As a result, the Group's profit attributable to equity holders of the Company decreased by 20.4% to RMB260.5 million for the 2019 Interim Period. Excluding the HNC FV Loss of RMB174.4 million, the adjusted profit attributable to equity holders of the Company amounted to RMB434.9 million, representing an increase of RMB169.4 million, or 63.8%, when compared with the adjusted profit for the 2018 Interim Period.

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

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

During the 2019 Interim Period, the Group continued to execute its upstream and downstream strategic plans, in particular, continuously improving its upstream operations efficiency, streamlining its global supply chain, and enhancing its product mix. As a result of the continuous contributions from the above three strategies, gross profit margin of the Group improved by 5.7 percentage points and air freight costs decreased by RMB35.0 million, or 55.0%, when compared with the 2018 Interim Period. During the 2019 Interim Period, the Group continued strengthening its sales network and brand building which resulted in the continuous growth in sales of own-branded formula milk powder products, particularly in the goat and organic cow categories, which have reported increases in revenue by 45.3% and 52.3% respectively. The Group also continues to strengthen its research and development ("**R&D**") and quality controls capabilities. All the above steps enabled the Group in attaining a 100% pass rate in the monthly sampling inspection by relevant regulators in the PRC for the 16th consecutive year, and the success in registering fifteen brands with forty-five formulas in total (among which, registration of twelve formulas were completed during the 2019 Interim Period) with The State Administration for Market Regulation of the PRC (the "**SAMR**"). Additionally, subsequent to the end of the reporting period, the Company is pleased to report that the registration of the new factory in New Zealand (the "**PNL Factory**") with The General Administration of Customs of the PRC（中國海關總署）(the "**China Customs**") (previously regulated by the Certification and Accreditation Administration of the PRC (the "**CNCA**")) has also been approved, thereby increasing the total number of registered dry blending and packaging factories of the Group from five to six.

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

Formula Milk Powder Business

Since 2014, the Group has established a number of marketing business units (the "**BU(s)**"), each with their own positioning, brands, and products, in order to meet diversified consumer demands. The own-branded formula milk powders of the Group comprise both cow milk formulas and goat milk formulas.

(a) Own-branded Cow Milk Formula

For the 2019 Interim Period, sales of own-branded cow milk formulas amounted to RMB1,410.4 million, representing an increase of RMB241.7 million, or 20.7%, when compared with the 2018 Interim Period. Included therein, sales of the Group's organic cow milk formulas amounted to RMB195.3 million, representing an increase of RMB67.1 million, or 52.3%, when compared with the 2018 Interim Period.

The Group's own-branded cow milk formula business has established a number of BUs with different formulas, milk sources, price ranges, and target consumer groups. Each BU has its unique vision and marketing strategy. For instance, the Hyproca BU aims at "Becoming the Dutch high-end infant formula milk powders leader and the number one Dutch specialty brand in organic infant formula milk powders（成為荷蘭高端嬰幼兒奶粉領導者，荷蘭專業有機嬰幼兒奶粉第一品牌）" and serves the high-end PRC infant formula powders market, including organic. Similarly, the Allnutria BU aims at "Joining hands with mothers for a better start in life（和媽媽一起，給生命更好的開始）" and targets second- to fourth-tier cities in the PRC, which are the main battle grounds of the Group.

In order to sustain a long-term growth, the Group has participated actively in the industry and devoted its resources to brand building during the 2019 Interim Period. For example, *Neolac* was the sole brand in the industry invited to attend the 30th BIOFACH, an international trade fair in Germany for organic food. In April 2019, *Neolac* produced an exclusively *Neolac* trademarked show, namely "I am a Musician of Nature（我是大自然演奏家）", the first interactive musical performance of 0-3 year-olds in the PRC. Some of the 74 performances have been viewed over a million times online. In the same month, *Neolac* has officially appointed Mr. Jimmy Lin Chih-ying, a famous celebrity from Taiwan, as its first global "Organic Selection Ambassadors（有機甄選大使）" with the aim of further enhancing its brand awareness and reputation among consumers. During the 2019 Interim Period, *Neolac* won the World Attested Quality Award（國際權威品質獎）, the Most Influential Brands of the Year（年度最具影響力品牌獎）and the Outstanding Formula of the Year（年度優質配方獎）at BIOFACH CHINA 2019, an international trade fair in the PRC. In addition, *Neolac* has obtained official organic certifications from various authoritative organisations in the Netherlands and the PRC. Currently, *Neolac* and *ExtraPure* were the only organic infant formulas from the Netherlands and Australia respectively that have been registered with the SAMR.

In March 2019, *Allnutria* launched an entertainment programme for pregnant women and new moms in collaboration with the "Spicy Moms Academy（辣媽學院）" programme of Shenzhen Satellite TV. It had an innovative arrangement with different celebrities to promote a healthier lifestyle for pregnant women and new moms.

In June 2019, the Hyproca BU launched a new series of products, *Hyproca Hypure（萃護）*, at the Great Wall in Beijing, the PRC. The event included a top official of the China Dairy Industry Association giving a speech to 215 industry moguls and national distributors.

To improve the knowledge of families about maternal and infant nutrition, the Group collaborated with the Chinese Medical Association and a number of high-end hospitals in the PRC. During the 2019 Interim Period, *Hyproca* entered into an exclusive cooperation with "Yes, Baby!（有啦寶貝）", a cross-media platform established by a PRC government agency. This platform invites renowned supervisor-grade neonatologists, paediatricians, obstetrician-gynaecologists, and nutrition experts to share their knowledge about maternal and infant nutrition and health online. Their professional services benefit the channel partners and members of *Hyproca*.

Despite the above, the growth rate in the sales of own-branded cow milk formulas slowed down during the 2019 Interim Period. The slowdown was due to (i) the delay in the fulfilment of certain formula registrations with the SAMR, some of which were approved in late March 2019 while others are still pending; and (ii) the high base of revenue in the 2018 Interim Period, particularly in the second quarter of 2018, when the production capability improved following the two new factories in the Netherlands (the "**Ausnutria Heerenveen Factories**") commenced operations. With the completion of more brand registrations at the end of March 2019, the Company believes the growth momentum of cow milk formulas will gradually pick up in the second half of 2019.

(b) Own-branded Goat Milk Formula

For the 2019 Interim Period, sales of own-branded goat milk formulas amounted to RMB1,319.1 million, representing an increase of RMB411.3 million, or 45.3%, when compared with the 2018 Interim Period. The Group's own-branded goat milk formulas are all produced in the Netherlands and marketed by the Kabrita BU in the PRC.

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

According to Euromonitor, the sales volume of *Kabrita* goat milk formulas ranked No. 1 in the world in 2018. Similarly, according to AC Nielsen and the China Customs, sales of *Kabrita*'s products in the PRC accounted for 64.4% of the market of imported goat milk formulas for 1-3 year-olds and 61.7% of the total imported goat infant formulas for the 2019 Interim Period respectively. *Kabrita* continues to rank as the No.1 imported goat infant formula in the PRC since 2014.

In order to sustain the long-term growth of goat milk industry, the Group has conducted a number of brand building activities and participated in the following events during the 2019 Interim Period:

In March 2019, *Kabrita* appointed Mr. Huang Lei, a famous celebrity in the PRC, as its brand ambassador to strengthen its image. This appointment was well-received by the public. Furthermore, the Group convened the 1st Global *Kabrita* Marketing Conference at its headquarters in the PRC during the 2019 Interim Period and invited its overseas teams from Russia, the Middle East, Europe, South Korea, as well as other countries and regions, to share the latest market conditions and their future development strategies. This conference laid the cornerstone for *Kabrita*'s global layout.

In April 2019, *Kabrita* rolled out the Charity Walk for the Healthy Development of Mothers and Children（中國母嬰健康成長萬里行）in many PRC cities. Professor Zhang Silai and other child development experts conducted 25 seminars across the country to educate mothers.

In May 2019, on Mothers' Day, during the National Nutrition Week（全民營養周）, a maternal and infant nutrition and health educational campaign was officially launched by *Kabrita*. Hundreds of leading nutritionists and maternal and infant care practitioners attended the event, while over 200 hospitals and 18,300 medical practitioners watched online. Furthermore, *Kabrita* supported enormously the 2nd International Symposium on Dairy Ingredients & Product.（第二屆乳配料與產品創新研討會）held by Jiangnan University in Jiangsu Province, the PRC. *Kabrita* also established a goat milk research institute with this university, which specialises in food science and technology.

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

As a result of all the above efforts, market recognition and hence sales of *Kabrita* continues to rise. The presence of *Kabrita* has expanded to sixty-six countries and regions during the 2019 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.

(c) Private Label and Others

Alongside the development of its own-branded formula milk powder business, the Group also produces formula milk powder products for other worldwide customers on an original equipment manufacturing basis. For the 2019 Interim Period, sales of the Private Label business, which represented 3.7% (2018 Interim Period: 7.4%) of the total revenue of the Group, decreased by 38.9% to RMB117.4 million. The decrease in sales of the Private Label business was due mainly to a strategic reorientation.

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

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

Nutrition Business

For the 2019 Interim Period, sales of nutrition products amounted to RMB52.9 million, representing an increase of RMB0.4 million, or 0.8% as compared with the 2018 Interim Period. Among which, sales derived from *NC* Gut Relief and Soforla amounted to RMB34.6 million (2018 Interim Period: RMB29.4 million) and RMB0.1 million (2018 Interim Period: RMB6.9 million) respectively. The slower-than-anticipated growth in sales of the Nutrition Business was mainly due to a drop in the sales of Soforla products, as a result of a product suspension during the 2019 Interim Period. Such product suspension was caused by a packaging issue incurred by outsourced contractors. As at the date of this report, the Group is working closely with those outsourced contractors in solving the issue and will relaunch the Soforla products as soon as the issue is resolved.

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

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

According to the statistics from Tmall, *NC* Gut Relief ranked No. 1 for eight consecutive months in 2018 in terms of sales in the adult probiotic category. During the 2019 Interim Period, *NC* rolled out its comprehensive offline network comprising hundreds of sales points across Hong Kong, Australia, and New Zealand, including big retailer chains. In April 2019, *NC* Gut Relief joined YUNJI, one of the PRC's major social and e-commerce platforms. Since December 2018, *Kidsbon* products have launched on Tmall and are now available for sale in stores in twelve PRC provinces.

During the 2019 Interim Period, *NC* was named one of the top five imported nutrition and healthcare products at an Alibaba exhibition in New Zealand. It has joined the Xiaohongshu（小紅書）and Douyin（抖音）platforms. It also enjoys the public praises of celebrities like Mr. Vega Li Weijia, Mr. Jordan Chan Siu Chun, Ms. Li Xiang, and Ms. Nancy Kou. As for *Kidsbon*, the Group initiated an interactive campaign named "The Great Pregnant Mother（了不起的孕媽）" jointly with mama.cn in April 2019. These initiatives have strengthened interactions with the consumers and extended the market influence of the brands.

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

STRATEGIC STEPS TAKEN

In order to accommodate the Company's vision, the Group has executed the following strategic steps during the 2019 Interim Period:

Extension of Nutrition Business – Probiotics

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

The Target Company is a company listed on the Taipei Exchange (stock code: 6553.TW) and principally engaged in the R&D, manufacturing, packaging, and sale of probiotics- and fermentation-related application products. For the year ended 31 December 2018, the turnover and profit after tax of the Target Company amounted to NT$988.9 million (Year 2017: NT$797.1 million) and NT$143.6 million (Year 2017: NT$96.0 million), respectively. As at the date of this report, the Target Company is owned as to 40.2% by Center Laboratories, Inc. ("**Center Lab**"), a substantial shareholder of the Company. On 6 June 2019, Center Lab announced the privatisation proposal (the "**Proposed Privatisation**") of the Target Company by the CB Issuer (details of which are set out in the announcement of Center Lab published on the Market Observation Post System on 6 June 2019).

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

On 6 June 2019, the CB Subscriber and the Target Company entered into share purchase deed (the "**Share Purchase Deed**"), pursuant to which the CB Subscriber has conditionally agreed to acquire and the Target Company has conditionally agreed to sell the entire equity interest in the Aunulife Pty Ltd ("**Aunulife**"), a company incorporated in Australia and a wholly-owned subsidiary of the Target Company, at the consideration of AUD0.8 million (equivalent to HK$4.4 million) (the "**Aunulife Acquisition**"). Aunulife is a company established in Australia and principally engaged in the development, distribution, and sales of probiotic health products under an Australian probiotic health supplement brand. Aunulife has several products that are registered with, and obtained certifications from, the Therapeutic Goods Administration (TGA) in Australia.

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

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

As of the date of the report, the Proposed Privatisation and the Aunulife Acquisition are progressing as planned.

INDUSTRY OVERVIEW

To tighten the control over market behaviours and ensure the quality and safety of infant formula milk powder, various departments of the PRC government have promulgated and implemented a number of new industry policies in recent years. For instance, a new policy to regulate importation through cross-border e-commerce retail channels was implemented in April 2016. The infant formula registration requirements in the PRC, which came into effect on 1 January 2018, were named the most stringent policy in the relevant area ever. In June 2019, seven ministries including the National Development and Reform Commission of the PRC, the Ministry of Industry and Information Technology, the Ministry of Agriculture and Rural Affairs, and the SAMR joined forces again to issue the Action Plan of Promoting Domestically Produced Infant Formula Milk Powder（國產嬰幼兒配方乳粉提升行動方案）, which requires further improvement in the quality, competitiveness, and reputation of domestically produced infant formula milk powders and strives to maintain the self-sufficiency level of domestically produced infant formula milk powder at over 60%. The above action plan has laid down a list of actions based on three principles, namely "Improving quality, Upgrading the industry, and Nurturing brands".

These actions include:

(i) conducting a national research project for breast milk, and the establishment of a centralised breast milk research database;

(ii) building a unified national quality and safety tracking platform;

(iii) refining the product inspection and testing system;

(iv) promoting corporate merger and acquisition, phasing out obsolete production capacity;

(v) encouraging strong and respected enterprises to set up overseas processing plants and export such products to the PRC on an own-branding and manufacturing (OBM) basis; and

(vi) strengthening administration on infant formula milk powder imported through cross-border e-commerce retail platforms.

According to relevant industrial statistics, the PRC infant formula milk powder industry grew at a mid-single-digit rate on a year-on-year basis during the 2019 Interim Period. The growth was mainly driven by the increase in average selling prices contributed by product premiumisation.

Despite a declining trend of newborns in the PRC, the high industry entry barriers (as a result of the PRC government raising its industry regulatory standards) will accelerate the consolidation of the industry, and thus the PRC dairy industry is expected to have a healthier growth in the long run. This would benefit those industry participants, including the Group, who possess strong R&D and production capability. Besides, the Company believes that its historic and future long-term strategic plans are in line with the aforementioned policies.

OUTLOOK

Completion of the Factories and Brand Registration

The compound annual growth rate on the sales of the Group's own-branded formula milk powder products for the past three years ended 31 December 2018 was approximately 40.2%. In order to sustain the long-term growth of the Group and realise the "Golden Decade" strategic plan, the Company has approved a number of investment plans to increase its dry blending and packaging capacities since 2014. Such investments were made in various "golden milk zones" across the globe. The investments in the two dry blending and packaging facilities in the Netherlands (the Ausnutria Heerenveen Factories), which were completed in 2017 and commenced production in early 2018, succeeded in fulfilling the registration requirements of the CNCA in November 2017. The three existing dry blending and packaging factories that are located in the Netherlands, the PRC, and Australia (their respective registrations with the China Customs were granted in 2014) have already been granted an extension pursuant to Announcement No. 220 (2018) of the China Customs headed "Announcement on Issuing the List of Overseas Enterprises Producing Imported Infant Formula Dairy Products of which Renewal of Registration is Granted."

Subsequent to the end of the reporting period, in July 2019, the PNL Factory (construction of which was completed in mid-2018) also succeeded in fulfilling the registration requirements of the China Customs (previously regulated by the CNCA).

As of the date of this report, the Company has a total of six factories duly registered with the China Customs and a total of fifteen brands registered with the SAMR. The Company regards completion of the factory registration of the factory in Changsha City, the PRC (the "**Smart Factory**") and thereafter the respective formula registrations for both the PNL Factory and the Smart Factory with the SAMR, to be an important milestone for the Group in the coming months.

Secure of Upstream Resources

Upon completion of the PNL Factory and the Smart Factory, the annual dry blending and packaging capacities of the Group is expected to reach approximately 150,000 tons by 2022. Additionally, with the growth in demand of *Kabrita* following the anticipated successful registration of the Food and Drug Administration of the United States (the "**US FDA**"), the ability to secure upstream resources is becoming more crucial to the Company.

Other than the investments in upstream facilities, the Company has also from time to time reviewed its strategies to secure its raw material resources, in order to ensure that the Company can meet the ongoing growth in demand. Actions taken by the Group include: (i) the acquisition of Farmel Holding B.V. in 2014 to secure a stable supply of cow milk; (ii) the entering into long-term contracts with goat milk farmers to secure quality goat milk; and (iii) securing contracts with some international goat cheese players for the supply of goat whey.

The Company will continue to formulate its long-term plan and strategies, including cooperation with industry pioneers and further investments in CAPEX, to ensure the Group's products are always of the highest quality standard and that there are sufficient raw materials and resources to support its long-term growth.

Expansion of Formula Milk Powder Market Share

The PRC

The Group's sales of formula milk powder products can be broadly categorised into two sectors, the "own-brand" and the "Private Label". The sales of own-branded formula milk powder products can then be further categorised into "cow" and "goat". Since 2014, the Group has established a number of BUs, namely the Kabrita BU for goat milk powder products, and the Hyproca Bio-Science BU, the Allnutria BU, the Puredo BU, etc. for cow milk powder products. Each BU has its own unique vision and marketing strategy in promoting its products in the PRC, to fulfill the different needs of millions of newborns every year.

The Group will continue to implement its innovative marketing strategies and launch new formula milk powder products, including goat-based adult formula, organic goat- and A2-based formula milk powder products, to meet different demands in the market. It will leverage on its strong customer database, sophisticated membership IT platform, strong R&D and procurement capabilities, and well-established distribution networks. This will increase the Group's market share in the PRC and hence maintain its growth momentum.

Global Markets (outside the PRC)

In the past years, the Group experienced limits on production capacity and maintained a strategy to serve the own-branded sector in the PRC with priority. With the commencement of operation of the Ausnutria Heerenveen Factories, the Group will increase its efforts to promote *Kabrita* and the Private Label businesses outside the PRC in the coming years. According to the global marketing plan, the Group intends to launch *Kabrita* in Mexico, India, Thailand, and the United States (as soon as the US FDA license has been granted). Meanwhile, it will continue to extend its coverage in existing markets, particularly the Middle East, Russia, the Commonwealth of Independent States (the "**CIS**"), and Brazil.

Expansion of Nutrition Business

Nutriunion HK and GZ Minority Acquisitions

Subsequent to the end of the reporting period, on 8 July 2019, the Group (through its wholly owned subsidiaries) entered into sale and purchase agreements for the acquisitions of each of the remaining 40% equity interest in Nutriunion (Hong Kong) Company Limited ("**Nutriunion HK**") and Nutriunion (Guangzhou) Interconnection Technology Co. Ltd*（廣州雲養邦互聯科技有限公司）("**Nutriunion GZ**") (collectively, the "**Nutriunion Group**") from the vendors, who are all existing employees of the Nutriunion Group. The Nutriunion Group is principally engaged in the marketing and distribution of the nutrition products of the Group, under the brand names of *NC* and *Nutrition Care*, in Hong Kong and the PRC.

Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion HK, the total consideration comprising (i) an upfront consideration of RMB56.38 million (equivalent to HK$63.71 million), which shall be settled by the issuance and allotment of 4,118,255 new Shares at a price of HK$15.47 each by the Company; and (ii) a subsequent consideration (if any), which is capped at RMB180.00 million (equivalent to HK$203.40 million). The actual Subsequent Consideration will be determined based on the financial performance of the Nutriunion Group for the three years ending 31 December 2021. Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion GZ, a total consideration of RMB6.82 million (equivalent to HK$7.71 million) shall be settled by cash.

Upon completion of the acquisitions of the Nutriunion Group, both Nutriunion HK and Nutriunion GZ will become indirect wholly-owned subsidiaries of the Company.

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

As at the date of this report, the acquisitions of the Nutriunion Group are progressing as planned. Further details regarding the acquisitions of the Nutriunion Group are set out in the announcement of the Company dated 8 July 2019.

The Company will continue to improve its product quality by enhancing the production facilities and explore potential investment opportunities with an aim to realise its "Golden Decade" strategic plan and its vision "To become the most trustworthy milk formula, nutrition and health-care enterprise in the world."

* *for identification purpose only*

FINANCIAL REVIEW

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

Revenue

	Notes	Six months ended 30 June		Change	Proportion to total revenue Six months ended 30 June	
		2019 RMB'M (Unaudited)	2018 RMB'M (Unaudited)	%	2019 % (Unaudited)	2018 % (Unaudited)
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	1,410.4	1,168.7	20.7	44.8	45.3
Goat milk (in the PRC)	(i)	1,198.0	796.0	50.5	38.1	30.8
Goat milk (elsewhere)	(i)	121.1	111.8	8.3	3.8	4.3
		1,319.1	907.8	45.3	41.9	35.1
		2,729.5	2,076.5	31.4	86.7	80.4
Private Label	(ii)	117.4	192.0	(38.9)	3.7	7.4
Milk powder	(iii)	89.5	88.9	0.7	2.9	3.5
Butter	(iv)	29.4	83.8	(64.9)	0.9	3.2
Others	(v)	128.9	88.7	45.3	4.1	3.5
Dairy and related products		3,094.7	2,529.9	22.3	98.3	98.0
Nutrition products	(vi)	52.9	52.5	0.8	1.7	2.0
Total		3,147.6	2,582.4	21.9	100.0	100.0

Notes:

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

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

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

(iv) Representing the sales of butter which is produced during the milk treatment process.

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

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

For the 2019 Interim Period, the Group recorded revenue of RMB3,147.6 million, representing an increase of RMB565.2 million, or 21.9%, from RMB2,582.4 million for the 2018 Interim Period. Despite the competition of the formula milk powder product market in the PRC continuing to be intense during the 2019 Interim Period, revenue of the Group continued to increase. This was mainly attributable to the continuous increase in the sales of own-branded formula milk powder products, which has been driven by the clear brand positioning, the high quality products produced, and the effective marketing strategies adopted by the Group.

During the period, as higher portion of the Group's production capacity and resources in the Netherlands have been allocated to the own-branded formula milk powder products, the sales of the Private Label business dropped when compared with the 2018 Interim Period. With the completion of the Ausnutria Heerenveen Factories at the end of the year 2017, the production capacity limitation issue is expected to be gradually relieved in the coming years.

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

Gross profit and gross profit margin

	Six months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	RMB'M	RMB'M	**%**	%
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Own-branded formula milk powder products:				
Cow milk	**783.6**	631.2	**55.6**	54.0
Goat milk	**769.4**	496.2	**58.3**	54.7
	1,553.0	1,127.4	**56.9**	54.3
Others	**111.3**	82.0	**30.5**	18.1
Dairy and related products	**1,664.3**	1,209.4	**53.8**	47.8
Nutrition products	**29.3**	31.7	**55.4**	60.4
	1,693.6	1,241.1	**53.8**	48.1
Less: provision for inventories	**(54.5)**	(43.5)		
Total	**1,639.1**	1,197.6	**52.1**	46.4

The Group's gross profit for the 2019 Interim Period was RMB1,639.1 million, representing an increase of RMB441.5 million, or 36.9%, when compared with the 2018 Interim Period. The increase in the gross profit margin of the Group from 46.4% for the 2018 Interim Period to 52.1% for the 2019 Interim Period was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded formula milk powder products, particularly those products that are in the super premium segment, as compared with the other business sectors. Overall contribution to revenue by the own-branded formula milk powder products increased to 86.7% for the 2019 Interim Period (2018 Interim Period: 80.4%).

Other income and gains

Other income and gains mainly represented (i) incentive granted from the PRC government of RMB15.2 million (2018 Interim Period: RMB12.5 million); and (ii) interest income from the Group's deposits with banks of RMB17.9 million (2018 Interim Period: RMB12.9 million). The balance in the prior period also included (i) the gain on re-measurement of previously held 50% equity interest in Ozfarm Royal Pty Ltd ("**Ozfarm**") as a result of the Group's acquisition of the remaining 50% equity interest in Ozfarm in June 2018 of RMB35.0 million (the "**Ozfarm One-Off Gain**"); and (ii) the fair value gain of derivative financial instruments arising from the contingent consideration as a result of the HNC Group Acquisition in May 2018 of RMB26.8 million (the "**HNC FV Gain**").

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff, and delivery costs, represented 27.4% (2018 Interim Period: 27.0%) of the revenue for the 2019 Interim Period. The increase in the selling and distribution expenses to revenue ratio was mainly due to the net effect of (i) the proportionate increase in the sales of own-branded products which the selling and distribution costs ratio is normally higher than other business sectors; (ii) more brand-building campaigns were carried out during the period as detailed in the Business Review section of this report; and (iii) the decrease in air-freight charges by RMB35.0 million from RMB63.6 million for the 2018 Interim Period to RMB28.6 million for the 2019 Interim Period. In the prior period, in order to shorten the delivery time of the products and meet the market demand of the Group's own-branded products in the PRC, more air-freight charges were incurred. As more products can now be produced by the Ausnutria Heerenveen Factories and railway transport is used for the delivery of products, air-freight charges dropped in the current period.

Administrative expenses

The administrative expenses accounted for 7.8% (2018 Interim Period: 6.8%) of the revenue of the Group for the 2019 Interim Period.

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB9.1 million (2018 Interim Period: RMB1.4 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 and the increase in R&D costs by RMB18.5 million, from RMB23.4 million for the 2018 Interim Period to RMB41.9 million for the 2019 Interim Period for the R&D of new products.

Other expenses

Other expenses for the 2019 Interim Period mainly comprised (i) the HNC FV Loss of RMB174.4 million (2018 Interim Period: HNC FV Gain of RMB26.8 million); and (ii) net foreign currency exchange losses of RMB4.5 million (2018 Interim Period: net gains of RMB3.3 million) arising from the foreign currency transactions, mainly between EUR and RMB, and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency rates of exchange ruling at the end of the reporting period.

Finance costs

The finance costs of the Group for the 2019 Interim Period amounted to RMB11.9 million (2018 Interim Period: RMB21.7 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 decrease in finance costs was mainly attributable to the decrease in average bank loans as a result of repayment of certain bank loans. On 26 October 2018, the Company completed the placement of 249,000,000 Shares to CITIC Agri Fund Management Co., Ltd（中信農業產業基金管理有限公司）(the "**CITIC Subscription**") and part of the proceeds raised was used to repay bank loans since then.

Share of profits of associates

Balance mainly represented the share of profits of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**") for the 2019 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 2019 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. and Hyproca Nutrition Co., Ltd., both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the 2019 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 increase in the Group's effective tax rate from 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 to 19.9% (excluding the HNC FV Loss of RMB174.4 million) for the 2019 Interim Period was mainly due to the increase in non-deductible expenses of the Group such as non-cash equity-settled share option expense, salaries and legal and advisory fees, etc..

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the 2019 Interim Period amounted to RMB260.5 million, representing a decrease of RMB66.8 million, or 20.4% when compared with the 2018 Interim Period.

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

	Six months ended 30 June		
	2019	2018	Change
	RMB'M	RMB'M	%
	(Unaudited)	(Unaudited)	
Profit attributable to equity holders of the Company	**260.5**	327.3	(20.4)
The HNC FV Loss	**174.4**	–	
The HNC FV Gain	**–**	(26.8)	
The Ozfarm One-Off Gain	**–**	(35.0)	
Adjusted profit attributable to equity holders of the Company	**434.9**	265.5	63.8

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 high quality products produced by the Group, 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 2019, the total assets and net asset value of the Group amounted to RMB7,544.7 million (31 December 2018: RMB6,829.0 million) and RMB3,472.3 million (31 December 2018: RMB3,394.5 million), respectively.

The increase in total assets of the Group as at 30 June 2019 was mainly contributed by:

(i) the increase in inventories of RMB480.0 million. Such increase was mainly attributable to (i) the scale-up of the Group's operations; and (ii) delay in release of final products amounted to EUR30.0 million (equivalent to RMB234.5 million) as a result of a temporary suspension in one of the Group's major external product testing laboratories due to the attack by malware of its information system in May 2019. As at the date of this report, the incident has been resolved; and

(ii) the prepayment for the subscription of the Convertible Bonds in the principal amount of US$30.0 million (equivalent to RMB207.4 million). Further details regarding the subscription of the Convertible Bonds are set out in the "Strategic Steps Taken – Extension of Nutrition Business – Probiotics" section of this report.

The increase in total assets of the Group as at 30 June 2019 was mainly financed by internal working capital and the cash flows generated from operating activities of the Group of RMB317.4 million (2018 Interim Period: RMB177.7 million) during the 2019 Interim Period.

The increase in net assets of the Group as at 30 June 2019 was mainly a result of the net effect of (i) the net profit of the Group generated for the 2019 Interim Period of RMB254.8 million (2018 Interim Period: RMB336.8 million); (ii) the increase in share capital and share premium accounts of the Company mainly derived from the issuance of approximately 9.1 million Shares for the completion of acquisitions of the remaining 30% equity interest in Ausnutria Pty Ltd ("**APL**") (formerly Ausnutrition Care Pty Ltd) and the remaining 25% equity interest in Nutrition Care Pharmaceuticals Pty Ltd ("**NCP**") during the period amounted to RMB81.7 million; (iii) the decrease in the share premium account of the Company arising from the payment of 2018 final dividend of RMB208.8 million; and (iv) the decrease in capital reserve arising from the elimination of the goodwill for the acquisitions of the minority interests in APL and NCP during the period of a total of RMB35.4 million.

Working Capital Cycle

As at 30 June 2019, the current assets to current liabilities ratio of the Group was 1.5 times (31 December 2018: 1.6 times) which remained fairly stable as compared with the prior year.

An analysis of key working capital cycle is as follows:

	Six months ended 30 June		
	2019 Number of days	2018 Number of days	Change Number of days
Inventories turnover days	**214**	155	59
Debtors' turnover days	**20**	18	2
Creditors' turnover days	**37**	40	(3)

The increase in the Group's inventories turnover days was attributable to (i) the increase in finished goods and goods in transit to cater to the demand in the coming quarters; (ii) the increase in inventories attributable to the completion of the registration of the twelve formulas of infant formula milk powder products with the SAMR at the end of March 2019; (iii) the increase in the delivery of products via railway instead of by air-freight, which is considered to be a more cost-effective logistic arrangement but with longer delivery time; and (iv) the temporary suspension of an external testing laboratory mentioned above.

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

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 2019 RMB'M (Unaudited)	31 December 2018 RMB'M (Audited)
Interest-bearing bank loans and other borrowings		(1,203.2)	(1,075.4)
Less: Pledged deposits	(i)	362.3	427.8
Cash and cash equivalents	(ii)	1,374.8	1,449.9
		533.9	802.3
Total assets		7,544.7	6,829.0
Shareholders' equity		3,417.0	3,253.7
Gearing ratio	(iii)	N/A	N/A
Solvency ratio	(iv)	45.3%	47.6%

Notes:

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

	30 June 2019		31 December 2018	
Currency	RMB'M (Unaudited)	% (Unaudited)	RMB'M (Audited)	% (Audited)
RMB	311.6	86.0	427.8	100.0
EUR	50.7	14.0	–	–
Total	362.3	100.0	427.8	100.0

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

Currency	30 June 2019 RMB'M (Unaudited)	30 June 2019 % (Unaudited)	31 December 2018 RMB'M (Audited)	31 December 2018 % (Audited)
RMB	**904.1**	**65.8**	630.4	43.5
EUR	**249.2**	**18.1**	198.5	13.7
HK$	**53.1**	**3.9**	448.4	30.9
AUD	**61.4**	**4.4**	81.9	5.6
US$	**82.2**	**6.0**	54.4	3.8
TWD	**9.4**	**0.7**	13.6	0.9
NZD	**2.8**	**0.2**	4.3	0.3
Others	**12.6**	**0.9**	18.4	1.3
Total	**1,374.8**	**100.0**	1,449.9	100.0

(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 its global supply chain by completing the construction of the new factories and the extension into the nutrition business segment.

As at 30 June 2019, the Group had outstanding borrowings of RMB1,203.2 million (31 December 2018: RMB1,075.4 million), of which RMB709.8 million (31 December 2018: RMB659.0 million) was due within one year and the remaining RMB493.4 million (31 December 2018: RMB416.4 million) was due over one year.

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

Currency	30 June 2019 RMB'M (Unaudited)	30 June 2019 % (Unaudited)	31 December 2018 RMB'M (Audited)	31 December 2018 % (Audited)
EUR	**988.1**	**82.1**	1,051.4	97.8
RMB	**185.9**	**15.5**	3.0	0.3
Others	**29.2**	**2.4**	21.0	1.9
Total	**1,203.2**	**100.0**	1,075.4	100.0

As at 30 June 2019, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR247.6 million, equivalent to approximately RMB1,935.2 million (31 December 2018: EUR239.9 million, equivalent to approximately RMB1,882.6 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB362.3 million (31 December 2018: RMB427.8 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

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

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

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

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 EUR13.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 0.42% per annum. The interest rate swap contract will expire in June 2020.

CREDIT RISK

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

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

COMMITMENTS

As at 30 June 2019, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries and intangible assets of a total of RMB10.3 million (31 December 2018: RMB13.9 million).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

USE OF PROCEEDS FROM THE CITIC SUBSCRIPTION

The gross and net proceeds raised from the CITIC Subscription (which was completed on 26 October 2018) amounted to approximately HK$1,289.8 million and HK$1,288.6 million, respectively. The utilisation of the net proceeds from the CITIC Subscription as at 30 June 2019 was summarised as follows:

	Net proceeds from the CITIC Subscription	Utilised[(1)]	Unutilised balance as at 30 June 2019[(2)]
	HK$'M	HK$'M	HK$'M
Repayment of bank loans and revolving facilities	902.0	(902.0)	–
Investment in the Group's infant formula and nutrition businesses	257.7	(235.7)	22.0
General working capital:			
(a) R&D of infant formula and nutrition products	38.7	(38.7)	–
(b) Branding and marketing expenses	38.7	(38.7)	–
(c) Advertisement and promotion of own-branded dairy business	38.7	(38.7)	–
(d) Working capital	12.8	(12.8)	–
General working capital total	128.9	(128.9)	–
	1,288.6	(1,266.6)	22.0

Notes:

(1) The net proceeds from the CITIC Subscription were used according to the intentions previously disclosed in the circular of the Company dated 17 September 2018.

(2) The unutilised balance is expected to be fully utilised by the end of 2019.

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
30 June 2019	3,460	8	629	135	124	4,356
31 December 2018	2,984	6	568	126	119	3,803

For the 2019 Interim Period, total employee costs, including Directors' emoluments, amounted to RMB449.1 million (2018 Interim Period: RMB394.0 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 of the Company (the "**Shareholders**") and improve its performance.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance practices. The Board also strives to implement the best practices 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 2019 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 2019 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 2019 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, oversee the audit process and 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 2019 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 7 October 2019). 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 6.22% of the issued Shares as at 30 June 2019.

The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

Present status of the Share Option Scheme

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

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

			Number of options			
Grantees	Date of grant	Exercise price per share option	Outstanding as at 2019.01.01	Granted during the 2019 Interim Period	Exercised during the 2019 Interim Period	Outstanding as at 2019.06.30
Directors						
Mr. Yan Weibin	2016.01.21	HK$2.45	400,000	–	(400,000) (1)	–
	2019.01.15	HK$10.00	–	1,500,000	–	1,500,000
Mr. Bartle van der Meer	2016.01.21	HK$2.45	400,000	–	(400,000) (1)	–
	2019.01.15	HK$10.00	–	1,500,000	–	1,500,000
Ms. Ng Siu Hung	2016.01.21	HK$2.45	334,000	–	(334,000) (1)	–
	2019.01.15	HK$10.00	–	1,500,000	–	1,500,000
Mr. Shi Liang	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Qiao Baijun	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Tsai Chang-Hai	2016.01.21	HK$2.45	100,000	–	(100,000) (1)	–
	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Jason Wan	2016.01.21	HK$2.45	100,000	–	(100,000) (1)	–
	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Lau Chun Fai Douglas	2016.01.21	HK$2.45	100,000	–	–	100,000
	2019.01.15	HK$10.00	–	500,000	–	500,000
Mr. Aidan Maurice Coleman	2019.01.15	HK$10.00	–	500,000	–	500,000
Sub-total			1,434,000	7,500,000	(1,334,000)	7,600,000
Other						
Employees and others	2016.01.21	HK$2.45	11,156,000	–	(9,596,000) (2)	1,560,000
Employees and others	2016.07.06	HK$2.45	10,881,000	–	(5,684,000) (3)	5,197,000
Employees and others	2019.01.15	HK$10.00	–	32,500,000	–	32,500,000
Total			23,471,000	40,000,000	(16,614,000)	46,857,000

Notes:

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

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

3. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$11.80.

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

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

Share options granted on 15 January 2019

- One-third shall be vested on 15 January 2021;
- One-third shall be vested on 15 January 2022;
- One-third shall be vested on 15 January 2023; and
- Exercise period shall start on 15 January 2021 and shall end on 14 January 2024.

During the 2019 Interim Period, no options was cancelled or lapsed.

As at the date of this report, the total number of share options granted and available for issue under the Share Option Scheme is 6,738,000, representing approximately 0.42% of the issued Shares.

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

As at 30 June 2019, 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 of Director	Number of Shares or underlying Shares	Nature of interest	Approximate percentage of issued share capital[5]
Mr. Yan Weibin	1,200,000 (L)	Beneficial owner	0.07%
	1,500,000 (L) [4]	Beneficial owner	0.09%
	118,539,085 (L) [1]	Interest of a controlled corporation	7.37%
Mr. Bartle van der Meer	1,200,000 (L)	Beneficial owner	0.07%
	1,500,000 (L) [4]	Beneficial owner	0.09%
	124,405,230 (L) [2]	Interest of a controlled corporation	7.74%
Ms. Ng Siu Hung	1,000,000 (L)	Beneficial owner	0.06%
	1,500,000 (L) [4]	Beneficial owner	0.09%
Mr. Shi Liang	500,000 (L) [4]	Beneficial owner	0.03%
Mr. Qiao Baijun	500,000 (L) [4]	Beneficial owner	0.03%
Mr. Tsai Chang-Hai	300,000 (L)	Beneficial owner	0.02%
	500,000 (L) [4]	Beneficial owner	0.03%
Mr. Jason Wan	300,000 (L)	Beneficial owner	0.02%
	500,000 (L) [4]	Beneficial owner	0.03%
Mr. Lau Chun Fai Douglas	200,000 (L)	Beneficial owner	0.01%
	100,000 (L) [3]	Beneficial owner	0.01%
	500,000 (L) [4]	Beneficial owner	0.03%
Mr. Aidan Maurice Coleman	500,000 (L) [4]	Beneficial owner	0.03%

Notes:

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

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

(3) 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".

(4) These are the Shares subject to the exercise of the share options granted by the Company to the Directors on 15 January 2019 under the Share Option Scheme. Details of the Share Option Scheme are set out in the section headed "Share Option Scheme".

(5) As at 30 June 2019, the total number of the issued Shares of the Company was 1,607,869,044.

(L) denotes "long position" (as defined under Part XV of the SFO) in such Shares.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company:

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital[12]
Citagri Easter Ltd.	1	379,000,000 (L)	Beneficial owner	23.57%
Changsha Kunxin Xin'Ao Investment LP	2	379,000,000 (L)	Interest of controlled corporation	23.57%
Chengtong CITIC Agriculture Investment Fund	2	379,000,000 (L)	Interest of controlled corporation	23.57%
CITIC Agri Fund	3	379,000,000 (L)	Interest of controlled corporation	23.57%
CITIC Agriculture Technology Co., Ltd.	3	379,000,000 (L)	Interest of controlled corporation	23.57%
CITIC Limited	4	379,000,000 (L)	Interest of controlled corporation	23.57%
CITIC Group Corporation	4	379,000,000 (L)	Interest of controlled corporation	23.57%
China Structural Reform Fund Co., Ltd*	5	379,000,000 (L)	Interest of controlled corporation	23.57%
CCB (Beijing) Investment Funds Management Co., Ltd.*	5	379,000,000 (L)	Interest of controlled corporation	23.57%
CCB Trust Co., Ltd.*	5	379,000,000 (L)	Interest of controlled corporation	23.57%
Postal Savings Bank of China*	6	379,000,000 (L)	Beneficiary of a trust (other than a discretionary interest)	23.57%
Center Laboratories, Inc.	7	327,940,089 (L) 47,991,683 (L)	Beneficial owner Interest of a controlled corporation	20.40% 2.98%
China Securities (International) Finance Company Limited	8	124,205,230 (L)	Beneficial owner	7.72%

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital[12]
China Securities (International) Finance Holding Company Limited	8	124,205,230 (L)	Interest of a controlled corporation	7.72%
CSC Financial Co. Ltd.	8	124,205,230 (L)	Interest of a controlled corporation	7.72%
Beijing State-owned Capital Operations & Management Center	8	124,205,230 (L)	Interest of a controlled corporation	7.72%
DDIHK	9	124,405,230 (L)	Beneficial owner	7.74%
DDI	9	124,405,230 (L)	Interest of a controlled corporation	7.74%
Fan Deming BV	9	124,405,230 (L)	Interest of a controlled corporation	7.74%
Ms. Chen Miaoyuan	10	121,239,085 (L)	Interest of spouse	7.54%
Ausnutria BVI	11	118,539,085 (L)	Beneficial owner	7.37%

Notes:

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

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

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

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

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

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

(7) BioEngine Capital Inc. is a non-wholly-owned subsidiary of Center Lab. Center Lab is therefore deemed to be interested in 47,991,683 Shares held by BioEngine Capital Inc. under the SFO.

* *for identification purpose only*

(8) 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.

(9) DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. van der Meer.

(10) Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 121,239,085 Shares held by Mr. Yan (himself and through Ausnutria BVI) under the SFO.

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

(12) As at 30 June 2019, the total number of the issued Shares of the Company was 1,607,869,044.

(L) denotes "long position" (as defined under Part XV of the SFO) in such Shares.

Save as disclosed above, as at 30 June 2019, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, 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 2019 Interim Period (2018 Interim Period: Nil).

DIVIDEND DISTRIBUTION

The Board does not recommend a payment of an interim dividend for the 2019 Interim Period (2018 Interim Period: Nil).

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

For the six months ended 30 June 2019

	Notes	2019 Unaudited RMB'000	2018 Unaudited RMB'000
REVENUE	5	3,147,565	2,582,355
Cost of sales		(1,508,475)	(1,384,805)
Gross profit		1,639,090	1,197,550
Other income and gains	5	38,729	104,629
Selling and distribution expenses		(863,218)	(696,554)
Administrative expenses		(245,534)	(176,350)
Other expenses		(198,030)	(17,133)
Finance costs		(11,897)	(21,700)
Share of profits and losses of:			
A joint venture		–	1,033
Associates		2,161	2,636
Profit before tax	6	361,301	394,111
Income tax expense	7	(106,546)	(57,341)
PROFIT FOR THE PERIOD		254,755	336,770
Attributable to:			
Owners of the parent		260,455	327,329
Non-controlling interests		(5,700)	9,441
		254,755	336,770
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit for the period (RMB cents)		16.38	25.92
Diluted			
– For profit for the period (RMB cents)		16.21	25.60

	2019 Unaudited RMB'000	2018 Unaudited RMB'000
PROFIT FOR THE PERIOD	254,755	336,770
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	18,885	(36,220)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	18,885	(36,220)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on the defined benefit plan, net of tax	(866)	–
Net other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods	(866)	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	18,019	(36,220)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	272,774	300,550
Attributable to:		
Owners of the parent	279,052	286,142
Non-controlling interests	(6,278)	14,408
	272,774	300,550

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,436,218	1,580,523
Right-of-use assets	11	268,005	–
Prepaid land lease payments		–	27,112
Goodwill		286,771	287,522
Other intangible assets		386,205	380,587
Long-term prepayments	12	224,414	–
Investments in associates		268,195	262,203
Deferred tax assets		175,698	152,508
Total non-current assets		3,045,506	2,690,455
CURRENT ASSETS			
Inventories	13	2,024,347	1,544,321
Trade and bills receivables	14	353,014	352,617
Prepayments, other receivables and other assets		384,741	363,961
Pledged deposits		362,287	427,791
Cash and cash equivalents		1,374,785	1,449,861
Total current assets		4,499,174	4,138,551
CURRENT LIABILITIES			
Trade and bills payables	15	335,103	283,584
Other payables and accruals		1,816,230	1,571,186
Derivative financial instruments	16	847	1,858
Interest-bearing bank loans and other borrowings		709,760	659,042
Tax payable		167,242	137,485
Total current liabilities		3,029,182	2,653,155
NET CURRENT ASSETS		1,469,992	1,485,396
TOTAL ASSETS LESS CURRENT LIABILITIES		4,515,498	4,175,851

	Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		4,515,498	4,175,851
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		493,405	416,400
Defined benefit plan		6,871	5,940
Derivative financial instruments	16	414,827	236,227
Deferred revenue		38,678	34,158
Deferred tax liabilities		89,376	88,578
Total non-current liabilities		1,043,157	781,303
Net assets		3,472,341	3,394,548
EQUITY			
Equity attributable to owners of the parent			
Share capital	17	139,650	137,421
Reserves		3,277,323	3,116,317
		3,416,973	3,253,738
Non-controlling interests		55,368	140,810
Total equity		3,472,341	3,394,548

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Share option reserves 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 2019 (audited)	**137,421**	**2,412,889**	**(972,882)**	**13,613**	**120,440**	**(126,413)**	**1,668,670**	**3,253,738**	**140,810**	**3,394,548**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**260,455**	**260,455**	**(5,700)**	**254,755**
Other comprehensive income/(loss) for the period:										
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**19,463**	**–**	**19,463**	**(578)**	**18,885**
Remeasurement loss on the defined benefit plan, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**(866)**	**(866)**	**–**	**(866)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**19,463**	**259,589**	**279,052**	**(6,278)**	**272,774**
Exercise of share option (note 18)	**1,451**	**43,908**	**–**	**(9,809)**	**–**	**–**	**–**	**35,550**	**–**	**35,550**
Acquisition of non-controlling interests	**778**	**80,932**	**(33,353)**	**–**	**–**	**–**	**–**	**48,357**	**(80,104)**	**(31,747)**
Final 2018 dividend declared	**–**	**(208,804)**	**–**	**–**	**–**	**–**	**–**	**(208,804)**	**–**	**(208,804)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(660)**	**(660)**
Equity-settled share option arrangements (note 18)	**–**	**–**	**–**	**9,080**	**–**	**–**	**–**	**9,080**	**–**	**9,080**
Transfer from retained profits	**–**	**–**	**5,513**	**–**	**2,869**	**–**	**(8,382)**	**–**	**–**	**–**
Contribution from non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,600**	**1,600**
At 30 June 2019 (unaudited)	**139,650**	**2,328,925***	**(1,000,722)***	**12,884***	**123,309***	**(106,950)***	**1,919,877***	**3,416,973**	**55,368**	**3,472,341**
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	–	–	–	–	–	(41,187)	327,329	286,142	14,408	300,550
Exercise of share option (note 18)	1,052	30,851	–	(6,112)	–	–	–	25,791	–	25,791
Acquisition of subsidiaries	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 18)	–	–	–	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

* These components of equity comprise the consolidated reserves of RMB3,277,323,000 (31 December 2018: RMB3,116,317,000) as at 30 June 2019 in the consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Notes	2019 Unaudited RMB'000	2018 Unaudited RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**361,301**	394,111
Adjustments for:			
Finance costs		**11,897**	21,700
Share of profits and losses of a joint venture and associates		**(2,161)**	(3,669)
Interest income	5	**(17,900)**	(12,857)
Gain on re-measurement of previously held interest in a joint venture	5	**–**	(35,036)
Loss on disposal of items of property, plant and equipment	10	**–**	85
Depreciation of property, plant and equipment and amortisation of other intangible assets	6	**58,222**	70,907
Depreciation of right-of-use assets	6	**27,841**	–
Write-down of inventories to net realisable value	6	**54,477**	43,510
Write-off of trade receivables		**–**	79
Equity-settled share option arrangements	18	**9,080**	1,409
Fair value gain on derivative financial instruments			
– transaction not qualifying as hedge	6	**2,053**	2,671
– subsequent consideration on acquisition of HNC Group	6	**174,427**	(26,778)
		679,237	456,132
Increase in inventories		**(535,455)**	(266,910)
Decrease/(increase) in trade and bills receivables		**958**	(70,132)
Increase in prepayments, deposits and other receivables		**(36,716)**	(65,842)
Increase in trade payables		**51,475**	64,320
Decrease in derivative financial instruments		**(3,055)**	–
Increase in other payables and accruals		**248,602**	133,964
Cash generated from operations		**405,046**	251,532
Interest received		**16,788**	12,135
Interest paid		**(7,725)**	(18,656)
Mainland China corporate income tax paid		**(74,572)**	(62,652)
Overseas tax paid		**(22,149)**	(4,702)
Net cash flows from operating activities		**317,388**	177,657

For the six months ended 30 June 2019

	Notes	2019 Unaudited RMB'000	2018 Unaudited RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(102,559)	(188,748)
Proceeds from disposal of items of property, plant and equipment		2,054	450
Proceeds from disposal of intangible assets		5	366
Additions to other intangible assets		(21,424)	(21,447)
Acquisition of a subsidiary		–	48,146
Prepayment for subscription of convertible bond	12	(207,352)	–
Purchase of a shareholding in an associate		(1,188)	–
Disposal of a subsidiary		–	(422)
Decrease in pledged time deposits		65,504	45,593
Net cash flows used in investing activities		(264,960)	(116,062)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of the share options		34,704	25,791
New bank loans and other borrowings		374,440	475,788
Repayments of bank loans and other borrowings		(309,223)	(267,095)
Acquisition of non-controlling interests		(31,747)	(39,131)
Contribution from non-controlling shareholders of a subsidiary		1,600	–
Dividends paid		(207,792)	(106,707)
Dividends paid to non-controlling shareholders		(660)	(60,444)
Interest element of finance/operating lease rental payments		(3,932)	(3,256)
Net cash flows (used in)/from financing activities		(142,610)	24,946
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(90,182)	86,541
Cash and cash equivalents at beginning of period		1,449,861	635,650
Effect of foreign exchange rate changes, net		15,106	(9,114)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,374,785	713,077
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,237,014	713,077
Non-pledged time deposits with original maturity of less than three months when acquired		137,771	–
Non-pledged time deposits with original maturity of more than three months when acquired		–	923,108
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position		1,374,785	1,636,185
Non-pledged time deposits with original maturity of more than three months when acquired		–	(923,108)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows		1,374,785	713,077

1. CORPORATE AND GROUP INFORMATION

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

The Company acts as an investment holding company of the Group. During the 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

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("**IASB**"). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018. The interim condensed consolidated financial statements are presented in RMB and all values are rounded to nearest thousand (RMB'000), except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") effective as of 1 January 2019.

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

Other than as explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

New definition of a lease

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank loans and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This included the lease assets recognised previously under finance lease of RMB196.8 million that were reclassified from property, plant and equipment.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) Unaudited RMB'000
Assets	
Increase in right-of-use assets	250,869
Decrease in property, plant and equipment	(196,777)
Decrease in prepaid land lease payments	(27,112)
Increase in total assets	26,980
Liabilities	
Increase in interest-bearing bank loans and other borrowings	26,980
Increase in total liabilities	26,980
Change in retained earnings	–

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

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

	Unaudited RMB'000
Operating lease commitments as at 31 December 2018	30,725
Weighted average incremental borrowing rate as at 1 January 2019	3.62%
Discounted operating lease commitments as at 1 January 2019	28,533
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,553)
Add: Commitments relating to leases previously classified as finance leases	206,119
Lease liabilities as at 1 January 2019	233,099

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value.

Lease liabilities

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

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

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The amounts recognised in the interim condensed consolidated statement of financial position and profit or loss were disclosed in note 11 to the interim condensed consolidated financial statement.

The Group recognised rental expenses from short-term leases of RMB5,038,000 for the six months ended 30 June 2019.

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

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had two reportable operating segments 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 loans and other borrowings, except for discounted operating lease payables, as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2019 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	3,094,671	52,894	3,147,565
Revenue from operations			3,147,565
Segment results	398,171	(18,116)	380,055
Reconciliation:			
Interest income			17,900
Finance costs			(11,897)
Corporate and other unallocated expenses			(24,757)
Profit before tax			361,301
Other segment information			
Impairment losses recognised in profit or loss	54,477	–	54,477
Share of profits and losses of associates	2,161	–	2,161
Depreciation and amortisation	81,342	4,721	86,063
Capital expenditure*	164,577	5,814	170,391
As at 30 June 2019 (unaudited)			
Segment assets	5,766,986	279,659	6,046,645
Reconciliation:			
Elimination of intersegment receivables			(239,037)
Corporate and other unallocated assets			1,737,072
Total assets			7,544,680
Segment liabilities	2,950,011	222,117	3,172,128
Reconciliation:			
Elimination of intersegment payables			(239,037)
Corporate and other unallocated liabilities			1,139,248
Total liabilities			4,072,339
Other segment information			
Investments in associates	268,195	–	268,195

4. 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
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 31 December 2018 (audited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment assets	4,852,709	261,426	5,114,135
Reconciliation:			
Elimination of intersegment receivables			(162,781)
Corporate and other unallocated assets			1,877,652
Total assets			6,829,006
Segment liabilities	2,374,302	147,495	2,521,797
Reconciliation:			
Elimination of intersegment payables			(162,781)
Corporate and other unallocated liabilities			1,075,442
Total liabilities			3,434,458
Other segment information			
Investments in associates	262,203	–	262,203

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
The PRC	2,763,423	2,012,449
European Union	207,820	287,503
Middle East	24,068	36,516
North and South America	62,298	63,270
Australia	55,316	59,641
New Zealand	2,373	18,841
Others	32,267	104,135
	3,147,565	2,582,355

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

(b) Non-current assets

	30 June 2019	31 December 2018
	Unaudited	Audited
	RMB'000	RMB'000
The PRC	799,758	468,551
The Netherlands	1,402,515	1,390,705
Australia	496,849	506,025
New Zealand	170,686	172,666
	2,869,808	2,537,947

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

Information about a major customer

During the six months ended 30 June 2019, 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 2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019 Unaudtied RMB'000	2018 Unaudited RMB'000
Revenue from contracts with customers	3,147,565	2,582,355

Disaggregated revenue information from contracts with customers

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

	Six months ended 30 June 2019		
	Dairy and related products Unaudited RMB'000	Nutrition products Unaudited RMB'000	Total Unaudited RMB'000
Segments			
Type of goods or service			
Sale of goods	3,094,671	52,894	3,147,565
Total revenue from contracts with customers	3,094,671	52,894	3,147,565
Geographical markets			
The PRC	2,729,251	34,172	2,763,423
European Union	207,820	–	207,820
Middle East	24,068	–	24,068
North and South America	62,298	–	62,298
Australia	36,594	18,722	55,316
New Zealand	2,373	–	2,373
Others	32,267	–	32,267
Total revenue from contracts with customers	3,094,671	52,894	3,147,565
Timing of revenue recognition			
Goods transferred at a point in time	3,094,671	52,894	3,147,565
Total revenue from contracts with customers	3,094,671	52,894	3,147,565

5. REVENUE, OTHER INCOME AND GAINS (continued)

Disaggregated revenue information from contracts with customers (continued)

	Six months ended 30 June 2018		
	Dairy and related products Unaudited RMB'000	Nutrition products Unaudited RMB'000	Total Unaudited RMB'000
Segments			
Type of goods or service			
Sale of goods	2,529,817	52,538	2,582,355
Total revenue from contracts with customers	2,529,817	52,538	2,582,355
Geographical markets			
The PRC	1,970,098	42,351	2,012,449
European Union	287,503	–	287,503
Middle East	36,516	–	36,516
North and South America	63,270	–	63,270
Australia	49,454	10,187	59,641
New Zealand	18,841	–	18,841
Others	104,135	–	104,135
Total revenue from contracts with customers	2,529,817	52,538	2,582,355
Timing of revenue recognition			
Goods transferred at a point in time	2,529,817	52,538	2,582,355
Total revenue from contracts with customers	2,529,817	52,538	2,582,355

5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains

	Note	Six months ended 30 June 2019 Unaudtied RMB'000	2018 Unaudited RMB'000
Other income and gains			
Interest income		17,900	12,857
Government grants	(i)	15,223	12,529
Gain on re-measurement of the previously held interest in an acquiree		–	35,036
Gain on fair value changes of derivative financial instrument		–	26,778
Foreign exchange gains		–	3,310
Others		5,606	14,119
Total other income and gains		38,729	104,629

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

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of inventories sold	**1,453,998**	1,341,295
Write-down of inventories to net realisable value	**54,477**	43,510
Cost of sales	**1,508,475**	1,384,805
Depreciation of property, plant and equipment	**35,540**	51,062
Depreciation of right-of-use assets	**27,841**	–
Amortisation of prepaid land lease payments	**–**	424
Amortisation of other intangible assets	**22,682**	19,421
Research and development costs	**41,949**	23,447
Foreign exchange differences, net	**4,462**	(3,310)
Fair value losses/(gains), net:		
Derivative financial instruments		
– transactions not qualifying as hedges	**2,053**	2,671
– subsequent consideration on acquisition of HNC Group	**174,427**	(26,778)
Auditor's remuneration	**3,693**	3,610
Advertising and promotion expenses	**514,368**	335,168
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**412,509**	372,716
Equity-settled share option expense	**9,080**	1,409
Pension scheme contributions*	**27,472**	19,911
	449,061	394,036

* At 30 June 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2018: Nil).

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 2019 (six months ended 30 June 2018: 16.5%).

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%.

Ausnutria Dairy (China) Co., Ltd. and Hyproca Nutrition Co. Ltd. were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the three years ending 31 December 2019 and the three years ending 31 December 2020, respectively.

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Current – Mainland China		
Charge for the period	**84,377**	57,707
Underprovision prior periods	**150**	–
Current – The Netherlands		
Charge for the period	**24,710**	12,047
Overprovision prior periods	**(965)**	–
Current – Hong Kong		
Charge for the period	**4,155**	1,864
Current – Australia		
Charge for the period	**13,433**	–
Current – Taiwan		
Charge for the period	**972**	228
Deferred	**(20,286)**	(14,505)
Total	**106,546**	57,341

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 1,590,436,309 (six months ended 30 June 2018: 1,262,763,359) in issue during the period.

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

Earnings

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**260,455**	327,329

Shares

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,590,436,309**	1,262,763,359
Effect of dilution – weighted average number of ordinary shares:		
Share options	**15,872,483**	16,106,954
	1,606,308,792	1,278,870,313

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB148,967,000 (30 June 2018: RMB188,748,000). Assets with a net book value of RMB2,054,000 (30 June 2018: RMB450,000) were disposed of by the Group during the six months ended 30 June 2019 resulting no gains or losses (30 June 2018: a net loss of RMB85,000).

As at 30 June 2019, the Group had pledged the land and buildings, plant and machineries that were attributed to Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") and located in the Netherlands with net carrying amounts of EUR86,798,000 (equivalent to approximately RMB678,496,000) (31 December 2018: EUR87,495,000, equivalent to approximately RMB686,600,000) and EUR49,135,000 (equivalent to approximately RMB384,088,000) (31 December 2018: EUR50,534,000, equivalent to approximately RMB396,555,000), 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 30 June 2019, the Group's land included in property, plant and equipment with a net carrying amount of EUR7,443,000 (equivalent to approximately RMB58,182,000) (31 December 2018: EUR7,443,000, equivalent to approximately RMB58,407,000), AUD4,430,000 (equivalent to approximately RMB21,333,000) (31 December 2018: AUD4,430,000, equivalent to approximately RMB21,375,000) and NZD3,000,000 (equivalent to approximately RMB13,823,000) (31 December 2018: NZD3,000,000, equivalent to approximately RMB13,786,000) are situated in the Netherlands, Australia and New Zealand, respectively, and are held as freehold land.

11. RIGHT-OF-USE ASSETS

Right-of-use assets represented property, plant and equipment under finance lease and operating lease as well as prepaid land lease payments.

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "interest-bearing bank loans and other borrowings"), and the movement during the period are as follow:

	Right-of-use assets				Lease liabilities	
	Plant and machinery Unaudited RMB'000	Prepaid land lease payment Unaudited RMB'000	Motor vehicles Unaudited RMB'000	Total Unaudited RMB'000	Discounted operating lease payables Unaudited RMB'000	Finance lease payables Unaudited RMB'000
As at 1 January 2019	206,546	27,112	17,211	250,869	26,980	206,119
Additions	44,167	–	2,241	46,408	46,408	–
Depreciation charge	(24,356)	(424)	(3,061)	(27,841)	–	–
Interest expense	–	–	–	–	908	3,024
Payments	–	–	–	–	(10,104)	(21,514)
Exchange realignment	(1,006)	–	(425)	(1,431)	(275)	(1,202)
As at 30 June 2019	225,351	26,688	15,966	268,005	63,917	186,427

12. LONG-TERM PREPAYMENTS

	Note	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Prepayment for subscription of the Convertible Bonds	(i)	207,352	–
Prepayment for purchase of equipment		17,062	–
Total		224,414	–

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

On 10 June 2019, the Company has prepaid the subscription of the Convertible Bonds, amounting to US$30.0 million (equivalent to approximately RMB207.4 million). The issuance of the Convertible Bonds was completed in July 2019. Further details regarding the above are set out in the announcement of the Company dated 6 June 2019.

13. INVENTORIES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Raw materials	432,698	517,525
Finished goods	1,392,660	858,927
Goods in transit	170,561	140,952
Others	28,428	26,917
Total	2,024,347	1,544,321

At 30 June 2019, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR99,900,000 (equivalent to approximately RMB780,918,000) (31 December 2018: EUR85,150,000, equivalent to approximately RMB668,198,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

14. TRADE AND BILLS RECEIVABLES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade receivables	**319,356**	329,444
Bills receivable	**33,658**	23,173
Total	**353,014**	352,617

The Group normally allows a credit period from 1 to 12 months (31 December 2018: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group' trade receivables are amounts due from associates of EUR9,257,000 (equivalent to approximately RMB72,362,000) (31 December 2018: EUR4,706,000, equivalent to approximately RMB36,929,000) 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 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Within 3 months	**310,001**	317,179
3 to 6 months	**9,195**	7,807
6 months to 1 year	**160**	4,320
Over 1 year	**–**	138
Total	**319,356**	329,444

14. TRADE AND BILLS RECEIVABLES (continued)

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

There was no provision for impairment as at 30 June 2019 (31 December 2018: Nil). The carrying amounts of the trade and bills receivables approximate their fair values.

As at 30 June 2019, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR11,729,000 (equivalent to approximately RMB91,686,000) (31 December 2018: EUR16,719,000, equivalent to approximately RMB131,199,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

15. TRADE AND BILLS PAYABLES

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

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Within 12 months	333,874	282,400
Over 12 months	1,229	1,184
	335,103	283,584

Included in the trade and bill payables are amounts due to associates of EUR2,490,000 (equivalent to approximately RMB19,468,000) (31 December 2018: EUR5,258,000, equivalent to approximately RMB41,259,000) which are repayable within 60 days.

Trade payables are interest-free and are normally settled within 12 months (31 December 2018: within 12 months).

16. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Subsequent HNC Consideration	(i)	**408,981**	230,391
Subsequent Ozfarm Consideration	(ii)	**5,846**	5,836
Interest rate swaps		**847**	1,072
Forward currency contracts		**–**	786
		415,674	238,085
Portion classified as non-current:			
Subsequent HNC Consideration	(i)	**(408,981)**	(230,391)
Subsequent Ozfarm Consideration	(ii)	**(5,846)**	(5,836)
		(414,827)	(236,227)
Current portion		**847**	1,858

(i) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in the Hyproca Nutrition (Hongkong) Company Limited and Hyproca Nutrition Co., Ltd (collectively, the "**HNC Group**"). The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 (the "**Subsequent HNC Consideration**"), which is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021. Balance represented the fair value of the Subsequent HNC Consideration which was derived with reference to management's estimation of the future financial performance of the HNC Group for the three years as mentioned above and the closing market price of the Share at 30 June 2019 of HK$15.56 (31 December 2018: HK$8.80).

The Subsequent HNC Consideration is classified as a derivative financial instrument and is measured at fair value through profit or loss. The losses arising from the change in fair value between 31 December 2018 and 30 June 2019 amounted to approximately HK$201,988,000 (equivalent to approximately RMB174,427,000) (six months ended 30 June 2018: gains of HK$32,868,000 (equivalent to approximately RMB26,778,000)), and a net exchange loss amounting to RMB4,163,000 (six months ended 30 June 2018: RMB6,490,000) was recognised during the period.

(ii) On 28 June 2018, the Group completed the acquisition of the remaining 50% equity interest in Ozfarm Royal Pty Ltd ("**Ozfarm**"). The consideration is subject to certain adjustments, based on the financial performance of the Ozfarm group (namely, Ozfarm, Ozfarm Royal (HK) Limited and its subsidiary) for the two years ending 31 December 2020 and 2021 (the "**Subsequent Ozfarm Consideration**"), which is to be settled by cash or by the issue and allotment of the Shares (or any combination) at the discretion of the Group. The initial amount recognised for the Subsequent Ozfarm Consideration was RMB5.8 million (31 December 2018: RMB5.8 million), which was determined using the discounted cash flow model and is within Level 3 fair value measurement. As at the date of this report, no further significant changes to the consideration are expected.

17. SHARE CAPITAL

Shares

	30 June 2019 Unaudited HK$'000	31 December 2018 Audited HK$'000
Issued and fully paid:		
1,607,869,044 (2018: 1,582,150,653) ordinary shares of HK$0.10 each	160,787	158,215

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2019 (audited)	1,582,150,653	137,421
Share options exercised (Note (a))	16,614,000	1,451
Acquisition of non-controlling interest (Note (b))	4,149,567	355
Acquisition of non-controlling interest (Note (c))	4,954,824	423
At 30 June 2019 (unaudited)	1,607,869,044	139,650

Notes:

(a) The subscription rights attaching to 16,614,000 share options were exercised at the subscription price of HK$2.45 per share (note 18), resulting in the issue of 16,614,000 Shares for a total cash consideration before expenses, of HK$39,724,000 (equivalent to approximately RMB34,704,000) and offset with payroll payable, of HK$980,000 (equivalent to approximately RMB846,000). An amount of RMB9,809,000 was transferred from the share option reserve to share premium upon the exercise of the share options.

(b) On 11 April 2019, 4,149,567 Shares of the Company were allotted and issued to satisfy part of the consideration for the acquisition of the remaining 30% equity interest in Ausnutria Pty Ltd (formerly Ausnutrition Care Pty Ltd), at each share price fair value of HK$10.30, totally amounting to HK$42.7 million (equivalent to approximately RMB36.6 million).

(c) On 18 April 2019, 4,954,824 Shares of the Company were allotted and issued to satisfy the acquisition of the remaining 25% equity interest in Nutrition Care Pharmaceuticals Pty Ltd at each share price fair value of HK$10.68, totally amounting to HK$52.9 million (equivalent to approximately RMB45.1 million).

18. 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 remain in force for 10 years from that date.

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

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

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

18. SHARE OPTION SCHEME (continued)

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

	2019		2018	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January (audited)	2.45	23,471	2.45	37,486
Granted during the period	10.00	40,000	–	–
Exercised during the period	2.45	(16,614)	2.45	(12,915)
At 30 June (unaudited)	8.90	46,857	2.45	24,571

The weighted average share price at the date of exercise for share options exercised during the period was HK$13.63 per share (six months ended 30 June 2018: HK$10.02 per share).

Details of the share options outstanding as at the end of the reporting period are as follows:

30 June 2019	Number of options '000	Exercise price HK$ per share	Exercise period
	1,660	2.45	21-1-17 to 20-1-21
	5,197	2.45	06-7-17 to 20-1-21
	40,000	10.00	15-1-21 to 14-1-24
	46,857		

31 December 2018	Number of options '000	Exercise price HK$ per share	Exercise period
	12,590	2.45	21-1-17 to 20-1-21
	10,881	2.45	06-7-17 to 20-1-21
	23,471		

18. SHARE OPTION SCHEME (continued)

The fair value of the share options granted was HK$112,131,000 (six months ended 30 June 2018: HK$27,477,000), of which the Group recognised a share option expense of HK$10,522,000 (equivalent to approximately RMB9,080,000) (six months ended 30 June 2018: HK$1,730,000, equivalent to approximately RMB1,409,000) during the period ended 30 June 2019.

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 was estimated on the date of grant using the following assumptions:

	Granted on 21 January 2016 and 6 July 2016	Granted on 15 January 2019
Dividend yield (%)	0.00	1.26
Expected volatility (%)	47.45-49.09	41.59
Risk-free interest rate (%)	1.36-1.6	2.33
Contractual life of share options (year)	5	5
Weighted average share price (HK$)	2.45	10.00

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

The 16,614,000 share options exercised during the period resulted in the issue of 16,614,000 ordinary shares of the Company and new share capital of HK$1,661,400 (equivalent to approximately RMB1,451,000) (before issue expenses), as further detailed in note 17 to the interim condensed consolidated financial statements.

On 15 January 2019, a total of 40,000,000 share options were granted to certain of the eligible participants in respect of their services provided to the Group. These share options shall separately be vested on 15 January 2021, 15 January 2022 and 15 January 2023 and have an exercise period ranging from 15 January 2021 to 14 January 2024. The price of the Share at the date of grant was HK$7.95.

18. SHARE OPTION SCHEME (continued)

At the end of the reporting period, the Company had 46,857,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,857,000 additional ordinary shares of the Company and additional share capital of HK$4,686,000 (equivalent to approximately RMB4,122,000) (before issue expenses).

Subsequent to the end of the reporting period, 119,000 share options were exercised.

At the date of this report, the Company had 46,738,000 share options outstanding under the Scheme, which represented approximately 2.9% of the Company's shares in issue as at that date.

19. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

20. 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, 13 and 14, respectively, to the interim condensed consolidated financial statements.

21. COMMITMENTS

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

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Contracted, but not provided for:		
Plant and machinery	**6,165**	9,654
Intangible assets	**4,105**	4,244
	10,270	13,898

22. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

		Six months ended 30 June	
		2019	2018
		Unaudited	Unaudited
	Notes	**RMB'000**	RMB'000
Purchases of products from the associates	(i)	**85,952**	131,491
Sales of products to the associates	(i)	**73,303**	116,831
Sales of products to a joint venture	(i)	**–**	56,342
Purchases of products from a joint venture	(i)	**–**	461
Management fees received from the associates	(ii)	**84**	61

Notes:

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

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

(b) Outstanding balances with related parties:

Details of the balances with associates as at the end of the reporting period are disclosed in notes 14 and 15 to the interim condensed consolidated financial statements.

22. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**18,593**	14,913
Retirement benefit contributions	**835**	805
Equity-settled share option expense	**1,813**	845
Total	**21,241**	16,563

23. 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 2019	31 December 2018	**30 June 2019**	31 December 2018
	Unaudited	Audited	**Unaudited**	Audited
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Derivative financial instruments	**415,674**	238,085	**415,674**	238,085
Interest-bearing bank loans and other borrowings	**1,203,165**	1,075,442	**1,143,779**	1,076,709
	1,618,839	1,313,527	**1,559,453**	1,314,794

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, 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.

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

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

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

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

The fair values of interest-bearing bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans and other borrowings as at 30 June 2019 was assessed to be insignificant.

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

The fair values of the Subsequent HNC Consideration have been estimated based on market share prices and the expected numbers of settlement shares, details are included in note 16 (i). The directors believe that the estimated fair values, which are recorded in the condensed 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 2019.

The fair values of the Subsequent Ozfarm Consideration have been estimated using a Probabilistic model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future EBIT growth. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed 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 2019.

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

As at 30 June 2019, 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.

Fair value hierarchy

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

Liabilities measured at fair value:

As at 30 June 2019 (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	**408,981**	**847**	**5,846**	**415,674**

As at 31 December 2018 (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	230,391	1,858	5,836	238,085

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 2018: Nil).

24. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 8 July 2019, the Group (through its wholly-owned subsidiaries) entered into sale and purchase agreements for the acquisitions of each of the remaining 40% equity interest in Nutriunion (Hong Kong) Company Limited ("**Nutriunion HK**") and Nutriunion (Guangzhou) Interconnection Technology Co. Ltd（廣州雲養邦互聯科技有限公司）("**Nutriunion GZ**") (collectively, the "**Nutriunion Group**") from the vendors, who are all existing employees of the Nutriunion Group. The Nutriunion Group is principally engaged in the marketing and distribution of the nutrition products of the Group, under the brand names of NC and Nutrition Care, in Hong Kong and the PRC.

Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion HK, the total consideration comprising (i) an upfront consideration of RMB56.38 million (equivalent to HK$63.71 million), which shall be settled by the issuance and allotment of 4,118,255 new Shares at a price of HK$15.47 each by the Company; and (ii) a subsequent consideration (if any), which is capped at RMB180.00 million (equivalent to HK$203.40 million). The actual Subsequent Consideration will be determined based on the financial performance of the Nutriunion Group for the three years ending 31 December 2021. Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion GZ, a total consideration of RMB6.82 million (equivalent to HK$7.71 million) shall be settled by cash. Upon completion of the acquisitions of the Nutriunion Group, both Nutriunion HK and Nutriunion GZ will become indirect wholly-owned subsidiaries of the Company.

As at the date of this report, the acquisitions of the Nutriunion Group are progressing as planned. Further details regarding the acquisitions of the Nutriunion Group are set out in the announcement of the Company dated 8 July 2019.

25. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 13 August 2019.