INTERIM REPORT 2020

NOURISHING LIFE & GROWTH

澳优 Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

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AUSNUTRIA DAIRY CORPORATION LTD
INTERIM REPORT 2020

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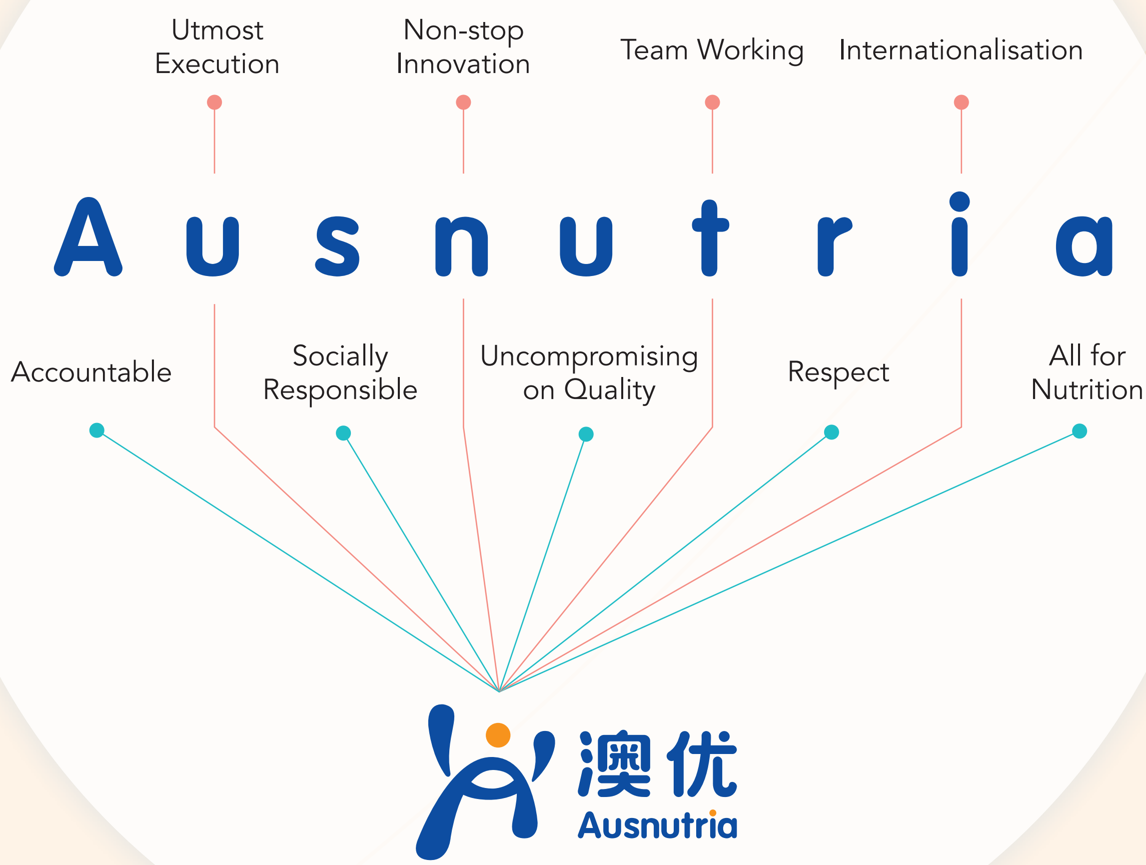

MISSION

Nourishing Life & Growth.

VISION

To become the most trustworthy milk formula, nutrition and healthcare 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 help 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. Lau Chun Fai Douglas
Mr. Jason Wan
Mr. Aidan Maurice Coleman

COMPANY SECRETARY

Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISER

DEACONS

FINANCIAL ADVISER

Asian Capital Limited

REGISTERED OFFICE

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

PRINCIPAL PLACES OF BUSINESS

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

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

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

In Australia
25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Rabobank
Bank of China

STOCK CODE

1717

INVESTOR RELATIONS CONTACT

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COMPANY'S WEBSITE

www.ausnutria.com.hk

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 2020 (the "**2020 Interim Period**").

BUSINESS REVIEW

The first half of 2020 has been challenging. Unexpected events such as the outbreak of COVID-19 and the ongoing Sino-US trade frictions, have affected the global economy, market sentiment and purchasing patterns of consumers in many sectors across the globe. Nevertheless, the Group recorded a revenue of RMB3,859.3 million, representing an increase of RMB711.7 million, or 22.6%, for the 2020 Interim Period when compared with the corresponding period in 2019 (the "**2019 Interim Period**"). The performance of the own-branded formula milk powder business, one of the Group's core operations, continued to be the main driver, with a recorded revenue of RMB3,410.9 million, representing an increase of RMB681.4 million, or 25.0%, when compared with the 2019 Interim Period, and accounted for 88.4% (2019 Interim Period: 86.7%) of the total revenue of the Group.

During the 2020 Interim Period, the Group recorded a loss on the fair value change of derivative financial instruments of RMB165.9 million. On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hong Kong) Company Limited and Hyproca Nutrition Co., Ltd (collectively, the "**HNC Group**") (the "**HNC Group Acquisition**"). The HNC Group is principally engaged in the marketing and distribution of goat milk nutrition products under the brand name of Kabrita in the People's Republic of China (the "**PRC**"). Pursuant to the sale and purchase agreement for the HNC Group Acquisition, the consideration is subject to certain adjustments (the "**Subsequent HNC Consideration**"), which shall be settled by the issuance and allotment of no more than 29,879,877 shares of the Company (the "**Shares**") (the "**Subsequent HNC Consideration Shares**") in around April 2021.

In accordance with International Accounting Standard 32, the Subsequent HNC Consideration, being a contingent consideration, is classified as a financial instrument in the Group's financial statements and is measured at fair value through profit or loss. Accordingly, valuation of the Subsequent HNC Consideration and thus the fair value of the financial instrument hinges on the market price of the Shares. During the 2020 Interim Period, the Group recorded an expense attributable to the loss on fair value changes of financial instrument arising from the Subsequent HNC Consideration of HK$182.9 million, equivalent to RMB165.9 million (the "**HNC FV Loss**") (2019 Interim Period: RMB174.4 million). Such loss was calculated by multiplying the Subsequent HNC Consideration Shares by the difference of the closing market price of the Shares between the last reporting date (i.e. HK$11.22 as at 31 December 2019) and at the end of the reporting period (i.e. HK$17.34 as at 30 June 2020). The Group's profit attributable to equity holders of the Company increased by 56.9% to RMB408.8 million for the 2020 Interim Period. Excluding the HNC FV Loss of RMB165.9 million, the adjusted profit attributable to equity holders of the Company amounted to RMB574.7 million, representing an increase of RMB139.8 million, or 32.1%, when compared with the adjusted profit for the 2019 Interim Period. The Company would like to emphasise that the HNC FV Loss is an accounting loss which has no adverse implications to the Group's cash flow and operating position.

In order to ensure that the businesses of the Group and hence the supply of quality formula milk powder products to the end consumers, particularly the infant, are not interrupted during the COVID-19 pandemic, the Group has since, in the early stage of the COVID-19 pandemic, taken timely and appropriate measures to ensure (i) the health conditions of all the employees are properly protected; (ii) the supply of raw materials is stable; (iii) the production facilities operate as usual; and (iv) the logistics for the delivery of products to the end consumers are properly arranged. As a result of all these efforts, despite the Company incurring additional delivery charges for the timely delivery of goods to the market as well as the purchasing behaviour on essentials of distributors and consumers which includes formula milk powder products become more difficult to predict, the businesses of the Group was not materially adversely affected by the COVID-19 pandemic.

Research and development ("**R&D**") have always been the priority of the Group. In the 2020 Interim Period, the Company's R&D expenses was 72.5% higher than that in the 2019 Interim Period. During the 2020 Interim Period, the Company has successfully launched two new formula milk powder products, a maternal mothers' and a children's formula powder, and a number of new nutritional products as scheduled. Furthermore, the Group has entered into a comprehensive strategic cooperation agreement with Jiangnan University, a renowned university in the PRC, for the purpose of strengthening the R&D capabilities of the Group on various aspects, including product development on probiotic, goat milk, and scientific research on milk proteomics, lipomics, etc.

In 2018, the Company announced the building of the Group's headquarter in the PRC in order to cater for the long term growth of the Group. On 28 June 2020, a ceremony recognising the topping-out of the PRC headquarter was held. According to the latest schedule, the construction of the PRC headquarter will be completed in the first quarter of 2021. Besides, the investment in the infant formula based powder facility and other related facilities, a project to increase the processing of goat milk and whey announced earlier this year, was also carried out as planned.

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

In the 2020 Interim Period, the core business of the Group, namely the own-branded formula milk powder business, maintained satisfactory results with an overall sales of RMB3,410.9 million, representing an increase of RMB681.4 million, or 25.0%, when compared with the corresponding period in 2019. The Group believes that such increase was mainly attributable to (i) the implementation of the Group's effective strategic plans; (ii) the constant refinement of its business chain; (iii) the continuous improvement of the upstream operational efficiency and product quality; (iv) the constant enhancement in its product mix; and (v) the synergies between its brands and channels resulting from its unremitting efforts to develop mama and baby store channels by high-frequency and high-quality marketing activities.

Yet, growth in the Group's revenue in the second quarter of 2020 mildly slowed down when compared with that in the first quarter of 2020. In late May 2020, the Company first became aware that sales of certain brands of the Group in the distribution channel began to slow down, which was believed to be a post-effect after the outbreak of COVID-19. In order to avoid overstocking in the distribution level of those brands, the Company decided to take a conservative approach by moderating its delivery to its distributors in the PRC. The Company believes the above measures are necessary steps executed in response to the market change after the outbreak of COVID-19, which will benefit the Group and its distributors in the long run. Furthermore, the Company has executed a restructuring exercise on some business units ("**BUs**") in response to the market change in May 2020, which included merging Allnutria and Eurlate BUs to focus on Allnutria brand, as well as re-positioning Puredo BU to dedicate to milk formula products made in Australia by enriching its product portfolio. Such restructuring exercise resulted in a temporary impact on the sale of those BUs in the second quarter of 2020. The Company believes the restructuring of these BUs will bring a clearer brand strategy and resources integration to drive the business success of these BUs.

The own-branded formula milk powder products of the Group principally comprise both cow milk formulas and goat milk formulas. As at 30 June 2020, the Group had a total of forty-five registered formulas under fifteen series covering all segments of the market ranging from super premium, premium, to mid-end segments. In particular, thirty-nine formulas under thirteen series were cow milk powders, while six formulas under two series were goat milk powders.

(a) Own-branded Cow Milk Formula

In the 2020 Interim Period, sales of own-branded cow milk formulas amounted to RMB1,755.3 million, representing an increase of RMB344.9 million, or 24.5%, when compared with the corresponding period in 2019. 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.

Amongst these BUs, Hyproca 1897 BU, which comprises the brands of Hyproca Hollary, Hyproca Hypure and Neolac, focuses on the super premium market and was the fastest-growing BU in the Group with recording sales of RMB1,155.0 million during the 2020 Interim Period, representing an increase of RMB461.0 million, or 66.4%, when compared with the 2019 Interim Period.

During the period under review, all BUs under the Group's own-branded cow milk formula segment endeavoured in various ways to improve their brand competitiveness. In March 2020, Hyproca 1897 BU signed Mr. Lang Lang （朗朗）, a world-class Chinese pianist, as its ambassador and established a close connection with him through multi-dimensional promotions. Such promotional activities included making an online broadcast named With Love and Music – The Story of Lang Lang and the Spark for His Quest for Art（《用愛成就－聽郎朗演奏成長故事，探索藝術啟蒙的奧秘》） on Sina Weibo（新浪微博）, a famous social media platform in the PRC, and iQIYI.com, a major online video platform; airing "Hyproca 1897" Lang Lang Music Time （《「海普諾凱1897」郎朗音樂時間》） on various provincial radio stations in the PRC; and placing print advertisement in major cities across the country through Focus Media in order to publicise the appointment of Lang Lang as its ambassador among consumers in a direct and frequent manner. It also continued to sponsor Mr. Housework 2 （《做家務的男人2》）, a sequel to a popular variety show of the same name, to improve its brand awareness by intensive placement marketing. To rationalise the allocation of resources and boost the development of the cow milk formula business, Allnutria BU consolidated and streamlined its organisational structure in May 2020 and re-launched its brand campaign in June 2020. It rolled out a wish-making event entitled Please, Allnutria! （《拜托了，能立多》）on Children's Day, 1 June 2020, via TikTok（抖音）, Sina Weibo, WeChat（微信）and other platforms. It has also been conducting a unified print ad campaign through smart screens and posters since June 2020 with the aim of accumulating brand equity for the future.

Following the outbreak of COVID-19 at the beginning of the year, the Group has never stopped caring about the health of mothers, babies and families around the world. The Group also cares about the needs of all its channel partners. As such, the Group has adjusted its marketing strategy in a proactive and timely manner and adopted various kinds of marketing channels. For instance, live streaming templates were created and online events were organised. Starting from the second quarter of 2020, offline activities gradually resumed so as to empower the channels and achieve synergies among them and the Group's brands. For example, Hyproca 1897 BU re-launched the Hyproca 1897 Fairy Tale Festival（海普諾凱1897童話節）, which has continued for 4 years, in June 2020. Four years of experimentation and experience was backed by constant innovation in the contents of the Fairy Tale Festival, which was originated by Hyproca 1897 BU. Having put on over 600 shows in more than 320 cities, the Hyproca 1897 Fairy Tale Festival has taken over 200,000 families with mothers and babies on a wonderful journey in a fairyland full of love. Allnutria BU held a large-scale baby crawling contest named Go Allnutria Babies! – A Gold Medalist Factory （《能寶總動員－金牌體「質」創造營》） in collaboration with retail stores with the aim of increasing interaction with the consumers.

In the 2020 Interim Period, Allnutria and Puredo BUs introduced a maternal mothers' and a children's milk powder formulas imported directly from the Netherlands and New Zealand, respectively, to broaden their milk powder formula product portfolios and target consumer groups.

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

(b) Own-branded Goat Milk Formula

In the 2020 Interim Period, sales of own-branded goat milk formulas amounted to RMB1,655.6 million, representing an increase of RMB336.5 million, or 25.5%, when compared with the corresponding period in 2019. The Group's own-branded goat milk formulas are all produced in the Netherlands and marketed globally.

According to relevant market research data, the goat milk formula market continues to outpace the infant formula market when compared with other categories. Such exponential growth of the goat milk formula industry has prompted many industry players to roll out goat milk formula products. Although competition has intensified, market recognition of goat milk formulas was also on the rise. Notwithstanding such competition, goat milk powder products of the Group remained the leaders in the industry in the PRC. Data from a global marketing research firm, AC Nielsen, shows that sales of Kabrita accounted for 61.1% and 64.0% of all imported infant goat milk formulas in 2018 and 2019, respectively.

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.

Moreover, Kabrita infant formula was newly launched in Mexico in early 2020 and received encouraging feedback despite the COVID-19 pandemic. Other than infant formula products, Kabrita also launched some new products across the globe: a liquid ready-to-feed formula in Korea, purees in Russia and a range of porridges and snacks across the globe.

During the period under review, Kabrita continued to increase its investment in strengthening and spreading its brand influence. I Will Find You a Better Home (《安家》) and Three Lives Three Worlds, The Pillow Book (《三生三世枕上書》), both being popular TV series in the first half of 2020, generated tens of billions of views for Kabrita and introduced the brand to more target consumers. Intensive placement marketing via Sisters Who Make Waves (《乘風破浪的姐姐》), a recent popular variety TV show, also created increased exposure and discussion of the brand.

The brand also got a lot of exposure on five major word-of-mouth platforms including Xiaohongshu(小紅書), Zhihu(知乎)and TikTok. As for offline activities, more advertisements were posted on common modes of transportation such as buses, high-speed trains and in airports.

In order to increase the foot traffic and sales of its retail stores, Kabrita launched a multi-dimensional marketing campaign combining online and offline activities. Such offline activities included the creation of unified offline store display shelves, Blue Hurricane（藍旋風） promotional and roadshow vehicles, provincial and regional exclusive offers, offline maternity care courses and in-store tasting. Online activities included the continual live streaming of themed and community activities that began in the first quarter of 2020 during the COVID-19 pandemic, collaboration with mama and baby stores with the aim of engaging in more interactions with the consumers and developing more potential customers.

After more than 8 years of efforts in this industry, Kabrita's infant formulas have successfully captured the heart of the consumers and built up several core strengths. Kabrita has gathered powerful brand influence by integrating its strengths in terms of products, marketing, services, operation and sales. Through multi-dimensional channel marketing, Kabrita is confident of realising sustainable long-term benefits while protecting the interests of its partners. To continue strengthening Kabrita's position in the future, the Group is now formulating a global innovation strategy for the next three to five years, which will be finalised this year.

(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 (the "**Private Label**") and engaged in the trading of dairy related products such as milk, milk powder, cream and other milk derived ingredients such as whey protein powder. For the 2020 Interim Period, sales of the Private Label and others businesses, which represented 9.9% (2019 Interim Period: 11.6%) of the total revenue of the Group, increased by 4.7% to RMB382.4 million. The increase in sales was mainly due to the increase in trading of commodities as a result of the increase in the intake of milk, particularly goat, for the processing of related ingredients in order to fulfill the internal production needs. The increase was partly offset by the decrease in sales of the Private Label business which was temporarily affected by the COVID-19 pandemic.

The Company believes that the Private Label and other businesses 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 two factories in the Netherlands which commenced operation in the beginning of 2018, and the increase in the intake of milk, the Private Label and other businesses can help maximise the operation efficiency of production facilities and balance the intake of milk while simultaneously providing a reasonable return to the Group.

Nutrition Business

Since the Group acquired an Australian nutrition business, namely Nutrition Care in 2016, and the subsequent establishment of a sales platform (the "**Nutrition Business**"), the Group has devoted itself to delivering gastrointestinal health solutions to consumers all over the world. With the Australian nutritional products brand, NC, a series of marketing activities has been rolled out to offer gastrointestinal health education and quality nutritional healthcare products to tens of thousands of families.

NC Gut Relief products are proudly endorsed by The Gut Foundation in Australia. In particular, NC Gut Relief has passed clinical trial and proved to be effective in relieving gastrointestinal ailments. The results of such clinical trial was formally published in Nutrition Research Journal, a journal of nutrition, in March 2020 and was announced at the Australian Pharmacy Professional Conference and Trade Exhibition, which is the largest annual conference of pharmacy professionals in Australia.

In the 2020 Interim Period, sales of nutrition products amounted to RMB66.0 million, representing an increase of RMB13.1 million, or 24.8%, when compared with the corresponding period in 2019. In spite of the COVID-19 pandemic, the Nutrition Business maintained relatively high growth rates attributable to the new product marketing strategy formulated during the period. The scope of this new marketing strategy extended from NC's gastrointestinal products to other new products, including NC Seasonal Biotic (NC舒鼻益生菌) and NC Floral Biotic (NC女神益生菌), that cater to the health needs of different people. These new products were launched during the 2020 Interim Period and achieved expected performance.

To promote consumers' awareness of potential gastrointestinal health problems, NC maintained close communication and collaboration with several gastrointestinal and nutritional experts from the PRC and Australia, and advocated the philosophy of "Love your gut, Live your life" together with experts from the National Institute of Integrative Medicine of Australia. It also sought to improve its marketing effectiveness, reach target users and enhance its brand influence by utilising short video clips via four channels on the TikTok platform, namely KOLs' endorsements, live streams, presentations and its own subscriber base. Furthermore, it is capturing the heart of the consumers on Xiaohongshu through powerful endorsements.

In the first half of 2020, NC was invited to participate in the third China International Import Expo in Shanghai. Participating in this exhibition for the third consecutive year demonstrated that NC's brand power is widely recognised by major e-commerce channels as well as the public. 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 for nutrition products.

STRATEGIC STEPS TAKEN

In order to achieve the Company's vision, the Group has executed the following strategic steps during the 2020 Interim Period:

HBC Acquisition

On 9 April 2020, the Company (through its wholly-owned subsidiary) entered into a sale and purchase agreement (the "**HBC Sale and Purchase Agreement**") with two individuals for the acquisition of the remaining 15.0% equity interest in Hyproca Bio-Science (Hong Kong) Company Limited (together with its subsidiary, the "**HBC Group**") (the "**HBC Acquisition**"), at a consideration of HK$896.0 million by way of issuance and allotment of 70,000,000 new Shares at a price of HK$12.8 each by the Company. Such consideration is subject to a call option of downward adjustment up to 20,000,000 Shares, which can be exercised by the Group at its absolute discretion should the future financial performance of the HBC Group fail to meet certain performance indicators for the three years ending 31 December 2022 pursuant to the terms as set out in the HBC Sale and Purchase Agreement.

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

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

HNC Amendments

On 30 May 2018, the Group completed the HNC Group Acquisition. Pursuant to the sale and purchase agreement for the HNC Group Acquisition, the consideration is subject to the Subsequent HNC Consideration, which shall be settled by the issuance and allotment of Subsequent HNC Consideration Shares in around April 2021. Having considered the outstanding financial performance of the HNC Group, and to recognise the contribution of the management team (being the vendors of the HNC Group Acquisition (the "**HNC Vendors**")) in the continued strong profitable growth momentum of the HNC Group to the Group, on 9 April 2020, the Company (through its wholly-owned subsidiary) and the HNC Vendors entered into a supplemental deed pursuant to which the parties have conditionally agreed to amend certain terms regarding, among others, the early settlement of the Subsequent HNC Consideration (the "**HNC Amendments**").

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

Changsha Land Acquisition

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

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

The Changsha Land Acquisition was completed during the 2020 Interim Period.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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

Since the outbreak of COVID-19, the Group has committed to national action plans to fight against it. Moreover, in order to help different communities combat the COVID-19 pandemic, the Group, together with different BUs and Ausnutria YOU-Foundation, acted swiftly and has donated eleven batches of cash, surgical masks, medical supplies, and nutrition products to charities and organisations worth over RMB78.0 million in total. The Group will continue to uphold its commitment in corporate social responsibilities and support the communities from time to time.

OUTLOOK

Based on the strategic steps that have been implemented by the Group over the years, from the investment in world-class upstream facilities to the building of a strong and well-established downstream sales team and network, and the establishment of strong R&D capabilities and first-class quality control system, the Company believes that the Group is well-positioned to become one of the major players of infant formula in the world. The Company will continue to allocate its best resources to support the ongoing developments in these important areas, in particular on R&D, the digitalisation of the operational platform and further improvement of the supply and production capabilities. Besides, the Company will endeavor to fulfill the formula registration requirements with the State Administration for Market Regulation (國家市場監督管理總局) of the PRC for the new factory in New Zealand.

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

In 2015, the Company announced its "Golden Decade" strategic plan and its vision "To become the most trustworthy milk formula, nutrition and healthcare enterprise in the world". In 2016, the Group extended its business into the nutrition sector by investing in Nutrition Care Pharmaceutical Pty Ltd ("**NCP**"), a company engaged in the development, manufacturing, packaging, and distribution of complementary medicine, nutritional and healthcare products. In 2017, the Group launched a number of the nutrition products developed by NCP under various brands, including Nutrition Care, NC, and Kidsbon, into the PRC. In 2019, the Group invested in Glac Biotech Co. Ltd ("**Glac Biotech**") for the purpose of extending the Nutrition Business into the probiotic sector.

With a mission to become the most trustworthy formula, nutrition and healthcare enterprise in the world, the Company has not only enriched its product portfolio of infant formulas by rolling out nutritional products for all age groups, but also enlarged its healthcare product line. On 10 July 2020, the Company marked a major milestone of its "Golden Decade" strategic plan by introducing a brand new probiotic product, Aunulife Probiotic (developed by the Group and produced by Glac Biotech), in order to broaden its product portfolio and offer a new choice to the increasingly nutrition-conscious consumers.

The outbreak of COVID-19 raised consumers' understanding and awareness of immune-boosting nutritional products. In particular, probiotic became a rising star among the health-conscious public for its attributes of being beneficial to gastrointestinal well-being and the immune system. According to a market research report, the scale of the global probiotic market in 2019 amounted to about EUR40 billion (approximately RMB300 billion) while the probiotic market in the PRC has been expanding at an average annual growth rate of 15%, and is expected to reach around RMB90 billion by 2022. Being one of the fastest-growing segments, the probiotic market has become a major battlefield for the Chinese nutritional food and healthcare product industry.

In order to foster the development of its probiotic business, the Company has allocated its resources in a holistic manner. Through the acquisition of Glac Biotech last year, (i) a complete industry value chain was assembled and an initial success in the application of the formula comprising five key probiotics for the mucosal immune system, six major probiotics for metabolism and the concentrate of probiotics and multiple enzymes have been achieved; (ii) the first Chinese human microbiome research centre was established with the aim of ending the monopoly of European and American high-end probiotic powders; (iii) five core technological platforms including the reversibly switchable fluorescent proteins (RSFP) bacterial strains selection mechanism are used to deliver precise, effective and quality products to the users; and (iv) a comprehensive functional bacterial strains collection was created. The continuous investment in R&D has yielded over forty articles published on international platforms for the Group. At the same time, the Company collaborated with the R&D station led by Chen Wei, a fellow of Jiangnan University, in July 2020 to form a state-of-the-art corporate food biotechnology R&D team. With their full support, advanced technologies and global resources of the Group, Aunulife Probiotic will be developed into a new driver of the Company's growth. Glac Biotech, the producer of Aunulife Probiotic, is a member of several international organisations for probiotics such as the International Probiotics Association and the International Scientific Association for Probiotics and Prebiotics. It also has the proprietary microcapsule embedded and lyophilisation technology as well as the largest and most comprehensive civil functional probiotic bacterial strain collection.

To capture the market and build up its strength in a timely manner, Aunulife Probiotic will be marketed by Kabrita BU. Capitalising on Kabrita's comprehensive sales and service network, strong and accurate marketing strategy as well as high quality and volume promotional activities, the Company believes that Aunulife Probiotic will become another superstar product after Kabrita.

The Company considers the extension and development of the Nutrition Business to be a major strategic step for the Group.

FINANCIAL REVIEW

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

Revenue

	Notes	Six months ended 30 June 2020 RMB'M (Unaudited)	Six months ended 30 June 2019 RMB'M (Unaudited)	Change %	Proportion to total revenue Six months ended 30 June 2020 % (Unaudited)	Proportion to total revenue Six months ended 30 June 2019 % (Unaudited)
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	**1,755.3**	1,410.4	24.5	**45.5**	44.8
Goat milk (in the PRC)	(i)	**1,535.2**	1,198.0	28.1	**39.8**	38.1
Goat milk (elsewhere)	(i)	**120.4**	121.1	(0.6)	**3.1**	3.8
		1,655.6	1,319.1	25.5	**42.9**	41.9
		3,410.9	2,729.5	25.0	**88.4**	86.7
Private Label and others:						
Private Label	(ii)	**90.9**	117.4	(22.6)	**2.4**	3.7
Others	(iii)	**291.5**	247.8	17.6	**7.5**	7.9
		382.4	365.2	4.7	**9.9**	11.6
Dairy and related products		**3,793.3**	3,094.7	22.6	**98.3**	98.3
Nutrition products	(iv)	**66.0**	52.9	24.8	**1.7**	1.7
Total		**3,859.3**	3,147.6	22.6	**100.0**	100.0

Notes:

(i) Representing the sales of own-branded cow milk formula products in the PRC and Kabrita in the PRC, Europe, the Commonwealth of Independent States, the United States, Canada, the Middle East countries, South Korea, South Africa, 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 mainly the sales of milk, milk powder, cream and other milk derived ingredients such as whey protein powder, etc.

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

For the 2020 Interim Period, the Group recorded revenue of RMB3,859.3 million, representing an increase of RMB711.7 million, or 22.6%, from RMB3,147.6 million for the 2019 Interim Period. Despite the competition of the formula milk powder product market in the PRC continuing to be intense during the 2020 Interim Period, revenue of the Group continued to increase. This was mainly driven by the increase in sales of the Group's own-branded cow and goat milk formula products by 24.5% and 25.5% respectively, when compared with that of the 2019 Interim Period, as a result of the continuous strengthening of sales network and brand building.

Yet, growth in the Group's revenue in the second quarter of 2020 mildly slowed down when compared with that in the first quarter of 2020. In late May 2020, the Company first became aware that sales of certain brands of the Group in the distribution channel began to slow down, which was believed to be a post-effect after the outbreak of COVID-19. In order to avoid overstocking in the distribution level of those brands, the Company decided to take a conservative approach by moderating its delivery to its distributors. The Company believes the above measures are necessary steps executed in response to the market change after the outbreak of COVID-19, which will benefit the Group and its distributors in the long run. Furthermore, the Company has executed a restructuring exercise on some BUs in response to the market change in May 2020, which included merging Allnutria and Eurlate BUs to focus on Allnutria brand, as well as re-positioning Puredo BU to dedicate to milk formula products made in Australia by enriching its product portfolio. Such restructuring exercise resulted in a temporary impact on the sale of those BUs in the second quarter of 2020. The Company believes the restructuring of these BUs will bring a clearer brand strategy and resources integration to drive the business success of these BUs.

In the past years, the Group experienced limits on production capacity and maintained a strategy to serve the own-branded sector with priority. With the commencement of operation of the Group's two factories in the Netherlands, the production capacity limitation issue is gradually relieved. While the Group was actively rebuilding its customer base in the Private Label business, the COVID-19 pandemic situation inevitably affected the growth of the existing customers and new customers development which resulted in the drop of the sales of the Private Label business for the period under review. Other than the development of the Private Label business, the Group has other side businesses, including sales of dairy related products such as milk, milk powder, cream and other milk derived ingredients such as whey protein powder. The Group has entered into long-term contracts with farmers and key raw materials/ingredients suppliers in order to secure the supply of key raw materials. The Group will trade its supplies whenever there is a surplus. During the 2020 Interim Period, the Group increased its intake of goat milk in order to secure the supply of goat whey for the production of Kabrita. As such, the output of corresponding by-products including cream, goat milk (after processing) and powder increased for the period under review. Revenue derived from the trading of these products increased accordingly.

Gross profit and gross profit margin

	Six months ended 30 June		Six months ended 30 June	
	2020	2019	**2020**	2019
	RMB'M	RMB'M	**%**	%
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Own-branded formula milk powder products:				
Cow milk	**982.8**	783.6	**56.0**	55.6
Goat milk	**999.6**	769.4	**60.4**	58.3
	1,982.4	1,553.0	**58.1**	56.9
Private Label and others	**57.7**	111.3	**15.1**	30.5
Dairy and related products	**2,040.1**	1,664.3	**53.8**	53.8
Nutrition products	**39.2**	29.3	**59.4**	55.4
	2,079.3	1,693.6	**53.9**	53.8
Less: provision for inventories	**(56.9)**	(54.5)		
Total	**2,022.4**	1,639.1	**52.4**	52.1

The Group's gross profit for the 2020 Interim Period was RMB2,022.4 million, representing an increase of RMB383.3 million, or 23.4%, when compared with the 2019 Interim Period. The increase in the gross profit margin of the Group from 52.1% for the 2019 Interim Period to 52.4% for the 2020 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 (such as Hyproca Hollary for cow) and niche segment (such as Kabrita Yuebai for goat), as compared with the other business sectors. Overall contribution to revenue by the own-branded formula milk powder products increased to 88.4% for the 2020 Interim Period (2019 Interim Period: 86.7%).

During the 2020 Interim Period, the commodity price such as cream, goat milk and powder decreased when compared with the corresponding period under review. As a result of the increase in intake of goat milk for the processing of goat whey, the gross profit margins derived from trading of the corresponding by-products decreased for the period under review.

Other income and gains

Other income and gains mainly represented (i) incentive granted from the PRC government of RMB24.3 million (2019 Interim Period: RMB15.2 million); and (ii) interest income from the Group's deposits with banks of RMB16.7 million (2019 Interim Period: RMB17.9 million).

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff, and delivery costs, represented 25.5% (2019 Interim Period: 27.4%) of the revenue for the 2020 Interim Period. The decrease in the selling and distribution expenses to revenue ratio was mainly due to the net effect of:

(i) less advertising and promotion activities in proportion to revenue were carried out during the period due to the COVID-19 pandemic; and

(ii) the increase in air-freight charges by RMB22.1 million from RMB28.6 million for the 2019 Interim Period to RMB50.7 million for the 2020 Interim Period. In order to shorten the delivery time of the products and to secure the timely delivery of the Group's own-branded products to respective markets under the COVID-19 pandemic situation, more air-freight charges were incurred.

Administrative expenses

The administrative expenses accounted for 8.3% (2019 Interim Period: 7.8%) of the revenue of the Group for the 2020 Interim Period.

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB10.2 million (2019 Interim Period: RMB9.1 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 RMB30.5 million, from RMB41.9 million for the 2019 Interim Period to RMB72.4 million for the 2020 Interim Period for the R&D of new products.

Other expenses

Other expenses for the 2020 Interim Period mainly comprised (i) the HNC FV Loss of RMB165.9 million (2019 Interim Period: RMB174.4 million); (ii) charitable donations of RMB35.4 million (2019 Interim Period: RMB3.2 million) mainly for the purpose of supporting different communities to combat the COVID-19 pandemic; and (iii) net foreign currency exchange losses of RMB2.9 million (2019 Interim Period: RMB4.5 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 2020 Interim Period amounted to RMB14.5 million (2019 Interim Period: RMB11.9 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.

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 2020 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 2020 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 China and HNC, both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the 2020 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 20%, respectively.

The Group's adjusted effective tax rate of 18.1% (excluding the HNC FV Loss of RMB165.9 million) for the 2020 Interim Period decreased by 1.8 percentage points as compared with the 2019 Interim Period of 19.9% (excluding the HNC FV Loss of RMB174.4 million). The decrease in the adjusted effective tax rate was mainly due to the proportionate increase in the profit contributed by Ausnutria China which is subject to CIT rate of 15%.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the 2020 Interim Period amounted to RMB408.8 million, representing an increase of RMB148.3 million, or 56.9% when compared with the 2019 Interim Period.

The Group's adjusted profit attributable to equity holders of the Company was arrived at after excluding the HNC FV Loss from the above reported profit as set out below:

	Six months ended 30 June		
	2020	2019	Change
	RMB'M	RMB'M	%
	(Unaudited)	(Unaudited)	
Profit attributable to equity holders of the Company	**408.8**	260.5	56.9
HNC FV Loss	**165.9**	174.4	(4.9)
Adjusted profit attributable to equity holders of the Company	**574.7**	434.9	32.1

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

Analysis on Condensed Consolidated Statement of Financial Position

As at 30 June 2020, the total assets and net asset value of the Group amounted to RMB8,880.1 million (31 December 2019: RMB8,343.2 million) and RMB4,215.5 million (31 December 2019: RMB4,063.9 million), respectively.

The increase in total assets of the Group as at 30 June 2020 was mainly contributed by:

(i) the increase in inventories by RMB165.3 million as a result of (a) the Group's decision to take a conservative approach by moderating its delivery to its distributors for certain brands as a measure to optimise the stock level in the Group's distribution channels in late May 2020; and (b) the increase in safety inventory level on certain key ingredients to avoid interruption on production during the COVID-19 pandemic;

(ii) the increase in construction in progress by RMB113.6 million for the building of a new infant formula base powder facility in the Netherlands;

(iii) the Changsha Land Acquisition which resulted in an increase in property, plant and equipment and other intangible assets of RMB21.0 million and RMB69.6 million, respectively; and

(iv) the net increase in cash and cash equivalent and pledged deposits of a total of RMB117.8 million derived mainly from cash generated from operating activities.

The increase in total assets of the Group as at 30 June 2020 was mainly financed by internal working capital and the cash flows generated from operating activities of the Group of RMB830.0 million (2019 Interim Period: RMB317.4 million) during the 2020 Interim Period.

The increase in net assets of the Group as at 30 June 2020 was mainly a result of the net effect of (i) the contribution in net profit of the Group generated for the 2020 Interim Period of RMB419.8 million (2019 Interim Period: RMB254.8 million); and (ii) the payment of 2019 final dividend of RMB320.7 million.

Working Capital Cycle

As at 30 June 2020, the current assets to current liabilities ratio of the Group was 1.58 times (31 December 2019: 1.65 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		
	2020 Number of days	2019 Number of days	Change Number of days
Inventories turnover days	**211**	214	(3)
Debtors' turnover days	**20**	20	–
Creditors' turnover days	**39**	37	2

The Group's inventories turnover days decreased slightly for the period under review and this was mainly attributable to the improved production lead time in the upstream production facilities. Such improvement was partly offset by (i) the strategic steps taken by the Group to increase the safety inventory level on certain of its key materials in its production facilities as well as finished goods in the PRC in order to ensure that there is a stable supply of formula milk powder products to its customers; and (ii) the slower-than-expected growth in the sales of certain brands of the Group's formula milk powder products in the PRC in the second quarter of 2020.

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 2020 RMB'M (Unaudited)	31 December 2019 RMB'M (Audited)
Interest-bearing bank loans and other borrowings		**(1,073.4)**	(1,203.8)
Less: Pledged deposits	(i)	**342.2**	396.2
Cash and cash equivalents	(ii)	**1,846.3**	1,674.5
		1,115.1	866.9
Total assets		**8,880.1**	8,343.2
Shareholders' equity		**4,179.3**	4,015.7
Gearing ratio	(iii)	**N/A**	N/A
Solvency ratio	(iv)	**47.1%**	48.1%

Notes:

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

	30 June 2020		31 December 2019	
Currency	**RMB'M (Unaudited)**	**% (Unaudited)**	RMB'M (Audited)	% (Audited)
RMB	**341.4**	**99.8**	395.4	99.8
EUR	**0.8**	**0.2**	0.8	0.2
Total	**342.2**	**100.0**	396.2	100.0

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

Currency	30 June 2020 RMB'M (Unaudited)	30 June 2020 % (Unaudited)	31 December 2019 RMB'M (Audited)	31 December 2019 % (Audited)
RMB	**1,225.2**	**66.4**	1,129.8	67.5
EUR	**281.0**	**15.2**	275.0	16.4
HK$	**167.3**	**9.1**	125.6	7.5
AUD	**87.8**	**4.8**	42.4	2.5
US$	**29.5**	**1.6**	61.3	3.7
TWD	**17.2**	**0.9**	10.9	0.6
NZD	**2.2**	**0.1**	3.3	0.2
Others	**36.1**	**1.9**	26.2	1.6
Total	**1,846.3**	**100.0**	1,674.5	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 a new infant formula base powder facility and the related facilities in the Netherlands, principally for the processing of goat milk and goat whey, and the extension into the Nutrition Business segment.

As at 30 June 2020, the Group had outstanding borrowings of RMB1,073.4 million (31 December 2019: RMB1,203.8 million), of which RMB370.7 million (31 December 2019: RMB419.8 million) was due within one year and the remaining RMB702.7 million (31 December 2019: RMB784.0 million) was due over one year. The repayments of bank loans and other borrowings for the 2020 Interim Period of RMB151.5 million and the payment of the 2019 final dividend of RMB320.7 million was supported by cash flows generated from the operating activities.

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

Currency	30 June 2020 RMB'M (Unaudited)	30 June 2020 % (Unaudited)	31 December 2019 RMB'M (Audited)	31 December 2019 % (Audited)
EUR	**960.6**	**89.5**	986.1	81.9
RMB	**69.2**	**6.4**	178.2	14.8
Others	**43.6**	**4.1**	39.5	3.3
Total	**1,073.4**	**100.0**	1,203.8	100.0

As at 30 June 2020, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR254.5 million, equivalent to approximately RMB2,026.1 million (31 December 2019: EUR235.0 million, equivalent to approximately RMB1,836.4 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB342.2 million (31 December 2019: RMB396.2 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the 2020 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, TWD or NZD against RMB.

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

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

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Group entered into an interest rate swap contract with a bank, effective from 30 September 2015, of a notional amount of EUR12.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 0.42% per annum. The interest rate swap contract was expired during the period.

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 2020, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries of a total of RMB166.4 million (31 December 2019: RMB212.3 million).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
30 June 2020	3,855	10	702	155	139	4,861
31 December 2019	3,722	9	685	151	122	4,689

For the 2020 Interim Period, total employee costs, including Directors' emoluments, amounted to RMB669.8 million (2019 Interim Period: RMB590.4 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

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 2020 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 enquiries 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 2020 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 2020 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 2020 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 6.19% of the issued Shares as at 30 June 2020.

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

Particulars and movements of share options under the Share Option Scheme during the 2020 Interim Period were as follows:

			Number of options		
Grantees	Date of grant	Exercise price per share option	Outstanding as at 2020.01.01	Exercised during the 2020 Interim Period	Outstanding as at 2020.06.30
Directors					
Mr. Yan Weibin	2019.01.15	HK$10.00	1,500,000	–	1,500,000
Mr. Bartle van der Meer	2019.01.15	HK$10.00	1,500,000	–	1,500,000
Ms. Ng Siu Hung	2019.01.15	HK$10.00	1,500,000	–	1,500,000
Mr. Shi Liang	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Qiao Baijun	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Tsai Chang-Hai	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Lau Chun Fai Douglas	2016.01.21	HK$2.45	100,000	(50,000)[(1)]	50,000
	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Jason Wan	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Aidan Maurice Coleman	2019.01.15	HK$10.00	500,000	–	500,000
Sub-total			7,600,000	(50,000)	7,550,000
Other					
Employees	2016.01.21	HK$2.45	1,160,000	(1,160,000)[(2)]	–
Employees	2016.07.06	HK$2.45	5,478,000	(4,783,000)[(3)]	695,000
Employees	2019.01.15	HK$10.00	32,000,000	–	32,000,000
Consultant of the Company	2019.01.15	HK$10.00	500,000	–	500,000
Total			46,738,000	(5,993,000)	40,745,000

Notes:

1. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$11.14.

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

3. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$14.62.

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.

As at the date of this report, the total number of share options granted and available for issue under the Share Option Scheme is 745,000, representing approximately 0.05% of the issued Shares. During the 2020 Interim Period, no options was cancelled or lapsed.

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

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

As at 30 June 2020, 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:

Long positions in ordinary Shares:–

	Number of shares held, capacity and nature of interest			
Name of Director	**Beneficial Owner**	**Interest of a controlled corporation**	**Total**	**Approximate percentage of issued share capital[(3)]**
Mr. Yan Weibin	1,200,000	118,739,085[(1)]	119,939,085	7.42%
Mr. Bartle van der Meer	1,200,000	124,205,230[(2)]	125,405,230	7.76%
Ms. Ng Siu Hung	1,000,000	–	1,000,000	0.06%
Mr. Tsai Chang-Hai	300,000	–	300,000	0.02%
Mr. Lau Chun Fai Douglas	250,000	–	250,000	0.02%
Mr. Jason Wan	300,000	–	300,000	0.02%

Notes:

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

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

(3) As at 30 June 2020, the total number of the issued Shares was 1,615,420,299.

Long positions in share options of the Company:–

Name of Director	Number of share options beneficially owned
Mr. Yan Weibin	1,500,000
Mr. Bartle van der Meer	1,500,000
Ms. Ng Siu Hung	1,500,000
Mr. Shi Liang	500,000
Mr. Qiao Baijun	500,000
Mr. Tsai Chang-Hai	500,000
Mr. Lau Chun Fai Douglas	550,000
Mr. Jason Wan	500,000
Mr. Aidan Maurice Coleman	500,000

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

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2020, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company:

Long positions in ordinary Shares:–

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital[11]
Citagri Easter Ltd.	1	379,000,000	Beneficial owner	23.46%
Changsha Kunxin Xin'Ao Investment LP	2	379,000,000	Interest of controlled corporation	23.46%
Chengtong CITIC Agriculture Investment Fund	2	379,000,000	Interest of controlled corporation	23.46%
CITIC Agri Fund Management Co., Ltd	3	379,000,000	Interest of controlled corporation	23.46%
CITIC Agriculture Technology Co., Ltd.	3	379,000,000	Interest of controlled corporation	23.46%
CITIC Limited	4	379,000,000	Interest of controlled corporation	23.46%
CITIC Group Corporation	4	379,000,000	Interest of controlled corporation	23.46%
China Structural Reform Fund Co., Ltd* （中國國有企業結構調整基金股份有限公司）	5	379,000,000	Interest of controlled corporation	23.46%
CCB (Beijing) Investment Funds Management Co., Ltd.* （建信（北京）投資基金管理有限責任公司）	5	379,000,000	Interest of controlled corporation	23.46%
CCB Trust Co., Ltd.* （建信信託有限責任公司）	5	379,000,000	Interest of controlled corporation	23.46%
Postal Savings Bank of China* （中國郵政儲蓄銀行股份有限公司）	6	379,000,000	Beneficiary of a trust (other than a discretionary interest)	23.46%

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital[11]
Center Laboratories, Inc.	7	307,940,089	Beneficial owner	19.06%
		35,991,683	Interest of a controlled corporation	2.23%
DDIHK	8	124,205,230	Beneficial owner	7.69%
DDI	8	124,205,230	Interest of a controlled corporation	7.69%
Fan Deming BV	8	124,205,230	Interest of a controlled corporation	7.69%
Ms. Chen Miaoyuan	9	121,439,085	Interest of spouse	7.52%
Ausnutria BVI	10	118,739,085	Beneficial owner	7.35%

Notes:

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

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

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

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

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

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

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

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

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

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

11. As at 30 June 2020, the total number of the issued Shares was 1,615,420,299.

* *For identification purpose only*

Save as disclosed above, as at 30 June 2020, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying Shares 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 2020 Interim Period (2019 Interim Period: Nil).

DIVIDEND DISTRIBUTION

The Board does not recommend a payment of an interim dividend for the 2020 Interim Period (2019 Interim Period: Nil).

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

For the six months ended 30 June 2020

	Notes	2020 Unaudited RMB'000	2019 Unaudited RMB'000
REVENUE	5	3,859,336	3,147,565
Cost of sales		(1,836,932)	(1,508,475)
Gross profit		2,022,404	1,639,090
Other income and gains	5	46,750	38,729
Selling and distribution expenses		(985,260)	(863,218)
Administrative expenses		(321,458)	(245,534)
Other expenses		(213,607)	(198,030)
Finance costs		(14,519)	(11,897)
Share of profits and losses of associates		15,152	2,161
Profit before tax	6	549,462	361,301
Income tax expense	7	(129,690)	(106,546)
PROFIT FOR THE PERIOD		419,772	254,755
Attributable to:			
Owners of the parent		408,761	260,455
Non-controlling interests		11,011	(5,700)
		419,772	254,755
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit for the period (RMB cents)		25.37	16.38
Diluted			
– For profit for the period (RMB cents)		24.97	16.21

	2020 Unaudited RMB'000	2019 Unaudited RMB'000
PROFIT FOR THE PERIOD	**419,772**	254,755
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**58,515**	18,885
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**58,515**	18,885
Other comprehensive loss that will not to 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 FOR THE PERIOD, NET OF TAX	**58,515**	18,019
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**478,287**	272,774
Attributable to:		
Owners of the parent	**463,330**	279,052
Non-controlling interests	**14,957**	(6,278)
	478,287	272,774

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**1,640,253**	1,471,496
Right-of-use assets		**300,687**	349,314
Goodwill		**290,576**	289,803
Other intangible assets		**462,568**	398,100
Long-term prepayments		**138,300**	158,198
Investments in associates		**545,127**	271,831
Investments in convertible bonds	11	**–**	207,352
Deferred tax assets		**253,967**	222,890
Total non-current assets		**3,631,478**	3,368,984
CURRENT ASSETS			
Inventories	12	**2,216,608**	2,051,326
Trade and bills receivables	13	**439,779**	419,919
Prepayments, other receivables and other assets		**403,707**	432,272
Pledged deposits		**342,242**	396,152
Cash and cash equivalents		**1,846,270**	1,674,541
Total current assets		**5,248,606**	4,974,210
CURRENT LIABILITIES			
Trade and bills payables	14	**449,643**	337,937
Other payables and accruals		**2,297,666**	2,038,496
Derivative financial instruments	15	**649**	1,013
Interest-bearing bank loans and other borrowings		**370,721**	419,787
Tax payable		**203,289**	215,719
Total current liabilities		**3,321,968**	3,012,952
NET CURRENT ASSETS		**1,926,638**	1,961,258
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,558,116**	5,330,242

	Notes	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		5,558,116	5,330,242
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		702,666	784,003
Defined benefit plan		6,560	6,440
Derivative financial instruments	15	473,269	300,312
Deferred revenue		65,120	65,463
Other long-term liability		7,073	11,369
Deferred tax liabilities		87,886	98,747
Total non-current liabilities		1,342,574	1,266,334
Net assets		4,215,542	4,063,908
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	140,336	140,031
Treasury shares		–	(24,733)
Reserves		4,038,995	3,900,356
		4,179,331	4,015,654
Non-controlling interests		36,211	48,254
Total equity		4,215,542	4,063,908

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

For the six months ended 30 June 2020

	Attributable to owners of the parent										
	Share capital RMB'000	Treasury shares 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 2020 (audited)	140,031	(24,733)	2,385,407*	(1,058,564)*	24,072*	123,551*	(115,585)*	2,541,475*	4,015,654	48,254	4,063,908
Profit for the period	–	–	–	–	–	–	–	408,761	408,761	11,011	419,772
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	54,569	–	54,569	3,946	58,515
Total comprehensive income for the period	–	–	–	–	–	–	54,569	408,761	463,330	14,957	478,287
Exercise of share option (note 16)	545	–	16,197	–	(3,387)	–	–	–	13,355	–	13,355
Final 2019 dividend declared	–	–	(323,245)	–	–	–	–	–	(323,245)	–	(323,245)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(27,000)	(27,000)
Equity-settled share option arrangements (note 17)	–	–	–	–	10,237	–	–	–	10,237	–	10,237
Cancellation of repurchased shares (note 16)	(240)	24,733	(24,493)	–	–	–	–	–	–	–	–
At 30 June 2020 (unaudited)	140,336	–	2,053,866*	(1,058,564)*	30,922*	123,551*	(61,016)*	2,950,236*	4,179,331	36,211	4,215,542

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/(loss) for the period	–	–	–	–	–	19,463	259,589	279,052	(6,278)	272,774
Exercise of share option	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 17)	–	–	–	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

* These components of equity comprise the consolidated reserves of RMB4,038,995,000 (31 December 2019: RMB3,900,356,000) as at 30 June 2020 in the condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	2020 Unaudited RMB'000	2019 Unaudited RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		549,462	361,301
Adjustments for:			
Finance costs		14,519	11,897
Share of profits and losses of associates		(15,152)	(2,161)
Interest income	5	(16,689)	(17,900)
Depreciation of property, plant and equipment and amortisation of other intangible assets	6	86,578	58,222
Depreciation of right-of-use assets	6	29,053	27,841
Write-down of inventories to net realisable value	6	56,917	54,477
Equity-settled share option arrangements	17	10,237	9,080
Fair value losses on derivative instruments			
– transactions not qualifying as hedge	6	374	2,053
– subsequent consideration on acquisition of HNC Group	6	165,864	174,427
		881,163	679,237
Increase in inventories		(246,883)	(535,455)
(Increase)/decrease in trade and bills receivables		(24,545)	958
Decrease/(increase) in prepayments and other receivables		52,900	(36,716)
Increase in trade payables		119,016	51,475
Decrease in derivative financial liability		(376)	(3,055)
Increase in other payables and accruals		233,912	248,602
Cash generated from operations		1,015,187	405,046
Interest received		13,230	16,788
Interest paid		(11,677)	(7,725)
Mainland China tax paid		(156,337)	(74,572)
Overseas tax paid		(30,392)	(22,149)
Net cash flows from operating activities		830,011	317,388

	Notes	2020 Unaudited RMB'000	2019 Unaudited RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(196,615)	(102,559)
Proceeds from disposal of items of property, plant and equipment		7,900	2,054
Proceeds from disposal of intangible assets		15	5
Additions to other intangible assets		(21,556)	(21,424)
Acquisition of a subsidiary		(82,637)	–
Investments in convertible bonds		–	(207,352)
Investment in an associate		–	(1,188)
Decrease in pledged deposits		53,910	65,504
Net cash flows used in investing activities		(238,983)	(264,960)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of the share options		13,355	34,704
New bank loans and other borrowings		65,906	374,440
Repayments of bank loans and other borrowings		(151,457)	(309,223)
Acquisition of non-controlling interests		–	(31,747)
Principal portion of lease payments and finance lease rental payments		(41,882)	–
Contribution from non-controlling shareholders of a subsidiary		–	1,600
Dividends paid		(320,697)	(207,792)
Dividends paid to non-controlling shareholders		(27,000)	(660)
Interest element of finance/operating lease rental payments		(2,842)	(3,932)
Net cash flows used in financing activities		(464,617)	(142,610)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		126,411	(90,182)
Cash and cash equivalents at beginning of period		1,674,541	1,449,861
Effect of foreign exchange rate changes, net		45,318	15,106
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,846,270	1,374,785
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,644,627	1,237,014
Non-pledged time deposits with original maturity of less than three months when acquired		201,643	137,771
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position and consolidated statement of cash flows		1,846,270	1,374,785

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 share 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 2020 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 2019. 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 2019, except for the adoption of following revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

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

Other than as explained below regarding the impact of IFRS 3 *Definition of a Business* and Amendments to IFRS 16 *Covid-19-Related Rent Concessions (early adopted)*, 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) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

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

    During the period ended 30 June 2020, no rent concession was granted by the lessors as a result of the covid-19 pandemic and no other changes to the terms of the leases was noted. Accordingly, there has been no impact upon initial application.

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, non-lease related finance costs as well as unallocated head office and corporate results are excluded from such measurement.

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2020 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	3,793,263	66,073	3,859,336
Revenue from operations			3,859,336
Segment results	570,505	(3,761)	566,744
Reconciliation:			
Interest income			16,689
Finance costs (other than interest on lease liabilities)			(10,567)
Corporate and other unallocated expenses			(23,404)
Profit before tax			549,462
Other segment information			
Impairment losses recognised in profit or loss	55,177	1,740	56,917
Share of profits and losses of associates	13,721	1,431	15,152
Depreciation and amortisation	109,744	5,887	115,631
Capital expenditure*	211,875	6,296	218,171
As at 30 June 2020 (unaudited)			
Segment assets	6,717,280	313,197	7,030,477
Reconciliation:			
Elimination of intersegment receivables			(338,905)
Corporate and other unallocated assets			2,188,512
Total assets			8,880,084
Segment liabilities	3,859,365	293,652	4,153,017
Reconciliation:			
Elimination of intersegment payables			(338,905)
Corporate and other unallocated liabilities			850,430
Total liabilities			4,664,542
Other segment information			
Investments in associates	336,344	208,783	545,127

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	394,983	(18,116)	376,867
Reconciliation:			
Interest income			17,900
Finance costs (other than interest on lease liabilities)			(8,709)
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*	119,801	4,182	123,983

As at 31 December 2019 (audited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment assets	6,314,293	279,013	6,593,306
Reconciliation:			
Elimination of intersegment receivables			(320,805)
Corporate and other unallocated assets			2,070,693
Total assets			8,343,194
Segment liabilities	3,386,474	291,839	3,678,313
Reconciliation:			
Elimination of intersegment payables			(320,805)
Corporate and other unallocated liabilities			921,778
Total liabilities			4,279,286
Other segment information			
Investments in associates	271,831	–	271,831
Investments in convertible bonds	–	207,352	207,352

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	RMB'000	RMB'000
The PRC	**3,423,756**	2,763,423
European Union	**255,405**	207,820
Middle East	**55,826**	24,068
North and South America	**70,684**	62,298
Australia	**30,272**	55,316
New Zealand	**3,542**	2,373
Others	**19,851**	32,267
	3,859,336	3,147,565

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

(b) Non-current assets

	30 June	31 December
	2020	2019
	Unaudited	Audited
	RMB'000	RMB'000
The PRC	**941,742**	881,806
The Netherlands	**1,767,242**	1,593,441
Australia	**507,809**	498,521
New Zealand	**160,718**	172,326
	3,377,511	3,146,094

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 2020, 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 2019: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	Unaudtied	Unaudited
	RMB'000	RMB'000
Revenue from contracts with customers	**3,859,336**	3,147,565

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 2020		
	Dairy and related products RMB'000	**Nutrition products RMB'000**	**Total RMB'000**
Segments			
Type of goods or service			
Sale of goods	**3,793,263**	**66,073**	**3,859,336**
Total revenue from contracts with customers	**3,793,263**	**66,073**	**3,859,336**
Geographical markets			
The PRC	**3,374,195**	**49,561**	**3,423,756**
European Union	**255,405**	**–**	**255,405**
Middle East	**55,826**	**–**	**55,826**
North and South America	**70,684**	**–**	**70,684**
Australia	**13,760**	**16,512**	**30,272**
New Zealand	**3,542**	**–**	**3,542**
Others	**19,851**	**–**	**19,851**
Total revenue from contracts with customers	**3,793,263**	**66,073**	**3,859,336**
Timing of revenue recognition			
Goods transferred at a point in time	**3,793,263**	**66,073**	**3,859,336**
Total revenue from contracts with customers	**3,793,263**	**66,073**	**3,859,336**

5. REVENUE, OTHER INCOME AND GAINS (continued)

Disaggregated revenue information from contracts with customers (continued)

	Six months ended 30 June 2019		
	Dairy and related products RMB'000	Nutrition products RMB'000	Total 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)

Other income and gains

		Six months ended 30 June	
		2020	2019
		Unaudtied	Unaudited
	Note	**RMB'000**	RMB'000
Other income and gains			
Interest income		**16,689**	17,900
Government grants	(i)	**24,306**	15,223
Others		**5,755**	5,606
Total other income and gains		**46,750**	38,729

(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	
	2020	2019
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of inventories sold	**1,780,015**	1,453,998
Write-down of inventories to net realisable value	**56,917**	54,477
Cost of sales	**1,836,932**	1,508,475
Depreciation of property, plant and equipment	**58,358**	35,540
Depreciation of right-of-use assets	**29,053**	27,841
Amortisation of other intangible assets	**28,220**	22,682
Research and development costs	**72,382**	41,949
Foreign exchange differences, net	**2,904**	4,462
Fair value losses, net:		
Derivative instruments		
– transactions not qualifying as hedges	**374**	2,053
– subsequent consideration on acquisition of HNC Group	**165,864**	174,427
Auditor's remuneration	**3,436**	3,693
Advertising and promotion expenses	**511,261**	464,788
Employee benefit expenses (including directors' remuneration):		
Wages, salaries, staff welfare and others	**538,611**	458,141
Temporary staff costs	**96,001**	91,971
Equity-settled share option expense	**10,237**	9,080
Pension scheme contributions*	**24,939**	31,165
	669,788	590,357

* At 30 June 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2019: 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 2020 (six months ended 30 June 2019: 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 20%.

Ausnutria Dairy (China) Co. Ltd. ("**Ausnutria China**") and Hyproca Nutrition Co. Ltd. ("**HNC**") were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the three years ending 31 December 2022 and 2020, respectively.

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	RMB'000	RMB'000
Current – Mainland China		
Charge for the period	**122,472**	84,377
Underprovision prior periods	**–**	150
Current – The Netherlands		
Charge for the period	**11,190**	24,710
Overprovision prior periods	**–**	(965)
Current – Hong Kong		
Charge for the period	**13,326**	4,155
Current – Australia		
Charge for the period	**–**	13,433
Current – Taiwan		
Charge for the period	**343**	972
Deferred	**(17,641)**	(20,286)
Total	**129,690**	106,546

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 1,611,479,387 (six months ended 30 June 2019: 1,590,436,309) in issue during the period.

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

Earnings

	Six months ended 30 June	
	2020	2019
	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	**408,761**	260,455

Shares

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,611,479,387**	1,590,436,309
Effect of dilution – weighted average number of ordinary shares:		
Share options	**25,515,097**	15,872,483
	1,636,994,484	1,606,308,792

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB196,615,000 (30 June 2019: RMB148,967,000). Assets with a net book value of RMB7,900,000 were disposed of by the Group at their respective net book values during the six months ended 30 June 2020 (30 June 2019: RMB2,054,000) resulting no gains or losses (30 June 2019: Nil).

As at 30 June 2020, the Group had pledged (i) the land and buildings, and 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 EUR88,652,000 (equivalent to approximately RMB705,759,000) (31 December 2019: EUR87,760,000, equivalent to approximately RMB685,888,000) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

As at 30 June 2020, the Group's land included in property, plant and equipment with a net carrying amount of EUR7,443,000 (equivalent to approximately RMB59,254,000) (31 December 2019: EUR7,443,000, equivalent to approximately RMB58,171,000), AUD7,491,000 (equivalent to approximately RMB36,449,000) (31 December 2019: AUD4,430,000, equivalent to approximately RMB21,637,000) and NZD3,000,000 (equivalent to approximately RMB13,649,000) (31 December 2019: NZD3,000,000, equivalent to approximately RMB14,092,000) are situated in the Netherlands, Australia and New Zealand, respectively, and are held as freehold land.

11. INVESTMENTS IN CONVERTIBLE BONDS

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

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

On 31 December 2019, the Proposed Privatisation is completed and the Company has already notified the CB Issuer for the conversion of the Convertible Bonds into 26.09% equity interest in the CB Issuer (the "**Conversion**").

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

The Conversion was completed during the six months ended 30 June 2020 and the CB Issuer became an associate of the Company thereafter.

12. INVENTORIES

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Raw materials	666,487	677,374
Finished goods	1,362,257	1,149,143
Goods in transit	167,490	200,102
Others	20,374	24,707
Total	2,216,608	2,051,326

At 30 June 2020, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR157,320,000 (equivalent to approximately RMB1,252,749,000) (31 December 2019: EUR137,320,000, equivalent to approximately RMB1,073,224,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

13. TRADE AND BILLS RECEIVABLES

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade receivables	401,014	403,840
Bills receivable	38,765	16,079
Total	439,779	419,919

The Group normally allows a credit period from 1 to 12 months (31 December 2019: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from associates of EUR11,227,000 (equivalent to approximately RMB89,379,000) (31 December 2019: EUR12,108,000, equivalent to approximately RMB94,630,000) 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 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Within 3 months	305,454	353,852
3 to 6 months	19,325	36,155
6 months to 1 year	64,200	5,726
Over 1 year	12,035	8,107
Total	401,014	403,840

13. 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 2020 (31 December 2019: Nil). The carrying amounts of the trade and bills receivables approximate their fair values.

As at 30 June 2020, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR8,487,000 (equivalent to approximately RMB67,567,000) (31 December 2019: EUR9,887,000, equivalent to approximately RMB77,272,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

14. 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 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Within 12 months	**437,344**	336,631
Over 12 months	**12,299**	1,306
	449,643	337,937

Included in the trade and bills payables are amounts due to associates of EUR4,132,000 (equivalent to approximately RMB32,893,000) (31 December 2019: EUR3,960,000, equivalent to approximately RMB30,949,000) which are repayable within 60 days.

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

	Note	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Subsequent HNC consideration	(i)	**473,269**	300,312
Interest rate swaps		**–**	376
Interest rate caps		**649**	637
		473,918	301,325
Portion classified as non-current:			
Subsequent HNC consideration	(i)	**(473,269)**	(300,312)
Current portion		**649**	1,013

Note:

(i) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in the Hyproca Nutrition (Hongkong) Company Limited and HNC (collectively, the "**HNC Group**"). The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 (the "**Subsequent HNC Consideration**"), which is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021. Balance represented the fair value of the Subsequent HNC Consideration which was derived with reference to management's estimation of the future financial performance of the HNC Group for the three years as mentioned in the above and the closing market price of the Shares at 30 June 2020 of HK$17.34.

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 2019 and 30 June 2020 amounted to approximately HK$182,865,000 (equivalent to approximately RMB165,864,000) (six months ended 30 June 2019: HK$201,988,000 (equivalent to approximately RMB174,427,000)), and a net exchange loss amounted to RMB7,093,000 (six months ended 30 June 2019: RMB4,163,000) were recognised during the period.

On 9 April 2020, the Group entered into a supplemental deed with the HNC Vendors pursuant to which the parties have conditionally agreed to amend certain terms regarding, among others, the early settlement of the Subsequent HNC Consideration (the "**HNC Amendments**").The HNC Amendments were approved by shareholders of the Company in the extraordinary general meeting of the Company on 30 July 2020.

16. SHARE CAPITAL

Shares

	30 June 2020 Unaudited HK$'000	31 December 2019 Audited HK$'000
Issued and fully paid:		
1,615,420,299 (2019: 1,612,106,299) ordinary shares of HK$0.10 each	161,542	161,211

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

	Number of shares in issue '000	Share capital RMB'000
At 1 January 2020 (audited)	1,612,106	140,031
Share options exercised (Note (i))	5,993	545
Shares cancelled (Note (ii))	(2,679)	(240)
At 30 June 2020 (unaudited)	1,615,420	140,336

Notes:

(i) The subscription rights attaching to 5,993,000 share options were exercised at the subscription price of HK$2.45 per Share (note 17), resulting in the issue of 5,993,000 Shares for a total cash consideration before expenses, of HK$14,683,000 (equivalent to approximately RMB13,355,000). An amount of RMB3,387,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

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

17. 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 of any Invested Entity;

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

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

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

The Scheme became effective on 8 October 2009 and expired on 7 October 2019, no further share options will be granted under the Scheme thereafter.

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 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 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 in issue at any time or with an aggregate value exceeding HK$5 million (based on the price of the Company's shares at the date of grant), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

17. SHARE OPTION SCHEME (continued)

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

	30 June 2020		30 June 2019	
	Weighted average exercise price HK$ per Share	Number of options '000	Weighted average exercise price HK$ per Share	Number of options '000
At 1 January (audited)	8.91	46,738	2.45	23,471
Granted during the period	–	–	10.00	40,000
Exercised during the period	2.45	(5,993)	2.45	(16,614)
At 30 June (unaudited)	9.86	40,745	8.90	46,857

The weighted average share price at the date of exercise for share options exercised during the period was HK$14.54 per share (six months ended 30 June 2019: HK$13.63) per Share.

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

30 June 2020 (Unaudited)	**Number of options '000**	**Exercise price HK$ per Share**	**Exercise period**
	50	2.45	21-1-17 to 20-1-21
	695	2.45	06-7-17 to 20-1-21
	40,000	10.00	15-1-21 to 14-1-24
	40,745		

31 December 2019 (Audited)	Number of options '000	Exercise price HK$ per Share	Exercise period
	1,260	2.45	21-1-17 to 20-1-21
	5,478	2.45	06-7-17 to 20-1-21
	40,000	10.00	15-1-21 to 14-1-24
	46,738		

17. SHARE OPTION SCHEME (continued)

The fair value of the share options granted was HK$112,131,000 (six months ended 30 June 2019: HK$112,131,000), of which the Group recognised a share option expense of HK$11,286,000 (equivalent to approximately RMB10,237,000) (six months ended 30 June 2019: HK$10,522,000, equivalent to approximately RMB9,080,000) during the period ended 30 June 2020.

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

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

The 5,993,000 share options exercised during the period resulted in the issue of 5,993,000 ordinary Shares and new share capital of HK$599,300 (equivalent to approximately RMB545,000) (before issue expenses), as further detailed in note 16 to the interim condensed consolidated financial statements.

At the end of the reporting period, the Company had 40,745,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 40,745,000 additional ordinary Shares and additional share capital of HK$4,074,500 (equivalent to approximately RMB3,722,000) (before issue expenses).

Subsequent to the end of the reporting period, no share option was exercised.

At the date of approval of this report, the Company had 40,745,000 share options outstanding under the Scheme, among which 745,000 share options are available for issue, which represented approximately 2.5% and 0.05% of the Company's shares in issue respectively.

18. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

19. 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, 12 and 13, respectively, to the interim condensed consolidated financial statements.

20. COMMITMENTS

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

	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Contracted, but not provided for:		
Land and buildings	**–**	54,226
Plant and machinery	**166,419**	157,574
Intangible assets	**–**	528
	166,419	212,328

21. RELATED PARTY TRANSACTIONS

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

		Six months ended 30 June	
	Notes	**2020 Unaudited RMB'000**	2019 Unaudited RMB'000
Purchases of products from the associates	(i)	**75,207**	85,952
Sales of products to the associates	(i)	**41,245**	73,303
Management fees received from the associates	(ii)	**111**	84

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.

21. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

Details of the balances with associates as at the end of the reporting period are disclosed in notes 13 and 14 to the interim condensed consolidated financial statements.

(c) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**18,080**	18,593
Retirement benefit contributions	**463**	835
Equity-settled share option expense	**3,867**	1,813
Total	**22,410**	21,241

22. 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 2020	31 December 2019	**30 June 2020**	31 December 2019
	Unaudited	Audited	**Unaudited**	Audited
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Derivative financial instruments	**473,918**	301,325	**473,918**	301,325
Interest-bearing bank loans and other borrowings (other than lease liabilities)	**850,430**	921,778	**856,380**	955,499
	1,324,348	1,223,103	**1,330,298**	1,256,824

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

22. 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 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 2020 was assessed to be insignificant.

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

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 15(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 2020.

As at 30 June 2020, 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.

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

Fair value hierarchy

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

Liabilities measured at fair value:

As at 30 June 2020 (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	473,269	649	–	473,918

As at 31 December 2019 (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	300,312	1,013	–	301,325

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 2019: Nil).

23. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 30 July 2020, the HBC Acquisition and the HNC Amendments were approved by shareholders of the Company in the extraordinary general meeting of the Company.

24. 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 2020.