AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	2018	2017	*% of*
	RMB'M	*RMB'M*	*Change*
Revenue	**5,389.6**	3,926.5	**37.3**
Gross profit	**2,660.6**	1,690.2	**57.4**
Gross profit margin *(%)*	**49.4**	43.0	**6.4 pps**
EBITDA			
– Reported	**948.7**	503.3	**88.5**
– Adjusted*	**895.1**	503.3	**77.8**
Profit attributable to equity holders of the Company			
– Reported	**635.1**	308.1	**106.1**
– Adjusted*	**581.5**	308.1	**88.7**
Final dividend per share *(HK$)*	**0.15**	0.10	**50.0**

For the year ended 31 December 2018 (the "Year 2018"), Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively, the "Group") recorded the followings:

- Revenue amounted to RMB5,389.6 million, representing an increase of RMB1,463.1 million or 37.3% from RMB3,926.5 million for the year ended 31 December 2017 (the "Year 2017"). Among which revenue derived from own-branded business increased by 53.8% to RMB4,401.4 million.
- Gross profit amounted to RMB2,660.6 million, representing an increase of RMB970.4 million or 57.4% from RMB1,690.2 million for the Year 2017.
- Adjusted EBITDA for the Year 2018 amounted to RMB895.1 million, representing an increase of RMB391.8 million or 77.8% from RMB503.3 million for the Year 2017.
- Adjusted profit attributable to equity holders of the Company for the Year 2018 amounted to RMB581.5 million, representing an increase of RMB273.4 million or 88.7% from RMB308.1 million for the Year 2017.

In addition, the board (the "Board") of directors (the "Directors") of the Company has recommended the payment of a final dividend of HK$0.15 (2017: HK$0.10) per share of the Company for the Year 2018.

* *Adjusted for a one-off net gain mainly arising from the re-measurement of an asset and gain on the fair value changes of derivative financial instruments in the Year 2018*

The Board is pleased to announce the audited consolidated financial results of the Group for the Year 2018 together with the comparative figures for the Year 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*5*	**5,389,568**	3,926,466
Cost of sales		**(2,728,933)**	(2,236,267)
Gross profit		**2,660,635**	1,690,199
Other income and gains	*5*	**114,109**	57,463
Selling and distribution expenses		**(1,444,237)**	(969,127)
Administrative expenses		**(461,853)**	(298,025)
Other expenses		**(59,621)**	(28,466)
Finance costs	*7*	**(29,753)**	(22,110)
Share of profits and losses of:			
A joint venture		**1,159**	940
Associates		**11,553**	7,671
Profit before tax	*6*	**791,992**	438,545
Income tax expense	*8*	**(147,440)**	(103,765)
PROFIT FOR THE YEAR		**644,552**	334,780
Attributable to:			
Owners of the parent		**635,100**	308,133
Non-controlling interests		**9,452**	26,647
		644,552	334,780
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	*9*		
Basic			
– For profit for the year *(RMB cents)*		**47.20**	24.61
Diluted			
– For profit for the year *(RMB cents)*		**46.63**	24.37

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**644,552**	334,780
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(27,976)**	(10,495)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(27,976)**	(10,495)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains on the defined benefit plan, net of tax	**137**	7
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**137**	7
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(27,839)**	(10,488)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**616,713**	324,292
Attributable to:		
Owners of the parent	**607,839**	301,365
Non-controlling interests	**8,874**	22,927
	616,713	324,292

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,580,523**	1,537,068
Prepaid land lease payments		**27,112**	27,960
Goodwill	*10*	**287,522**	155,596
Other intangible assets		**380,587**	330,027
Investment in a joint venture	*11*	**–**	43,122
Investments in associates	*12*	**262,203**	65,183
Deposit paid	*13*	**–**	58,543
Derivative financial instruments		**–**	13,856
Deferred tax assets		**152,508**	170,692
Total non-current assets		**2,690,455**	2,402,047
CURRENT ASSETS			
Inventories	*14*	**1,544,321**	1,083,385
Trade and bills receivables	*15*	**352,617**	225,412
Prepayments, other receivables and other assets		**363,961**	305,206
Derivative financial instruments		**–**	729
Pledged deposits	*16*	**427,791**	968,701
Cash and cash equivalents	*16*	**1,449,861**	635,650
Total current assets		**4,138,551**	3,219,083
CURRENT LIABILITIES			
Trade and bills payables	*17*	**283,584**	271,925
Other payables and accruals		**1,571,186**	1,201,078
Derivative financial instruments		**1,858**	1,592
Interest-bearing bank loans and other borrowings		**659,042**	1,158,040
Tax payable		**137,485**	130,605
Total current liabilities		**2,653,155**	2,763,240
NET CURRENT ASSETS		**1,485,396**	455,843
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,175,851**	2,857,890

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,175,851**	2,857,890
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		**416,400**	814,144
Defined benefit plan		**5,940**	6,374
Derivative financial instruments	*18*	**236,227**	–
Deferred revenue	*19*	**34,158**	–
Deferred tax liabilities		**88,578**	90,366
Total non-current liabilities		**781,303**	910,884
Net assets		**3,394,548**	1,947,006
EQUITY			
Equity attributable to owners of the parent			
Share capital	*20*	**137,421**	109,172
Reserves		**3,116,317**	1,631,319
		3,253,738	1,740,491
Non-controlling interests		**140,810**	206,515
Total equity		**3,394,548**	1,947,006

1. CORPORATE AND GROUP INFORMATION

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

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transaction*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS4 and IAS 40 and Annual Improvements to IFRSs 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments*: *Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted IFRS 9 from 1 January 2018. The Group has performed a detailed assessment of the impact of the adoption of IFRS 9, and concluded IFRS 9 does not have material impact on the Group's consolidated financial statements.

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group adopted IFRS 15 using the full retrospective method of adoption. Under this method, the standard was applied to all contracts at the date of initial application and the comparative information was reclassified accordingly. The effect of adopting IFRS 15 is as follows:

The adoption of IFRS 15 has had no impact on the statement of profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows.

There is also no impact on the statement of financial position, but only reclassification impact within other payables and accruals (increase/(decrease)):

	Adjustments	**31 December 2017** *RMB'000*	**1 January 2017** *RMB'000*
Liabilities			
Other payables and accruals – contract liabilities	(i), (ii)	629,284	378,607
Other payables and accruals – advances from customers	(i), (ii)	(346,885)	(206,969)
Other payables and accruals – deferred revenue	(i), (ii)	(282,399)	(171,638)
Total equity and liabilities		–	–

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

(i) Sale of goods

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

Customer loyalty programs

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

Distributor incentive programs

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

There is no impact on the statement of profit or loss for the year ended 31 December 2017. The statement of financial position as at 31 December 2017 was reclassified, resulting in an increase in contract liabilities within other payables and accruals of RMB282,399,000 and a decrease in deferred revenue within other payables and accruals of RMB282,399,000.

(ii) Consideration received from customers in advance

Prior to the adoption of IFRS 15, the Group recognised consideration received from customers in advance as advance from customers included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which is also included in other payables and accruals.

There is no impact on the statement of profit or loss for the year ended 31 December 2017. The statement of financial position as at 31 December 2017 was reclassified, resulting in an increase in contract liabilities within other payables and accruals of RMB346,885,000 and a decrease in advance from customers within other payables and accruals of RMB346,885,000.

(d) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred revenue) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had two reportable operating segments in 2018 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.

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

2018

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	**5,253,460**	**136,108**	**5,389,568**
Intersegment sales	**–**	**–**	**–**
	5,253,460	**136,108**	**5,389,568**
Reconciliation:			
Elimination of intersegment sales			**–**
Revenue from operations			**5,389,568**
Segment results	**838,271**	**(15,593)**	**822,678**
Reconciliation:			
Interest income			**26,318**
Finance costs			**(29,753)**
Corporate and other unallocated expenses			**(27,251)**
Profit before tax			**791,992**
Segment assets	**4,852,709**	**261,426**	**5,114,135**
Reconciliation:			
Elimination of intersegment receivables			**(162,781)**
Corporate and other unallocated assets			**1,877,652**
Total assets			**6,829,006**
Segment liabilities	**2,374,302**	**147,495**	**2,521,797**
Reconciliation:			
Elimination of intersegment payables			**(162,781)**
Corporate and other unallocated liabilities			**1,075,442**
Total liabilities			**3,434,458**
Other segment information			
Impairment losses recognised in the statement of profit or loss	**52,591**	**–**	**52,591**
Share of profits and losses of a joint venture	**1,159**	**–**	**1,159**
Share of profits and losses of associates	**11,553**	**–**	**11,553**
Investments in associates	**262,203**	**–**	**262,203**
Depreciation and amortisation	**142,603**	**10,689**	**153,292**
Capital expenditure*	**354,741**	**6,525**	**361,266**

2017

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	3,851,131	75,335	3,926,466
Intersegment sales	–	2,841	2,841
	3,851,131	78,176	3,929,307
Reconciliation:			
Elimination of intersegment sales			(2,841)
Revenue from operations			3,926,466
Segment results	483,333	(31,448)	451,885
Reconciliation:			
Interest income			33,863
Finance costs			(22,110)
Corporate and other unallocated expenses			(25,093)
Profit before tax			438,545
Segment assets	3,873,877	217,485	4,091,362
Reconciliation:			
Elimination of intersegment receivables			(74,583)
Corporate and other unallocated assets			1,604,351
Total assets			5,621,130
Segment liabilities	1,683,882	92,641	1,776,523
Reconciliation:			
Elimination of intersegment payables			(74,583)
Corporate and other unallocated liabilities			1,972,184
Total liabilities			3,674,124
Other segment information			
Impairment losses recognised in the statement of profit or loss	83,719	–	83,719
Share of profits and losses of a joint venture	940	–	940
Share of profits and losses of associates	7,671	–	7,671
Investment in a joint venture	43,122	–	43,122
Investments in associates	65,183	–	65,183
Depreciation and amortisation	65,235	11,251	76,486
Capital expenditure*	515,973	3,062	519,035

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

Geographical information

(a) Revenue from external customers

	2018	2017
	RMB'000	*RMB'000*
The PRC	**4,299,028**	2,763,413
European Union	**530,422**	701,248
Middle East	**111,465**	117,253
North and South America	**137,075**	95,218
Australia	**135,349**	114,384
New Zealand	**22,486**	13,544
Others	**153,743**	121,406
	5,389,568	3,926,466

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

(b) Non-current assets

	2018	2017
	RMB'000	*RMB'000*
The PRC	**468,551**	343,055
The Netherlands	**1,390,705**	1,352,371
Australia	**506,025**	365,646
New Zealand	**172,666**	170,283
	2,537,947	2,231,355

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

Information about a major customer

During the year, there was no revenue from a single external customer accounting for 10% or more of the Group's total revenue (2017: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers	**5,389,568**	3,926,466

Other income and gains

	Notes	2018 RMB'000	2017 RMB'000
Other income and gains			
Interest income		**26,318**	33,863
Government grants	*(i)*	**15,984**	10,675
Gain on re-measurement of previously held interest in a joint venture	*(ii)*	**35,060**	–
Gain on fair value changes of derivative financial instrument	*18(i)*	**22,256**	–
Management fees income from an associate		**162**	1,833
Others		**14,329**	11,092
Total other income and gains		**114,109**	57,463

(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.

(ii) On 29 June 2018, the Group completed the acquisition of the remaining 50% equity interest in Ozfarm Royal Pty Ltd ("Ozfarm") (the "Second Ozfarm Acquisition") which was accounted for as a joint venture of the Company prior to the acquisition (note 21). Balance represented gain on re-measurement of previously held 50% equity interest in Ozfarm as a result of the above acquisition (the "Ozfarm Re-measurement Gain").

6. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of inventories sold	**2,676,342**	2,152,548
Write-down of inventories to net realisable value	**52,591**	83,719
Cost of sales	**2,728,933**	2,236,267
Depreciation	**107,200**	56,136
Amortisation of prepaid land lease payments	**848**	848
Amortisation of other intangible assets	**45,244**	19,502
Research and development costs	**100,092**	37,908
Minimum lease payments under operating leases	**12,025**	11,436
Loss on disposal of items of property, plant and equipment	**3,696**	–
Loss on disposal of items of other intangible assets	**101**	–
Foreign exchange differences, net	**30,822**	3,488
Fair value losses/(gains), net:		
Derivative instruments		
– transactions not qualifying as hedges	**2,620**	(715)
Auditor's remuneration	**8,080**	7,220
Advertising and promotion expenses	**731,220**	408,358
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**619,819**	445,092
Equity share option expense	**2,934**	7,585
Pension scheme contributions*	**48,223**	31,707
	670,976	484,384

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Interest on bank loans, overdrafts and other loans	**25,175**	26,185
Interest on finance leases	**6,721**	530
Total interest expense on financial liabilities not at fair value through profit or loss	**31,896**	26,715
Less: Interest capitalised	**(1,616)**	(3,567)
	30,280	23,148
Other finance costs:		
Unrealised gain on an interest rate swap	**(527)**	(1,038)
	29,753	22,110

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the United States tax laws, enterprises are subject to the United States CIT rate of 21%. Under the Canada tax laws, enterprises are subject to the Canada CIT rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia CIT rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand CIT rate of 28%. Under the Taiwan tax laws, enterprises are subject to the Taiwan CIT rate of 17%.

Ausnutria Dairy (China) Co., Ltd. ("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 2019 and the three years ending 31 December 2020, respectively.

	2018 *RMB'000*	2017 *RMB'000*
Current charge for the year – Mainland China		
Charge for the year	**130,122**	114,428
Current charge for the year – The Netherlands		
Charge for the year	**–**	3,004
Underprovision in prior years	**–**	1,034
Current charge for the year – Hong Kong		
Charge for the year	**8,609**	1,022
Underprovision in prior years	**–**	653
Current charge for the year – Taiwan		
Charge for the year	**486**	464
Current charge for the year – Australia		
Charge for the year	**8,887**	–
Overprovision in prior years	**(2,793)**	–
Deferred income tax	**2,129**	(16,840)
Total tax charge for the year	**147,440**	103,765

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 year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,345,608,016 (2017: 1,251,839,982) in issue during the year.

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

Earnings

	2018	2017
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**635,100**	308,133

Shares

	Number of shares	
	2018	2017
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,345,608,016**	1,251,839,982
Effect of dilution – weighted average number of ordinary shares:		
Share options	**16,307,286**	12,748,442
	1,361,915,302	1,264,588,424

10. GOODWILL

	RMB'000
At 1 January 2017:	
Cost	135,069
Accumulated impairment	–
Net carrying amount	135,069
Cost at 1 January 2017, net of accumulated impairment	135,069
Acquisition of subsidiaries	14,856
Exchange realignment	5,671
Cost and net carrying amount at 31 December 2017	155,596
At 31 December 2017:	
Cost	155,596
Accumulated impairment	–
Net carrying amount	155,596
Cost at 1 January 2018, net of accumulated impairment	155,596
Acquisition of Ozfarm *(note 21)*	136,352
Exchange realignment	(4,426)
Cost and net carrying amount at 31 December 2018	287,522
At 31 December 2018:	
Cost	287,522
Accumulated impairment	–
Net carrying amount	287,522

11. INVESTMENT IN A JOINT VENTURE

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

12. INVESTMENTS IN ASSOCIATES

During the year, the Group's interest in a wholly-owned subsidiary (the "HQ Development Company") was diluted to 51% subsequent to the subscription of 49% interest in the HQ Development Company by an independent property developer (the "HQ Land Development Partner"). The HQ Development Company is principally engaged in the development of two plots of land (the "HQ Land") for the future PRC headquarter of the Group. As the management and daily operations of the HQ Development Company are vested with the HQ Land Development Partner, the HQ Development Company was then accounted for as an associate of the Company. The increase in balance was mainly due to the inclusion of the interest in the HQ Development Company with the carrying value of RMB153,948,000 (2017: Nil) as at 31 December 2018.

13. DEPOSIT PAID

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

14. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**517,525**	325,145
Finished goods	**858,927**	662,764
Goods in transit	**140,952**	84,935
Others	**26,917**	10,541
Total	**1,544,321**	1,083,385

15. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**329,444**	200,855
Bills receivable	**23,173**	24,557
Total	**352,617**	225,412

The Group normally allows a credit period from 1 to 12 months (2017: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**317,179**	187,246
3 to 6 months	**7,807**	7,413
6 months to 1 year	**4,320**	3,298
Over 1 year	**138**	2,898
Total	**329,444**	200,855

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018	2017
	RMB'000	*RMB'000*
Cash and bank balances	**1,115,828**	398,361
Time deposits	**761,824**	1,205,990
	1,877,652	1,604,351
Less: Pledged deposits	**(427,791)**	(968,701)
Cash and cash equivalents	**1,449,861**	635,650

17. 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:

	2018	2017
	RMB'000	*RMB'000*
Within 12 months	**282,400**	271,326
Over 12 months	**1,184**	599
	283,584	271,925

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

18. DERIVATIVE FINANCIAL INSTRUMENTS

		2018	2017
	Notes	***RMB'000***	*RMB'000*
Subsequent HNC Consideration (as defined below)	*(i)*	**230,391**	–
Subsequent Ozfarm Consideration	*21*	**5,836**	–
		236,227	–

Note:

(i) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hong Kong) Company Limited and HNC (the "HNC Group") (the "HNC Group Acquisition"). The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 which is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021 (the "Subsequent HNC Consideration"). Balance as at 31 December 2018 represented the fair value of the Subsequent HNC Consideration which was derived with reference to management's estimation of the future financial performance of the HNC Group for the three years as mentioned in the above and the closing market price of the Shares at 31 December 2018. The Subsequent HNC Consideration is classified as derivative financial instrument and is measured at fair value through profit or loss. The gain arising from the change in fair value between the date of completion of the HNC Group Acquisition and 31 December 2018 amounted to RMB22.3 million.

19. DEFERRED REVENUE

Balance represented government grants received by the Group as subsidies for the HQ Land. Government grants are recognised as income over the weighted average of the expected useful life of the relevant property, plant and equipment on the HQ Land.

20. SHARE CAPITAL

Shares

	2018	2017
	HK$'000	*HK$'000*
Issued and fully paid:		
1,582,150,653 (2017: 1,256,061,530) ordinary shares of HK$0.10 each	**158,215**	125,606

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

	Notes	**Number of shares in issue**	Share capital
		'000	*RMB'000*
At 1 January 2017		**1,247,733**	108,455
Share options exercised		**8,329**	717
At 31 December 2017 and 1 January 2018		**1,256,062**	109,172
Share options exercised		**13,815**	1,131
Consideration shares issued for an acquisition of non-controlling interest	*(i)*	**50,294**	4,116
Consideration shares issued for an acquisition of a subsidiary	*(ii)*	**12,980**	1,094
Issue of subscription shares	*(iii)*	**249,000**	21,908
At 31 December 2018		**1,582,151**	137,421

Notes:

(i) On 30 May 2018, 50,294,123 Shares were allotted and issued to satisfy the consideration of the HNC Group Acquisition, at fair value of HK$9.68 per Share, representing an amount of HK$486.8 million (equivalent to approximately RMB398.4 million).

(ii) On 26 June 2018, 12,980,000 Shares were allotted and issued to satisfy consideration of the Second Ozfarm Acquisition, at fair value of HK$8.58 per Share, representing an amount of HK$111.4 million (equivalent to approximately RMB93.9 million).

(iii) On 26 October 2018, 249,000,000 Shares were allotted and issued to satisfy the subscription agreement entered into between the Company and CITIC Agri-Fund Management Co., Ltd., at a subscription price of HK$5.18 per Share, amounting to HK$1,289.8 million (equivalent to approximately RMB1,144.8 million).

21. BUSINESS COMBINATION

Pursuant to a share purchase deed entered into between the Group and two independent parties (the "Ozfarm Vendors") on 1 June 2018 (the "Ozfarm Deed"), the Group agreed to purchase and the Ozfarm Vendors agreed to sell (i) the remaining 50% equity interest in Ozfarm at a consideration of HK$129.8 million (equivalent to approximately RMB93.9 million) (the "Upfront Ozfarm Consideration") which was settled by the issue and allotment of 12,980,000 Shares to the Ozfarm Vendors; and (ii) an aggregate of 42.5% equity interest in Ozfarm Royal (HK) Limited ("Ozfarm HK") at a cash consideration of AUD1. According to the Ozfarm Deed, the consideration is subject to an adjustment, to be determined based on the financial performance of Ozfarm for the two years ending 31 December 2020 and 2021 (the "Subsequent Ozfarm Consideration"). The Subsequent Ozfarm Consideration, if any, will be settled by cash or by the issue and allotment of the Shares (or any combination) at the discretion of the Group.

Ozfarm is principally engaged in the infant formula milk products and nutrition business, operates on formula milk products for infant, children, pregnant mother and elderlies under its own brand name *Oz Farm*®. Ozfarm HK is principally engaged in investment holding and holds the entire interest in Ozfarm Nutrition (Changsha) Co., Ltd., which is a company established in the PRC and principally engaged in the marketing and distribution of Ozfarm branded formula milk products in the PRC. Ozfarm and Ozfarm HK were accounted for as a joint venture and an associate of the Company previously, respectively. Upon completion of the above acquisitions on 29 June 2018, Ozfarm became a wholly-owned subsidiary of the Group and Ozfarm HK became a 85% owned subsidiary of the Group thereafter.

In accordance with IFRS 3, other than fair values of the Upfront Ozfarm Consideration and the Subsequent Ozfarm Consideration, the fair values of the Group's previously held 50% equity interest in Ozfarm and the call option granted pursuant to the share purchase deed of the Group's acquisition of previously held 50% equity interest in Ozfarm (the "Ozfarm Call Option") at the completion date were also considered as consideration in the calculation of goodwill. The fair values of the identifiable assets and liabilities of Ozfarm and Ozfarm HK as at the respective dates of acquisitions were as follows:

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	972
Intangible assets	48,037
Inventories	1,307
Trade receivables	10,735
Prepayments, other receivables and other assets	1,916
Cash and cash equivalents	48,146
Trade payables	(14,348)
Accruals and other payables	(6,663)
Provision for tax	(8,357)
Deferred tax liabilities	(13,945)
Total identifiable net assets at fair value	67,800
Non-controlling interests	(10,559)
Goodwill on acquisition	136,352
Total consideration	193,593
Satisfied by:	
Issue of Shares	93,894
Subsequent Ozfarm Consideration	5,836
Previously held interest in Ozfarm at its acquisition-date fair value	82,676
Ozfarm Call Option	11,187
Total consideration	193,593

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

Pursuant to the Ozfarm Deed, contingent consideration is payable, which is dependent on the future financial performance of the Ozfarm Group (namely, Ozfarm, Ozfarm HK and its subsidiary) for the two years ending 31 December 2020 and 2021. The initial amount recognised for the Subsequent Ozfarm Consideration was RMB5.8 million, which was determined using the discounted cash flow model and is within Level 3 fair value measurement. The Subsequent Ozfarm Consideration, if any, is due for payment to the Ozfarm Vendors in 2022. As at the date of approval of these financial statements, no further significant changes to the consideration are expected.

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

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

Since the acquisition, the Ozfarm Group contributed RMB30,047,000 to the Group's revenue and RMB1,506,000 to the consolidated profit for the year ended 31 December 2018.

Assuming combination took place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB5,423,624,000 and RMB652,423,000, respectively.

22. DIVIDENDS

	2018 ***RMB'000***	2017 *RMB'000*
Proposed final dividend – HK15 cents (2017: HK10 cents) per ordinary share	**207,942**	104,995

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

BUSINESS OVERVIEW

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

For the Year 2018, the Group recorded a revenue of RMB5,389.6 million, representing an increase of RMB1,463.1 million, or 37.3%, when compared with the Year 2017. The performance of the own-branded formula milk powder business, one of the Group's core operations, was particularly outstanding, with a recorded revenue of RMB4,401.4 million, representing an increase of RMB1,538.8 million, or 53.8% when compared with the Year 2017 and accounted for 81.6% (Year 2017: 72.9%) of the total revenue of the Group. The Group's profit attributable to ordinary equity holders of the Company increased by 106.1% to RMB635.1 million for the Year 2018. Excluding the Ozfarm One-Off Net Gain (as defined below) and the HNC FV Gain (as defined below) totaling RMB53.6 million, the adjusted profit attributable to ordinary equity holders of the Company amounted to RMB581.5 million, representing an increase of RMB273.4 million, or 88.7% when compared with the Year 2017.

The dairy industry continued to be challenging during the Year 2018, in the form of tightened rules and regulations from governments, and the lower-than-expected birth rate in the PRC, the Group's principal market. Nevertheless, the Group achieved a continuous growth in both revenue and operating results for the Year 2018. The growth was mainly driven by:

(i) the growing market recognition of the Group's own-branded formula milk powder products as a result of their quality, the persistent effort in building distribution channels and strong customer service;

(ii) the growing recognition for the high quality and nutritional value of the Group's own-branded goat milk formula products, *Kabrita*, from the consumers worldwide;

(iii) the effective "precise-marketing" strategies contributed by the "big data" and sophisticated information technology systems that have been built up over the years;

(iv) the increase in the Group's production capacity, following the commencement of production in the two new factories in the Netherlands, namely Ausnutria Hector and Ausnutria Pluto (collectively the "Hector and Pluto Factories") and the acquisition of a factory in Australia;

(v) the improvement in overall operation efficiency, such as improved production yield and factory efficiency in both the Netherlands and the PRC; and

(vi) the progressive enhancement of the Group's planning in global logistics management.

Additionally, because of the increasingly high industry entry barriers that result from the PRC's new regulations, and the increasing high quality and service demands of the customers, the Company believes that the Group will continue to grow by leveraging the above strategies, and because of the stringent quality controls that has established and implemented over the years.

Formula Milk Powder Business

(A) Own-branded Cow Milk Formula

Since 2014, the Group has adopted multi-branding strategies by establishing a number of business units (the "BUs") for the marketing and distribution of formula milk powder products. They are produced with different formulas and milk sources, and hence vary in price, in order to meet the wide range of demands from the consumers in the PRC. Each of the BUs has its own unique vision and marketing strategy to effectively penetrate different market segments in the PRC. The Board believes that the above strategies will facilitate the steady, long-term growth of the Group.

Over the years, the Group invested significant amount of time and resources for the building of its global upstream production facilities. The Company believes that the Group is one of the few players in the PRC market that possesses an entire business chain: milk supply, R&D, overseas production facilities, and an extensive, firmly-established distribution network in the PRC. For the Year 2018, the formula milk powder products distributed by the Group in the PRC are mainly produced by the Group's factories located in the Netherlands, Australia and the PRC. The Group has evolved gradually from an asset-light enterprise to an organisation that owns over RMB1.6 billion in property, plant and equipment as at 31 December 2018, and with ten factories around the globe. The Company believes such strategic moves are important as they enable the Group to control the entire production process and hence to implement controls on the quality of its products. The Company believes effective internal quality control is crucial for its long-term success.

For the Year 2018, sales of own-branded cow milk formula products amounted to RMB2,368.0 million, representing an increase of RMB785.2 million, or 49.6% as compared with the Year 2017. Among which, sales of the Group's two organic cow milk formula products, which is marketed under the brand names of *Neolac* and *Extrapure*, amounted to a total of RMB298.6 million (Year 2017: RMB158.9 million).

(B) Own-branded Goat Milk Formula

The Group's goat milk formula products are marketed under the brand name of *Kabrita*. During the Year 2018, sales of *Kabrita* continued to be promising. In particular, it continues to be ranked as the number one imported goat milk infant formula in the PRC, accounting for 62.5% (Year 2017: 50.1%) of total imported volume of approximately 14,844 tons (Year 2017: 11,412 tons).

All *Kabrita* products have been manufactured by the production facilities of the Group in the Netherlands since their launch in 2011. The continuous success in *Kabrita* is mainly attributable to (i) its effective and innovative marketing strategy (such as the precise-membership marketing system（會員精準行銷體系）) launched by the Group; (ii) excellent R&D, which are joint efforts of the Group and some renowned scientific institutions; (iii) the well-established distribution network built up by the Group over the years, in particular the increasing market penetration into first and second-tier cities; (iv) increasing market recognition of the higher nutritional value of goat milk formula and it is considered to be more easily digested than cow milk formula; (v) the well-established supply network, which enables the Group to secure all the major ingredients (particularly goat whey) for the production of *Kabrita*; and (vi) the geographical location of the Group's manufacturing plants in the Netherlands, which enables ample supply of quality goat milk to support the unceasing growth of *Kabrita*.

For the Year 2018, sales of *Kabrita* in the PRC and overseas amounted to RMB1,772.5 million and RMB260.9 million, representing an increase of RMB694.1 million, or 64.4% and RMB59.5 million, or 29.5%, respectively, when compared with the Year 2017.

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

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

As at the end of the reporting period, HGM has entered into long-term supply contracts with fifty-three goat milk farmers in the Netherlands. The total goat milk delivered by these farmers was approximately sixty-five million kilograms, representing approximately 20% of the total goat milk produced in the Netherlands, for the Year 2018. The Group has also entered into sole distribution agreements with a number of reputable dairy or food factories in the Netherlands for the stable supply of certain key ingredients for the production of goat-milk-related nutrition products. The Company will continue to strive for a leading worldwide position on the development of goat-milk-related nutrition products.

(C) Private Label

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"). For the Year 2018, sales of the Private Label business, which represented 6.3% (Year 2017: 10.7%) of the total revenue of the Group, decreased by 19.9% to RMB337.9 million. The decrease in sales of the Private Label business was due mainly to a higher proportion of the production capacity and resources being allocated to serve the Group's own-branded formula milk powder business, which recorded an increase in sales by 53.8% in the Year 2018.

Nevertheless, the Company believes that the Private Label business will continue to play an important role in the Group's growth. In particular, with the continuous ramping up of the output and efficiency of the Hector and Pluto Factories, which commenced operations in the beginning of 2018 and the anticipated start of production in the new factories in New Zealand (the "PNL Factory"), the Private Label business can help maximising the operation efficiency of production facilities, achieving economies of scale while simultaneously providing a reasonable return to the Group.

On 13 July 2018, the Group entered into a sale and purchase agreement with an independent third party (the "AJM Vendor") for the acquisition of a 50% equity interest in Ausnutria Joannusmolen B.V. (formerly Joannusmolen Nutirtion B.V.) ("AJM") at a consideration of EUR4.4 million (equivalent to approximately RMB33.9 million) (the "AJM Acquisition"). The AJM Vendor and its associates (the "AJM Group") were established in 1982 and have been one of the Private Label customers since 2011. The principal activities of the AJM Group are the sale and marketing of nutrition products, particularly formula milk powder products and cereals under the brand names of *Ekobaby* and *Biobim*, with principal markets in Europe and the PRC. The purpose of the AJM Acquisition is to facilitate the extension of the Group's sales and distribution network in Europe. The Company believes that it also provides an immediate and well-established platform for the Group to launch *Kabrita* and its other products, such as *Neolac*, the organic cow infant formula, in Europe.

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

Nutrition Business

The Group commenced its manufacturing, marketing and distribution of nutrition products through the acquisition of a nutrition business in Australia in October 2016. It includes the development, manufacturing, packaging, and distribution of complementary medicine, nutritional, and health products, under the brand names of *Nutrition Care* and *Brighthope*. It also includes the provision of contract manufacturing services in its facilities, which are certified by the Therapeutic Goods Administration (TGA) and located in Australia (the "Nutrition Business"). For the Year 2018, revenue and operating performance derived from this sector amounted to RMB136.1 million (Year 2017: RMB75.3 million) and the relevant loss attributable to the Company was RMB3.9 million (Year 2017: RMB16.4 million).

The Group has been actively streamlining the operations of the Nutrition Business and identifying the key and potential products to be launched in overseas markets, particularly the PRC. The Group has launched a number of nutrition products including Gut Relief, which has a beneficial effect on the gatrointestinal tract, in the PRC in late 2016 and in Hong Kong in late 2018 (*Nutrition Care* brand). Also launched Soforla in late 2017, a supplement that resolves lactose intolerance in infants. Gut Relief is distributed mainly in the PRC through e-commerce platforms such as JD and Tmall, along with Daigou. Soforla is distributed mainly through the Group's existing channels of formula milk powder products. Total sales of Gut Relief and Soforla during the year amounted to RMB100.7 million (Year 2017: RMB30.7 million).

In the fourth quarter of 2018, the Group launched a series of supplements for children and pregnant women under the brand name of *Kidsbon* including Seaweed Powder（海藻鈣）, DHA Algal Oli（藻油 DHA）and Mushroom Powder（兒童蘑菇粉VD）. These products are now available for sale in the PRC through e-commerce platforms such as JD and Tmall.

As consumers in the PRC are becoming more health-conscious over time, the Group believes that the Nutrition Business will benefit from the increasing market demand of nutrition products by leveraging on its infrastructure and wide distribution network.

STRATEGIC STEPS TAKEN

In order to accommodate the Company's vision, the Group has executed the following strategic steps during the Year 2018:

- Completed the HNC Group Acquisition on 30 May 2018, to create better synergy for the Group. Since then, they became wholly-owned subsidiaries of the Company. Further details regarding this acquisition are set out in the announcement and circular of the Company dated 14 February 2018 and 12 April 2018 respectively.

- Completed the Second Ozfarm Acquisition on 29 June 2018, to further expand the markets of the Group. Since then, Ozfarm became a wholly-owned subsidiary of the Company. Further details regarding this acquisition are set out in the announcement of the Company dated 1 June 2018.

- Entered into a share purchase deed for the acquisition of the remaining 25% equity interest in Nutrition Care Pharmaceuticals Pty Ltd on 17 December 2018 (the "NCP Acquisition"), to expand the Nutrition Business. As at the date of this announcement, such acquisition is still subject to the fulfillment of several conditions precedent. Further details regarding this acquisition are set out in the announcement of the Company dated 17 December 2018.

- Entered into a share purchase deed for the acquisition of the remaining 30% equity interest in Ausnutrition Care Pty Ltd on 17 December 2018 (the "ANC Acquisition"), to optimise the integration with production of infant milk formula for the Group. As at the date of this announcement, such acquisition is still subject to the fulfillment of several conditions precedent. Further details regarding this acquisition are set out in the announcement of the Company dated 17 December 2018.

OUTLOOK

Completion of the Factories and Brand Registration

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

However, registration process for the PNL Factory (construction completed in mid-2018) and the new factory in the PRC (the "Smart Factory"), for which the construction has now substantially been completed, is a bit behind schedule. This is due to more stringent procedures being adopted by respective regulators. The Company will endeavor to complete the factory registrations and thereafter the respective formulas registrations with the State Administration for Market Regulation of the PRC (the "SAMR"), by leveraging on its strong R&D capabilities, the experience that it has accumulated, and the stringent quality control systems that it has built over the years.

As of the date of this announcement, the Company has a total of five factories duly registered with the CNCA and a total of twelve series registered with the SAMR. The Company regards completion of the above registrations to be an important milestone for the Group in the coming year.

Secure of Upstream Resources

Upon completion of the PNL Factory and the Smart Factory, the annual dry blending and packaging capacities of the Group is expected to reach approximately 150,000 tons by 2022. Additionally, with the growth in demand of *Kabrita* following the anticipated successful registration of the US FDA, the ability to secure upstream resources is becoming more crucial to the Company. During the year, the global infant formula market experienced shortages on some of its key ingredients, such as Lactoferrin.

Other than the investments in upstream facilities, the Company has also from time to time reviewed its strategies to secure its raw materials resources, in order to ensure that the Company will meet the ongoing growth in demand. For examples, the acquisition of Farmel in 2014 to secure a stable supply of cow milk, the entering into long-term contracts with goat milk farmers via HGM to secure quality goat milk, the entering into long-term contracts and partnership with Westland Co-operative Dairy Company Limited for base powder, and some international goat cheese players for the securing of goat whey.

The Company will continue to formulate its long-term plan and strategies, including cooperation with industry pioneers and further investments in CAPEX, to ensure that there are sufficient raw materials and resources to support its long-term growth.

Expansion of Formula Milk Powder Market Share

The PRC

The Group's sale of formula milk powder products can be broadly categorised into two sectors, the "own-brand" and the "Private Label". The sale of own-branded formula milk powder products can then be further categorised into "cow" and "goat". Since 2014, the Group has established a number of BUs, namely the Kabrita BU for goat milk powder products, and the Hyproca 1897 BU, the Allnutria BU, the Puredo BU, the Augood BU, and the Eurlate BU for cow milk powder products. Each BU has its own unique vision and marketing strategy in promoting its products in the PRC, to fulfill the different needs of millions of newborns every year.

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

Global markets (except the PRC)

In past years, the Group experienced limits in production capacity and maintains a strategy to serve the own-branded sector in the PRC with priority. With the commencement of operation of the two factories in the Netherlands, namely Ausnutria Hector and Ausnutria Pluto, the Group will increase its efforts to promote *Kabrita* and the Private Label businesses outside the PRC in the coming years. According to the global marketing plan, the Group intends to launch *Kabrita* in Mexico, India, Thailand, and the United States (as soon as the US FDA license has been granted). Meanwhile, It will continue to extend its coverage in existing markets, particularly the Middle East, Russia, the Commonwealth of Independent States (the "CIS") and Brazil in 2019.

As at the date of this announcement, the Group has over RMB800.0 million net cash (2017: net debt of RMB367.8 million). The Company will continue to explore potential investment opportunities with an aim to realise its "Golden Decade" strategic plan and its vision "To Become the Most Trustworthy Milk Formula, Nutrition and Health-care Enterprise in the World."

FINANCIAL REVIEW

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

Revenue

					Proportion to total revenue	
		2018	2017	Change	**2018**	2017
	Notes	***RMB'M***	*RMB'M*	*%*	***%***	*%*
Own-branded formula milk powder products:						
Cow milk (in the PRC)	*(i)*	**2,368.0**	1,582.8	49.6	**43.9**	40.3
Goat milk (in the PRC)	*(i)*	**1,772.5**	1,078.4	64.4	**32.9**	27.5
Goat milk (elsewhere)	*(i)*	**260.9**	201.4	29.5	**4.8**	5.1
Goat milk total		**2,033.4**	1,279.8	58.9	**37.7**	32.6
		4,401.4	2,862.6	53.8	**81.6**	72.9
Private Label	*(ii)*	**337.9**	422.0	(19.9)	**6.3**	10.7
Milk powder	*(iii)*	**198.7**	252.5	(21.3)	**3.7**	6.4
Butter	*(iv)*	**160.7**	172.0	(6.6)	**3.0**	4.4
Others	*(v)*	**154.8**	142.1	8.9	**2.9**	3.7
Dairy and related products		**5,253.5**	3,851.2	36.4	**97.5**	98.1
Nutrition products	*(vi)*	**136.1**	75.3	80.7	**2.5**	1.9
Total		**5,389.6**	3,926.5	37.3	**100.0**	100.0

Notes:

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

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

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

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

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

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

For the Year 2018, the Group recorded revenue of RMB5,389.6 million, representing an increase of RMB1,463.1 million, or 37.3%, from RMB3,926.5 million for the Year 2017. Despite the competition of the formula milk powder products market in the PRC continued to be intense during the Year 2018, revenue of the Group continued to increase and this was mainly attributable to the continuous increase in the sales of own-branded formula milk powder products which has been driven by the clear brand positioning and the effective marketing strategies adopted by the Group.

During the year, as higher portion of the Group's production capacity and resources in the Netherlands have been allocated to the own-branded formula milk powder products, the sale of the Private Label business dropped when compared with the Year 2017. With the completion of the Hector and Pluto Factories at the end of the Year 2017, the production capacity limitation issue is expected to be gradually relieved in the coming years. Besides, as more milk powder was consumed for the production of own-branded formula milk powder products, sale derived from the trading of milk powder for the year decreased accordingly.

Gross profit and gross profit margin

	Gross profit		**Gross profit margin**	
	2018	2017	**2018**	2017
	RMB'M	*RMB'M*	*%*	*%*
Own-branded formula milk powder products:				
Cow milk	**1,296.7**	863.5	**54.8**	54.6
Goat milk	**1,104.8**	703.3	**54.3**	55.0
	2,401.5	1,566.8	**54.6**	54.7
Others	**233.0**	162.2	**27.3**	16.4
Dairy and related products	**2,634.5**	1,729.0	**50.1**	44.9
Nutrition products	**78.7**	44.9	**57.8**	59.6
	2,713.2	1,773.9	**50.4**	45.1
Less: provision for inventories	**(52.6)**	(83.7)		
Total	**2,660.6**	1,690.2	**49.4**	43.0

The Group's gross profit for the Year 2018 was RMB2,660.6 million, representing an increase of RMB970.4 million, or 57.4%, when compared with the Year 2017. The increase in the gross profit margin of the Group from 43.0% for the Year 2017 to 49.4% for the Year 2018 was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded formula milk powder products business, particularly those products that are in the super premium segment, as compared with the other business sectors. Overall contribution to revenue by the own-branded formula milk powder products increased to 81.6% for the Year 2018 (Year 2017: 72.9%). The decrease in provision for inventories for the year also contributed an increase in gross profit margin by 1.1 percentage points.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	**2018** **RMB'M**	2017 RMB'M
Interest income on bank and other deposits	*(i)*	**26.3**	33.9
Government grants	*(ii)*	**16.0**	10.7
The HNC FV Gain	*(iii)*	**22.3**	–
The Ozfarm Re-measurement Gain	*(iv)*	**35.0**	–
Management fees income from an associate		**0.2**	1.8
Others		**14.3**	11.1
		114.1	57.5

Notes:

(i) Balance mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC. The decrease in interest income was mainly due to the decrease in the average bank balances and average bank deposit rate during the Year 2018.

(ii) Balance mainly represented incentive income received from the government of the Hunan province, the PRC for the contribution made by Ausnutria China in the Hunan province, the PRC during the Year 2018.

(iii) On 30 May 2018, the Group completed the HNC Group Acquisition. The consideration for the HNC Group Acquisition included an upfront consideration and a subsequent consideration (which will be settled by issue and allotment of Shares in 2022 pursuant to the share purchase agreement). The subsequent consideration is classified as financial instrument and is measured at fair value through profit or loss. Balance represented the gain arising from the change in fair value between the date of completion of the HNC Group Acquisition and the reporting date (the "HNC FV Gain"). Further details regarding the HNC Group Acquisition are set out in the "Strategic steps taken" section of this announcement.

(iv) On 29 June 2018, the Group completed the Second Ozfarm Acquisition, before which Ozfarm was accounted for as a joint venture of the Company. Balance represented the gain on re-measurement of previously held 50% equity interest in Ozfarm as a result of the Second Ozfarm Acquisition. Further details regarding the Second Ozfarm Acquisition are set out in the "Strategic steps taken" section of this announcement.

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 26.8% (Year 2017: 24.7%) of the revenue for the Year 2018. The increase in the selling and distribution expenses to revenue ratio was mainly due to the proportionate increase in the sales of the higher profit margin own-branded formula milk powder business which incurred on average a higher selling and distribution expenses to revenue ratio when compared with the other sectors.

Administrative expenses

The administrative expenses accounted for 8.6% (Year 2017: 7.6%) of the revenue of the Group for the Year 2018.

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB2.9 million (Year 2017: RMB7.6 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 of RMB62.2 million, from RMB37.9 million for the Year 2017 to RMB100.1 million for the Year 2018, for the research and development of new products etc.

Other expenses

Other expenses mainly comprised (i) net foreign currency exchange losses of RMB30.8 million (Year 2017: RMB3.5 million) arising from the foreign currency transactions, mainly between EUR and RMB, and revaluation of year end foreign currency balances; (ii) compensation to a customer in relation to the termination of a sales contract of RMB8.6 million (Year 2017: Nil); and (iii) loss on fair value change of derivative financial instrument in relation to a call option granted by the Ozfarm Vendors upon completion of the acquisition of the 50% equity interest in Ozfarm in Year 2017 of RMB3.7 million (the "Ozfarm FV Loss") (Year 2017: Nil) and such call option is lapsed upon completion of the Second Ozfarm Acquisition.

Finance costs

The finance costs of the Group for the Year 2018 amounted to RMB29.8 million (Year 2017: RMB22.1 million), representing mainly interest on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

The increase in finance costs was mainly attributable to (i) the increase in average bank loans as a result of additional bank loans drawdown during the year; and (ii) the cessation of capitalisation of loan interest upon completion of the construction of the Hector and Pluto Factories at the end of 2017. On 26 October 2018, the Company completed the issue of 249,000,000 Shares at the issue price of HK$5.18 per Share to CITIC Agri Fund Management Co., Ltd (the "CITIC Subscription") and part of the proceeds raised was used to repay bank loans in the fourth quarter of 2018. The Group has turned from a net debt position of RMB367.8 million as at 31 December 2017 to a net cash position of RMB802.3 million as at 31 December 2018 following the completion of the CITIC Subscription.

Income tax expenses

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

The decrease in the Group's effective tax rate from 23.7% for the Year 2017 to 20.0% (excluding the Ozfarm Re-measurement Gain and the Ozfarm FV Loss (together the "Ozfarm One-Off Net Gain") and the HNC FV Gain of a total of RMB53.6 million) for the Year 2018 was mainly due to the granting of a preferential CIT rate to HNC of 15% (Year 2017: 25%) as HNC is designated as a High-tech Enterprise during the year. The profit before tax derived from HNC has accounted for 45.2% (Year 2017: 49.2%) of the Group's adjusted profit before tax for the Year 2018.

Profit attributable to ordinary equity holders of the Company

The Group's profit attributable to ordinary equity holders of the Company for the Year 2018 amounted to RMB635.1 million, representing an increase of RMB327.0 million, or 106.1% when compared with the Year 2017.

Excluding the Ozfarm One-Off Net Gain and the HNC FV Gain of a total of RMB53.6 million, the adjusted profit attributable to ordinary equity holders of the Company amounted to RMB581.5 million, representing an increase of RMB273.4 million, or 88.7% when compared with the Year 2017.

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

Analysis on Consolidated Statement of Financial Position

As at 31 December 2018, the total assets and net asset value of the Group amounted to RMB6,829.0 million (2017: RMB5,621.1 million) and RMB3,394.5 million (2017: RMB1,947.0 million), respectively.

The increase in total assets of the Group as at 31 December 2018 was mainly contributed by:

(i) the Second Ozfarm Acquisition which resulted in a net increase in total assets (mainly goodwill and other intangible assets) of RMB204.3 million;

(ii) the increase in interest in the HQ Development Company with the carrying value of RMB153.9 million included in investments in associates (2017: included in deposit paid of RMB58.5 million) as at 31 December 2018. During the year, the Group's interest in the HQ Development Company was diluted from 100% to 51% subsequent to the subscription of 49% interest in the HQ Development Company by an independent property developer. As the management and daily operations of the HQ Development Company are vested with the independent property developer, the HQ Development Company was then accounted for as an associate of the Company;

(iii) the increase in inventories of RMB460.9 million as a result of the scale up of operations of the Group following completion of the Hector and Pluto Factories; and

(iv) the net increase in cash and cash equivalent and pledged deposits of a total of RMB273.3 million derived mainly from the CITIC Subscription and cash generated from operating activities.

The increase in total assets of the Group as at 31 December 2018 was mainly financed by the issue of new Shares for the CITIC Subscription, internal working capital and the cash flows generated from operating activities of the Group of totalling RMB531.8 million (Year 2017: RMB512.5 million) during the year.

The increase in net assets of the Group as at 31 December 2018 was mainly a result of the net effect of (i) the net profit of the Group generated for the year of RMB644.6 million; (ii) the increase in the share capital and share premium of the Company of a total of RMB1,565.1 million mainly derived from as a result of the CITIC Subscription; and (iii) the decrease in capital reserve arising from the elimination of the goodwill for the acquisition of the minority interests in the HNC Group and HGM during the year of a total of RMB655.6 million.

Working Capital Cycle

As at 31 December 2018, the current assets to current liabilities ratio of the Group was 1.6 times (2017: 1.2 times). The improvement in current assets to current liabilities ratio when compared with the prior year was mainly due to the cash inflows contributed by the CITIC Subscription as well as from the operating activities.

An analysis of key working capital cycle is as follows:

	2018 Number of days	2017 Number of days	Change Number of days
Inventory turnover days	**176**	154	22
Debtors' turnover days	**20**	21	(1)
Creditors' turnover days	**37**	35	2

In March 2018, the Group commenced the delivery of formula milk powder products from the Netherlands to the PRC via railway. In order to further control the transportation costs following the ramping up of the productivity of the Hector and Pluto Factories, the Group continues to optimise its logistic arrangements by increasing the delivery of goods via railway as such logistic arrangement is considered to be more cost effective based on the trial experience in the past months. In particular, in the fourth quarter of 2018, the Group has arranged four trains fully loaded with 100% Ausnutria products for the delivery of formula milk powder products from the Netherlands to cater for the anticipated increase in demand in the first quarter of 2019. The goods in transit increased from RMB84.9 million as at 31 December 2017 to RMB141.0 million as at 31 December 2018. Besides, in order to secure some of the key ingredients, particularly those for the production of specialty formula such as organic, the Group has increased the safety stock level on some of the key raw materials during the year. As a result of the change in the above two strategies, the Group's inventory turnover days for the Year 2018 has been temporarily affected and increased by 22 days to 176 days.

The turnover days of the Group's trade and bills receivables and trade payables for the Year 2018 remained fairly stable when compared with the prior year.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGED OF ASSETS

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

	As at 31 December	
	2018	2017
	RMB'M	*RMB'M*
Interest-bearing bank loans and borrowings	**(1,075.4)**	(1,972.2)
Less: Pledged deposits[(1)]	**427.8**	968.7
Cash and cash equivalents[(2)]	**1,449.9**	635.7
	802.3	(367.8)
Total assets	**6,829.0**	5,621.1
Shareholders' equity	**3,253.7**	1,740.5
Gearing ratio[(3)]	**N/A**	6.5%
Solvency ratio[(4)]	**47.6%**	31.0%

Notes:

(1) All denominated in RMB.

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

	2018		2017	
Currency	***RMB'M***	*%*	*RMB'M*	*%*
RMB	**630.4**	**43.5**	384.2	60.4
HK$	**448.4**	**30.9**	6.9	1.1
EUR	**198.5**	**13.7**	156.6	24.6
AUD	**81.9**	**5.6**	12.8	2.0
US$	**54.4**	**3.8**	30.1	4.7
TWD	**13.6**	**0.9**	13.5	2.1
NZD	**4.3**	**0.3**	11.4	1.8
Others	**18.4**	**1.3**	20.2	3.3
Total	**1,449.9**	**100.0**	635.7	100.0

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

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

The Group is dedicated to maintain its overall liquidity by maximising the cashflows generated from operating activities and increasing the facilities with banks to reserve sufficient funding to support its business development, in particular to meet the Group's strategy of building the global supply chain by completing the construction of the new factories.

As at 31 December 2018, the Group had outstanding borrowings of RMB1,075.4 million (2017: RMB1,972.2 million), of which RMB659.0 million (2017: RMB1,158.0 million) was due within one year and the remaining RMB416.4 million (2017: RMB814.2 million) due over one year. As at 31 December 2018, except for (i) a bank loan of RMB3.0 million which is denominated in RMB (2017: two bank loans of a total of RMB74.6 million) and bears interest at 5.0% (2017: 4.4% to 5.0%) per annum; and (ii) a bank loan of RMB11.8 million (2017: RMB5.3 million) which is denominated in TWD and bears interest at 2.3% to 2.7% (2017: 2.7%) per annum, all borrowings of the Group are denominated in EUR and bear interest at floating rates with reference to London Interbank Offered Rate or The Euro Interbank Offered Rate. As at 31 December 2017, other than the borrowings denominated in RMB, EUR and TWD, the Group had two bank loans of a total of RMB27.1 million which were denominated in AUD and bore interest at rates ranging from 5.4% to 5.7% per annum which were fully repaid during the year.

As at 31 December 2018, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR239.9 million, equivalent to approximately RMB1,882.6 million (2017: EUR221.8 million, equivalent to approximately RMB1,730.8 million); and (ii) the time deposits that were placed in the PRC of RMB427.8 million (2017: RMB968.7 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans. As at 31 December 2017, the Group had also pledged the land and buildings in Australia with a carrying value of AUD6.6 million, equivalent to approximately RMB33.6 million, for the banking facilities granted to the operations of the Group in Australia. Such bank loans were repaid during the year and the corresponding pledge of the land and buildings in Australia was released during the year accordingly.

DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK$0.15 (2017: HK$0.10) per Share for the Year 2018 to be distributed out of the Company's share premium account. Subject to the approval of the Shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on or around 27 June 2019. As at the date of this announcement, there was no arrangement with any Shareholders under which he/she/it has waived or agree to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company in Hong Kong will be closed for the following periods:

(a) Entitlement to attend and vote at the forthcoming AGM

For the purpose of determining the Shareholders who are eligible to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from 8 May 2019 to 14 May 2019 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified to attend the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 7 May 2019.

(b) Entitlement for the proposed final dividend

For the purpose of determining the Shareholders who are qualified for the proposed final dividend, the register of members of the Company will be closed from 12 June 2019 to 14 June 2019 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 11 June 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2018 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the Year 2018 and up to the date of this announcement. The Company will continue to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers for the Year 2018 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Board comprises three independent non-executive Directors, namely, Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman. The audit committee of the Board has reviewed the audited consolidated financial statements of the Group for the Year 2018 including the accounting principles and practices adopted by the Group and discussed with the management of the Company on matters relating to auditing, risk management and internal controls and financial reporting.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company for the Year 2018, which contains the detailed results and other information of the Company for the Year 2018 required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

The PRC, 18 March 2019

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; three non-executive Directors, namely Mr. Shi Liang (Vice-Chairman), Mr. Qiao Baijun and Mr. Tsai Chang-Hai; and three independent non-executive Directors, namely Mr. Jason Wan, Mr. Lau Chun Fai Douglas and Mr. Aidan Maurice Coleman.