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 2019

FINANCIAL HIGHLIGHTS

	2019	2018	*% of*
	RMB'M	*RMB'M*	*Change*
Revenue	**6,736.2**	5,389.6	**25.0**
Gross profit	**3,533.3**	2,660.6	**32.8**
Gross profit margin *(%)*	**52.5**	49.4	**3.1 pps**
EBITDA			
– Reported	**1,291.6**	948.7	**36.1**
– Adjusted*	**1,355.2**	895.1	**51.4**
Profit attributable to equity holders of the Company			
– Reported	**878.4**	635.1	**38.3**
– Adjusted*	**942.0**	581.5	**62.0**
Final dividend per share *(HK$)*	**0.22**	0.15	**46.7**

For the year ended 31 December 2019 (the "Year 2019"), Ausnutria Dairy Corporation Ltd ("Ausnutria" or the "Company") and its subsidiaries (collectively, the "Group") recorded the followings:

- Revenue increased by RMB1,346.6 million or 25.0%. Among which revenue derived from own-branded business increased by 36.9% to RMB6,023.4 million.
- Gross profit increased by RMB872.7 million or 32.8%.
- Adjusted EBITDA increased by RMB460.1 million or 51.4%.
- Adjusted profit attributable to equity holders of the Company increased by RMB360.5 million or 62.0%.

In addition, the board (the "Board") of directors (the "Directors") of the Company has recommended the payment of a final dividend of HK$0.22 (2018: HK$0.15) per share of the Company (the "Shares") for the Year 2019.

* *Adjusted for the loss on the fair value change of derivative financial instruments in the Year 2019 of RMB63.6 million (2018: gain of RMB22.3 million). Also adjusted for a one-off net gain of RMB31.3 million arising from the re-measurement of an asset and the change in fair value of derivative financial instrument in 2018.*

The Board is pleased to announce the audited consolidated financial results of the Group for the Year 2019 together with the comparative figures for the year ended 31 December 2018 (the "Year 2018") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
REVENUE	*5*	**6,736,153**	5,389,568
Cost of sales		**(3,202,836)**	(2,728,933)
Gross profit		**3,533,317**	2,660,635
Other income and gains	*5*	**69,191**	114,109
Selling and distribution expenses		**(1,771,834)**	(1,444,237)
Administrative expenses		**(558,289)**	(461,853)
Other expenses		**(138,666)**	(59,621)
Finance costs	*7*	**(33,332)**	(29,753)
Share of profits and losses of:			
A joint venture		**–**	1,159
Associates		**6,797**	11,553
Profit before tax	*6*	**1,107,184**	791,992
Income tax expense	*8*	**(228,288)**	(147,440)
PROFIT FOR THE YEAR		**878,896**	644,552
Attributable to:			
Owners of the parent		**878,390**	635,100
Non-controlling interests		**506**	9,452
		878,896	644,552
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	*9*		
Basic			
– For profit for the year *(RMB cents)*		**54.92**	47.20
Diluted			
– For profit for the year *(RMB cents)*		**54.50**	46.63

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**878,896**	644,552
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**8,250**	(27,976)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**8,250**	(27,976)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement (losses)/gains on the defined benefit plan, net of tax	**(1,602)**	137
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	**(1,602)**	137
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**6,648**	(27,839)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**885,544**	616,713
Attributable to:		
Owners of the parent	**886,744**	607,839
Non-controlling interests	**(1,200)**	8,874
	885,544	616,713

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,471,496**	1,580,523
Right-of-use assets		**349,314**	–
Prepaid land lease payments		**–**	27,112
Goodwill		**289,803**	287,522
Other intangible assets		**398,100**	380,587
Investments in convertible bonds	*10*	**207,352**	–
Investments in associates		**271,831**	262,203
Long term prepayments and deposits		**158,198**	–
Deferred tax assets		**222,890**	152,508
Total non-current assets		**3,368,984**	2,690,455
CURRENT ASSETS			
Inventories	*11*	**2,051,326**	1,544,321
Trade and bills receivables	*12*	**419,919**	352,617
Prepayments, other receivables and other assets		**432,272**	363,961
Pledged deposits	*13*	**396,152**	427,791
Cash and cash equivalents	*13*	**1,674,541**	1,449,861
Total current assets		**4,974,210**	4,138,551
CURRENT LIABILITIES			
Trade and bills payables	*14*	**337,937**	283,584
Other payables and accruals		**2,038,496**	1,571,186
Derivative financial instruments		**1,013**	1,858
Interest-bearing bank loans and other borrowings		**419,787**	659,042
Tax payable		**215,719**	137,485
Total current liabilities		**3,012,952**	2,653,155
NET CURRENT ASSETS		**1,961,258**	1,485,396
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,330,242**	4,175,851

	Notes	**2019** *RMB'000*	2018 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,330,242**	4,175,851
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		**784,003**	416,400
Defined benefit plan		**6,440**	5,940
Derivative financial instruments	*15*	**300,312**	236,227
Deferred revenue	*16*	**65,463**	34,158
Other long term liabilities		**11,369**	–
Deferred tax liabilities		**98,747**	88,578
Total non-current liabilities		**1,266,334**	781,303
Net assets		**4,063,908**	3,394,548
EQUITY			
Equity attributable to owners of the parent			
Share capital	*17*	**140,031**	137,421
Treasury shares		**(24,733)**	–
Reserves		**3,900,356**	3,116,317
		4,015,654	3,253,738
Non-controlling interests		**48,254**	140,810
Total equity		**4,063,908**	3,394,548

1. CORPORATE AND GROUP INFORMATION

Ausnutria Dairy Corporation Ltd 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 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 (the "IASB") 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 for the year ended 31 December 2019. 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 9	*Prepayments Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and Annual Improvements to IFRSs 2015-2017 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) IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for buildings and machineries and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB206.1 million that were reclassified from property, plant and equipment.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under IAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	260,211
Decrease in property, plant and equipment	(206,119)
Decrease in prepaid land lease payments	(27,112)
Increase in total assets	26,980
Liabilities	
Increase in interest-bearing bank loans and other borrowings	26,980
Increase in total liabilities	26,980
Change in retained earnings	–

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

	RMB'000
Operating lease commitments as at 31 December 2018	30,725
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,553)
	29,172
Weighted average incremental borrowing rate as at 1 January 2019	3.62%
Discounted operating lease commitments as at 1 January 2019	26,980
Add: Commitments relating to leases previously classified as finance leases	206,119
Lease liabilities as at 1 January 2019	233,099

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

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

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 2019 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 and related products) to its customers principally in Mainland China 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, non-lease-related 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 other than lease liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2019

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	**6,617,456**	**118,697**	**6,736,153**
Intersegment sales	**–**	**–**	**–**
	6,617,456	**118,697**	**6,736,153**
Reconciliation:			
Elimination of intersegment sales			**–**
Revenue from operations			**6,736,153**
Segment results	**1,207,602**	**(36,628)**	**1,170,974**
Reconciliation:			
Interest income			**27,365**
Finance costs (other than interest on lease liabilities)			**(23,585)**
Corporate and other unallocated expenses			**(67,570)**
Profit before tax			**1,107,184**
Segment assets	**6,314,293**	**279,013**	**6,593,306**
Reconciliation:			
Elimination of intersegment receivables			**(320,805)**
Corporate and other unallocated assets			**2,070,693**
Total assets			**8,343,194**
Segment liabilities	**3,386,474**	**291,839**	**3,678,313**
Reconciliation:			
Elimination of intersegment payables			**(320,805)**
Corporate and other unallocated liabilities			**921,778**
Total liabilities			**4,279,286**
Other segment information			
Impairment losses recognised in the statement of profit or loss	**51,131**	**–**	**51,131**
Share of profits and losses of associates	**6,797**	**–**	**6,797**
Investments in associates	**271,831**	**–**	**271,831**
Investments in convertible bonds	**–**	**207,352**	**207,352**
Depreciation and amortisation	**167,119**	**11,286**	**178,405**
Capital expenditure*	**249,991**	**8,072**	**258,063**

Year ended 31 December 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

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

Geographical information

(a) Revenue from external customers

	2019	2018
	RMB'000	*RMB'000*
The PRC	**5,918,535**	4,299,028
European Union	**435,805**	530,422
Middle East	**119,275**	111,465
North and South America	**120,198**	137,075
Australia	**77,752**	135,349
New Zealand	**8,138**	22,486
Others	**56,450**	153,743
	6,736,153	5,389,568

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

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
The PRC	**881,806**	468,551
The Netherlands	**1,593,441**	1,390,705
Australia	**498,521**	506,025
New Zealand	**172,326**	172,666
	3,146,094	2,537,947

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

Information about a major customer

During the year, there was no revenue from a single external customer accounting for 10% or more of the Group's total revenue (2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers	**6,736,153**	5,389,568

Other income and gains

	Note	2019 *RMB'000*	2018 *RMB'000*
Other income and gains			
Interest income		**27,365**	26,318
Government grants	*(i)*	**28,076**	15,984
Gain on re-measurement of the previously held interest in a joint venture		**–**	35,060
Gain on fair value changes of derivative financial instrument			
– Subsequent HNC Consideration		**–**	22,256
– Subsequent Ozfarm Consideration		**5,755**	–
Management fees income from associates		**2,118**	162
Others		**5,877**	14,329
Total other income and gains		**69,191**	114,109

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

6. PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold	**3,151,705**	2,676,342
Write-down of inventories to net realisable value	**51,131**	52,591
Cost of sales	**3,202,836**	2,728,933
Depreciation of property, plant and equipment	**103,285**	107,200
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	**36,470**	848
Amortisation of other intangible assets	**38,650**	45,244
Research and development costs	**132,071**	100,092
Minimum lease payments under operating leases	**–**	12,025
Lease payments not included in the measurement of lease liabilities	**5,965**	–
Losses on disposal of items of property, plant and equipment	**5,468**	3,696
Losses on disposal of items of other intangible assets	**606**	101
Foreign exchange differences, net	**8,583**	30,822
Fair value losses/(gains), net:		
Derivative instruments		
– transactions not qualifying as hedges	**2,215**	2,620
– Subsequent HNC Consideration *(note 15)*	**63,631**	(22,256)
– Subsequent Ozfarm Consideration	**(5,755)**	–
Gain on re-measurement of the previously held interest in a joint venture	**–**	(35,060)
Auditor's remuneration	**9,800**	8,080
Advertising and promotion expenses	**780,713**	589,025
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**851,787**	619,819
Temporary staff costs	**189,121**	142,195
Other employee related expenses	**172,220**	184,494
Equity share option expense	**19,535**	2,934
Pension scheme contributions*	**62,276**	48,223
	1,294,939	997,665

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans	**23,639**	25,175
Interest on lease liabilities	**9,747**	–
Interest on finance leases	**–**	6,721
Total interest expense on financial liabilities not at fair value through profit or loss	**33,386**	31,896
Less: Interest capitalised	**–**	(1,616)
	33,386	30,280
Unrealised gain, net on an interest rate swap and an interest rate cap	**(54)**	(527)
	33,332	29,753

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 20%.

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

	2019	2018
	RMB'000	*RMB'000*
Current charge for the year – Mainland China		
Charge for the year	**203,772**	130,122
Underprovision in prior years	**179**	–
Current charge for the year – The Netherlands		
Charge for the year	**51,418**	–
Current charge for the year – Hong Kong		
Charge for the year	**16,297**	8,609
Current charge for the year – Taiwan		
Charge for the year	**1,318**	486
Current charge for the year – Australia		
Charge for the year	**9,603**	8,887
Underprovision/(overprovision) in prior years	**5,596**	(2,793)
Deferred income tax	**(59,895)**	2,129
Total tax charge for the year	**228,288**	147,440

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 1,599,358,534 (2018: 1,345,608,016) 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

	2019	2018
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**878,390**	635,100

Shares

	Number of shares	
	2019	2018
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	**1,599,358,534**	1,345,608,016
Effect of dilution – weighted average number of ordinary shares:		
Share options	**12,339,974**	16,307,286
	1,611,698,508	1,361,915,302

10. INVESTMENTS IN CONVERTIBLE BONDS

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

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

On 31 December 2019, the Proposed Privatisation is completed and the Company has already notified the CB Issuer for the conversion of the Convertible Bonds into equity interest. As at the date of this report, the conversion of the Convertible Bonds is still in progress.

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

11. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**677,374**	517,525
Finished goods	**1,149,143**	858,927
Goods in transit	**200,102**	140,952
Others	**24,707**	26,917
Total	**2,051,326**	1,544,321

12. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**403,840**	329,444
Bills receivable	**16,079**	23,173
Total	**419,919**	352,617

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

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:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**353,852**	317,179
3 to 6 months	**36,155**	7,807
6 months to 1 year	**5,726**	4,320
Over 1 year	**8,107**	138
Total	**403,840**	329,444

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019	2018
	RMB'000	*RMB'000*
Cash and bank balances	**1,436,301**	1,115,828
Time deposits	**634,392**	761,824
	2,070,693	1,877,652
Less: Pledged deposits	**(396,152)**	(427,791)
Cash and cash equivalents	**1,674,541**	1,449,861

14. TRADE AND BILLS PAYABLES

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

	2019	2018
	RMB'000	*RMB'000*
Within 12 months	**336,631**	282,400
Over 12 months	**1,306**	1,184
	337,937	283,584

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

	Note	2019 RMB'000	2018 RMB'000
Subsequent HNC Consideration	(a)	**300,312**	230,391
Subsequent Ozfarm Consideration		**–**	5,836
		300,312	236,227

(a) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in the Hyproca Nutrition (Hong Kong) Company Limited and HNC (collectively, the "HNC Group"). The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 (the "Subsequent HNC Consideration"), which is to be settled by the issue and allotment of the Shares at an issue price of HK$5.00 per Share in 2021. Balance represented the fair value of the Subsequent HNC Consideration which was derived with reference to management's estimation of the future financial performance of the HNC Group for the three years as mentioned in the above and the closing market price of the Share at 31 December 2019 of HK$11.22 (2018: HK$8.80). The Subsequent HNC Consideration is classified as a derivative financial instrument and is measured at fair value through profit or loss. The loss arising from the change in fair value between 31 December 2019 and 31 December 2018 amounted to HK$72.3 million (equivalent to RMB63.6 million).

16. DEFERRED REVENUE

On 22 May 2018, the Company purchased two plots of the land in Changsha city, Hunan province, for building of the future headquarters of the Group in the PRC region (the "PRC Headquarters"). In order to support the long term growth of the Group, Ausnutria China received government grants as financial subsidies to support the development. Such government grants received are treated as deferred revenue as at the end of the reporting period and which are to be amortised and recognised as other income over the weighted average of the expected useful life of the PRC Headquarters.

As at the end of the reporting period, the building of the PRC Headquarters was managed and handled by an associate of the Company.

17. SHARE CAPITAL

Shares

	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
1,612,106,299 (2018: 1,582,150,653) ordinary shares of HK$0.10 each	**161,211**	158,215

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

	Notes	Number of shares in issue '000	Share capital RMB'000
At 1 January 2019		1,582,151	137,421
Share options exercised	*(i)*	16,733	1,461
Consideration shares issued for acquisition of:			
APL's non-controlling interest	*(ii)*	4,149	355
NCP's non-controlling interest	*(iii)*	4,955	423
Nutriunion HK's non-controlling interest	*(iv)*	4,118	371
Total consideration shares issued		13,222	1,149
At 31 December 2019		1,612,106	140,031

Notes:

(i) The subscription rights attaching to 16,733,000 share options were exercised at the subscription price of HK$2.45 per share, resulting in the issue of 16,733,000 Shares for a total cash consideration, before expenses, of HK$40,996,000 (equivalent to approximately RMB35,807,000). An amount of RMB9,076,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

(ii) On 11 April 2019, 4,149,567 shares of the Company were allotted and issued to satisfy part of the consideration for the acquisition of the remaining 30% equity interest in Ausnutria Pty Ltd ("APL") (formerly Ausnutrition Care Pty Ltd), at a share price fair value of HK$10.30 each, totally amounting to HK$42,740,000 (equivalent to approximately RMB36,582,000).

(iii) On 18 April 2019, 4,954,824 shares of the Company were allotted and issued to satisfy the consideration for the acquisition of the remaining 25% equity interest in Nutrition Care Pharmaceuticals Pty Ltd ("NCP"), at a share price fair value of HK$10.68 each, totally amounting to HK$52,918,000 (equivalent to approximately RMB45,128,000).

(iv) On 31 October 2019, 4,118,255 shares of the Company were allotted and issued to satisfy part of the consideration for the acquisition of the remaining 40% equity interest in Nutriunion (Hong Kong) Company Limited ("Nutriunion HK"), at a share price fair value of HK$15.47 each, totally amounting to HK$63,709,000 (equivalent to approximately RMB57,339,000).

18. BUSINESS COMBINATION

Pursuant to a share purchase deed (the "Deed") entered into between the Group and the vendors of Aunulife Pty Ltd ("Aunulife") (the "Aunulife Vendor") on 6 June 2019, the Group agreed to purchase and the Aunulife Vendor agreed to sell the entire equity interest in Aunulife at a consideration of AUD800,000 (equivalent to approximately RMB3,878,000) (the "Consideration") which was settled by cash upon completion.

Aunulife is a company established in Australia which principally engaged in the development, distribution and sales of probiotic health products. Aunulife became an indirect wholly-owned subsidiary of the Company on 31 October 2019.

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

	Fair value recognised on acquisition *RMB'000*
Non-patent technology and licence	3,967
Prepayments, other receivables and other assets	7
Cash and cash equivalents	1,094
Deferred tax liablities	(1,190)
Total identifiable net assets at fair value	3,878
Goodwill on acquisition	–
Total consideration	3,878
Satisfied by:	
Cash	3,878

An analysis of the cash flows in respect of the acquisition of Aunulife is as follows:

	RMB'000
Cash consideration	(3,878)
Cash and bank balances acquired	1,094
Net outflow of cash and cash equivalents included in cash flows from investing activities	(2,784)

As the acquisition completed on 31 October 2019 and the Group is in the process of formulating and implementing the business plan on Aunulife, there was no contribution by Aunulife to the Group's revenue and the consolidated profit for the year ended 31 December 2019.

19. DIVIDENDS

	2019 *RMB'000*	2018 *RMB'000*
Proposed final dividend – HK22 cents (2018: HK15 cents) per ordinary share	**317,172**	207,942

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 2019 was the fourth year of the "Golden Decade" strategic plan and also signified the tenth anniversary of the public listing of the Company. For the Year 2019, the Group recorded a revenue of RMB6,736.2 million, representing an increase of RMB1,346.6 million, or 25.0%, when compared to the Year 2018. 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 RMB6,023.4 million, representing an increase of RMB1,622.0 million, or 36.9%, when compared with the Year 2018, and accounted for 89.4% (Year 2018: 81.6%) of the total revenue of the Group. Such increase was partly offset by the decrease in revenue of the original equipment manufacturing for other worldwide customers (the "Private Label") and sales of dairy related products, as a result of the Company's strategy to prioritise more resources to better serve its own-branded formula milk powder business. The move has resulted in a temporary interruption of both the Private Label business and sales of dairy related products for the Year 2019.

During the Year 2019, the Group recorded a loss on the fair value change of derivative financial instruments of RMB63.6 million. On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in the HNC Group (the "HNC Group Acquisition"). The HNC Group is principally engaged in the marketing and distribution of goat milk nutrition products, in particular under the brand name of Kabrita, in the PRC. Pursuant to the sale and purchase agreement for the HNC Group Acquisition, the consideration is subject to the Subsequent HNC Consideration, which shall be settled by the issuance and allotment of no more than 29,879,877 Shares (the "Subsequent Consideration Shares") in around April 2021.

In accordance with International Accounting Standard 32, the Subsequent HNC Consideration, being a contingent consideration, is classified as a financial instrument in the Group's financial statements and is measured at fair value through profit or loss. Accordingly, valuation of the Subsequent HNC Consideration and thus the fair value of the financial instrument hinges on the market price of the Shares. During the Year 2019, the Group recorded an other expense attributable to the loss on fair value changes of financial instrument arising from the Subsequent HNC Consideration of HK$72.3 million, equivalent to RMB63.6 million (the "HNC FV Loss") (Year 2018: gain of RMB22.3 million). Such loss was calculated by multiplying the Subsequent Consideration Shares by the difference of the closing market price of the Shares between the last reporting date (i.e. HK$8.80 as at 31 December 2018) and at the end of the reporting period (i.e. HK$11.22 as at 31 December 2019). The Group's profit attributable to equity holders of the Company increased by 38.3% to RMB878.4 million for the Year 2019. Excluding the HNC FV Loss of RMB63.6 million, the adjusted profit attributable to equity holders of the Company amounted to RMB942.0 million, representing an increase of RMB360.5 million, or 62.0%, when compared with the adjusted profit for the Year 2018.

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

During the Year 2019, the Group continued to execute its upstream and downstream strategic plans, in particular, continuously improving its upstream operations efficiency, streamlining its supply chain, and enhancing its product mix. As a result of the continuous contributions from the above strategies, gross profit margin of the Group improved by 3.1 percentage points when compared with the Year 2018. During the Year 2019, the Group continued strengthening its sales network and brand building which resulted in the continuous growth in sales of own-branded formula milk powder products, particularly in the goat category, which has reported an increase in revenue by 40.5%. The Group also continues to strengthen its R&D and quality controls capabilities. Additionally, the Company is pleased to report that the registration of its new factory in New Zealand (the "PNL Factory") with The General Administration of Customs of the PRC（中國海關總署）(the "China Customs") (previously regulated by the Certification and Accreditation Administration of the PRC) has also been approved during the Year 2019, thereby increasing the total number of registered dry blending and packaging factories of the Group from five to six, covering the Netherlands, Australia, New Zealand and the PRC.

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

Formula Milk Powder Business

As the number of newborns continued to decrease in 2019, competition and consolidation in the infant formula industry have intensified. However, the core business of the Group, namely the own-branded formula milk powder business, maintained satisfactory results with an overall sales of RMB6,023.4 million, representing an increase of RMB1,622.0 million, or 36.9%, when compared with the Year 2018. The Group believes that such increase was mainly attributable to (i) the implementation of the Group's effective strategic plans, the constant refinement of its industry chain and the continuous improvement of the upstream operational efficiency and product quality; (ii) the constant enhancement in its product mix in accordance with its well-established multiple-brand strategy that caters to the rising market demand for high-end products; and (iii) the synergies between its brands and channels resulting from its unremitting efforts to develop mama and baby store channels by high-frequency and high-quality marketing activities.

The own-branded formula milk powders of the Group comprise both cow milk formulas and goat milk formulas. As at 31 December 2019, the Group had a total of forty-five registered formulas under fifteen series covering all segments of the market ranging from premium, high-end to mid-end segments. In particular, thirty-nine formulas under thirteen series were cow milk powders, while six formulas under two series were goat milk powders.

(a) Own-branded Cow Milk Formula

For the Year 2019, sales of own-branded cow milk formulas amounted to RMB3,167.2 million, representing an increase of RMB799.2 million, or 33.8%, when compared with the Year 2018. The Group's own-branded cow milk formula business has established a number of business units ("BUs") with different formulas, milk sources, price ranges, and target consumer groups. Each BU has its unique vision and marketing strategy.

Amongst these BUs, the Hyproca 1897 BU, which comprises the brands of Hyproca Hollary, Hyproca Hypure and Neolac, was the fastest-growing BU in the Group and recorded sales of RMB1,692.7 million for the Year 2019, representing an increase of RMB780.8 million, or 85.6%, when compared with the Year 2018. In March 2019, some of the Group's own-branded cow milk formulas, including the Step 1 formulas of two core series, were registered with the State Administration for Market Regulation of the PRC (國家市場監督管理總局) (the "SAMR") (formerly regulated by the China Food and Drug Administration). These new products were launched and received overwhelming response from the market. Furthermore, the two newly registered Step 1 formulas boosted the sales of the existing Step 2 and Step 3 formulas of the same series, resulting in a faster year-on-year growth of 46.5% in the sales of own-branded cow milk formulas in the second half of 2019.

During the year, all BUs continued to develop mama and baby store channels. In addition to broadening channel coverage, the brands also created synergies with, and were empowered by, their channels through all sorts of online and offline member activities. For instance, the Hyproca 1897 BU launched the Hyproca 1897 Fairy Tale Festival (海普諾凱1897童話節), held the Fairy Kingdom's Summer Bubble Festival (夏季童話王國泡泡節) and introduced enhanced membership services in collaboration with over a hundred high-end hotels to provide premium out-of-town services to the brand's members. On the other hand, the Allnutria BU comprehensively targeted families with maternal mothers, infants, and toddlers by organising a theme park event called the Pure Country's Quest for Light (純淨國尋光記), a yoga activity named Le Huo Yun Mammies (樂活孕媽咪) and the Lecture Tour by Breastfeeding Experts from Peking University (北大專家科哺育行), a breastfeeding-related popular science campaign.

All BUs under the Group's cow milk formula segment have also made every effort to boost their brand influence. The Hyproca 1897 BU appointed Mr. Jimmy Lin Chih-ying (林志穎), a famous actor and singer from Taiwan, as Neolac's ambassador. It also served as the sponsor of Mr. & Mrs. (《我家小倆口》), a popular variety show, and provided title sponsorship for Hyproca to another popular variety show, Mr. Housework (《做家務的男人》). Celebrity endorsement was also arranged in collaboration with the team of Joy of Life (《慶餘年》), a popular television series. The Allnutria BU upgraded its brand image by officially announcing its cooperation with the national tennis team of the PRC and rolling out home-screen pictures and promotional videos for the team. The Puredo BU raised its brand exposure by acting as the sole sponsor of Innocence Hit the Earth (《童心撞地球》), the first large-scale children's drama show in the PRC produced by maijimaiji.cn (金鷹卡通).

In the Year 2019, the Group introduced a series of new cow milk formula products. Hyproca Hypure, a series of new products imported directly from the Netherlands, was launched by the Hyproca 1897 BU at the Great Wall in Beijing, the PRC in June 2019. In November 2019, the Allnutria BU inaugurated its new product, Ausnutria's ExtraPure organic milk powder for maternal mothers, at the second China International Import Expo. This product obtained organic certifications from the Australian Certified Organic (ACO) and China Organic Food Certification Center (COFCC) (中綠華夏). It is also the first organic milk formula for maternal mothers to be launched in the PRC and Australia simultaneously. In December 2019, the Puredo BU also debuted an international version of Puredo infant formula imported directly from New Zealand on JD.COM.

Through such efforts, all of the Group's brands have successfully raised their brand influence and awareness, and captured the hearts of the consumers. Add to that the success of the newly-launched products and their positive market response, the Group is confident that the own-branded cow milk powder business will maintain healthy sales growth.

(b) Own-branded Goat Milk Formula

For the Year 2019, sales of own-branded goat milk formulas amounted to RMB2,856.2 million, representing an increase of RMB822.8 million, or 40.5%, when compared with the Year 2018. The Group's own-branded goat milk formulas are all produced in the Netherlands and marketed globally.

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

According to relevant market research data, the goat milk formula market continues to outpaced the infant formula market when compared with other categories. Such exponential growth of the goat milk formula industry has prompted many industry players to roll out goat milk formula products. Although competition intensified, market recognition of goat milk formulas was also on the rise. Notwithstanding such competition, goat milk powder products of the Group remained the leaders in the industry in the PRC. Data from the China Customs shows that the imported goat milk formula of the Group continued to dominate the market with a 60.5% share in the import market, and ranked ninth in the overall imported formula market, for the Year 2019.

During the year, the Kabrita BU raised its brand awareness by enlisting Mr. Huang Lei（黃磊）(a famous celebrity in the PRC) as its brand ambassador, renovating its outlets, placing targeted advertisements and high-speed rail advertisements, using placement marketing on a popular television series called A Little Reunion（《小歡喜》）, and putting advertisements on various mainstream media. To strengthen its channels, the campaign at the outlets focused on three themes, namely "Kabrita walks with Kids（佳貝愛TA童心同行）", "Kabrita Queen's Festival（佳貝愛TA女王節）" and "Kabrita JingYing Eye Protection Festival（佳貝愛TA睛瀅護眼節）", to comprehensively cover infant, pregnancy, and children's milk powder formulas.

To tap into the enormous potential of the adult health product market in the PRC, the Kabrita BU successfully rolled out two lines of family formulas imported directly from the Netherlands, namely Kabrita Yingjia High-Calcium and High-Selenium Goat Milk Powder Formula（佳貝艾特營嘉－高鈣富硒配方羊奶粉） and Kabrita Yingjia Probiotics + Prebiotics Goat Milk Powder Formula (Yingjia)（佳貝艾特營嘉－益生菌 + 益生元配方羊奶粉（營嘉））, in November 2019. Capitalising on the brand influence and strong membership base of Kabrita, Yingjia's family milk powders were well received by the market. To further boost its brand awareness, Yingjia increased its exposure on a wide range of media by investing in a popular web drama called Three Lives, Three Worlds, The Pillow Book（《三生三世枕上書》）. In December 2019, the Kabrita BU also experimented with offline specialty stores in various neighbourhoods in order to promote and introduce goat milk to such communities in everyday life.

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

After 8 years of efforts in this industry, Kabrita's infant formulas have successfully captured the heart of the consumers and built up several core strengths. In geographical terms, Kabrita has established footholds in 66 countries and regions across the world and will continue to enlarge its sales area. Leveraging on the capital base of the Group, Kabrita successfully rolled out Yingjia's family formulas during the year. This represented not only a monumental progress in making Kabrita a household name in the goat milk market, but also a strategic step in the Group's long-term plan to develop comprehensive family nutrition solutions. The Group believes that the potential of the goat milk infant formula market, coupled with that of the enormous adult market, will stimulate relatively healthy and rapid growth in its own-branded goat milk formulas.

(c) Private Label and Others

Alongside the development of its own-branded formula milk powder business, the Group also produces formula milk powder products for other worldwide customers on an original equipment manufacturing basis. For the Year 2019, sales of the Private Label business, which represented 3.0% (Year 2018: 6.3%) of the total revenue of the Group, decreased by 40.3% to RMB201.8 million. The decrease in sales of the Private Label business was due mainly to a strategic reorientation.

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

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

Nutrition Business

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

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

For the Year 2019, sales of nutrition products amounted to RMB118.7 million, representing a decrease of RMB17.4 million, or 12.8% as compared with the Year 2018. Among which, sales derived from NC Gut Relief amounted to RMB72.1 million (Year 2018: RMB80.8 million). The slower-than-anticipated growth in sales of the Nutrition Business was mainly due to a drop in the sales of Soforla products, as a result of a product suspension during the Year 2019. The suspension of Soforla products was caused by a packaging issue incurred by an outsourced contractor. As at the date of this announcement, the Group is working closely with other outsourced contractors to resume the production of the product, which the Group believes has a very good market prospect. Based on the latest plan, the Group believes Soforla products can be relaunched around the third quarter of 2020. The performance of the Nutrition Business was also adversely affected by the civil unrest in Hong Kong, as well as the e-commerce law that became effective during the year, which caused a temporary interruption of cross-border sales.

Marketing activities launched during the year include both online and offline. To strengthen interaction with consumers and extend the influence of the NC brand, NC Gut Relief engaged TikTok, a short-form mobile video platform, and organised a series of themed contests during the year. In October 2019, a press conference on NC Gut Relief's clinical trial and NC's new products was held in Melbourne, Australia. At this conference, experts from the PRC and Australia, such as Mr. Yang Qinbing, the head of medical nutrition department of Tsinghua University Affiliated Beijing Tsinghua Changgung Hospital, Mr. Wang Ming Yong, an Asian expert in raw veganism, Ms. Lynda Griparic, a famous Australian natural therapist, and Ms. Geraldine Georgeou, a famous Australian practicing dietician, discussed the importance of gastrointestinal health and advocated the philosophy of "Love your gut Live your life". The Company also rolled out its comprehensive offline network comprising hundreds of sales points across Hong Kong, Australia, and New Zealand, including big retailer chains. In 2019, NC's brand was greeted by e-commerce channels and the public with nods of approval, such as being named the guru of gastrointestinal health in the holistic health product category (機能平衡品類－腸胃健康艦長) by Tmall Global and an outstanding partner for the year by Joybuy, as well as being invited to participate in the second China International Import Expo in Shanghai. These initiatives have strengthened interactions with the consumers and extended the market influence of the brands. However, the results of such activities have been partly offset by the issues mentioned above.

To promote consumers' awareness of beneficial nutrients, the Group will continue to foster channel collaboration and roll out online and offline educational activities. As consumers in the PRC are becoming more health-conscious over time, in particular after the outbreak of COVID-19, 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 2019:

- Completed the subscription of convertible bonds for participation in Glac Biotech in the principle amount of US$30.0 million (equivalent to RMB207.4 million) and the acquisition of Aunulife at a consideration of AUD0.8 million (equivalent to RMB3.9 million) in July 2019 and 31 October 2019, respectively, to extend the Nutrition Business into the probiotic area. Further details regarding the aforementioned subscription and acquisition are set out in the announcement of the Company dated 6 June 2019.

- Completed the acquisition of the remaining 40% equity interest in each of Nutriunion (Hong Kong) Company Limited and Nutriunion (Guangzhou) Interconnection Technology Co. Ltd (collectively, the "Nutriunion Group") in October 2019 to strengthen the Group's position for the long-term growth and development in the Nutrition Business. Further details regarding this acquisition are set out in the announcement of the Company dated 8 July 2019.

- Entered into a share transfer agreement with an independent party on 20 November 2019 for the acquisition of a plot of land with a site area of approximately 84,000 square meters (the "Changsha Land") which is adjacent to the Group's existing production facility in Changsha city, the PRC, at a consideration of US$11.5 million (equivalent to approximately RMB79.3 million). The purpose of the acquisition is to facilitate the future expansion of the Group's production and storage facilities in the PRC. As at the date of this announcement, such acquisition is still in progress.

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of the PRC, the number of newborns in the PRC in 2019 was 14.65 million, representing a decline of 3.8% when compared with 2018. Nevertheless, the decline has narrowed when compared with 2018, in which a drop of 11.6% as compared with 2017 was recorded. Relevant industry data shows that in 2019, the infant formula industry in the PRC recorded a total retail sales value of RMB175.5 billion, representing a year-on-year growth of 8.4%, as well as a year-on-year growth in sales volume of 4.6%.

We believe that the development of the infant formula industry in the PRC will be characterised by:

Consumption upgrade – Brand upgrade will become the key driver of the whole industry. Relevant industry researches indicate that the market share of high-end and premium infant formulas amongst all infant formulas has risen from 22% in 2014 to 38% in 2018, and will rise further to 58% in 2023, due to the aspiration of the younger generations for a more stylish and higher quality life.

Change of focus from new consumer to existing consumers and faster market consolidation – The downward trend in the number of newborns in the PRC will continue due to a decline in the population of fertile women as well as the lack of incentive to raise children under the immense pressure of life. The infant formula industry in the PRC will shift from the explosive growth stage into a maturity stage with static sales growth. Relevant industry data shows that, attributable to tightening industry regulations, the market shares of the top three players in the PRC infant formula industry increased by 2.5 percentage points from 34.4% in 2018 to 36.9% in 2019, while the shares of the top ten players increased by 2.9 percentage points from 72.6% in 2018 to 75.5% in 2019. It is believed that the PRC infant formula industry will further consolidate due to tightening regulations.

Supremacy of domestic brands with comprehensive industry chains, extensive channel knowledge, and experience in the PRC – In view of the all-round improvement in their products, channels, and marketing strategies, leading domestic brands have gradually regained consumers' trust. According to relevant industry data, the aggregate market share of the top five domestic brands surged from 29.1% in 2018 to 37.3% in 2019, while that of top five foreign brands dropped from 34.7% to 29.3%. Following the introduction of the policy of "Action Plan of Promoting Domestically Produced Infant Formula Milk Powder（國產嬰幼兒配方乳粉提升行動方案）" in the PRC in 2019, brands with topnotch international supply chains will increase their market share gradually by further enhancing their brand capacity and penetrating into lower-tier cities in the PRC.

Despite a declining trend of newborns in the PRC, the high industry entry barriers (as a result of the PRC government raising its industry regulatory standards) will accelerate the consolidation of the industry, and thus the PRC dairy industry is expected to have a healthier growth in the long run. This would benefit those industry participants, including the Group, who possess strong R&D and production capability.

UPDATES IN RELATION TO THE NOVEL CORONAVIRUS PNEUMONIA

Since the outbreak of the coronavirus disease (COVID-19) (the "Pandemic"), the Board has been monitoring the development of the Pandemic and assessing its impact to the Group's operations. The Company has since the Pandemic taken immediate steps and measures to protect its employees from being infected. As at the date of this announcement, the Board is not aware of any infected cases among the Group's employees. Despite there are a number of confirmed infected cases in Changsha city, Hunan province, where the Group's headquarter in the PRC is located, and subsequently also in the other parts of the world where the Group upstream operations are located, the Group's operations have not experienced any material disruptions. As at the date of this announcement, except that there are some interruptions on the logistic aspect for the delivery of goods to the consumers, the Board is not aware of any material adverse impact to the Group' financial or trading position caused by the Pandemic.

Furthermore, as at the date of this announcement, the Company has committed to the national action plans in the PRC to fight against the Pandemic. The Group's brands acted quickly with Ausnutria YOU-Foundation and has donated eight batches of cash, medical supplies and nutrition products to charities in the PRC which worth over RMB67.6 million. The Board will continue to closely monitor the market situation and continuously evaluate the impact of the Pandemic on the Group's operations, and provide updates to the Shareholders and potential investors if there is any material development.

OUTLOOK

Based on the strategic steps that have been implemented by the Group over the years, from the investment in world-class upstream facilities to the building of a strong and well-established downstream sales team and network, and the establishment of strong R&D capabilities and first-class quality control system, the Company believes that the Group is well-positioned to become one of the major players on infant formula in the world, and a leading company in the PRC on infant formula, nutritional products, and nutritional services. The Company will continue to allocate its best resources to support the ongoing developments in these important areas, in particular on the R&D, the digitalisation of the operational platform and further improvement of the supply capabilities.

Expansion of the Production Facilities

The contribution of formula milk powder products accounted for approximately 89.4% of the total revenue of the Group for the Year 2019. According to various market reports, the market share of the Group's infant formula milk has been ranked among the top ten in the PRC in 2019. Among which, the market share of Kabrita has consecutively been ranked as the number one for goat infant formula, since 2014 in the PRC.

The Group will continue to implement its innovative marketing strategies and to provide quality products and better value added services to its distributors and consumers. It aims to further expand the market share of the Group in the PRC for formula milk powder products, as well as overseas for goat and organic formula milk powder products.

(a) Investments in Infant Formula Base Powder facility

In order to accomplish the above strategies of the Group, subsequent to the end of the reporting period, the Board has approved the Group to invest in a new infant formula base powder facility (the "New IFBP Facility") and other related facilities principally for the processing of goat milk and goat whey. This will be a total investment of EUR140.0 million (equivalent to approximately RMB1,094.8 million) in the Netherlands.

As of the date of this announcement, all the base powder for the goat milk formula products is produced by Ausnutria Kampen B.V. ("Kampen"), a wholly-owned subsidiary of the Company established in the Netherlands. The base powder for the cow milk formula products produced in the Netherlands are partly supplied by Kampen and partly outsourced from independent third parties located in the Netherlands.

According to the plan, the New IFBP Facility and other related facilities, which will principally be designated for the processing of goat milk and goat whey, have a designed annual production capacity of 35,000 tonnes of base powder and an annual processing capacity of 4,400 tonnes of goat whey concentrate. The New IFBP Facility and the related facilities will be built at the Group's existing production plant in Heerenveen, the Netherlands, where the dry blending and packaging factories are located. The base powder produced and goat whey processed by the new facilities will be used by the Ausnutria Heerenveen Factories and the Lypack factory, all based in the Netherlands, for further drying, blending, and packaging into end products.

Since the launch of Kabrita in 2011, Kabrita has become one of the key income drivers to the Group. In order to sustain the long-term continuous growth of Kabrita and to realise the Company's vision to maintain its position as the global leader in goat milk based infant formula powder products, the Board is of the view that the investments in the new facilities are part of the important milestones to the Group.

The investments in the New IFBP Facility and the related establishments will be financed by cash flow of the Group and bank facilities. The New IFBP Facility is expected to be completed in 2022.

(b) Completion of the Factories and Brand Registration

During the Year 2019, the Group has completed the construction of a new dry blending factory in Changsha City, the PRC, and succeeded in the registration of the PNL Factory with the China Customs.

The Company will endeavor to fulfill the formula registration requirements with the SAMR for these two newly established factories.

(c) Secure key ingredients

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

Expansion of Nutrition Business

Since 2016, the Group extended its business into the nutrition sector by investing in NCP, a company engaged in development, manufacturing, packaging, and distribution of complementary medicine, nutritional and health care products. In 2017, the Group launched a number of the nutrition products developed by NCP under various brands, including Nutrition Care, NC, and Kidsbon, into the PRC. Despite that revenue contributed by the Nutrition Business segment for the Year 2019 continued to be small, accounting for less than 2% of the Group's total revenue, the Company considers the extension and development of the Nutrition Business to be a major strategic step of the Group.

In 2019, the Group invested in Glac Biotech for the purpose of extending the Nutrition Business into the probiotic sector. Glac Biotech is principally engaged in the R&D, manufacturing, packaging, and sale of probiotics- and fermentation-related application products. According to the business plan between Glac Biotech and the Company, Glac Biotech will continue to carry on its existing well-established business-to-business marketing and distribution strategies, while the Group will commence the development of business-to-consumer. The Group has already planned to launch a number of probiotic-related products in the second quarter of 2020 under a number of brands, including Aunulife（愛益森）, in the PRC. Such probiotic products will be marketed and distributed by the existing business units of the Group by leveraging on its existing distribution networks, customers, and other resources. Furthermore, in order to support the development of personal nutrition services, the Company is in the process of establishing a laboratory for genetic-related testing. The laboratory is scheduled to commence service in 2020.

The Company will continue to execute its R&D 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

	Notes	2019 RMB'M	2018 RMB'M	Change %	Proportion to total revenue 2019 %	Proportion to total revenue 2018 %
Own-branded formula milk powder products:						
Cow milk (in the PRC)	*(i)*	**3,167.2**	2,368.0	33.8	**47.0**	43.9
Goat milk (in the PRC)	*(i)*	**2,570.3**	1,772.5	45.0	**38.2**	32.9
Goat milk (elsewhere)	*(i)*	**285.9**	260.9	9.6	**4.2**	4.8
Goat milk total		**2,856.2**	2,033.4	40.5	**42.4**	37.7
		6,023.4	4,401.4	36.9	**89.4**	81.6
Private Label	*(ii)*	**201.8**	337.9	(40.3)	**3.0**	6.3
Milk powder	*(iii)*	**177.2**	198.7	(10.8)	**2.6**	3.7
Butter	*(iv)*	**36.6**	160.7	(77.2)	**0.5**	3.0
Others	*(v)*	**178.5**	154.8	15.3	**2.7**	2.9
Dairy and related products		**6,617.5**	5,253.5	26.0	**98.2**	97.5
Nutrition products	*(vi)*	**118.7**	136.1	(12.8)	**1.8**	2.5
Total		**6,736.2**	5,389.6	25.0	**100.0**	100.0

Notes:

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

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

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

(iv) Representing the sales of butter which is produced during the milk treatment process. The butter business was terminated in the second quarter of 2019.

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

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

For the Year 2019, the Group recorded revenue of RMB6,736.2 million, representing an increase of RMB1,346.6 million, or 25.0%, from RMB5,389.6 million for the Year 2018. Despite the competition of the formula milk powder product market in the PRC continuing to be intense during the Year 2019, revenue of the Group continued to increase. This was mainly driven by the increase in sales of the Group's own-branded cow and goat milk formula products by 33.8% and 40.5% respectively, when compared with that of the Year 2018, as a result of the continuous strengthening of sales network and brand building.

In the past years, the Group experienced limits on production capacity and maintained a strategy to serve the own-branded sector with priority. With the commencement of operation of the Ausnutria Heerenveen Factories in the beginning of 2018, the production capacity limitation issue is gradually relieved. As more time is required for the Group to rebuild its customer base in the Private Label business, the sales of the Private Label business dropped when compared with the Year 2018. 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.

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

Gross profit and gross profit margin

	Gross profit		**Gross profit margin**	
	2019	2018	**2019**	2018
	RMB'M	*RMB'M*	*%*	*%*
Own-branded formula milk powder products:				
Cow milk	**1,756.4**	1,296.7	**55.5**	54.8
Goat milk	**1,689.2**	1,104.8	**59.1**	54.3
	3,445.6	2,401.5	**57.2**	54.6
Others	**87.1**	233.0	**14.7**	27.3
Dairy and related products	**3,532.7**	2,634.5	**53.4**	50.1
Nutrition products	**51.7**	78.7	**43.6**	57.8
	3,584.4	2,713.2	**53.2**	50.4
Less: write-down of inventories to net realisable value	**(51.1)**	(52.6)		
Total	**3,533.3**	2,660.6	**52.5**	49.4

The Group's gross profit for the Year 2019 was RMB3,533.3 million, representing an increase of RMB872.7 million, or 32.8%, when compared with the Year 2018. The increase in the gross profit margin of the Group from 49.4% for the Year 2018 to 52.5% for the Year 2019 was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded formula milk powder products, particularly those products that are in the super premium and niche segments, as compared with the other business sectors. Overall contribution to revenue by the own-branded formula milk powder products increased to 89.4% for the Year 2019 (Year 2018: 81.6%).

Other income and gains

An analysis of other income and gains is as follows:

	Notes	**2019** *RMB'M*	2018 *RMB'M*
Interest income	*(i)*	**27.4**	26.3
Government grants	*(ii)*	**28.1**	16.0
The HNC FV Gain	*(iii)*	**–**	22.3
The Ozfarm Re-measurement Gain	*(iv)*	**–**	35.0
Management fees income from an associate		**2.1**	0.2
Others		**11.6**	14.3
		69.2	114.1

Notes:

(i) Balance mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC. The increase in interest income was in line with the increase in the average bank balances during the Year 2019.

(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 2019.

(iii) The balance in the prior year represented the fair value gain of derivative financial instruments arising from the contingent consideration as a result of the HNC Group Acquisition in May 2018.

(iv) The balance in the prior year represented the gain on re-measurement of previously held 50% equity interest in Ozfarm Royal Pty Ltd ("Ozfarm") as a result of the Group's acquisition of the remaining 50% equity interest in Ozfarm in June 2018 (the "Ozfarm Re-measurement Gain").

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 26.3% (Year 2018: 26.8%) of the revenue for the Year 2019. The decrease in the selling and distribution expenses to revenue ratio was mainly due to the net effect of

(i) the decrease in air-freight charges by RMB51.0 million from RMB112.8 million for the Year 2018 to RMB61.8 million for the Year 2019. In the prior year, in order to shorten the delivery time of the products and meet the market demand of the Group's own-branded products in the PRC, more air-freight charges were incurred. As more products can now be produced by the Ausnutria Heerenveen Factories and railway transport is used for the delivery of products, airfreight charges dropped in the current year;

(ii) the proportionate increase in the sales of own-branded products which the selling and distribution costs ratio is normally higher than other business sectors; and

(iii) more brand-building campaigns were carried out during the year as detailed in the Business Overview section of this announcement in order to gain market share.

Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB19.5 million (Year 2018: RMB2.9 million)), travelling expenses, auditors' remuneration, professional fees, depreciation and R&D costs.

The administrative expenses accounted for 8.3% (Year 2018: 8.6%) of the revenue of the Group for the Year 2019. Despite the increase in R&D costs by RMB32.0 million, from RMB100.1 million for the Year 2018 to RMB132.1 million for the Year 2019 for the R&D of new products, administrative expenses to revenue ratio decreased which was primarily attributed to the continuous benefit from the economy of scale.

Other expenses

Other expenses for the Year 2019 mainly comprised (i) the HNC FV Loss of RMB63.6 million (Year 2018: HNC FV Gain of RMB22.3 million); (ii) charitable donations of RMB11.0 million (Year 2018: RMB2.2 million); (iii) professional fees of RMB5.2 million (Year 2018: Nil) in relation to the independent review on the matters as alleged in the short seller reports published in the current year; and (iv) net foreign currency exchange losses of RMB8.6 million (Year 2018: RMB30.8 million) arising from the foreign currency transactions, mainly between EUR and RMB, and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency rates of exchange ruling at the end of the reporting period.

The prior year balance also included the loss on fair value change of derivative financial instrument in relation to a call option granted by the vendors of Ozfarm upon completion of the first acquisition of 50% interest in Ozfarm in 2017 of RMB3.7 million (the "Ozfarm FV Loss"). Such call option is lapsed upon completion of the acquisition of remaining 50% interest in Ozfarm in 2018.

Finance costs

The finance costs of the Group for the Year 2019 amounted to RMB33.3 million (Year 2018: RMB29.8 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 the increase in interest-bearing bank loans and other borrowings.

Share of profits and losses of associates

Balance mainly represented the share of profits of Farmel Holding B.V. and its subsidiaries (the "Farmel Group") for the Year 2019. The Farmel Group is principally engaged in the collection and trading of milk in Europe. The purpose for the investment in the Farmel Group is to secure the long-term milk supply for the Group's operations in the Netherlands.

Income tax expenses

The profits generated by the Group for the Year 2019 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, both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the Year 2019. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000. The standard CIT rates in Australia, New Zealand, the United States, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 20%, respectively.

The Group's adjusted effective tax rate of 19.5% (excluding the HNC FV Loss of RMB63.6 million) for the Year 2019 remained fairly stable as compared with the Year of 2018 of 20.0% (excluding the Ozfarm Re-measurement Gain, the Ozfarm FV Loss (collectively the "Ozfarm One-Off Net Gain") and the HNC FV Gain of a total of RMB53.6 million).

Profit attributable to ordinary equity holders of the Company

The Group's profit attributable to equity holders of the Company for the Year 2019 amounted to RMB878.4 million, representing an increase of RMB243.3 million, or 38.3% when compared with the Year 2018.

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

	2019	2018	Change
	RMB'M	*RMB'M*	*%*
Profit attributable to equity holders of the Company	**878.4**	635.1	38.3
The HNC FV Loss	**63.6**	–	
The HNC FV Gain	**–**	(22.3)	
The Ozfarm One-Off Net Gain	**–**	(31.3)	
Adjusted profit attributable to equity holders of the Company	**942.0**	581.5	62.0

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

Analysis on Consolidated Statement of Financial Position

As at 31 December 2019, the total assets and net asset value of the Group amounted to RMB8,343.2 million (2018: RMB6,829.0 million) and RMB4,063.9 million (2018: RMB3,394.5 million), respectively.

The increase in total assets of the Group as at 31 December 2019 was mainly attributable to the effect of:

(i) the increase in inventories of RMB507.0 million as a result of the scale-up of the Group's operations;

(ii) the subscription of the Convertible Bonds in the principal amount of US$30.0 million (equivalent to RMB207.4 million). Further details regarding the subscription of the Convertible Bonds are set out in the Strategic Steps Taken section of this announcement;

(iii) the increase in long term prepayments and deposits of a total of RMB158.2 million mainly for the expansion of the facilities in the Netherlands and acquisition of the Changsha Land;

(iv) the recognition of right-of-use assets of RMB349.3 million as a result of the adoption of IFRS 16 with effect from 1 January 2019; and

(v) the net increase in cash and cash equivalent and pledged deposits of a total of RMB193.0 million derived mainly from cash generated from operating activities.

The increase in total assets of the Group as at 31 December 2019 was mainly financed by internal working capital and the cash flows generated from operating activities of the Group of RMB970.8 million (Year 2018: RMB531.8 million) during the year.

The increase in net assets of the Group as at 31 December 2019 was mainly a result of the net effect of (i) the net profit of the Group generated for the year of RMB878.4 million (Year 2018: RMB635.1 million); (ii) the increase in share capital and share premium accounts of the Company mainly derived from the issuance of approximately 13.2 million Shares for the completion of acquisitions of the remaining 30% equity interest in APL; the remaining 25% equity interest in NCP and the remaining 40% equity interest in the Nutriunion Group during the year amounted to a total of RMB139.0 million; (iii) the decrease in the share premium account of the Company arising from the payment of 2018 final dividend of RMB208.8 million; and (iv) the decrease in capital reserve arising from the elimination of the goodwill for the acquisitions of the minority interests in APL, NCP and the Nutriunion Group during the year of a total of RMB85.7 million.

Working Capital Cycle

As at 31 December 2019, the current assets to current liabilities ratio of the Group was 1.65 times (2018: 1.56 times) which remained fairly stable when compared with the prior year.

An analysis of key working capital cycle is as follows:

	2019 Number of days	2018 Number of days	Change Number of days
Inventories turnover days	**205**	176	29
Debtors' turnover days	**21**	20	1
Creditors' turnover days	**35**	37	(2)

The increase in the Group's inventories turnover days was mainly attributable to (i) the increase in finished goods and goods in transit to cater for the growing demand in the coming quarters; (ii) the increase in product portfolio, particularly following the registration of the twelve infant formulas with the SAMR which were completed at the end of March 2019, and the launch of a number of adult formulas; and (iii) the increase in delivery time for changing the transportation from air to railway and sea for cost saving reason.

In view of the Pandemic, subsequent to the end of the reporting period, the Group has taken steps to increase the inventory safety level on certain of its key materials in its production facilities as well as finished goods in the PRC in order to ensure that there is a stable supply of formula milk powder products to its customers. The Group believes that the inventory level will gradually decrease only and until the outbreak is under control.

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

	As at 31 December	
	2019	2018
	RMB'M	*RMB'M*
Interest-bearing bank loans and borrowings	**(1,203.8)**	(1,075.4)
Less: Pledged deposits	**396.2**	427.8
Cash and cash equivalents	**1,674.5**	1,449.9
	866.9	802.3
Total assets	**8,343.2**	6,829.0
Shareholders' equity	**4,015.7**	3,253.7
Gearing ratio[(1)]	**N/A**	N/A
Solvency ratio[(2)]	**48.1%**	47.6%

Notes:

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

(2) 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 New IFBP Facility and the related facilities and the extension into the Nutrition Business segment.

As at 31 December 2019, the Group had outstanding borrowings of RMB1,203.8 million (2018: RMB1,075.4 million), of which RMB419.8 million (2018: RMB659.0 million) was due within one year and the remaining RMB784.0 million (2018: RMB416.4 million) was due over one year.

As at 31 December 2019, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR235.0 million, equivalent to approximately RMB1,836.4 million (2018: EUR239.9 million, equivalent to approximately RMB1,882.6 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB396.2 million (2018: RMB427.8 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

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

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

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

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Group entered into an interest rate swap contract with a bank, effective from 30 September 2015, of a notional amount of EUR12.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 0.42% per annum. The interest rate swap contract will expire in June 2020.

CREDIT RISK

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

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

COMMITMENTS

As at 31 December 2019, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries and intangible assets of a total of RMB212.3 million (2018: RMB13.9 million).

CONTINGENT LIABILITIES

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

DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK$0.22 (2018: HK$0.15) per Share for the Year 2019 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 23 June 2020. 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

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

For the purpose of determining shareholders of the Company who are eligible to attend and vote and the forthcoming AGM, the register of members of the Company will be closed from 23 April 2020 to 28 April 2020 (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 22 April 2020.

(b) Entitlement for the proposed final dividend

For the purpose of determining shareholders of the Company who are qualified for the proposed final dividend, the register of members of the Company will be closed from 8 June 2020 to 10 June 2020 (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 5 June 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Year 2019, in order to demonstrate the Company's confidence in the future business development and prospect of the Company, the Company repurchased 2,679,000 Shares on the Stock Exchange at a total consideration of HK$27,484,040. Details of the Shares repurchased by the Company during the Year 2019 are disclosed as below:

Month of Repurchase	Aggregate number of Shares repurchased	Repurchase Price Highest	Repurchase Price Lowest	Total consideration paid [2]
		HK$	*HK$*	*HK$*
September	600,000	10.26	9.22	5,889,640
October	2,079,000	10.76	10.04	21,594,400
Total	2,679,000[1]			27,484,040

Notes:

1. Subsequent to the end of the reporting period, these repurchased Shares were cancelled on 28 February 2020.

2. The total consideration paid excluded expenses paid for the Share repurchase.

Save for the above, neither the Company nor any of its subsidiaries purchased, redeemed or sold interest in any of the Shares during the Year 2019.

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 to the Listing Rules 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 2019 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 2019 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Board comprises three independent non-executive Directors, namely, Mr. Lau Chun Fai Douglas, Mr. Jason Wan and Mr. Aidan Maurice Coleman. The audit committee of the Board has reviewed the audited consolidated financial statements of the Group for the Year 2019 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 2019, which contains the detailed results and other information of the Company for the Year 2019 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, 17 March 2020

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. Lau Chun Fai Douglas, Mr. Jason Wan and Mr. Aidan Maurice Coleman.