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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2019	2018	% of
	RMB'M	*RMB'M*	Change
Revenue	**3,147.6**	2,582.4	21.9
Gross profit	**1,639.1**	1,197.6	36.9
Gross profit margin *(%)*	**52.1**	46.4	5.7pps
Adjusted EBITDA*	**615.8**	412.1	49.4
Adjusted profit attributable to equity holders of the Company*	**434.9**	265.5	63.8

For the six months ended 30 June 2019 (the "**2019 Interim Period**"), Ausnutria Dairy Corporation Ltd (the "**Company**"or "**Ausnutria**") and its subsidiaries (collectively, the "**Group**") recorded the followings:

- Revenue amounted to RMB3,147.6 million, representing an increase of RMB565.2 million or 21.9% from RMB2,582.4 million for the six months ended 30 June 2018 (the "**2018 Interim Period**"). Among which revenue derived from own-branded formula milk powder business increased by 31.4% to RMB2,729.5 million.

- Gross profit amounted to RMB1,639.1 million, representing an increase of RMB441.5 million or 36.9% from RMB1,197.6 million for the 2018 Interim Period.

- Adjusted EBITDA for the 2019 Interim Period amounted to RMB615.8 million, representing an increase of RMB203.7 million or 49.4% from RMB412.1 million for the 2018 Interim Period.

- Adjusted profit attributable to equity holders of the Company for the 2019 Interim Period amounted to RMB434.9 million, representing an increase of RMB169.4 million or 63.8% from RMB265.5 million for the 2018 Interim Period.

* *Adjusted for the loss on the fair value change of derivative financial instruments in the 2019 Interim Period of RMB174.4 million (2018 Interim Period: gain of RMB26.8 million). In the 2018 Interim Period, also adjusted for a one-off gain arising from the re-measurement of an asset of RMB35.0 millon.*

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the unaudited consolidated financial results of the Group for the 2019 Interim Period together with the comparative figures for the 2018 Interim Period.

The interim financial results are unaudited but have been reviewed by the audit committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

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

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

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 (the "**Shares**") were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 8 October 2009. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The Company acts as an investment holding company of the Group. During the period, the Group is principally engaged in the research and development ("**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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Six months ended 30 June 2019 (unaudited)

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	**3,094,671**	**52,894**	**3,147,565**
Revenue from operations			**3,147,565**
Segment results	**398,171**	**(18,116)**	**380,055**
Reconciliation:			
Interest income			**17,900**
Finance costs			**(11,897)**
Corporate and other unallocated expenses			**(24,757)**
Profit before tax			**361,301**
Other segment information			
Impairment losses recognised in profit or loss	**54,477**	**–**	**54,477**
Share of profits and losses of associates	**2,161**	**–**	**2,161**
Depreciation and amortisation	**81,342**	**4,721**	**86,063**
Capital expenditure*	**164,577**	**5,814**	**170,391**

As at 30 June 2019 (unaudited)

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment assets	**5,766,985**	**279,659**	**6,046,644**
Reconciliation:			
Elimination of intersegment receivables			**(239,037)**
Corporate and other unallocated assets			**1,737,073**
Total assets			**7,544,680**
Segment liabilities	**2,950,011**	**222,117**	**3,172,128**
Reconciliation:			
Elimination of intersegment payables			**(239,037)**
Corporate and other unallocated liabilities			**1,139,248**
Total liabilities			**4,072,339**
Other Segment Information			
Investments in associates	**268,195**	**–**	**268,195**

Six months ended 30 June 2018 (unaudited)

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	2,529,817	52,538	2,582,355
Revenue from operations			2,582,355
Segment results	429,803	(15,164)	414,639
Reconciliation:			
Interest income			12,857
Finance costs			(21,700)
Corporate and other unallocated expenses			(11,685)
Profit before tax			394,111
Other segment information			
Impairment losses recognised in profit or loss	43,589	–	43,589
Share of profits and losses of a joint venture	1,033	–	1,033
Share of profits and losses of associates	2,636	–	2,636
Depreciation and amortisation	65,614	5,293	70,907
Capital expenditure*	207,244	2,951	210,195
As at 31 December 2018 (audited)			
Segment assets	4,852,709	261,426	5,114,135
Reconciliation:			
Elimination of intersegment receivables			(162,781)
Corporate and other unallocated assets			1,877,652
Total assets			6,829,006
Segment liabilities	2,374,302	147,495	2,521,797
Reconciliation:			
Elimination of intersegment payables			(162,781)
Corporate and other unallocated liabilities			1,075,442
Total liabilities			3,434,458
Other segment information			
Investments in associates	262,203	–	262,203

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

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about a major customer

During the six months ended 30 June 2019, there was no revenue from a single external customer which accounted for 10% or more of the Group's total revenue (six months ended 30 June 2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

Other income and gains

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

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

6. PROFIT BEFORE TAX

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

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

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

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the six months ended 30 June 2019 (six months ended 30 June 2018: 16.5%).

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

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

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

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,590,436,309 (six months ended 30 June 2018: 1,262,763,359) in issue during the period.

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

Earnings

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

Shares

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

10. PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2019, the Group had pledged the land and buildings, and plant and machineries that were attributed to Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") and located in the Netherlands with net carrying amounts of EUR86,798,000 (equivalent to approximately RMB678,496,000) (31 December 2018: EUR87,495,000, equivalent to approximately RMB686,600,000) and EUR49,135,000 (equivalent to approximately RMB384,088,000) (31 December 2018: EUR50,534,000, equivalent to approximately RMB396,555,000), respectively for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

As at 30 June 2019, the Group's land included in property, plant and equipment with a net carrying amount of EUR7,443,000 (equivalent to approximately RMB58,182,000) (31 December 2018: EUR7,443,000, equivalent to approximately RMB58,407,000), AUD4,430,000 (equivalent to approximately RMB21,333,000) (31 December 2018: AUD4,430,000, equivalent to approximately RMB21,375,000) and NZD3,000,000 (equivalent to approximately RMB13,823,000) (31 December 2018: NZD3,000,000, equivalent to approximately RMB13,786,000) are situated in the Netherlands, Australia and New Zealand, respectively, and are held as freehold land.

11. RIGHT-OF-USE ASSETS

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

The carrying amounts of the Group's right-of-use assets and the movement during the period are as follow:

	Plant and machinery	Prepaid land lease payment	Motor Vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	**206,546**	**27,112**	**17,211**	**250,869**
Additions	**44,167**	**–**	**2,241**	**46,408**
Depreciation charge	**(24,356)**	**(424)**	**(3,061)**	**(27,841)**
Interest expense	**–**	**–**	**–**	**–**
Payments	**–**	**–**	**–**	**–**
Exchange realignment	**(1,006)**	**–**	**(425)**	**(1,431)**
As at 30 June 2019 (unaudited)	**225,351**	**26,688**	**15,966**	**268,005**

12. LONG-TERM PREPAYMENTS

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

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

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

13. INVENTORIES

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

14. TRADE AND BILLS RECEIVABLES

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

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

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

	30 June 2019 Unaudited *RMB'000*	31 December 2018 Audited *RMB'000*
Within 3 months	**310,001**	317,179
3 to 6 months	**9,195**	7,807
6 months to 1 year	**160**	4,320
Over 1 year	**–**	138
Total	**319,356**	329,444

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

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

15. TRADE AND BILL PAYABLES

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

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

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

16. DERIVATIVE FINANCIAL INSTRUMENTS

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

(i) On 30 May 2018, the Group completed the acquisition of the remaining 15% equity interest in Hyproca Nutrition (Hongkong) Company Limited and HNC (collectively, the "**HNC Group**"). The consideration is subject to certain adjustments, based on the financial performance of the HNC Group for the three years ending 31 December 2018, 2019, and 2020 (the "**Subsequent HNC Consideration**"), which is to be settled by the issuance 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 30 June 2019 of HK$15.56 (31 December 2018: HK$8.80).

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

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

17. SHARE CAPITAL

Shares

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

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

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

Notes:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

During the 2019 Interim Period, the Group recorded a loss on the fair value change of subsequent consideration of acquisition of the HNC Group of RMB174.4 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 Hong Kong, Macau, and the PRC. Pursuant to the sales and purchase agreement for the HNC Group Acquisition, the consideration is subject to the Subsequent HNC Consideration, which will be settled by the issuance and allotment of no more than 29,879,877 Shares (the "**Subsequent Consideration Shares**") around April 2021.

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

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

The market share of *Kabrita*, marketed and distributed by the HNC Group, has been ranked as the No. 1 imported goat milk infant formula in the PRC since 2014. For the 2019 Interim Period, profit contributed by the HNC Group amounted to RMB221.2 million (2018 Interim Period: RMB126.9 million), representing 50.9% (2018 Interim Period: 47.8%) of the adjusted profit of the Group. The Company believes that the HNC Group Acquisition will enable the Group to further enhance its operating results and fully benefit from 100% of the cash flow and profits of the HNC Group. It will facilitate better implementation of the operating philosophies and strategies of the Company into the HNC Group for the vision of building *Kabrita* to be the global number one brand of goat milk infant formula. Further details regarding the HNC Group Acquisition were set out in the announcement and circular of the Company dated 14 February 2018 and 12 April 2018, respectively.

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

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

Formula Milk Powder Business

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

(a) Own-branded Cow Milk Formula

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

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

In order to sustain a long-term growth, the Group has participated actively in the industry and devoted its resources for brand building during the 2019 Interim Period. For example, *Neolac* was the sole brand in the industry invited to attend the 30th BIOFACH, an international trade fair in Germany for organic food. In April 2019, *Neolac* has officially appointed Mr. Jimmy Lin Chih-ying, a famous celebrity from Taiwan, as its first global "Organic Selection Ambassadors（有機甄選大使）" with the aim of further enhancing its brand awareness and reputation among consumers. In addition, during the 2019 Interim Period, *Neolac* won the World Attested Quality Award（國際權威品質獎）, the Most Influential Brands of the Year（年度最具影響力品牌獎）and the Outstanding Formula of the Year（年度優質配方獎）at BIOFACH CHINA 2019, an international trade fair in the PRC. Currently, *Neolac* and *ExtraPure* were the only organic infant formulas from the Netherlands and Australia respectively that have been registered with the SAMR.

In March 2019, *Allnutria* launched an entertainment programme for pregnant women and new moms in collaboration with the "Spicy Moms Academy（《辣媽學院》）" programme of Shenzhen Satellite TV. It had an innovative arrangement with different celebrities to promote a healthier life style for pregnant women and new moms. In June 2019, the Hyproca BU launched a new series of products, *Hyproca Hypure（萃護）*, at the Great Wall in Beijing, the PRC. The event included a top official of the China Dairy Industry Association giving a speech to 215 industry moguls and national distributors.

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

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

(b) Own-branded Goat Milk Formula

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

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

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

In order to sustain the long-term growth of goat milk industry, the Group has conducted a number of brand building activities and participated in a series of events during the 2019 Interim Period. For example, *Kabrita* appointed Mr. Huang Lei, a famous celebrity in the PRC, as its brand ambassador to strengthen its image in March 2019. This appointment was well-received by the public. Furthermore, the Group convened the 1st Global *Kabrita* Marketing Conference at its headquarter in the PRC during the 2019 Interim Period and invited its overseas teams from Russia, the Middle East, Europe, South Korea, as well as other countries and regions, to share the latest market conditions and their future development strategies. This conference laid the cornerstone for *Kabrita*'s global layout.

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

As a result of all the above efforts, market recognition and hence sales of *Kabrita* continues to boost. The presence of *Kabrita* has expanded to sixty-six countries and regions during the 2019 Interim Period. The Group will continue to launch *Kabrita* in other countries and aim to become a global leader in goat milk infant nutrition products.

(c) Private Label and Others

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

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

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

Nutrition Business

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

Since the Group acquired an Australian nutrition business, namely *Nutrition Care*, in 2016 and the subsequent establishment of a sales platform (the "**Nutrition Business**"), the Group has devoted itself to deliver accurate health solutions to the public through naturopathy. With the Australian nutritional products brand, *NC*, and its sub-brand, *Kidsbon*, which uses natural herbal ingredients, 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 stomach in Australia.

According to the statistics from Tmall, *NC* Gut Relief ranked first for eight consecutive months in 2018 in terms of sales in the adult probiotic category. During the 2019 Interim Period, *NC* rolled out its comprehensive offline network comprising hundreds of sales points across Hong Kong (e.g. Mannings and Watson's), Australia, and New Zealand, including big retailer chains. In April 2019, *NC* Gut Relief joined YUNJI, one of the PRC's major social and e-commerce platforms. Since December 2018, *Kidsbon* products have launched on Tmall and are now available for sales in stores in twelve PRC provinces.

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

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

STRATEGIC STEPS TAKEN

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

Extension of Nutrition Business – Probiotics

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

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

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

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

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

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

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

INDUSTRY OVERVIEW

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

These actions include:

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

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

(iii) refining the product inspection and testing system;

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

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

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

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

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

OUTLOOK

Completion of the Factories and Brand Registration

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

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

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

Secure of Upstream Resources

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

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

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

Expansion of Formula Milk Powder Market Share

The PRC

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

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

Global Markets (outside the PRC)

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

Expansion of Nutrition Business

Nutriunion HK and GZ Minority Acquisitions

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

Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion HK, the total consideration comprising (i) an upfront consideration of RMB56.38 million (equivalent to HK$63.71 million), which shall be settled by the issuance and allotment of 4,118,255 new Shares at a price of HK$15.47 each by the Company; and (ii) a subsequent consideration (if any), which is capped at RMB180.00 million (equivalent to HK$203.40 million). The actual Subsequent Consideration will be determined based on the financial performance of the Nutriunion Group for the three years ending 31 December 2021. Pursuant to the sale and purchase agreement in relation to the acquisition of Nutriunion GZ, a total consideration of RMB6.82 million (equivalent to HK7.71 million) shall be settled by cash.

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

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

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

The Company will continue to improve its product quality by enhancing the production facilities and explore potential investment opportunities with an aim to realise its "Golden Decade" strategic plan and its vision "To Become the Most Trustworthy Milk Formula, Nutrition and Health-care Enterprise in the World."

FINANCIAL REVIEW

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

Revenue

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

Notes:

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

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

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

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

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

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

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

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

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

Gross profit and gross profit margin

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

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

Other income and gains

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

Selling and distribution expenses

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

Administrative expenses

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

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB9.1 million (2018 Interim Period: RMB1.4 million)), travelling expenses, auditors' remuneration, professional fees, depreciation and R&D costs. The increase in administrative expenses was primarily attributed to the continuous increase in the scale of operations of the Group and the increase in R&D costs by RMB18.5 million, from RMB23.4 million for the 2018 Interim Period to RMB41.9 million for the 2019 Interim Period for the R&D of new products.

Other expenses

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

Finance costs

The finance costs of the Group for the 2019 Interim Period amounted to RMB11.9 million (2018 Interim Period: RMB21.7 million), representing mainly the interest on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

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

Share of profits of associates

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

Income tax expenses

The profits generated by the Group for the 2019 Interim Period were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the 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 2019 Interim Period. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000. The standard CIT rates in Australia, New Zealand, the United States, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 17%, respectively.

The increase in the Group's effective tax rate from 17.2% (excluding the Ozfarm One-Off Gain and the HNC FV Gain of a total of RMB61.8 million) for the 2018 Interim Period to 19.9% (excluding the HNC FV Loss of RMB174.4 million) for the 2019 Interim Period was mainly due to the increase in non-deductible expenses of the Group such as non-cash equity-settled share option expense, salaries and legal and advisory fees, etc.

Profit attributable to equity holders of the Company

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

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

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

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

Analysis on Condensed Consolidated Statement of Financial Position

As at 30 June 2019, the total assets and net asset value of the Group amounted to RMB7,544.7 million (31 December 2018: RMB6,829.0 million) and RMB3,472.3 million (31 December 2018: RMB3,394.5 million), respectively.

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

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

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

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

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

Working Capital Cycle

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

An analysis of key working capital cycle is as follows:

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

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

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

The Group adopts conservative financial management policies. A summary of liquidity and financial resources is set out below:

	Notes	**30 June 2019 *RMB'M* (Unaudited)**	31 December 2018 *RMB'M* (Audited)
Interest-bearing bank loans and other borrowings		**(1,203.2)**	(1,075.4)
Less: Pledged deposits	*(i)*	**362.3**	427.8
Cash and cash equivalents	*(ii)*	**1,374.8**	1,449.9
		533.9	802.3
Total assets		**7,544.7**	6,829.0
Shareholders' equity		**3,417.0**	3,253.7
Gearing ratio	*(iii)*	**N/A**	N/A
Solvency ratio	*(iv)*	**45.3%**	47.6%

Notes:

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

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

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

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

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

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

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

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

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

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

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

FOREIGN EXCHANGE RISK

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

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

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

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Group entered into interest rate swap contracts with bank, effective from 30 September 2015, of a notional amount of EUR13.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 0.42% per annum. The interest rate swap contract will expire in June 2020.

CREDIT RISK

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

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

COMMITMENTS

As at 30 June 2019, the Group, as lessee, had total future minimum lease payments within one year under non-cancellable operating leases amounting to RMB2.4 million (31 December 2018: RMB1.6 million).

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

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

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

For the 2019 Interim Period, total employee costs, including Directors' emoluments, amounted to RMB449.1 million (2018 Interim Period: RMB394.0 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the 2019 Interim Period (2018 Interim Period: Nil).

CORPORATE GOVERNANCE CODE

The Board is committed to raising the standard of corporate governance within the Group at all times and believes that good corporate governance helps the Group to safeguard the interests of the shareholders of the Company and improve its performance.

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

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the 2019 Interim Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors by the Company, the Directors confirmed that they have complied with the required standard set out in the Model Code during the 2019 Interim Period.

The Company has a written guideline "Employees' Code of Dealing the Securities of the Company" on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance with the "Employees' Code of Dealing the Securities of the Company" by relevant employees was noted by the Company for the 2019 Interim Period.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, oversee the audit process and perform other duties and responsibilities stated in the written terms of reference.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim report of the Company for the 2019 Interim Period, which contains the detailed results and other information of the Company for the 2019 Interim Period required pursuant to Appendix 16 to the Listing Rules, will be despatched to the shareholders of the Company 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, 13 August 2019

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