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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 2021

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% of Change
	2021 RMB'M	2020 RMB'M	
Revenue	4,270.5	3,859.3	10.7
Gross profit	2,136.4	2,022.4	5.6
Gross profit margin (%)	50.0	52.4	(2.4)pps
EBITDA	820.9	662.9	23.8
Profit attributable to equity holders of the Company	594.0	408.8	45.3

For the six months ended 30 June 2021 (the “**2021 Interim Period**”), Ausnutria Dairy Corporation Ltd (“**Ausnutria**” or the “**Company**”) and its subsidiaries (collectively, the “**Group**”) recorded the followings:

- Revenue increased by RMB411.2 million or 10.7%. Revenue generated from Kabrita in the PRC rebounded in the second quarter of 2021 by 17.8% YoY.
- Gross profit increased by RMB114.0 million or 5.6%. Without additional inventory provision of RMB122.4 million, gross profit margin would have rebounded to 52.9%, representing an increase of 0.5 percentage points.
- EBITDA increased by RMB158.0 million or 23.8%. Without the additional inventory provision and the Contingent Consideration Adjustment*, EBITDA would have increased by RMB114.5 million or 13.8% to RMB943.3 million.
- Profit attributable to equity holders of the Company increased by RMB185.2 million or 45.3%. Without the additional inventory provision and the Contingent Consideration Adjustment*, profit would have increased by RMB119.6 million or 20.8% to RMB694.3 million.

* Contingent Consideration Adjustment refers to an adjustment for the loss on the fair value change of a derivative financial instrument of RMB165.9 million recognised during the six months ended 30 June 2020.

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 2021 Interim Period together with the comparative figures for the six months ended 30 June 2020 (the “**2020 Interim Period**”). The Group’s interim results for the 2021 Interim Period are unaudited but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	<i>Notes</i>	2021 Unaudited RMB’000	2020 Unaudited RMB’000
REVENUE	5	4,270,546	3,859,336
Cost of sales		<u>(2,134,141)</u>	<u>(1,836,932)</u>
Gross profit		2,136,405	2,022,404
Other income and gains	5	51,660	46,750
Selling and distribution expenses		(1,117,430)	(985,260)
Administrative expenses		(334,987)	(321,458)
Other expenses		(26,426)	(213,607)
Finance costs		(11,631)	(14,519)
Share of profits of associates		619	15,152
Profit before tax	6	698,210	549,462
Income tax expense	7	<u>(126,614)</u>	<u>(129,690)</u>
PROFIT FOR THE PERIOD		<u>571,596</u>	<u>419,772</u>
Attributable to:			
Owners of the parent		593,990	408,761
Non-controlling interests		<u>(22,394)</u>	<u>11,011</u>
		<u>571,596</u>	<u>419,772</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit for the period (<i>RMB cents</i>)		<u>34.60</u>	<u>25.37</u>
Diluted			
– For profit for the period (<i>RMB cents</i>)		<u>34.50</u>	<u>24.97</u>

	2021	2020
<i>Notes</i>	Unaudited	Unaudited
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	571,596	419,772
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(162,969)</u>	<u>58,515</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(162,969)</u>	<u>58,515</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(162,969)</u>	<u>58,515</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>408,627</u>	<u>478,287</u>
Attributable to:		
Owners of the parent	430,881	463,330
Non-controlling interests	<u>(22,254)</u>	<u>14,957</u>
	<u>408,627</u>	<u>478,287</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June	31 December
		2021	2020
		Unaudited	Audited
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	1,866,874	1,840,357
Right-of-use assets		329,262	359,731
Goodwill		280,745	297,541
Other intangible assets		440,306	411,642
Investments in associates		599,460	581,188
Prepayments, deposits and other assets		140,721	136,992
Deferred tax assets		237,357	257,981
		<hr/>	<hr/>
Total non-current assets		3,894,725	3,885,432
CURRENT ASSETS			
Inventories	<i>11</i>	2,464,324	2,400,946
Trade and bills receivables	<i>12</i>	506,795	456,425
Prepayments, other receivables and other assets		492,195	435,576
Pledged deposits		173,210	212,062
Cash and cash equivalents		1,428,920	1,857,516
		<hr/>	<hr/>
Total current assets		5,065,444	5,362,525
CURRENT LIABILITIES			
Trade and bills payables	<i>13</i>	485,137	409,247
Other payables and accruals		1,853,068	2,267,673
Derivative financial instruments		104	109
Interest-bearing bank loans and other borrowings		685,438	558,973
Tax payable		126,644	156,666
		<hr/>	<hr/>
Total current liabilities		3,150,391	3,392,668
NET CURRENT ASSETS			
		<hr/>	<hr/>
		1,915,053	1,969,857
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		5,809,778	5,855,289

		30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		5,809,778	5,855,289
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		466,004	527,299
Defined benefit plan		6,619	8,932
Deferred revenue		62,610	65,121
Other long-term liability		6,489	7,477
Deferred tax liabilities		72,055	94,520
Total non-current liabilities		613,777	703,349
Net assets		5,196,001	5,151,940
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>14</i>	149,485	149,267
Reserves		5,077,561	5,022,105
		5,227,046	5,171,372
Non-controlling interests		(31,045)	(19,432)
Total equity		5,196,001	5,151,940

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

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, 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 2021 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 2020. 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 2020, except for the adoption of following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – phase 2

Amendment to IFRS 16

COVID-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

The nature and impact of the new and revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank and other borrowings denominated in Euro based on the Euro Interbank Offered Rate (“EURIBOR”) as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the “economically equivalent” criterion is met.

- (b) Amendment to IFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

During the period ended 30 June 2021, no rent concession granted by the lessors as a result of the COVID-19 pandemic. Accordingly, there has been no impact upon initial application.

4. OPERATING SEGMENT INFORMATION

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

- (a) the dairy and related products segment comprises the manufacturing and sale of dairy and related products, particularly on formula milk powder products, to its worldwide customers; and
- (b) the nutrition products segment comprises the manufacturing and sale of nutrition products (other than dairy related) to its customers principally in the PRC and Australia.

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

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

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

Six months ended 30 June 2021 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	4,202,258	68,288	4,270,546
Revenue from operations			4,270,546
Segment results	719,865	(11,707)	708,158
Reconciliation:			
Interest income			14,058
Finance costs (other than interest on lease liabilities)			(8,660)
Corporate and other unallocated expenses			(15,346)
Profit before tax			698,210
Other segment information			
Impairment losses recognised in profit or loss	178,970	342	179,312
Share of profits of associates	2,249	(1,630)	619
Depreciation and amortisation	118,107	6,963	125,070
Capital expenditure*	235,206	229	235,435
As at 30 June 2021 (unaudited)			
Segment assets	7,226,110	454,446	7,680,556
Reconciliation:			
Elimination of intersegment receivables			(322,517)
Corporate and other unallocated assets			1,602,130
Total assets			8,960,169
Segment liabilities	2,740,580	361,808	3,102,388
Reconciliation:			
Elimination of intersegment payables			(322,517)
Corporate and other unallocated liabilities			984,297
Total liabilities			3,764,168
Other segment information			
Investments in associates	394,776	204,684	599,460

Six months ended 30 June 2020 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	3,793,263	66,073	3,859,336
Revenue from operations			3,859,336
Segment results	570,505	(3,761)	566,744
Reconciliation:			
Interest income			16,689
Finance costs (other than interest on lease liabilities)			(10,567)
Corporate and other unallocated expenses			(23,404)
Profit before tax			549,462
Other segment information			
Impairment losses recognised in profit or loss	55,177	1,740	56,917
Share of profits of associates	13,721	1,431	15,152
Depreciation and amortisation	109,744	5,887	115,631
Capital expenditure*	211,875	6,296	218,171
As at 31 December 2020 (Audited)			
Segment assets	7,091,341	326,075	7,417,416
Reconciliation:			
Elimination of intersegment receivables			(239,037)
Corporate and other unallocated assets			2,069,578
Total assets			9,247,957
Segment liabilities	3,063,923	390,012	3,453,935
Reconciliation:			
Elimination of intersegment payables			(239,037)
Corporate and other unallocated liabilities			881,119
Total liabilities			4,096,017
Other segment information			
Investments in associates	374,874	206,314	581,188

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2021	2020
	Unaudited RMB'000	Unaudited RMB'000
The PRC	3,770,455	3,423,756
European Union	308,223	255,405
Middle East	43,668	55,826
North and South America	76,953	70,684
Australia	16,605	30,272
New Zealand	283	3,542
Others	54,359	19,851
	<u>4,270,546</u>	<u>3,859,336</u>

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

(b) Non-current assets

	30 June	31 December
	2021	2020
	Unaudited RMB'000	Audited RMB'000
The PRC	1,006,717	1,048,227
The Netherlands	1,997,370	1,959,269
Australia	505,615	460,037
New Zealand	147,666	159,918
	<u>3,657,368</u>	<u>3,627,451</u>

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 2021, 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 2020: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	Unaudited <i>RMB'000</i>	Unaudited <i>RMB'000</i>
Revenue from contracts with customers	<u>4,270,546</u>	<u>3,859,336</u>

Other income and gains

	<i>Note</i>	Six months ended 30 June	
		2021	2020
		Unaudited <i>RMB'000</i>	Unaudited <i>RMB'000</i>
Other income and gains			
Interest income		14,058	16,689
Government grants	<i>(i)</i>	33,439	24,306
Others		<u>4,163</u>	<u>5,755</u>
Total other income and gains		<u>51,660</u>	<u>46,750</u>

- (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	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Cost of inventories sold	1,954,829	1,780,015
Write-down of inventories to net realisable value	179,312	56,917
Cost of sales	2,134,141	1,836,932
Depreciation of property, plant and equipment	71,907	58,358
Depreciation of right-of-use assets	23,619	29,053
Amortisation of other intangible assets	29,544	28,220
Research and development costs	73,931	72,382
Foreign exchange differences, net	10,895	2,904
Fair value gain, net:		
Derivative instruments		
– transactions not qualifying as hedges	–	374
– subsequent consideration on acquisition of HNC Group	–	165,864
Auditor's remuneration	3,266	3,436
Advertising and promotion expenses	607,725	511,261
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	505,800	475,307
Equity-settled share option expense	5,555	10,237
Temporary staff costs	121,814	96,001
Other employee related expenses	67,303	63,304
Pension scheme contributions*	35,792	24,939
	736,264	669,788

* At 30 June 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2020: 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 2021 (six months ended 30 June 2020: 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 15% (six months ended 30 June 2020: 16.5%) for the first EUR245,000 (six months ended 30 June 2020: EUR200,000) taxable profits and 25% (six months ended 30 June 2020: 25%) for taxable profits exceeding EUR245,000 (six months ended 30 June 2020: EUR200,000). Under the United States tax laws, enterprises are subject to the United States CIT rate of 21%. Under the Canada tax laws, enterprises are subject to the Canada CIT rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia CIT rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand CIT rate of 28%. Under the Taiwan tax laws, enterprises are subject to the Taiwan CIT rate of 20%.

Ausnutria Dairy (China) Co. Ltd. and Hyproca Nutrition Co. Ltd. were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% up to the year ending 31 December 2022.

Ausnutria B.V. has been granted a preferential tax benefit in April 2021 which covers the period from 2018 to 2024 for the recognition of Ausnutria B.V.'s contribution on the research and development in the past years. The preferential tax rates are 7% and 9% for the periods from 2018 to 2020 and from 2021 to 2024, respectively, on earnings that were or are to be generated by qualifying intellectual property.

	Six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	RMB'000	RMB'000
Current – Mainland China		
Charge for the period	142,699	122,472
Current –The Netherlands		
Charge for the period	6,057	11,190
Overprovision in prior periods	(24,094)	–
Current – Hong Kong		
Charge for the period	2,956	13,326
Current – Taiwan		
Charge for the period	993	343
Deferred tax	(1,997)	(17,641)
	<hr/>	<hr/>
Total	126,614	129,690
	<hr/> <hr/>	<hr/> <hr/>

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 1,716,525,906 (six months ended 30 June 2020: 1,611,479,387) in issue during the period.

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

Earnings

	Six months ended 30 June	
	2021	2020
	Unaudited RMB'000	Unaudited RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	593,990	408,761

Shares

	Six months ended 30 June	
	2021	2020
	Unaudited Number of shares	Unaudited Number of shares
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,716,525,906	1,611,479,387
Effect of dilution – weighted average number of ordinary shares: Share options	5,148,110	25,515,097
	1,721,674,016	1,636,994,484

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired assets with a cost of RMB164,782,000 (30 June 2020: RMB196,615,000). Assets with a net book value of RMB315,000 were disposed of at their respectively net book values by the Group during the six months ended 30 June 2021 (30 June 2020: RMB7,900,000) resulting no gains or losses (30 June 2020: Nil).

As at 30 June 2021, the Group had pledged the land and buildings 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 EUR91,095,000 (equivalent to approximately RMB698,710,000) (31 December 2020: EUR92,549,000, equivalent to approximately RMB742,706,000) for the banking facilities granted to the Group for the financing of the Group’s daily working capital and capital expenditure plans.

As at 30 June 2021, the Group’s land included in property, plant and equipment with a net carrying amount of EUR7,443,000 (equivalent to approximately RMB57,089,000) (31 December 2020: EUR7,443,000, equivalent to approximately RMB59,730,000), AUD5,854,000 (equivalent to approximately RMB28,395,000) (31 December 2020: AUD5,854,000, equivalent to approximately RMB29,365,000) and NZD3,000,000 (equivalent to approximately RMB13,573,000) (31 December 2020: NZD3,000,000, equivalent to approximately RMB14,115,000) are situated in the Netherlands, Australia and New Zealand, respectively, and are held as freehold land.

11. INVENTORIES

	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
Raw materials	852,396	891,148
Finished goods	1,346,900	1,160,386
Goods in transit	230,893	309,113
Others	34,135	40,299
Total	2,464,324	2,400,946

12. TRADE AND BILLS RECEIVABLES

	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
Trade receivables	486,622	437,138
Bills receivable	20,173	19,287
Total	506,795	456,425

The Group normally allows a credit period from 1 to 12 months (31 December 2020: 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 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
Within 3 months	350,663	400,673
3 to 6 months	23,758	16,919
6 months to 1 year	100,602	8,850
Over 1 year	11,599	10,696
Total	486,622	437,138

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 2021 (31 December 2020: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

13. TRADE AND BILLS PAYABLES

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

	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
Within 12 months	484,187	406,969
Over 12 months	<u>950</u>	<u>2,278</u>
	<u>485,137</u>	<u>409,247</u>

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

14. SHARE CAPITAL

Shares

	30 June 2021 Unaudited HK\$'000	31 December 2020 Audited HK\$'000
Issued and fully paid: 1,718,545,841 (2020: 1,715,903,508) ordinary shares of HK\$0.10 each	<u>171,855</u>	<u>171,590</u>

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

	Number of shares in issue '000	Share capital RMB'000
At 1 January 2021 (audited)	1,715,903	149,267
Share options exercised (<i>Note (i)</i>)	<u>2,643</u>	<u>218</u>
At 30 June 2021 (unaudited)	<u>1,718,546</u>	<u>149,485</u>

Note:

- (i) The subscription rights attaching to 141,667 and 2,500,666 share options were exercised at the subscription price of HK\$2.45 and HK\$10.00 per share, respectively, resulting in the issue of a total of 2,642,333 Shares for a total consideration before expenses, of HK\$25,353,744 (equivalent to approximately RMB20,939,000). An amount of RMB2,958,000 was transferred from the share option reserve to share capital and share premium account upon the exercise of the share options.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2021 is still a year full of challenges and uncertainties. The ongoing global spread of COVID-19 and the intense competition of formula milk powder business, particularly in the PRC (the Company's principal market), caused by the decreasing birth rate and changing consumers spending behaviours, continued to create challenges for the industry. Nevertheless, the Group successfully contained the negative impact of these challenges at a manageable level. For the 2021 Interim Period, the Group recorded a revenue of RMB4,270.5 million, representing a year-on-year ("YoY") increase of RMB411.2 million or 10.7%. The result represented a mixed performance among the Group's own-branded cow milk formula business portfolio, whereby core brands continue to gain market share whereas non-core brands continue to face pressures for the 2021 Interim Period. Such performance is in line with the market development, which is characterised by the accelerating market consolidation and product premiumisation trend. The Group's own-branded goat milk formula business ("**Kabrita**") resumed its growth in the 2021 Interim Period with revenue of RMB1,688.2 million (2020 Interim Period: RMB1,655.6 million), representing a YoY increase of 2.0%, also representing a turnaround from the second half of 2020 with a YoY decrease by 5.6%. Specifically, revenue growth of Kabrita in the PRC rebounded by 17.8% YoY in the second quarter of 2021. The Company attributed the continuous growth of its own-branded formula milk powder business to the Group's rapid and proactive response of adjusting its strategies to accommodate for the market change and its unremitting efforts to develop mama and baby store channels by frequent and quality consumer engagement activities and the steady growth in point of sales.

For the 2021 Interim Period, the Group's gross profit margin for its own-branded cow and goat milk formula businesses increased YoY by 3.6 and 1.7 percentage points respectively. Such increases were mainly offset by the increase in inventory provision of certain non-core own-branded formula milk powder products. Profit attributable to equity holders of the Company amounted to RMB594.0 million, representing a YoY increase of RMB185.2 million or 45.3% (reported) and a YoY increase of RMB19.4 million or 3.4% (adjusted*). As a result of the ongoing continuous shift in preferences of consumers, and to better serve the channels and consumers, the Group recognised an additional inventory provision of RMB122.4 million on certain non-core own-branded formula milk powder products (shelf lives of which are relatively shorter) due to lower-than-expected sales. Excluding the impact of the above adverse factor, the gross profit margin and profitability of the Group are both better off than the Company's target that was set out early this year.

Continuous commitment in building a world class supply chain

Own-branded formula milk powder business has always been the Company's core business and accounted for approximately 87.6% of the total revenue of the Group for the 2021 Interim Period. According to various market reports, the market share of the Group's infant formula milk has been ranked fifth, accounting for 6.3% of the market share in the PRC in 2020. Among which, the market share of Kabrita has consecutively been ranked number one for goat infant formula in the PRC since 2014. In order to sustain its growth and continuously enhance the quality standard of the Group's products, in early 2020, the Company has announced that it will invest a total of EUR140.0 million (equivalent to approximately RMB1,094.8 million) in a new infant formula base powder facility (the "**New IFBP Facility**") and other related facilities principally for processing goat milk and goat whey in the Netherlands. According to the plan, the New IFBP Facility and other related facilities, which will principally be designated for the processing of goat milk and goat whey, have a designed annual production capacity of 35,000 tonnes of base powder and an annual processing capacity of 4,400 tonnes of goat whey concentrate. Despite the COVID-19 pandemic, the construction of the goat whey concentrate production facility is close to completion as of the date of this announcement and the New IFBP Facility is expected to be completed in 2023, which is more or less in line with the initial planned schedule.

* For the 2020 Interim Period, the Group recorded an accounting loss of RMB165.9 million in respect of the fair value change of a derivative financial instrument.

Continuous commitment in building a leading market position of formula milk powder products

During the 2021 Interim Period, the Company continues to adhere to its firm strategies to step up its research and development (“**R&D**”) capability to provide quality nutritional products for its consumers. In addition to the scheduled new product development, science and research remains to be one of the major focuses. The Group has been exploring leading scientific research and innovation platforms across the globe since it was founded. The Company has always believed that breast feeding is the best for infants and has continuously supported and strictly complied with the International Code of Marketing of Breast-milk Substitutes of the World Health Organisation as well as the relevant rules and regulations in the PRC regarding breast feeding and the marketing information of its products. The Group’s global R&D team has been researching breast milk for 18 years since it was founded and has 10 key breast milk research projects across the globe as of today. Through further analysing the nutritional composition of breast milk by different race and health conditions, these projects aim at refining the “Chinese breast milk bank” and laying a solid foundation for the development of formulas that are closer to breast milk nutrition. In June 2021, Kabrita business unit (“**BU**”) convened the first “GOAT-MRH” expert conference, at which Ausnutria’s Research White Paper on Breast Milk 2021 was presented to unveil the secrets of breast milk in various aspects such as the current breast-feeding status, proteins, fats, probiotics, human milk oligosaccharides (HMOs), active ingredients as well as other characteristics of breast milk. This acts as a reference point for future breast-milk research, development and technological innovation. In addition, the Company is currently conducting over 30 goat-milk-related research projects in the PRC and over 40 abroad. For the 2021 Interim Period, with significant progress in the simulation studies of HMOs and milk phospholipids, Kabrita BU published 3 major scientific research findings mainly about the digestion of breast milk by babies, the differences between cow and goat milk and the composition of HMOs in goat milk in major international academic studies. All the above efforts have paved the way for the long-term healthy development, continuous success and leading position of Kabrita.

During the 2021 Interim Period, the Group also continued to establish partnerships with first class tertiary institutions around the world to enhance its scientific research and innovative ability, apply its research findings to technology upgrades and product development, and lead the development of the industry. The Group hosted two webinars through Ausnutria Nutrition Institute on topics about nutrition in early life and allergy prevention in infancy. Furthermore, the Company announced four of its key research findings in goat milk research at the sixth World Congress of Pediatric Gastroenterology, Hepatology and Nutrition (“**WCPGHAN**”) in June this year and were highly recognised by experts. The topics of these researches included “The evolution of infants’ gut microbiota under different feeding regimes”, “Growth comparison of infants fed with breast milk, goat or cow milk infant formula”, “HMOs naturally present in goat milk”, and “The effect of calcium palmitate on infant gut bacteria”. WCPGHAN is held jointly by the Federation of International Societies for Pediatric Gastroenterology, Hepatology and Nutrition and the European Society for Paediatric Gastroenterology Hepatology and Nutrition, which represents the pinnacle of academic achievements in infant nutrition research across the world.

In a new era of mama and baby spending, an increasing number of young parents realise the paramount importance of scientifically based nutritional supplements to the growth and comprehensive development of their children. In view of such demand and current market conditions, Hyproca 1897 BU carried on its research into toddler nutrition and rolled out a toddler growth formula tailored for 3 to 12 year olds during the 2021 Interim Period based on its comprehensive nutritional formula offerings and broad experience in infant formulas with the aim of providing children in the PRC with scientifically proven nutritional supplements of comprehensive nutrients and higher quality.

Breakthrough in the development of nutrition business – probiotics

The COVID-19 pandemic has increased the health awareness of the general public and hence driven the demand for health-related nutrition products across the globe. The Group has been very responsive to these market developments, including its continued investment in the R&D in this area. The Group's dedication has yielded encouraging results. In January and June 2021, the Group received approval from Taiwan Food and Drug Administration for two of its food for special medical purpose products. On 25 April 2021, the State Administration for Market Regulation in the PRC (the "SAMR") approved the Group's registration for its lactose-free infant formula for special medical purposes (which helps lactose intolerant infants). On the same day, the National Health Commission of the PRC approved the application made by Bioflag International Corporation (one of the Group's associates) on the use of lactobacillus rhamnosus MP108 (a strain in new food raw materials that can help prevent different inflammations in children) in the PRC. This is the first strain developed by a Chinese company that has been approved for use in infant and children food in the PRC, which is a breakthrough in the Chinese market in this aspect. Following such approval, during the 2021 Interim Period, Kabrita BU launched the first probiotic products for infants, Aunulife's Little Orange Box (小橙盒), which can improve the immune system and gut health of infants with its exclusive lactobacillus rhamnosus MP108.

The Group will continue to prudently foster the development and growth of its businesses by staying science-oriented, keeping abreast of the latest trends and expanding its portfolio from infant to child and adult nutrition products, and at the same time continuously enhance its quality standards to contribute to the future growth and health of the consumers.

Formula Milk Powder Business

Notwithstanding the adverse impact including the slowdown in the growth rate of the industry in general and a drop in birth rate during the 2021 Interim Period, the core business of the Group, namely the own-branded formula milk powder business, maintained stable and healthy growth with overall sales of RMB3,741.0 million, representing a YoY increase of RMB330.1 million or 9.7%. The Group believes that this increase in sales was mainly attributable to (i) the implementation of the Group's effective strategic plans, the constant refinement of its business chain and the continuous improvement of its upstream operational efficiency and product quality; (ii) the constant enhancement of its product mix in accordance with its well-established multiple-brand strategy that caters to the rising market demand for high-end products; and (iii) the synergies between its brands and channels resulting from its unremitting efforts to develop mama and baby store channels by high-frequency and high-quality marketing activities.

(a) Own-branded Cow Milk Formulas

During the 2021 Interim Period, sales of the Group's own-branded cow milk formulas amounted to RMB2,052.8 million, representing a YoY increase of RMB297.5 million or 16.9%. Thanks to the integration exercise that was conducted in 2020, sales of Allnutria BU surged significantly to RMB563.1 million, representing a YoY increase of RMB152.1 million or 37.0%. Hyproca 1897 BU, after years of rapid growth, witnessed a slowdown in growth with sales of RMB1,373.5 million, representing a YoY increase of RMB218.5 million or 18.9%. The lower growth rate was mainly attributable to the (i) relatively high base for the same period last year due to interruption of the sales progress by the COVID-19 pandemic; (ii) slowing down of the industry in general; and (iii) strategic adjustments of controlling delivery implemented by Hyproca 1897 BU in the second quarter of 2021 to tackle market changes and ensure orderly and healthy channel development. The Group believes that such measures will further enhance its distributors' competitive strength, reinforce support to retail stores and thus protect the interests of authorised retailers.

During the 2021 Interim Period, the Group's own-branded cow milk formula BUs endeavoured in a wide range of initiatives to boost their brand competitiveness. Whilst launching innovative online brand campaigns on TikTok, Xiaohongshu (小紅書), Zhihu (知乎), WeChat and other platforms, it also employed outdoor advertising campaigns on public transport, communities and stores, and other forms of offline advertising campaigns targeting respective regional markets with an aim to accurately reach the target groups.

Through extensive product placement in popular TV series such as 'My Heroic Husband (《贅婿》)' and 'My Best Friend's Story (《流金歲月》)' and variety shows such as 'Be With You (《我的小尾巴》)' and 'Twinkle Love (《怦然心動20歲》)', Hyproca 1897 BU has established a brand image of 'Guardian Angel of Mothers and Babies'. Moreover, Allnutria BU sponsored 'Ace VS Ace Season 6 (《王牌對王牌6》)' to raise its brand awareness. It also entered into strategic cooperation with China Baby Industry Media (中童傳媒), a media marketing platform, to promote digitalised marketing for the brand and launched a training programme, Welcome the Aces (《王牌駕到》), with industry peers to jointly offer opportunities for professional study and strengthen the channels in a multi-dimensional manner.

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

(b) Own-branded Goat Milk Formula

During the 2021 Interim Period, sales of Kabrita amounted to RMB1,688.2 million, representing a YoY increase of RMB32.6 million or 2.0%. Sales in the PRC and overseas markets amounted to RMB1,598.3 million and RMB89.9 million and accounted for 94.7% and 5.3%, respectively.

According to the findings of relevant market research, the PRC goat milk formula market led the overall infant formula industry and continued to flourish over that of the infant formula market in general. The rapid growth of the PRC goat milk formula industry prompted major players to also roll out goat milk formulas in recent years. According to various market reports, the scale of the PRC goat milk powder market was close to RMB20.0 billion in terms of retail sales in 2020. Despite the intensified competition, the market recognition of goat milk formulas is on the rise. In such competition, Kabrita maintained its leadership position in the PRC. According to market research published by Nielsen, Kabrita has captured the lion's share of over 60% in terms of sales of the PRC imported infant goat milk formula market three years in a row from 2018 to 2020.

Kabrita steps up education about goat milk products and raises awareness about it by combining academic studies, research, brand promotion, charity and sales. With respect to its products, Kabrita has always insisted on using 100% pure goat whey protein which makes Kabrita unique and prestigious. Over the years, endless scientific research projects and medical seminars have been conducted in the PRC, the United States of America (“USA”), the Netherlands, Austria, Germany, Brazil and Mexico. Furthermore, Kabrita provides staunch support to the healthy development of the industry by facilitating the conversion of technological innovation in the goat milk industry on the platform of Kabrita Nutritional Science and Innovation Centre (佳貝艾特營養科創中心).

During the 2021 Interim Period, Kabrita continued to increase its investment in strengthening and spreading its brand influence. Other than boosting its popularity through celebrity endorsement, Kabrita also invested in popular TV series. Furthermore, high-frequency ads and word-of-mouth marketing were launched on media platforms such as Xiaohongshu and TikTok. As of June 2021, Kabrita was the number one searched goat milk powder brand and number five amongst all milk powder brands on TikTok, whilst the number of searches for Kabrita ranked number one amongst goat milk powder brands and seventh amongst all milk powder brands on Xiaohongshu. In addition, Kabrita has been penetrating into five vertical maternity platforms including MaMa.cn, BabyTree, ci123.com, qbb6.com and Meet You in order to strengthen communication with the consumers and promote its brand awareness and recognition amongst mothers and mothers-to-be.

Other than in the PRC, Kabrita is also available in markets including Europe, the USA, the Middle East, the Commonwealth of Independent States (“CIS”), Brazil and Mexico. Due to the COVID-19 pandemic, various governments (e.g. the Middle East, CIS and the USA) decided to minimise movements of the public and close stores and medical institutions for commercial activities. Such restrictions had a negative impact on the sales of Kabrita outside the PRC. Nevertheless, the demand for Kabrita is increasing month by month such as in Mexico after entering that market last year. Furthermore, the Group has been preparing to introduce Kabrita in South East Asia at the end of this year.

With more than 10 years of efforts in this industry, together with its comprehensive brand and channel-driven strategy, Kabrita will overcome the increasing brand consolidation and intensifying market competition, maintain its market position and share as the number one goat milk brand whilst achieving continual synergies with its channels and creating sustainable long-term values for its stakeholders whilst protecting the best interests of its partners.

(c) Private Label and Others

During the 2021 Interim Period, sales of formula milk powder products on an original equipment manufacturing basis (the “**Private Label**”) and other businesses, which represented 10.8% of the total revenue of the Group, increased by 20.6% to RMB461.2 million. The increase in sales was mainly attributable to the increase in trading of commodities as a result of the increase in the intake of milk, particularly goat, for the processing of related ingredients in order to fulfil internal production needs. The increase was partly offset by the lower than expected sales in the Private Label business of which the customers are mainly located in Europe, the Middle East and South America, and was temporarily interrupted by the COVID-19 pandemic.

Nutrition Business

During the 2021 Interim Period, sales of nutrition products amounted to RMB68.3 million, representing a YoY increase of RMB2.3 million, or 3.5%. The Group's sales of nutrition products are mainly contributed by the PRC and Australia markets via the daigou, online and offline channels. As a result of the lockdowns due to the COVID-19 pandemic and the slowing down of the daigou business, sales of nutrition products in Australia (with sales mainly contributed via the daigou and local sales) dropped significantly for the 2021 Interim Period. Excluding such impact, sales of nutrition products in the PRC amounted to RMB66.1 million, representing a YoY increase of RMB16.5 million, or 33.3%.

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

During the 2021 Interim Period, the Group continued to showcase its products in a number of major events to build brand awareness. In March 2021, NC Seasonal Biotic, which was designated as one of the top products in Tmall's anti-allergy probiotics category, was grandly launched at the “Microbiome Innovation Conference” with the help of Tmall and was well received by the industry and audience alike. In May 2021, NC was invited to the ChinaGut Conference 《中國腸道大會》, which is one of the most influential conferences in the industry. At the conference, NC showcased NC Gut Relief and other new functional probiotic products, and received the accolade of “the Most Popular Probiotic Brand for 2020-2021 (2020-2021最受關注益生菌品牌)”. On the product development aspect, NC Soforwin, NC MyClear, NC MyLess, and NC Soforcure, which help improve gut, joint and skin health, were launched for the 2021 Interim Period.

On the supply side, most of Nutrition Care's nutrition products were produced in Australia in the past. To strengthen the supply chain and better support the Group's market development, in early 2021, the Group entered into a master supply agreement with an independent third party for the manufacture and supply of a series of nutrition products in the PRC. The relevant technical validations and the trial production of a total of 15 series of new nutrition products have already been completed for the 2021 Interim Period.

The Group believes the near future will be instrumental in the development of the nutrition industry in the PRC. The health food sectors, covering health foods and food for special medical purpose related products, will exhibit exponential growth. Nutritional and healthcare services will proliferate into the general public with better quality, and will be better customised, more convenient and increasingly smart. The Company will continue to prudently foster the growth of its nutritional products and nutrition business by being science-oriented, keeping abreast of the latest trends and making greater contribution to the growth and health of the consumers.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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

During the 2021 Interim Period, the Group continued to uphold its sustainability vision through different events. Ausnutria U-Foundation continued to support different local communities by donating materials worth up to RMB51.0 million. Moreover, the construction of the new headquarters of the Group in the PRC has recently been completed. This headquarters can accommodate the Group's long-term development and provide a spacious, refreshing and productive working environment for the Group's employees. Furthermore, the Group was awarded "A Socially Responsible Listed Company" and "Outstanding Enterprise in National Employment and Social Security (全國就業與社會保障先進民營企業)" in the PRC for its effort in contributing to society. Lastly, as a socially responsible corporation and to respond to relevant governments' advice, most of the Group's employees had already been vaccinated against COVID-19.

Moving forward, the Group will continue to develop sustainability targets based on its sustainability pillars: Better Nutrition, Better Life and Better Environment. In addition, in view of global climate change, the Group will focus on reducing its carbon emissions, saving energy and building a sustainable green supply chain. The Group will keep upholding its commitment to corporate social responsibilities and support different communities from time to time.

OUTLOOK

According to various market data, the total market share for the top ten infant formula players in the PRC accounted for approximately 77% for the year ended 31 December 2020, representing an increase of approximately 15 percentage points when compared with 2017 (the year immediately prior to the brand registration requirement became effective). In February 2021, the announcement of the SAMR on Matters Concerning the Registration of Infant Formula Milk Powder Product Formulas (《關於嬰幼兒配方乳粉產品配方註冊有關事宜的公告》) was issued, whereby all infant formula players are required to re-register their products with the SAMR according to a new set of rules and standards (the "New GB Standard"). According to the announcement, the New GB Standard will become effective in February 2023. The Company therefore believes that competition in the infant formula market will continue to be stiff in the coming one to two years whilst market consolidation is expected to continue. Being confident with the advantages it has achieved for R&D, supply chain, teams and marketing resources, the Company will continue to "Respond to Market Uncertainty with Firm Strategies", endeavour to realise a sustainable growth of its business and ensure that proper planning and adequate resources will be put in place for the fulfilment of the New GB Standard to maintain the Group's leading position in the market.

Besides, it is expected that the COVID-19 pandemic will continue to adversely affect the global economy and general travel and spending behaviours. The Company will continue to closely monitor such impact on the operations of the Group as well as to the industry, particularly whether it will have any adverse impact on the birth rate. Nevertheless, the Company is still reasonably optimistic about its future development given (i) the strategies it has formulated including the building of world-class upstream facilities; (ii) its well-established distribution networks (particularly in the mama and baby store channels in the PRC); (iii) its strong R&D and widely developed product portfolio which covers consumers of all ages; (iv) its unique position on the goat milk category with anticipated faster growth rate in the market; and (v) most importantly, its sound and solid management team with a proven track record.

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

From the market perspective, the Company will continue to invest in the market and further enhance its brand equity by launching a combination of innovative high-frequency and high-quality offline and online marketing activities. Leveraging on its pull (from brands) and push (from channels) strategies, the Company will continue to provide its channels and end customers with precise marketing, continued training and value-added services. This will enhance the Group's brand recognition in the first-tier cities, while at the same time strengthen the growth momentum and market penetration in other tier cities. The Company will also continue to strengthen its channel management capability and to expand its point of sales in an orderly manner. The COVID-19 pandemic has changed the spending behaviours and lifestyle for many people. The Company will continue to explore different opportunities to enrich its distribution channels and, hence, to maintain its growth in the market share.

Lastly, on 20 July 2021, the State Council of the PRC issued the Decision Regarding the Optimisation of Family Planning Policies for Long-Term Balanced Population Growth (《關於優化生育政策促進人口長期均衡發展的決定》), which laid down certain supportive policies such as promulgating the three-child policy and cancelling Social Maintenance Fees, etc. The measures primarily focus on reducing the cost of raising a child and aiming at appropriately increasing birth rate by 2025 and boosting long-term and balanced population growth. The Company considers such policy will have a long-term positive contribution to the industry.

FINANCIAL REVIEW

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

Revenue

	Notes	Six months ended 30 June			Proportion to total revenue Six months ended 30 June	
		2021 RMB'M (Unaudited)	2020 RMB'M (Unaudited)	Change % (Unaudited)	2021 % (Unaudited)	2020 % (Unaudited)
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	2,052.8	1,755.3	16.9	48.1	45.5
Goat milk (in the PRC)	(i)	1,598.3	1,535.2	4.1	37.4	39.8
Goat milk (elsewhere)	(i)	89.9	120.4	(25.3)	2.1	3.1
		1,688.2	1,655.6	2.0	39.5	42.9
		3,741.0	3,410.9	9.7	87.6	88.4
Private Label and others:						
Private Label	(ii)	90.4	90.9	(0.6)	2.1	2.4
Others	(iii)	370.8	291.5	27.2	8.7	7.5
		461.2	382.4	20.6	10.8	9.9
Dairy and related products		4,202.2	3,793.3	10.8	98.4	98.3
Nutrition products	(iv)	68.3	66.0	3.5	1.6	1.7
Total		4,270.5	3,859.3	10.7	100.0	100.0

Notes:

- (i) Representing the sales of own-branded cow milk formula products in the PRC and Kabrita in the PRC, Europe, the Commonwealth of Independent States, the USA, Canada, the Middle East countries, South Korea, South Africa, Mexico, etc.
- (ii) Representing the sales of formula milk powder products (including infant formula) under the customers' own brands.
- (iii) Representing mainly the sales of milk, milk powder, cream and other milk derived ingredients such as whey protein powder, etc.
- (iv) Representing the sales of nutrition products in the PRC and Australia.

Despite the prolonged outbreak of the COVID-19 pandemic which adversely affected the global economy and competition of the formula milk powder product market in the PRC continuing to be intense, the Group recorded revenue of RMB4,270.5 million for the 2021 Interim Period, representing an increase of RMB411.2 million, or 10.7%, from RMB3,859.3 million for the 2020 Interim Period. This was mainly driven by (i) the increase in sales of the Group's own-branded formula milk powder products by 9.7%, as a result of the Group's rapid and proactive response of adjusting its strategies to accommodate for the market change and the continuous strengthening of the distribution channels (mainly mama and baby stores); and (ii) the increase in sales of other dairy related products, such as milk, milk powder, cream and other milk derived ingredients such as whey protein powder, as a result of the increase in the intake of milk, particularly goat milk, for the processing of related ingredients in order to fulfil the internal production needs.

Gross profit and gross profit margin

	Six months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	RMB'M	RMB'M	%	%
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Own-branded formula milk powder products:				
Cow milk	1,222.9	982.8	59.6	56.0
Goat milk	1,048.2	999.6	62.1	60.4
	2,271.1	1,982.4	60.7	58.1
Private Label and others	1.5	57.7	0.3	15.1
Dairy and related products	2,272.6	2,040.1	54.1	53.8
Nutrition products	43.1	39.2	63.1	59.4
	2,315.7	2,079.3	54.2	53.9
Less: provision for inventories	(179.3)	(56.9)		
Total	2,136.4	2,022.4	50.0	52.4

The Group's gross profit for the 2021 Interim Period was RMB2,136.4 million, representing an increase of RMB114.0 million, or 5.6%, when compared with the 2020 Interim Period. The decrease in the gross profit margin of the Group from 52.4% for the 2020 Interim Period to 50.0% for the 2021 Interim Period was primarily due to the net effect of (i) the rebound of the profit margin of the Group's own-branded formula milk powder products following management's efforts on the strategic adjustments and channel reorganisation last year; and (ii) the increase in inventories provision of RMB122.4 million mainly attributable to a provision made by the Group for the products that are not expected to be sold as scheduled as a result of the aggregate effects of market consolidation and change in consumer preferences.

Further, the Company continues to face the challenge for the persistently low commodities prices due to the prolonged COVID-19 pandemic in Europe, the principal market for the Group's trading of related commodities, which resulted in a negative gross margin contributed for the period under review.

Excluding the above adverse impacts, the gross profit margin of the Group returns to its growing momentum following a temporary drop in 2020.

Other income and gains

Other income and gains mainly represented (i) incentive granted from the PRC government of RMB33.4 million (2020 Interim Period: RMB24.3 million); and (ii) interest income from the Group's deposits with banks of RMB14.1 million (2020 Interim Period: RMB16.7 million). The decrease in interest income was mainly due to the decrease in average bank balances.

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 26.2% (2020 Interim Period: 25.5%) of the revenue for the 2021 Interim Period. The increase in the selling and distribution expenses to revenue ratio was mainly because more advertising and promotion activities in proportion to revenue were carried out during the period under review as the effects of the COVID-19 pandemic situation in Mainland China gradually receded and more resources were allocated to the advertising and promotion activities in face of the intense market competition in order to increase the market share of the Group.

Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB5.6 million (2020 Interim Period: RMB10.2 million)), travelling expenses, auditors' remuneration, professional fees, depreciation and R&D costs.

The administrative expenses accounted for 7.8% (2020 Interim Period: 8.3%) of the revenue of the Group for the 2021 Interim Period. The decrease in administrative expenses to revenue ratio was mainly due to the general decrease in the growth rate of respective expenses partly due to economies of scale and partly due to cost control measures implemented by the Group to enhance its competitiveness.

Other expenses

Other expenses for the 2021 Interim Period mainly comprised (i) charitable donations of RMB11.1 million (2020 Interim Period: RMB35.4 million); and (ii) net foreign currency exchange losses of RMB10.9 million (2020 Interim Period: RMB2.9 million) arising from the foreign currency transactions, mainly between EUR and RMB, and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency rates of exchange ruling at the end of the reporting period. The prior period amount also included a loss on fair value change of a derivative financial instrument arising from the contingent consideration as a result of the acquisition of Hypraca Nutrition (Hong Kong) Company Limited and its subsidiaries of RMB165.9 million (the “**HNC FV Loss**”).

Finance costs

The finance costs of the Group for the 2021 Interim Period amounted to RMB11.6 million (2020 Interim Period: RMB14.5 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 interest-bearing bank loans and other borrowings balances.

Share of profits of associates

The amount included the share of the results of Farmel Holding B.V. and its subsidiaries (the “**Farmel Group**”), Bioflag International Corporation and its subsidiaries (the “**Bioflag Group**”), etc. 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. The Bioflag Group is principally engaged in the research and development, manufacturing and sale of probiotics– and fermentation-related application products.

The decrease in the share of profits of associates from RMB15.2 million for the 2020 Interim Period to RMB0.6 million for the 2021 Interim Period was mainly due to the decrease in results of the Farmel Group as a result of the decrease in commodity prices.

Income tax expenses

The profits generated by the Group for the 2021 Interim Period were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the corporate income tax (the “**CIT**”) at a rate of 25%. Ausnutria Dairy (China) Co. Ltd. and Hyproca Nutrition Co. Ltd., both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the 2021 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 15% (2020 Interim Period: 16.5%) for the first EUR245,000 (2020 Interim Period: EUR200,000) taxable profits and 25% for the taxable profits exceeding EUR245,000 (2020 Interim Period: EUR200,000). The standard CIT rates in Australia, New Zealand, the USA, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 20%, respectively.

The Group’s effective tax rate of 18.1% for the 2021 Interim Period was comparable with the 2020 Interim Period of 18.1% (excluding the HNC FV Loss of RMB165.9 million).

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the 2021 Interim Period amounted to RMB594.0 million, representing an increase of RMB185.2 million, or 45.3% when compared with the 2020 Interim Period.

An analysis of profit attributable to equity holders of the Company on the like-for-like basis is set out below:

	Six months ended 30 June		Change %
	2021 RMB'M (Unaudited)	2020 RMB'M (Unaudited)	
Profit attributable to equity holders of the Company	594.0	408.8	45.3
HNC FV Loss	<u>–</u>	<u>165.9</u>	(100.0)
Adjusted profit attributable to equity holders of the Company	<u>594.0</u>	<u>574.7</u>	3.4

As a result of the ongoing continuous shift in preferences of consumers, the Group recognised an additional inventory provision of RMB122.4 million on certain formula milk powder products, mainly related to those non-core brands, which the corresponding products shelf life are close to expiry due to slower-than-expected sales. Excluding the impact of the above adverse factor, the profitability of the Group is better off than the Company's target that was set out early this year.

Analysis on Condensed Consolidated Statement of Financial Position

As at 30 June 2021, the total assets and net asset value of the Group amounted to RMB8,960.2 million (31 December 2020: RMB9,248.0 million) and RMB5,196.0 million (31 December 2020: RMB5,151.9 million), respectively.

The decrease in total assets of the Group as at 30 June 2021 was mainly due to the decrease in cash and cash equivalent and pledged deposits of a total of RMB467.4 million as a result of the payment of final dividend of RMB388.1 million and the decrease in cashflows generated from operating activities as a result of the decrease in prepayments received from customers.

The increase in net assets of the Group as at 30 June 2021 was mainly a result of the net effect of (i) contribution from the net profit generated for the 2021 Interim Period of RMB594.0 million (2020 Interim Period: RMB408.8 million); and (ii) the payment of final dividend of RMB388.1 million.

Working Capital Cycle

As at 30 June 2021, the current assets to current liabilities ratio of the Group was 1.61 times (31 December 2020: 1.58 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		
	2021 <i>Number of days</i>	2020 <i>Number of days</i>	Change <i>Number of days</i>
Inventories turnover days	206	211	(5)
Debtors' turnover days	20	20	–
Creditors' turnover days	38	39	(1)

The Group's inventories turnover days continue to decrease gradually for the 2021 Interim Period and this was mainly attributable to the improved production planning and logistic lead time in the upstream production facilities. The Company's short-term target is to reduce the inventories turnover days to 190 days. 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.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Interim Period 2021.

TREASURY POLICY

The Group has adopted a prudent treasury policy in respect of investments in financial products. Any surplus funds of the Group will only be invested in time deposits or low risk financial instruments from reputable commercial banks that can be redeemed within a short notice period, including primary bank-sponsored wealth management products, money market funds and interbank deposits.

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:

	<i>Notes</i>	30 June 2021 RMB'M (Unaudited)	31 December 2020 RMB'M (Audited)
Interest-bearing bank loans and other borrowings		(1,151.4)	(1,086.3)
Less: Pledged deposits	<i>(i)</i>	173.2	212.1
Cash and cash equivalents	<i>(ii)</i>	1,428.9	1,857.5
		450.7	983.3
Total assets		8,960.2	9,248.0
Shareholders' equity		5,227.0	5,171.4
Gearing ratio	<i>(iii)</i>	N/A	N/A
Solvency ratio	<i>(iv)</i>	58.3%	55.9%

Notes:

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

Currency	30 June 2021		31 December 2020	
	<i>RMB'M</i> (Unaudited)	<i>%</i> (Unaudited)	<i>RMB'M</i> (Audited)	<i>%</i> (Audited)
RMB	171.2	98.8	211.2	99.6
Others	2.0	1.2	0.9	0.4
Total	173.2	100.0	212.1	100.0

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

Currency	30 June 2021		31 December 2020	
	<i>RMB'M</i> (Unaudited)	<i>%</i> (Unaudited)	<i>RMB'M</i> (Audited)	<i>%</i> (Audited)
RMB	1,072.3	75.0	1,534.8	82.6
EUR	102.8	7.2	90.4	4.9
AUD	97.0	6.8	92.1	5.0
HK\$	71.2	5.0	53.0	2.9
US\$	51.6	3.6	50.5	2.7
Others	34.0	2.4	36.7	1.9
Total	1,428.9	100.0	1,857.5	100.0

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

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

The Group is dedicated to maintain its overall liquidity by maximising the cashflows generated from operating activities, particularly on the control of the inventory level, and increasing the facilities with banks to reserve sufficient funding to support its business development, in particular to meet the Group's strategy of building a new infant formula base powder facility and other related facilities in the Netherlands, principally for the processing of goat milk and goat whey, and the extension into the nutrition business segment.

As at 30 June 2021, the Group had outstanding borrowings of RMB1,151.4 million (31 December 2020: RMB1,086.3 million), of which RMB685.4 million (31 December 2020: RMB559.0 million) was due within one year and the remaining RMB466.0 million (31 December 2020: RMB527.3 million) was due over one year. As at 30 June 2021, the Group's bank overdrafts and revolving facilities that were attributed to the Ausnutria B.V. group amounting to EUR100.0 million (equivalent to approximately RMB767.0 million) (31 December 2020: EUR100.0 million, equivalent to approximately RMB802.5 million), of which EUR20.0 million (equivalent to approximately RMB153.4 million) (31 December 2020: EUR20.0 million, equivalent to approximately RMB160.5 million) had been utilised as at 30 June 2021.

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

Currency	30 June 2021		31 December 2020	
	<i>RMB'M</i> (Unaudited)	% (Unaudited)	<i>RMB'M</i> (Audited)	% (Audited)
EUR	1,081.4	93.9	1,001.7	92.2
RMB	30.3	2.6	40.3	3.7
Others	39.7	3.5	44.3	4.1
Total	<u>1,151.4</u>	<u>100.0</u>	<u>1,086.3</u>	<u>100.0</u>

As at 30 June 2021, 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 EUR297.6 million, equivalent to approximately RMB2,282.5 million (31 December 2020: EUR243.6 million, equivalent to approximately RMB1,955.0 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB173.2 million (31 December 2020: RMB212.1 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 and Australia. During the 2021 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\$”) or Australian dollars (“AUD”) 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\$ or AUD against RMB.

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

As at 30 June 2021, the Group had a EUR against RMB capped forward contract of EUR20.0 million (31 December 2020: Nil) to hedge certain of its EUR denominated transactions. The management monitors closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. The Group will consider and enter into interest rate swap or cap contract to mitigate the risk of floating interest rate if necessary. In order to minimise the impact of the interest rate exposure, the Group entered into an interest rate cap contract with a bank of a notional amount of EUR48.0 million with 3-month floating Euro Interbank Offered Rate being capped at an interest rate of zero per annum. The interest rate cap contract will expire in 2023.

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 2021, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries of a total of RMB48.0 million (31 December 2020: RMB89.0 million).

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: Nil).

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 2021 Interim Period (2020 Interim Period: Nil).

CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the 2021 Interim Period and up to the date of this announcement. The Company will continue to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as contained in Appendix 10 to the Listing Rules as the standards for the Directors’ dealings in the securities of the Company. Having made specific enquiries with all Directors by the Company, the Directors confirmed that they have complied with the required standard set out in the Model Code during the 2021 Interim Period.

The Group has a written guideline “Employees’ Code of Dealing the Securities of the Company” for its senior management and employees who are likely to be in possession of unpublished inside information of the Company on terms no less exacting than the Model Code and the Guidelines on Disclosure of Inside Information of the Securities and Futures Ordinance. The aforementioned guideline provides a general guide and standards for the Company’s senior management, officers and relevant employees in dealing in the securities of the Company.

AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive Directors, and 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 2021 Interim Period, which contains the detailed results and other information of the Company for the 2021 Interim Period required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

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

The PRC, 12 August 2021

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.