



AUSNUTRIA DAIRY CORPORATION LTD
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1717)

INTERIM
REPORT
2021



NOURISHING
LIFE & GROWTH



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Ausnutria Dairy Corporation Ltd
Interim Report 2021

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Mission

Nourishing Life & Growth.

Vision

To become the most trustworthy milk formula, nutrition and healthcare enterprise in the world.





Sustainability Vision

We strive to nourish life and growth by providing quality nutritional options to all on a global level. We are committed to creating value in a sustainable manner, and help build a world in which everyone is empowered to live a healthy and prosperous life.

Ausnutria Principles



BOARD OF DIRECTORS

Executive Directors

Mr. Yan Weibin (*Chairman*)
Mr. Bartle van der Meer (*Chief Executive Officer*)
Ms. Ng Siu Hung

Non-Executive Directors

Mr. Shi Liang (*Vice-Chairman*)
Mr. Qiao Baijun
Mr. Tsai Chang-Hai

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISER

DEACONS

FINANCIAL ADVISER ON RETAINER BASIS

Asian Capital Limited

REGISTERED OFFICE

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACES OF BUSINESS

In Hong Kong

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Sheung Wan, Hong Kong

In Mainland China

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No. 168 Huangxing Middle Road
Changsha City, Hunan Province, the PRC

In the Netherlands

Dokter van Deenweg 150
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The Netherlands

In Australia

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Keysborough VIC 3173
Australia

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Rabobank
Bank of China

STOCK CODE

1717

INVESTOR RELATIONS CONTACT

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COMPANY'S WEBSITE

www.ausnutria.com.hk

The board (the “Board”) of directors (the “Directors”) of Ausnutria Dairy Corporation Ltd (the “Company” or “Ausnutria”) is pleased to present the interim report of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021 (the “2021 Interim Period”).

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 People’s Republic of China (the “PRC”) (the Company’s principal market), caused by the decreasing birth rate and changing consumers spending behaviour, 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 an increase of RMB411.2 million or 10.7% when compared with the corresponding period under review (the “2020 Interim Period”). 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 year-on-year (“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.

* 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 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 report and the New IFBP Facility is expected to be completed in 2023, which is more or less in line with the initial planned schedule.

Continuous commitment to 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 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 contributions 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 aim to appropriately increasing birth rate by 2025 and boost 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		Change %	Proportion to total revenue Six months ended 30 June	
	2021 RMB'M (Unaudited)	2020 RMB'M (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 RMB'M (Unaudited)	2020 RMB'M (Unaudited)	2021 % (Unaudited)	2020 % (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 Hyproca Nutrition (Hongkong) 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		
	2021 RMB'M (Unaudited)	2020 RMB'M (Unaudited)	Change %
Profit attributable to equity holders of the Company	594.0	408.8	45.3
HNC FV Loss	–	165.9	(100.0)
Adjusted profit attributable to equity holders of the Company	594.0	574.7	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 Number of days	2020 Number of days	Change Number of days
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:

	Notes	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)	173.2	212.1
Cash and cash equivalents	(ii)	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	(iii)	N/A	N/A
Solvency ratio	(iv)	58.3%	55.9%

Notes:

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

Currency	30 June 2021		31 December 2020	
	RMB'M (Unaudited)	% (Unaudited)	RMB'M (Audited)	% (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	
	RMB'M (Unaudited)	% (Unaudited)	RMB'M (Audited)	% (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	
	RMB'M (Unaudited)	% (Unaudited)	RMB'M (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	1,151.4	100.0	1,086.3	100.0

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).

HUMAN RESOURCES

Number of full-time employees	Mainland		The Netherlands	Australia	Others	Total
	China	Hong Kong		and New Zealand		
30 June 2021	4,037	11	740	144	165	5,097
31 December 2020	4,158	11	733	150	150	5,202

For the 2021 Interim Period, total employee costs, including Directors' emoluments, amounted to RMB736.3 million (2020 Interim Period: RMB669.8 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

CORPORATE GOVERNANCE 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 of Hong Kong Limited (the “**Stock Exchange**”) as its own code of corporate governance practices. The Board also strives to implement the best practices embodied in the CG Code 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 report. 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 “**SFO**”). 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.

REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The Audit Committee had reviewed this interim report including the unaudited interim condensed consolidated financial statements of the Group for the 2021 Interim Period.

SHARE OPTION SCHEME

Summary of Terms

A share option scheme was conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009 (the “**Share Option Scheme**”) whereby the Board was authorised, at their discretion, to invite, among other eligible participants, employees of the Group (including proposed employees, whether full-time or part-time and including any executive Director), non-executive Directors (including independent non-executive Directors), advisers and consultants, to take up options to subscribe for the shares of the Company (the “**Shares**”). The purpose of the Share Option Scheme is to enable the Company to grant options to the selected participants as incentives or rewards for their contribution to the Group. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 each of the Company. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional (i.e. valid till 7 October 2019). Further details of the Share Option Scheme are set out in the prospectus of the Company dated 24 September 2009.

The total number of the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the total number of the Shares in issue as at the date of approval of the Share Option Scheme (i.e. 100,000,000 Shares), which represents approximately 5.82% of the issued Shares as at 30 June 2021.

The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

Present status of the Share Option Scheme

Particulars and movements of share options under the Share Option Scheme during the 2021 Interim Period were as follows:

Grantees	Date of grant	Exercise price per share option	Number of options		
			Outstanding as at 2021.01.01	Exercised during the 2021 Interim Period	Outstanding as at 2021.06.30
Directors					
Mr. Yan Weibin	2019.01.15	HK\$10.00	1,500,000	(500,000)	1,000,000
Mr. Bartle van der Meer	2019.01.15	HK\$10.00	1,500,000	(500,000)	1,000,000
Ms. Ng Siu Hung	2019.01.15	HK\$10.00	1,500,000	(500,000)	1,000,000
Mr. Shi Liang	2019.01.15	HK\$10.00	500,000	–	500,000
Mr. Qiao Baijun	2019.01.15	HK\$10.00	500,000	–	500,000
Mr. Tsai Chang-Hai	2019.01.15	HK\$10.00	500,000	(166,666)	333,334
Mr. Lau Chun Fai Douglas	2019.01.15	HK\$10.00	500,000	(84,000)	416,000
Mr. Jason Wan	2019.01.15	HK\$10.00	500,000	–	500,000
Mr. Aidan Maurice Coleman	2019.01.15	HK\$10.00	500,000	–	500,000
Sub-total			7,500,000	(1,750,666) ⁽¹⁾	5,749,334
Other					
Employees	2016.07.06	HK\$2.45	141,667	(141,667) ⁽²⁾	–
Employees	2019.01.15	HK\$10.00	32,000,000	(750,000) ⁽³⁾	31,250,000
Consultant of the Company	2019.01.15	HK\$10.00	500,000	–	500,000
Total			40,141,667	(2,642,333)	37,499,334

Notes:

1. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK\$11.76.
2. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK\$13.02.
3. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK\$11.76.

All options granted pursuant to the Share Option Scheme shall be/had vested in the grantees in the following manner:

Share options granted on 15 January 2019

- One-third was vested on 15 January 2021;
- One-third shall be vested on 15 January 2022;
- One-third shall be vested on 15 January 2023; and
- Exercise period started on 15 January 2021 and shall end on 14 January 2024.

As at the date of this report, the total number of share options granted and available for issue under the Share Option Scheme is 10,832,667, representing approximately 0.63% of the issued Shares. During the 2021 Interim Period, no options was cancelled or lapsed.

Share options granted on 21 January 2016 and 6 July 2016 had both expired on 20 January 2021. As the Share Option Scheme has already expired on 7 October 2019, no further share options will be granted under the Share Option Scheme thereafter.

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

As at 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary Shares:–

Name of Director	Number of shares held, capacity and nature of interest			Approximate percentage of issued share capital ⁽³⁾
	Beneficial Owner	Interest of a controlled corporation	Total	
Mr. Yan Weibin	1,700,000	118,739,085 ⁽¹⁾	120,439,085	7.01%
Mr. Bartle van der Meer	1,509,000	124,205,230 ⁽²⁾	125,714,230	7.30%
Ms. Ng Siu Hung	2,500,000	–	2,500,000	0.15%
Mr. Tsai Chang-Hai	466,666	–	466,666	0.03%
Mr. Lau Chun Fai Douglas	384,000	–	384,000	0.02%
Mr. Jason Wan	300,000	–	300,000	0.02%

Notes:

- (1) The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan Weibin ("**Mr. Yan**"). Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.
- (2) The Shares are held by Dutch Dairy Investments HK Limited ("**DDIHK**"), which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer ("**Mr. van der Meer**"). Mr. van der Meer is therefore deemed to be interested in 124,205,230 Shares held by DDIHK under the SFO.
- (3) As at 30 June 2021, the total number of the issued Shares was 1,718,545,841.

Long positions in share options of the Company: –

Name of Director	Number of share options beneficially owned
Mr. Yan Weibin	1,000,000
Mr. Bartle van der Meer	1,000,000
Ms. Ng Siu Hung	1,000,000
Mr. Shi Liang	500,000
Mr. Qiao Baijun	500,000
Mr. Tsai Chang-Hai	333,334
Mr. Lau Chun Fai Douglas	416,000
Mr. Jason Wan	500,000
Mr. Aidan Maurice Coleman	500,000

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

Save as disclosed above, as at 30 June 2021, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2021, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company:

Long positions in ordinary Shares: –

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital ⁽⁹⁾
Citagri Easter Ltd.	1	379,000,000	Beneficial owner	22.05%
Changsha Kunxin Xin'Ao Investment LP	2	379,000,000	Interest of controlled corporation	22.05%
Chengtong CITIC Agriculture Investment Fund	2	379,000,000	Interest of controlled corporation	22.05%
China Structural Reform Fund Co., Ltd* (中國國有企業結構調整基金股份有限公司)	2	379,000,000	Interest of controlled corporation	22.05%
CITIC Agri Fund Management Co., Ltd	3	379,000,000	Interest of controlled corporation	22.05%
CITIC Agriculture Technology Co., Ltd.	3	379,000,000	Interest of controlled corporation	22.05%
CITIC Limited	4	379,000,000	Interest of controlled corporation	22.05%
CITIC Group Corporation	4	379,000,000	Interest of controlled corporation	22.05%
Center Laboratories, Inc.	5	307,940,089 35,991,683	Beneficial owner Interest of controlled corporation	17.92% 2.09%
Dutch Dairy Investments HK Limited	6	124,205,230	Beneficial owner	7.23%
Dutch Dairy Investments B.V.	6	124,205,230	Interest of controlled corporation	7.23%
Fan Deming B.V.	6	124,205,230	Interest of controlled corporation	7.23%
Ms. Chen Miaoyuan	7	121,439,085	Interest of spouse	7.07%
Ausnutria Holding Co Ltd	8	118,739,085	Beneficial owner	6.91%

Notes:

1. Citagri Easter Ltd. is owned as to approximately 53.14% by Changsha Kunxin Xin' Ao Investment LP* (長沙鯤信信澳股權投資合夥企業(有限合夥)) ("Kunxin Xin' Ao").
2. Kunxin Xin' Ao is owned as to 91.17% by Chengtong CITIC Agriculture Investment Fund (formerly known as Guotiao CITIC Modern Agriculture Investment LP), which is owned as to 34.9% by China Structural Reform Fund Co., Ltd.* (中國國有企業結構調整基金股份有限公司) and indirectly owned as to 37.2% by CITIC Limited respectively.
3. CITIC Agri Fund, who is the GP of Kunxin Xin' Ao, is owned as to 40.41% by CITIC Agriculture Technology Co., Ltd., an indirect wholly-owned company of CITIC Limited (formerly known as CITIC Agriculture Investment Co., Ltd.).
4. CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.
5. Center Laboratories, Inc. ("**Center Lab**") is beneficially interested in 307,940,089 Shares and BioEngine Capital Inc., a non-wholly-owned subsidiary of Center Lab, is beneficially interested in 35,991,683 Shares. Center Lab is therefore deemed to be interested in 343,931,772 Shares in total under the SFO.
6. DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. van der Meer. Each of DDI, Fan Deming B.V. and Mr. van der Meer is therefore deemed to be interested in the Shares held by DDIHK under the SFO.
7. Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 120,439,085 Shares held by Mr. Yan (himself and through Ausnutria BVI) and the 1,000,000 shares options held by Mr. Yan under the SFO.
8. Ausnutria BVI is wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.
9. As at 30 June 2021, the total number of the issued Shares was 1,718,545,841.

* For identification purpose only

Save as disclosed above, as at 30 June 2021, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the 2021 Interim Period (2020 Interim Period: Nil).

DIVIDEND DISTRIBUTION

The Board does not recommend a payment of an interim dividend for the 2021 Interim Period (2020 Interim Period: Nil).

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

For the six months ended 30 June 2021

	Notes	2021 Unaudited RMB'000	2020 Unaudited RMB'000
REVENUE	5	4,270,546	3,859,336
Cost of sales		(2,134,141)	(1,836,932)
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	(126,614)	(129,690)
PROFIT FOR THE PERIOD		571,596	419,772
Attributable to:			
Owners of the parent		593,990	408,761
Non-controlling interests		(22,394)	11,011
		571,596	419,772
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit for the period (RMB cents)		34.60	25.37
Diluted			
– For profit for the period (RMB cents)		34.50	24.97

For the six months ended 30 June 2021

	2021 Unaudited RMB'000	2020 Unaudited 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	(162,969)	58,515
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(162,969)	58,515
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(162,969)	58,515
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	408,627	478,287
Attributable to:		
Owners of the parent	430,881	463,330
Non-controlling interests	(22,254)	14,957
	408,627	478,287

32 Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	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
Total non-current assets		3,894,725	3,885,432
CURRENT ASSETS			
Inventories	11	2,464,324	2,400,946
Trade and bills receivables	12	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
Total current assets		5,065,444	5,362,525
CURRENT LIABILITIES			
Trade and bills payables	13	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
Total current liabilities		3,150,391	3,392,668
NET CURRENT ASSETS		1,915,053	1,969,857
TOTAL ASSETS LESS CURRENT LIABILITIES		5,809,778	5,855,289

As at 30 June 2021

	Notes	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	14	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

34 Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

For the six months ended 30 June 2021

	Attributable to owners of the parent							Non-controlling interests	Total equity	
	Share capital	Share premium account	Capital reserve	Share option reserves	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2021 (audited)	149,267	3,186,678*	(1,820,756)*	40,541*	123,551*	(51,295)*	3,543,386*	5,171,372	(19,432)	5,151,940
Profit for the period	-	-	-	-	-	-	593,990	593,990	(22,394)	571,596
Exchange differences on translation of foreign operations	-	-	-	-	-	(163,109)	-	(163,109)	140	(162,969)
Total comprehensive income for the period	-	-	-	-	-	(163,109)	593,990	430,881	(22,254)	408,627
Exercise of share option (note 14)	218	23,679	-	(2,958)	-	-	-	20,939	-	20,939
Acquisition of non-controlling interests	-	-	(15,016)	-	-	-	-	(15,016)	4,392	(10,624)
Final 2020 dividend declared	-	(386,685)	-	-	-	-	-	(386,685)	-	(386,685)
Equity-settled share option arrangements (note 15)	-	-	-	5,555	-	-	-	5,555	-	5,555
Transfer from retained profits	-	-	-	-	305	-	(305)	-	-	-
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	6,249	6,249
At 30 June 2021 (unaudited)	149,485	2,823,672*	(1,835,772)*	43,138*	123,856*	(214,404)*	4,137,071*	5,227,046	(31,045)	5,196,001

Interim Condensed Consolidated Statement of Changes in Equity

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For the six months ended 30 June 2021

For the six months ended 30 June 2020

	Attributable to owners of the parent										
	Share capital	Treasury shares	Share premium account	Capital reserve	Share option reserves	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Subtotal	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020 (audited)	140,031	(24,733)	2,385,407	(1,058,564)	24,072	123,551	(115,585)	2,541,475	4,015,654	48,254	4,063,908
Profit for the period	-	-	-	-	-	-	-	408,761	408,761	11,011	419,772
Exchange differences on translation of foreign operations	-	-	-	-	-	-	54,569	-	54,569	3,946	58,515
Total comprehensive income for the period	-	-	-	-	-	-	54,569	408,761	463,330	14,957	478,287
Exercise of share option	545	-	16,197	-	(3,387)	-	-	-	13,355	-	13,355
Final 2019 dividend declared	-	-	(323,245)	-	-	-	-	-	(323,245)	-	(323,245)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(27,000)	(27,000)
Equity-settled share option arrangements (note 15)	-	-	-	-	10,237	-	-	-	10,237	-	10,237
Cancellation of repurchased shares	(240)	24,733	(24,493)	-	-	-	-	-	-	-	-
At 30 June 2020 (unaudited)	140,336	-	2,053,866	(1,058,564)	30,922	123,551	(61,016)	2,950,236	4,179,331	36,211	4,215,542

* These components of equity comprise the consolidated reserves of RMB5,077,561,000 (31 December 2020: RMB5,022,105,000) as at 30 June 2021 in the condensed consolidated statement of financial position.

36 Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Notes	2021 Unaudited RMB'000	2020 Unaudited RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		698,210	549,462
Adjustments for:			
Finance costs		11,631	14,519
Share of profits of associates		(619)	(15,152)
Interest income	5	(14,058)	(16,689)
Depreciation of property, plant and equipment and amortisation of other intangible assets	6	101,451	86,578
Depreciation of right-of-use assets	6	23,619	29,053
Write-down of inventories to net realisable value	6	179,312	56,917
Equity-settled share option arrangements	6	5,555	10,237
Fair value gain on derivative instruments			
– transactions not qualifying as hedges	6	–	374
– subsequent consideration on acquisition of HNC Group	6	–	165,864
		1,005,101	881,163
Increase in inventories		(306,633)	(246,883)
Increase in trade and bills receivables		(65,179)	(24,545)
(Increase)/decrease in prepayments, deposits, other receivables and other assets		(65,511)	52,900
Increase in trade payables		91,245	119,016
Decrease in derivative financial liability		–	(376)
(Decrease)/increase in other payables and accruals		(410,793)	233,912
Cash generated from operations		248,230	1,015,187
Interest received		14,466	13,230
Interest paid		(8,358)	(11,677)
Mainland China corporate income tax paid		(116,893)	(156,337)
Overseas tax paid		(37,412)	(30,392)
Net cash flows from operating activities		100,033	830,011

Interim Condensed Consolidated Statement of Cash Flows

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For the six months ended 30 June 2021

Notes	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Net cash flows from operating activities	100,033	830,011
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(164,782)	(196,615)
Proceeds from disposal of items of property, plant and equipment	315	7,900
Proceeds from disposal of intangible assets	–	15
Additions to other intangible assets	(70,653)	(21,556)
Acquisition of a subsidiary	–	(82,637)
Investment in an associate	(7,000)	–
Decrease in pledged time deposits	38,852	53,910
Net cash flows used in investing activities	(203,268)	(238,983)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares upon exercise of the share options	15,939	13,355
New bank loans and other borrowings	424,151	65,906
Repayments of bank loans and other borrowings	(282,726)	(151,457)
Acquisition of non-controlling interests	(10,624)	–
Principal portion of lease payments	(34,940)	(41,882)
Contribution from non-controlling shareholders	6,249	–
Dividends paid	(388,066)	(320,697)
Dividends paid to non-controlling shareholders	–	(27,000)
Interest element of lease liabilities	(2,970)	(2,842)
Net cash flows used in financing activities	(272,987)	(464,617)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	1,857,516	1,674,541
Effect of foreign exchange rate changes, net	(52,374)	45,318
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,428,920	1,846,270
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,252,150	1,644,627
Non-pledged time deposits with original maturity of less than three months when acquired	176,770	201,643
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position and consolidated statement of cash flows	1,428,920	1,846,270

38 Notes to the Interim Condensed Consolidated Financial Statements

30 June 2021

1. CORPORATE AND GROUP INFORMATION

Ausnutria Dairy Corporation Ltd. (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located at (i) Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong; (ii) 8th Floor, XinDaXin Building A, No. 168, Huangxing Middle Road, Changsha City, Hunan Province, the People’s Republic of China (the “**PRC**”); (iii) Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands; and (iv) 25-27 Keysborough Avenue, Keysborough VIC 3173, Australia. The 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.

30 June 2021

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	<i>Interest Rate Benchmark Reform – phase 2</i>
Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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.

30 June 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (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.

30 June 2021

4. OPERATING SEGMENT INFORMATION (continued)

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			
Reconciliation:	719,865	(11,707)	708,158
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

30 June 2021

4. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2020 (unaudited)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	3,793,263	66,073	3,859,336
Revenue from operations			3,859,336
Segment results	570,505	(3,761)	566,744
Reconciliation:			
Interest income			16,689
Finance costs (other than interest on lease liabilities)			(10,567)
Corporate and other unallocated expenses			(23,404)
Profit before tax			549,462
Other segment information			
Impairment losses recognised in profit or loss	55,177	1,740	56,917
Share of profits 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.

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2021 Unaudited RMB'000	2020 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
	4,270,546	3,859,336

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

(b) Non-current assets

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

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).

30 June 2021

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

Disaggregated revenue information from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Six months ended 30 June 2021		
	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Segments			
Type of goods or service			
Sale of goods	4,202,258	68,288	4,270,546
Total revenue from contracts with customers	4,202,258	68,288	4,270,546
Geographical markets			
The PRC	3,704,354	66,101	3,770,455
European Union	308,223	–	308,223
Middle East	43,668	–	43,668
North and South America	76,953	–	76,953
Australia	14,418	2,187	16,605
New Zealand	283	–	283
Others	54,359	–	54,359
Total revenue from contracts with customers	4,202,258	68,288	4,270,546
Timing of revenue recognition			
Goods transferred at a point in time	4,202,258	68,288	4,270,546
Total revenue from contracts with customers	4,202,258	68,288	4,270,546

30 June 2021

5. REVENUE, OTHER INCOME AND GAINS (continued)**Disaggregated revenue information from contracts with customers (continued)**

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

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains

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

- (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.

30 June 2021

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).

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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 Unaudited RMB'000	2020 Unaudited 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)
Total	126,614	129,690

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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	Unaudited
	RMB'000	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	Unaudited
	Number of	Number of
	shares	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

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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

As at 30 June 2021, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR197,411,000 (equivalent to approximately RMB1,514,162,000) (31 December 2020: EUR142,195,000, equivalent to approximately RMB1,141,115,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

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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.

Included in the Group' trade receivables are amounts due from associates of RMB105,663,000 (31 December 2020: RMB70,251,000) which are repayable on similar credit terms to those offered to the major customers of the Group.

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

	30 June 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

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12. TRADE AND BILLS RECEIVABLES (continued)

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

There was no provision for impairment as at 30 June 2021 (31 December 2020: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

As at 30 June 2021, certain of the Group's trade receivables that were attributed to the Ausnutria B.V Group with a net carrying amount of EUR9,075,000 (equivalent to approximately RMB69,606,000) (31 December 2020: EUR8,868,000, equivalent to approximately RMB71,166,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group.

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	950	2,278
	485,137	409,247

Included in the trade and bills payables are amounts due to associates of RMB32,144,000 (31 December 2020: RMB30,949,000) which are repayable within 60 days.

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

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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	171,855	171,590

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 (Note (i))	2,643	218
At 30 June 2021 (unaudited)	1,718,546	149,485

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 (note 15), 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.

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15. SHARE OPTION SCHEME

The Group operates a share option scheme (the “**Scheme**”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme are the directors, and any person belonging to any of the following classes of participants:

- i. any employee or proposed employee (whether full-time or part-time), consultants or advisers of or to the Group, any of subsidiaries or any entity (“**Invested Entity**”) in which the Group holds an equity interest;
- ii. any supplier of goods or services to the Group or any of subsidiaries of any Invested Entity;
- iii. any customer of the Group or any Invested Entity;
- iv. any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- v. any shareholder of the Company or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity.

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Group are subject to approval in advance by the directors (excluding any independent non-executive directors who are the grantees of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value exceeding HK\$5 million (based on the price of the Company’s shares at the date of grant), within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

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

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15. SHARE OPTION SCHEME (continued)

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

	30 June 2021		30 June 2020	
	Weighted average exercise price HK\$ per Share	Number of options '000	Weighted average exercise price HK\$ per Share	Number of options '000
At 1 January (audited)	9.97	40,142	8.91	46,738
Exercised during the period	9.60	(2,643)	2.45	(5,993)
At 30 June (unaudited)	10.00	37,499	9.86	40,745

The weighted average share price at the date of exercise for share options exercised during the period was HK\$11.89 (six months ended 30 June 2020: HK\$14.54) per Share.

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

30 June 2021 (Unaudited)	Number of options '000	Exercise price HK\$ per Share	Exercise period
	37,499	10.00	15-1-21 to 14-1-24
31 December 2020 (Audited)	Number of options '000	Exercise price HK\$ per Share	Exercise period
	142	2.45	06-7-17 to 20-1-21
	40,000	10.00	15-1-21 to 14-1-24
	40,142		

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15. SHARE OPTION SCHEME (continued)

The fair value of the share options granted was HK\$112,131,000 (six months ended 30 June 2020: HK\$112,131,000), for which the Group recognised a share option expense of HK\$6,669,000 (equivalent to approximately RMB5,555,000) (six months ended 30 June 2020: HK\$11,286,000, equivalent to approximately RMB10,237,000) during the period ended 30 June 2021.

The fair value at grant date is estimated using a binomial tree model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. There is no cash settlement of the options. The fair value of options granted was estimated on the date of grant using the following assumptions:

	Granted on 21 January 2016 and 6 July 2016	Granted on 15 January 2019
Dividend yield (%)	0.00	1.26
Expected volatility (%)	47.45-49.09	41.59
Risk-free interest rate (%)	1.36-1.6	2.33
Contractual life of share options (year)	5	5
Weighted average exercise price (HK\$)	2.45	10.00

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

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

The 2,642,333 share options exercised during the period resulted in the issue of 2,642,333 ordinary shares of the Company and new share capital of HK\$264,300 (equivalent to approximately RMB218,000) (before issue expenses), as further detailed in note 14 to the interim condensed consolidated financial statements.

At the end of the reporting period, the Company had 37,499,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 37,499,000 additional ordinary shares of the Company and additional share capital of HK\$3,750,000 (equivalent to approximately RMB3,125,000) (before issue expenses).

At the date of approval of this report, the Company had 37,499,000 share options outstanding, which represented approximately 2.2% of the Company's shares in issue as at that date.

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16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2020: Nil).

17. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 10, 11 and 12, respectively, to the interim condensed consolidated financial statements.

18. COMMITMENTS

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

	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
Contracted, but not provided for:		
Plant and machinery	47,956	85,501
Intangible assets	–	3,500
	47,956	89,001

19. RELATED PARTY TRANSACTIONS

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

		Six months ended 30 June	
		2021 Unaudited RMB'000	2020 Unaudited RMB'000
Purchases of products from the associates	(i)	137,486	75,207
Sales of products to the associates	(i)	166,088	41,245
Management fees received from the associates	(ii)	99	111

Notes:

- (i) These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.
- (ii) The management fees were charged based on the management time incurred by the management of the Ausnutria B.V. Group for the associates.

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19. RELATED PARTY TRANSACTIONS (continued)**(b) Outstanding balances with related parties:**

Details of the balances with associates as at the end of the reporting period are disclosed in notes 12 and 13 to the interim condensed consolidated financial statements.

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

	Six months ended 30 June	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Salaries, allowances and benefits in kind	17,945	18,080
Retirement benefit contributions	765	463
Equity-settled share option expense	2,065	3,867
Total	20,775	22,410

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
Financial liabilities				
Derivative financial instruments	104	109	104	109
Interest-bearing bank loans and other borrowings (other than lease liabilities)	984,297	881,119	988,300	881,846
	984,401	881,228	988,404	881,955

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

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

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans and other borrowings as at 30 June 2021 was assessed to be insignificant.

The Group also enters into derivative transactions, including principally interest rate caps. The purpose is to manage the interest rate risks arising from the Group's operations and its sources of finance.

As at 30 June 2021, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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

Fair value hierarchy

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

Liabilities measured at fair value:

As at 30 June 2021 (unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	104	–	104

As at 31 December 2020 (audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	109	–	109

During the reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (six months ended 30 June 2020: Nil).

21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 12 August 2021.