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Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01230)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

FINANCIAL HIGHLIGHTS

(all amounts in RMB million unless otherwise stated)

	For the six months ended 30 June		Percentage change
	2021 (Unaudited)	2020 (Unaudited)	
Key results			
Revenue	2,156.9	1,644.9	31.1%
Gross profit	815.3	622.5	31.0%
Profit attributable to equity holders of the Company	44.2	35.6	24.2%
Earnings per share (RMB cent) – Basic and diluted	0.9	0.8	12.5%

For the six months ended 30 June 2021, the revenue of the Group amounted to RMB2,156.9 million (the same period of 2020: RMB1,644.9 million), representing an increase of 31.1% as compared to the same period of last year. Summary of the Group's business in the first half of the year is as follows:

1. In 2021, adult milk powder has achieved rapid growth through market segmentation and expansion of sales channels.
2. Further optimization has been undertaken in the brand positioning and product structure of infant formula which has realized stable income growth.

The board of directors (the “**Board**”) of Yashili International Holdings Ltd. (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the interim period ended 30 June 2021 together with the comparative figures for the same period of 2020 are as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	<i>Notes</i>	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Revenue	3	2,156,869	1,644,928
Cost of sales		<u>(1,341,602)</u>	<u>(1,022,469)</u>
Gross profit		815,267	622,459
Other income and gains	3	30,154	26,382
Selling and distribution expenses		(662,121)	(440,663)
Administrative expenses		(120,534)	(91,939)
Reversal/(provision) of impairment of financial assets, net		3,528	(1,521)
Other expenses and losses		(42,250)	(102,183)
Finance income		39,125	40,820
Finance costs		<u>(19,368)</u>	<u>(6,535)</u>
PROFIT BEFORE TAX	4	43,801	46,820
Income tax credit/(expense)	5	<u>349</u>	<u>(11,204)</u>
PROFIT FOR THE PERIOD		<u>44,150</u>	<u>35,616</u>
		<i>RMB cents</i>	<i>RMB cents</i>
EARNINGS PER SHARE	6		
Basic and diluted		<u>0.9</u>	<u>0.8</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	44,150	35,616
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods: Exchange differences on translation of foreign operations	<u>(68,591)</u>	<u>(37,291)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(68,591)</u>	<u>(37,291)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(24,441)</u>	<u>(1,675)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June 2021 (Unaudited) <i>RMB'000</i>	31 December 2020 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,450,322	1,530,467
Construction in progress		83,883	49,199
Investment properties		63,106	63,924
Right-of-use assets		98,733	101,420
Intangible assets		335,734	345,541
Goodwill		991,236	991,236
Deferred tax assets		374,654	370,995
Long-term bank deposits		389,820	736,004
Debt investments measured at amortised cost		23,993	–
Prepayments, other receivables and other assets	9	977	403
		3,812,458	4,189,189
CURRENT ASSETS			
Inventories	7	1,044,519	984,760
Trade receivables	8	283,278	91,166
Prepayments, other receivables and other assets	9	126,317	171,745
Other current financial assets		–	20,000
Structured bank deposits		536,998	101,764
Derivative financial instruments		325	2,175
Pledged deposits	10	–	150,261
Cash and bank balances	10	2,137,976	2,080,918
		4,129,413	3,602,789

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

As at 30 June 2021

		30 June 2021	31 December 2020
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
CURRENT LIABILITIES			
Trade and bills payables	<i>11</i>	694,497	698,052
Other payables and accruals		559,741	950,991
Interest-bearing bank and other borrowings	<i>13</i>	933,450	365,857
Derivative financial instruments		263	262
Lease liabilities		8,260	8,839
Income tax payable		–	4,885
		<hr/>	<hr/>
Total current liabilities		2,196,211	2,028,886
		<hr/>	<hr/>
NET CURRENT ASSETS		1,933,202	1,573,903
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,745,660	5,763,092
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred income		9,200	9,200
Lease liabilities		10,306	10,700
Deferred tax liabilities		26,957	20,075
		<hr/>	<hr/>
Total non-current liabilities		46,463	39,975
		<hr/>	<hr/>
Net assets		5,699,197	5,723,117
		<hr/>	<hr/>
EQUITY			
Share capital		399,352	399,352
Reserves		5,299,845	5,323,765
		<hr/>	<hr/>
Total equity		5,699,197	5,723,117
		<hr/>	<hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

1.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

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.

1.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period's financial information.

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

Interest Rate Benchmark Reform – Phase 2

Amendment to IFRS 16

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

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

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.

Since the Group had no certain interest-bearing bank borrowings based on the London Interbank Offered Rate (“**LIBOR**”) as at 30 June 2021, the amendments did not have any impact on the financial position and performance of the Group.

Amendment to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

Amendment to IFRS 16 issued in March 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. The amendment did not have any impact on the financial position and performance of the Group.

2. OPERATING SEGMENT INFORMATION

The Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) Milk powder products – this segment includes the development, manufacture and sale of milk powder products in the People’s Republic of China (the “PRC”) and overseas.
- (b) Other milk powder products – this segment includes the production and sale of base powder.
- (c) Dissolvable products – this segment includes the development, manufacture and sale of soymilk powder, rice flour and cereal products.
- (d) Other operations mainly include the sale of surplus raw materials and consigned processing operation. The results of these operations are included in the “others” column.

For the purpose of assessing segment performance and allocating resources among segments, the senior executive management team assesses the performance of the operating segments based on a measure of “reportable segment profit”, i.e., “revenue less cost of sales and allocated selling and distribution expenses”. The Group does not allocate other income and gains, net finance costs, unallocated other expenses to its segments, as the senior executive management does not use such information to allocate resources to or evaluate the performance of the operating segments. Segment assets and liabilities are not regularly reported to the Group’s senior executive management and therefore information of reportable segment assets and liabilities is not presented in the interim condensed financial information.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	For the six months ended 30 June 2021				
	Milk powder products RMB’000 (Unaudited)	Other milk powder products RMB’000 (Unaudited)	Dissolvable products RMB’000 (Unaudited)	Others RMB’000 (Unaudited)	Total RMB’000 (Unaudited)
Segment revenue					
Sales to external customers	1,861,602	149,874	91,078	54,315	2,156,869
Intersegment sales	–	35,883	–	–	35,883
	1,861,602	185,757	91,078	54,315	2,192,752
<i>Reconciliation:</i>					
Elimination of intersegment sales	–	(35,883)	–	–	(35,883)
Revenue					<u>2,156,869</u>
Segment results	126,392	4,414	15,842	6,498	153,146
<i>Reconciliation:</i>					
Finance income					39,125
Finance costs (other than interest on lease liabilities)					(19,041)
Other income and gains					30,154
Unallocated other expenses					<u>(159,583)</u>
Profit before tax					<u>43,801</u>

	For the six months ended 30 June 2020				
	Milk powder products <i>RMB'000</i> (Unaudited)	Other milk powder products <i>RMB'000</i> (Unaudited)	Dissolvable products <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue					
Sales to external customers	1,290,156	224,308	73,682	56,782	1,644,928
Intersegment sales	–	45,334	–	–	45,334
	<u>1,290,156</u>	<u>269,642</u>	<u>73,682</u>	<u>56,782</u>	<u>1,690,262</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales	–	(45,334)	–	–	(45,334)
Revenue					<u>1,644,928</u>
Segment results	162,526	7,294	14,455	(2,894)	181,381
<i>Reconciliation:</i>					
Finance income					40,820
Finance costs (other than interest on lease liabilities)					(6,120)
Other income and gains					26,382
Unallocated other expenses					(195,643)
Profit before tax					<u>46,820</u>

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June (Unaudited)	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers		
Sale of goods	2,139,772	1,621,866
Consigned processing services	17,097	23,062
	<u>2,156,869</u>	<u>1,644,928</u>

Revenue from contracts with customers

(i) Disaggregated revenue information:

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

	For the six months ended 30 June 2021				
	Milk powder products RMB'000 (Unaudited)	Other milk powder products RMB'000 (Unaudited)	Dissolvable products RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segments					
Types of goods or services					
Sale of goods	1,861,602	149,874	91,078	37,218	2,139,772
Consigned processing services	–	–	–	17,097	17,097
Total revenue from contracts with customers	<u>1,861,602</u>	<u>149,874</u>	<u>91,078</u>	<u>54,315</u>	<u>2,156,869</u>
Geographical markets					
Mainland China	1,821,536	–	91,078	38,711	1,951,325
Overseas	40,066	149,874	–	15,604	205,544
Total revenue from contracts with customers	<u>1,861,602</u>	<u>149,874</u>	<u>91,078</u>	<u>54,315</u>	<u>2,156,869</u>
Timing of revenue recognition					
Goods transferred at a point in time	1,861,602	149,874	91,078	37,218	2,139,772
Services transferred at a point of time	–	–	–	17,097	17,097
Total revenue from contracts with customers	<u>1,861,602</u>	<u>149,874</u>	<u>91,078</u>	<u>54,315</u>	<u>2,156,869</u>

	For the six months ended 30 June 2020				
	Milk powder products <i>RMB'000</i> (Unaudited)	Other milk powder products <i>RMB'000</i> (Unaudited)	Dissolvable products <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segments					
Types of goods or services					
Sale of goods	1,290,156	224,308	73,682	33,720	1,621,866
Consigned processing services	–	–	–	23,062	23,062
	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>
Total revenue from contracts with customers	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>
Geographical markets					
Mainland China	1,265,273	9,816	73,682	56,782	1,405,553
Overseas	24,883	214,492	–	–	239,375
	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>
Total revenue from contracts with customers	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>
Timing of revenue recognition					
Goods transferred at a point in time	1,290,156	224,308	73,682	33,720	1,621,866
Services transferred at a point of time	–	–	–	23,062	23,062
	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>
Total revenue from contracts with customers	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>

(ii) *An analysis of other income and gains is as follows:*

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income and gains		
Gross rental income from investment property operating leases		
– Income relating to fixed lease payments	4,649	5,546
Exempted accounts payable	7,096	–
Government grants		
– Compensation for expenses incurred	213	18,151
– Compensation for acquisition of assets	–	189
– Taxes refunded	776	359
Net gain on disposal of non-current assets	–	284
Foreign exchange gains, net	10,553	596
Others	6,867	1,257
	30,154	26,382

4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of goods sold	1,329,659	1,008,485
Cost of consigned processing services	11,943	13,984
	<u>1,341,602</u>	<u>1,022,469</u>
Depreciation of items of property, plant and equipment	63,452	59,017
Depreciation of investment properties	1,902	1,765
Amortisation of intangible assets	9,525	8,386
Amortisation of right-of-use assets	5,913	5,627
Amortisation of other non-current assets	946	2,449
	<u>81,738</u>	<u>77,244</u>
Total depreciation and amortisation		
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries and allowances	255,080	216,951
Expenses/(reversal) of termination benefits	3,128	(1,120)
Pension scheme contributions (defined contribution schemes)	27,761	3,135
Expenses/(reversal) of equity-settled share-based payment	1,308	(4,146)
	<u>287,277</u>	<u>214,820</u>

5. INCOME TAX

The major components of income tax in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current income tax	(1,700)	5,545
Deferred income tax	1,351	5,659
	<u>(349)</u>	<u>11,204</u>
Tax (credit)/charge for the period		

Pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People's Congress on 16 March 2007 (the "**Income Tax Law**"), the statutory income tax rate of the Group's subsidiaries established in Mainland China is 25%, except for Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. ("**Oushi Mengniu**"), which are subject to a preferential tax rate of 15%, in accordance with "The Notice of Tax Policies Relating to The Implementation of Western China Development Strategy".

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "**BVI**"), the Company and the Group's subsidiaries incorporated in the BVI are tax exempted in the Cayman Islands and the BVI.

Hong Kong profits tax for the Group's subsidiaries incorporated in Hong Kong has been provided at 16.5% for the six months ended 30 June 2021 (six months ended 30 June 2020: 16.5%) on the estimated profits arising in Hong Kong during the period.

Pursuant to the rules and regulations of New Zealand, the Group's subsidiaries incorporated in New Zealand are subject to income tax at a rate of 28% during the six months ended 30 June 2021 (six months ended 30 June 2020: 28%).

6. 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 4,745,560,296 (six months ended 30 June 2020: 4,745,560,296) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2021 (30 June 2020: nil).

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	44,150	35,616
	Number of shares	
	2021	2020
	'000	'000
Shares:		
Weighted average number of ordinary shares for the purpose of the basic and diluted earnings per share calculations	4,745,560	4,745,560

7. INVENTORIES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Raw materials	369,530	359,722
Finished goods	294,374	483,555
Work in progress	343,618	109,328
Packing materials	33,764	29,767
Low value consumables	3,233	2,388
	<u>1,044,519</u>	<u>984,760</u>

As at 30 June 2021, all the inventories of Yashili New Zealand Dairy Co., Limited (“Yashili New Zealand”) amounting to RMB155,960,000 (31 December 2020: RMB202,258,000) were collateralised.

8. TRADE RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	291,671	103,219
Provision for impairment	(8,393)	(12,053)
	<u>283,278</u>	<u>91,166</u>

The Group normally offers a credit limit and a credit term to each of its customers which are adjustable in certain circumstances. Trade receivables are non-interest-bearing.

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	216,233	80,472
3 to 6 months	56,986	8,817
More than 6 months	10,059	1,877
	<u>283,278</u>	<u>91,166</u>

The Group uses the forward-looking expected credit loss (ECL) approach as the accounting policy for impairment losses of trade receivables.

The amounts due from related parties of the Group included in the trade receivables are as follows:

	30 June 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Subsidiaries of the ultimate holding company	9,645	8,743
A substantial shareholder and its subsidiaries	3,134	9,899
Subsidiaries of the ultimate holding company's main shareholder	340	326
	<u>13,119</u>	<u>18,968</u>

As at 30 June 2021, all the trade receivables of Yashili New Zealand amounting to RMB22,943,000 (31 December 2020: RMB60,507,000) were collateralised.

Except the amounts disclosed above, the amounts are unsecured and non-interest-bearing.

9. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Prepayments for purchase of raw materials	9,642	71,900
Value-added tax recoverable	17,278	31,515
Prepayments for purchase of advertising services	15,819	11,835
Interest receivable	30,626	10,220
Advances to sales offices	4,222	4,555
Others	52,344	44,760
	<u>129,931</u>	<u>174,785</u>
Less: Long-term deferred expenditure	(977)	(403)
Impairment allowance	(2,637)	(2,637)
	<u>126,317</u>	<u>171,745</u>

The amounts due from related parties included in prepayments, other receivables and other assets are as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Subsidiaries of the ultimate holding company's main shareholder	736	1,926
Subsidiaries of the ultimate holding company	<u>89</u>	<u>288</u>
	<u>825</u>	<u>2,214</u>

As at 30 June 2021, all the prepayments, other receivables and other assets of Yashili New Zealand amounting to RMB9,135,000 (31 December 2020: RMB16,838,000) were collateralised.

Except the amounts disclosed above, the amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

10. CASH, BANK BALANCES AND PLEDGED DEPOSITS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Cash and cash equivalents as stated in the consolidated statement of cash flows	1,312,976	1,818,288
Pledged deposits	–	150,261
Time deposits with original maturity of more than three months	<i>(a)</i> <u>1,214,820</u>	<u>998,634</u>
	<u>2,527,796</u>	<u>2,967,183</u>
Less: Short-term pledged deposits for banking facilities	<i>(a)</i> –	150,261
Less: Long-term bank deposits	<i>(a)</i> <u>389,820</u>	<u>736,004</u>
Cash and bank balances as stated in the consolidated statement of financial position	<u>2,137,976</u>	<u>2,080,918</u>

Notes:

- (a) As at 30 June 2021, long-term bank deposits of RMB120,000,000 and short-term bank deposits of RMB150,000,000 were pledged for bank loans amounting to RMB415,450,000 (31 December 2020: long-term bank deposits amounting to RMB146,000,000 were pledged for bank loans amounting to RMB326,664,000).

As at 30 June 2021, a short-term bank deposit of RMB676,000 was pledged for bank acceptance bills (31 December 2020: long-term bank deposits amounting to RMB9,108,000 and a short-term bank deposit of RMB20,261,000 were pledged for bank acceptance bills).

As at 30 June 2021, a long-term bank deposits of RMB30,000,000 and a short-term bank deposit of RMB19,324,000 were pledged for banking facilities (31 December 2020: long-term bank deposits of RMB44,892,000 and short-term bank deposit of RMB130,000,000 were pledged for banking facilities).

As at 30 June 2021, all the bank deposits of Yashili New Zealand amounting to RMB145,619,000 (31 December 2020: RMB112,956,000) were collateralised.

11. TRADE AND BILLS PAYABLES

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

	30 June 2021	31 December 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	517,856	598,593
3 to 6 months	139,951	70,755
More than 6 months	36,690	28,704
	694,497	698,052

The amounts due to related parties included in trade and bills payables are as follows:

	30 June 2021	31 December 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Subsidiaries of the ultimate holding company	198,132	15,787
Subsidiaries of the ultimate holding company's main shareholder	32,415	39,345
Associates of the ultimate holding company	–	30,745
A substantial shareholder and its subsidiaries	–	273
	230,547	86,150

Trade and bills payables, including amounts due to related parties, are non-interest-bearing and are normally settled within one month to six months.

12. DIVIDEND

The directors did not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Unaudited 30 June 2021			Audited 31 December 2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	2.45 to 3.22	2021–2022	933,450	2.60 to 3.22	2021	326,664
Credit loans			–	LIBOR+1.20	2021	39,193
			<u>933,450</u>			<u>365,857</u>

As at 30 June 2021, time deposits amounting to RMB270,000,000 were pledged for bank loans amounting to RMB415,450,000 (31 December 2020: time deposits amounting to RMB96,000,000 were pledged for bank loans amounting to RMB178,450,000).

As at 30 June 2021, structured bank deposits amounting to RMB527,000,000 were pledged for bank loans amounting to RMB518,000,000 (31 December 2020: structured bank deposits amounting to RMB100,000,000 and time deposits amounting to RMB50,000,000 were pledged for bank loans amounting to RMB148,214,000).

MANAGEMENT’S DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Changing trends in new-born population drive improvements in industry quality

On 11 May 2021, the National Bureau of Statistics released data of the Seventh National Population Census. According to the data, the number of new-born population in China was 12 million in 2020, signalling a decline for the fourth consecutive year. China’s total population has also been sustaining a slow rate of growth in the recent decade. With demographic dividend diminishing, the milk powder market has shifted towards competition for existing volume in recent years. Milk powder enterprises are seeking to enhance their competitiveness in terms of product quality, brand and price, among others, in order to capture additional share amid a limited market size. At the same time, lower-quality brands and brands falling behind are gradually driven out of the market while new participants are facing increasing difficulty in entering the market.

Aging population and increasing health awareness drives development of the adult milk powder market

According to the latest data of population census, the number of persons aged 60 and above is 264 million, which accounts for 18.70% of the total population. China is moving from the stage of “mild-aging” to the stage of “moderate-aging”. The “Silver-hair economy” is now the focus for growth. At the same time, with the improvement of living standards and health awareness of Chinese nationals, people are increasingly aware of and in demand for nutrition products, and therefore adult milk powder now serves as a new source of growth for dairy enterprises.

New opportunities for domestic branded milk powders

In the last two years, geopolitical tension in the international market and consumption upgrade in China’s domestic market have raised Chinese consumers’ interest in consuming domestic products and brands, which contributed to the emergence of a number of local “national fashion” brands. Within the infant milk formula industry, Chinese domestic brands are well received by consumers in terms of product formula, quality and brand image, and are gradually able to acquire market share from foreign brands. After the outbreak of the COVID-19 pandemic, Chinese consumers gained additional confidence in China’s administrative agencies, especially with wide recognition on food safety supervision. In addition, rebound in the pandemic overseas had disrupted the production and supply of foreign milk powder. A substantial number of consumers had shifted from overseas purchase through agents to domestic purchase, and chosen Chinese brands over foreign brands. According to the data released by the General Administration of Customs, the volume of imported infant formula declined year-on-year from February to May in 2021. The import volume of infant formula in the first quarter of this year had decreased by 17.6% year-on-year, and had not recovered in April and May, witnessing a year-on-year decrease of 12.7% in May. The trend of infant milk formula shifting from foreign brands to Chinese brands is becoming more prevalent. In 2021, domestic milk powder is seizing new opportunities in brand-building and market acquisition.

Accelerating development in digital marketing

2020 marked the opening year of industry-wide deepening of digital transformation. Due to the continuing pandemic, customer flow in physical stores was reduced, while digital marketing and contactless business models were fast proliferating in China, which exerted a profound impact on the consumption habits of Chinese consumers. These trends continued in 2021. According to industry data, online sales of infant milk powder recorded a double-digit growth in the first half of the year, while a mere single-digit growth was witnessed in offline mother-and-baby stores. Major players in the industry also raised their investment in digitalization, and comprehensively improved their digital capabilities in supply chain, channel management and marketing methods, and concurrently accumulated relevant operational experience in the process of implementing online and offline linkage. New approaches in marketing and consumer operation such as community interaction, live streaming and offline empowerment provided new impetus to business development during the post-pandemic period.

BUSINESS REVIEW

The Group is committed to becoming the brand of choice that provides consumers with trustworthy and comprehensive nutrition and health solutions. The Group has tremendous support in resources from the controlling shareholder, the Mengniu Group and the second largest shareholder, Danone Asia Baby Nutrition Pte. Ltd. (“**Danone Asia**”) which advances the Group’s business exploration and internationalization.

Segment results

Milk powder products

For the six months ended 30 June 2021, the results of the milk powder products segment were RMB1,861.6 million (the same period of 2020: RMB1,290.1 million), increasing by 44.3% as compared to the same period of last year, which was mainly due to adult milk powder achieves rapid growth through market segmentation and expansion of sales channels in 2021. The net revenue of adult milk powder increased by 94% as compared to the same period of last year, among which, the growth of popular product series far exceeded the industry average and remained at the leading position in the industry.

Other milk powder products

For the six months ended 30 June 2021, the results of the other milk powder products segment were RMB149.9 million (the same period of 2020: RMB224.3 million), decreasing by 33.2% as compared to the same period of last year, which was mainly due to the decrease in the sales of base powder of Yashili New Zealand resulting from the decrease in the purchase amount by Danone.

Dissolvable products

For the six months ended 30 June 2021, the results of the dissolvable products segment were RMB91.1 million (the same period of 2020: RMB73.7 million), increasing by 23.6% as compared to the same period of last year, which was mainly attributable to the adjustments to product strategies, which led to the increase in the results of dissolvable products.

Others

For the six months ended 30 June 2021, the results of the others segment were RMB54.3 million (the same period of 2020: RMB56.8 million), decreasing by 4.4% as compared to the same period of last year, which was mainly attributable to the decrease in the consigned processing services, which led to the decrease in the results of the other segments.

Introduction to products

The Group strives to become the preferred brand of all-round nutrition and health solutions for consumers. Its products are divided into two large categories, namely infant formula milk powder and health and nutrition products, with cow milk powder, organic milk powder and goat milk powder covering markets of various price points – including ultra-high-end, high-end and middle-end markets. The milk powder brands of the Group include Yashily, Dumex, Reeborne, Doraler, the cooperative brand Arla, Mengniu and Topconic.

The Group takes pride in its business model of integrating premium imported dairy raw materials, high quality milk sources, scientific research and self-developed formulas, advanced manufacturing system and stringent quality management system, enabling it to gather high-quality resources from around the world to supply the best quality dairy products worthy of the trust of consumers.

Yashily

Yashily, a brand focusing on the nutrition research of Chinese babies and production and sale of infant formula milk powder for 38 years, has international standard production bases in China and New Zealand. It sources milk of superior quality from New Zealand and implements quality inspection standards of both China and New Zealand, striving to become a world-class “Chinese infant formula expert”. Yashily’s products are made from high-quality raw materials worldwide, such as OPO-structured lipid, lactoferrin, prebiotics and nucleotides.

Dumex

Dumex, born in Europe in 1946 with over 50 years’ experience in research on breast milk and over 20 years’ experience in research on the human immune and digestive systems. Dumex entered China many years ago, and has over the years constantly innovated and upgraded its product formulas with the 9:1 golden ratio of prebiotics, and high DHA and lactoferrin content. Its milk powder contains 100% whole goat milk protein with OPO-structured lipid added, helping absorption of key nutrients.

Reeborne

Since 2020, the Group reshaped the brand proposition of Reeborne by launching a brand-new series of products. As the core product series for the year and in the future, such products feature a lighter taste and more nutritious ingredients. To target customers with different needs, there are seven new products in the series, covering mainstream milk powder, high-growth organic milk powder and goat milk powder for segmenting product category.

Reeborne's "Kieember (菁珀)" cow milk powder adopts the advanced MSD drying process, which retains the vitality of nutritional ingredients. It contains double high-quality protein, OPO-structured lipid, high living CPP factors and prebiotics in golden ratio, providing babies with all-round, easy-to-absorb nutrition. Reeborne organic milk powder is made of pure organic milk sourced from seven-year clean soil farms in The Alps and dairy cows that are free range and grass-fed for 300 days, to provide milk powder with protein content of up to 20% for infants and toddlers. It passes the WIT organic certification and adopts the "one can, one code" tracking system to provide quality assurance. Reeborne's "TruYn (初穎)" goat milk powder selects high-quality small molecule goat milk protein, and rare ingredients, such as lactoferrin, the body-friendly OPO-structured lipid and probiotics and prebiotics, are added to provide high-quality nutrition that babies can easily digest and absorb. In addition, Reeborne series also has other products at different prices, with different nutritional content tailored to address the different nutritional needs of infants.

Arla

Arla, a century-old brand, is also the world-renowned organic dairy brand, and the high product quality it affords has made it an authorized brand fit for consumption by Danish royals. Arla Baby & Me includes three series, namely "Organic (有機)", "Lanxi (藍曦)" and "Milex (美力滋)". The organic milk powder of Arla "Baby & Me" has obtained three major organic certifications and its organic formula contains high DHA, golden ratio of prebiotics and uses 100% organic lactose. Arla "Baby & Me Lanxi (藍曦)" contains NutriCollab, a unique complementary set of nutrients, and quality nutritious elements such as choline, taurine and nucleotide. The formula of Arla "Milex (美力滋)" combines OPO-structured lipid, BB-12 probiotics and a golden ratio of prebiotics to form the Pro Plus growth formula focusing on absorption and matching natural needs.

Doraler

Originating from Australia, Doraler goat milk powder contains 100% whole goat milk protein, which can be easily digested and absorbed by the human body because of its natural attributes. Doraler insists on not adding sucrose, flavors and fragrances or maltodextrin in any product, in order to provide babies with the purest and healthiest nutrition.

M8 Children's Growth Formula Milk Powder

Bifidobacterium lactis Probio-M8 is added to enhance children's nutrient absorption, be beneficial to the intestines and enhance protection. Various nutrients also fortify the formula, particularly the addition of FOS, GOS, PS, DHA, ARA and lactoferrin. It is scientifically formulated to be more suitable for children and help them grow.

Yourui

Five high-end milk powder products are tailored for the middle-aged and the elderly to address their physical characteristics and nutritional supplement needs of the middle-aged and the elderly population. Added ingredients such as strains and dietary fibres serve to enhance the absorption capabilities of intestines of the middle-aged and the elderly, and bring forth ingredients such as calcium, whey protein powder, EPA and DHA to supplement the gradual loss of nutritional ingredients in the middle-aged and the elderly, so as to replenish sufficient nutrients to the middle-aged and the elderly population.

Topconic

Topconic milk powder is positioned as a high-end product series with a goal to strengthen immunity, targeting mainly consumer groups with low immunity. Topconic's milk powder utilises Bifidobacterium, Lactobacillus and XOS as the main ingredients to help consumers enhance immunity (this product is evaluated by animal experiments and has the health care function of enhancing immunity.).

Fruit oatmeal

Fruit oatmeal is a product targeting the nutritional needs of young female consumers aged between 18 to 35. It contains diverse nutritious and tasty ingredients such as nuts, milk and rose petals. Emphasising the concept of low-calorie, it is rich in dietary fiber and beneficial to the intestines. It is the smart choice for breakfast, afternoon tea and meal replacement.

Brand strategies

Multiple measures to build a brand matrix with Reeborne at its core

In the first half of 2021, the Group continued to proceed the various rebranding projects to strengthen its brand advantage and consolidate its market position. For Reeborne, the core infant milk formula brand, among which, the Group comprehensively focused on the theme of "Breastfeeding Is the Best" and executed comprehensive brand building and market cultivation campaigns through launching Reeborne's dance and new TVC for the brand, along with social welfare events and digital members marketing to strengthen interactions between the brand and consumers as well as enhancing brand reputation for full brand building and market cultivation.

The Arla "Baby & Me" brand had signed up reputable actress Liu Tao as the latest product endorser and rolled out a series of brand contents through promotional materials such as videos, to be fully launched through online channels and offline stores. It covered important occasions such as the Spring Festival, the 140th anniversary of Arla, Mother's Day, and Children's Day, etc, to continuously exert influences on target consumers.

The Group also reaffirmed Doraler’s brand position highlighting “Doraler from Australia Is the Best Choice of Goat Milk”. Using new visuals, Doraler seeks to emphasize its high-end image through shedding spotlight on being canned in and imported from Australia, in order to enhance the brand’s core value through its quality and brand building. At the same time, the Group created Doraler IP through launching of the Doraler “blind box” to reach out to target customers in all aspects and enhance brand awareness.

In response to the new market environment, Dumex reconsolidated its brand positioning of “Choosing the Healthy Dumex for Easy Absorption of Nutrition” and unified the brand’s visuals, so as to enhance the brand’s popularity and reshape Dumex’s competitive advantages. At the same time, the Group has been leveraging Dumex to be deeply engaged in the lower-tier market.

The Group focused on the brand promotion of Yourui series for the middle-aged and the elderly and M8 Children’s Growth Formula in the first half of the year and enhanced its brand influence through diversified external cooperations. In particular, the Yourui series, through working with Mr. Zhang Guoli, the new product endorser and in cooperation with the Chinese Football Association to be the official partner of the Chinese Team (中國之隊), has strengthened its brand image and made further inroad into the milk powder market for the middle-aged and the elderly. Mengniu’s M8 children’s growth formula milk powder had on the other hand managed to create product uniqueness and enhance product awareness by way of dual-exposure through product launches and partnering with official product endorser Deng Chao, a reputable artist.

Comprehensive media and public relations promotional campaigns along with further utilisation of new media

The Group continued to promote its brands through media and public relations activities. In the first half of 2021, the Reeborne brand in particular had organized hundreds of brand events across the country to widely proliferate the reshaped Reeborne brand, and managed to enhance its brand awareness within the brief Chinese New Year period.

In terms of public relations promotion, the Group has paid special attention to the brand authority aspect of Reeborne this year. With regard to the product research and development, the Group carried out professional public relations promotion in different areas, including the unveiling of new generation OPO products, and attending the 520 Breast Milk Conference. In addition, the Group has fully leveraged local media resources to raise brand awareness and reputation through high-frequency promotion in various channels such as online media, self-media, mother-and-baby communities and e-commerce. The Group had also donated several batches of adult milk powder and infant formula milk powder to children’s welfare homes, nursing homes, kindergartens and poor households in more than ten provinces across the country, and proactively assumed the social responsibility of the brand.

Since the beginning of the year, the Group’s infant formula segment has increased investment in promotion in local media and outdoor media. Focusing on mobilizing strong media resources in core markets to achieve extensive coverage, it has empowered those on the sale-front and the sales channels.

In mounting innovative promotional activities, the Group's infant milk formula brands strengthened the use of social media, such as Tik Tok, Weibo and WeChat, which are popular among young mothers, to promote the brands and products in fun formats, such as interesting short videos, vivid graphics and texts, and celebrity interactions, thereby enhanced interaction between the brands and consumers.

Accelerating the development of membership-based digital marketing

In the first quarter of 2021, the Group launched the Youzi Points Mall (柚子積分商城), which was upgraded in correlation with the membership system. Through community marketing, external rights cooperation and cross-industry promotion, both platforms successfully directed traffic to each other, and the number of members continued to grow steadily. The Group also actively explored innovative cooperation models with mother-and-baby retailers, mother-and-baby brands, medical channels, internet platforms, mother-and-baby communities, fast-moving consumer brands and financial platforms to accelerate the growth of membership and enhance consumers' loyalty to the brand.

Product research and development

Leveraging the help of a large professional research and development team, the Group has made satisfactory progress in the registration of infant milk formula and the research and development of adult nutrition products in response to market development trends and consumer demands. The Group continued to develop the competitive advantage of its products through differentiation and invest in the innovative research and development of high quality infant milk formula products. The Group has also innovated and developed a series of milk powder for children and adults to meet the increasingly diversified nutritional needs of different consumer groups. In addition, the Group actively invested in scientific research and introduced more high-end research and development talents into its team. The Group also continued to add to its research investment in milk powder technology, evaluation methodologies, product standards and technology patents, and continued to improve further its technology level in research and development and product quality.

Innovation and upgrade of infant formula milk powder

As of the end of June 2021, the Group and its partner Arla had a total of 18 series with 54 infant formula recipes registered. To continuously enhance and consolidate the advantages of its differentiated products, the Group adheres to the plan of upgrading the infant formula products already launched, to develop innovative infant milk powder and launch a full upgrade of packaging for all product lines, to attract more consumers and elevate the profile of the products.

Innovation and development of high-end functional milk powder for adults

The Group utilized new functional raw materials to develop high-end adult functional milk powder. In the first half of 2021, the Group had in particular developed a series of upgraded Yourui milk powder for the middle-aged and the elderly, which will be launched with a brand new functional portfolio and a new product image.

Sales channels

In the first half of 2021, the Group continued to strengthen the strategic channel deployment entailing “focus infant formula on mother-and-baby stores, nutrition products on modern trade channels, facilitate e-commerce channels and develop new channels and new products (嬰配奶粉聚焦母嬰渠道，營養品聚焦商超渠道，快速發展電商渠道，新渠道新產品全面發展)”. While sticking to the general direction of channel deepening in lower-tier markets, the Group also adapted to market changes by stepping up investment in digital marketing and, with a comprehensive product portfolio, came up with channel-specific product mix, helping build a solid distribution foundation for core sales channels. After the pandemic, the Group’s home delivery service for infant formula and nutrition products has also become a standard service ensuring the supply of products to end consumers while establishing a good reputation among customers and consumers at all levels. During the post-pandemic period, Yashili further optimized its market layout and team operation, directing great effort onto channel penetration and deployment as well as mounting more in-store promotion of a wider reach, with satisfactory results achieved.

Development of all online and offline channels

The Group mainly focused on the steady development of the mother-and-baby store channel, and devising synergistic match among mother-and-baby store chains, modern trade and e-commerce channels. In respect of the mother-and-baby store channel, the Group insisted on opening channels in lower-tier markets as the working direction of the entire business team. At the same time, the Group has established cooperative relationship with nationally renowned core chain retailers across the country to steadily expand businesses in the mother-and-baby chain store channel. In addition, the Group has made in-depth adjustments to the e-commerce business, ensuring focused support for its e-commerce business in terms of team and resources. The Group also reformed its internal sales platform for e-commerce, namely “Joyful Shopping (歡樂購)” to deepen its cooperation with e-commerce platforms such as Alibaba and JD.com, and to implement a new layout in content e-commerce. Regarding nutrition products, the Group accelerated the launching of innovative channels such as community group purchase, live streaming e-commerce and social e-commerce, and gradually shifting itself from traditional retailing model to new retailing model.

Marketing

At the beginning of 2021, the Group fully utilised the influences from the new TVC for the brand and media placement to carry out a number of promotional activities for the Reeborne brand and completed a comprehensive brand store layout especially for festive promotions. The Group implemented a sales-centric approach in the first half of the year and carried out nearly 1,000 campaigns quarterly, which were the “extreme blasts (極致爆破)” campaigns across all levels of the market, reaching a target audience of over 200,000 people, effectively boosting overall performance and channel confidence.

Digital marketing innovations

In 2021, the Group increased its investment in digitalization and intelligentization to explore and realize more marketing way through innovations in new consumers recruitment and interactive campaigns. From traditional marketing management, the Group is gradually shifting to marketing empowerment, making marketing activities smarter, more innovative and more effective. In terms of consumer recruitment and retention, the Group has established a consumer loyalty mall and further refined its new membership operation system to enhance brand loyalty of consumers through digital operation in consumer services. At the same time, the Group made innovative uses of “family dinner (家宴)”, “movie festival (電影節)”, and other scenarios to achieve in-depth interaction with consumers, thereby boosted the effect of its brand disintegration, integrated marketing effort as well as customer loyalty.

Quality management

In line with the Company’s development strategies, a series of refinements were introduced to quality management of the Company in the first half of 2021 to improve areas such as the quality management system, quality standards and product standards to sustain the Company’s development.

Consolidating the foundation for building a first-class system

On top of the original advanced food safety management system, Yashili introduced a world-leading SQF management system, and organized four factories in China to grasp knowledge in the SQF quality standards, and the requirements on food safety standards and the CNAS laboratory accreditation system, ensuring that the Company will operate with the highest standards.

In addition, the quality management department of the Group has established and improved a food safety and compliance management system within the product’s life cycle and industrial chain, evaluated the compliance risk level within the Group while implementing hierarchical management and control and maintains control over compliance risk, and always ensures the Group’s strategic measures of “be compliant, be risk-averse and safety first (守合規、控風險、保安全)”.

In the first half of the year, all factories have completed the integration and embodiment of quality documents issued by the Group and continued to improve quality management. In order to improve its laboratory testing capability, the Group continued to implement its laboratory upgrade projects and organized 20 quality system document trainings. The laboratory information systems of its Helin, Shanxi and Chaozhou factories were undergoing trial as of May, which served to gradually digitise the Group’s quality data.

In the first half of 2021, both Chaozhou and Shanghai factories had successfully passed the inspection of the national infant formula milk powder system and achieved excellent results, which proved the Group’s excellent quality management level.

Gradual upgrade of quality standards

To guarantee safe, healthy and nutritious food for infants and children at all times, Yashili has established a risk monitoring system for infant formula food with reference to the current international standards relating to pollutant limits, and comprehensively upgraded its technical standards on raw materials, process control and finished products to ensure that products are consistently high standard. In the first half of the year, a total of 91.1% of technical standards on raw material were upgraded.

Continuous improvement of product quality

In 2021, Yashili introduced quality design at the developmental stage of new infant formula products to account for possible quality and food safety risks right from the phase of product design. In addition, in line with the corporate value of “consumers first, first and first (消費者第一、第一、第一)”, and with the purpose of “improving the existing and avoiding the future”, the Group is fully implementing the perfect product campaign to present consumers with high-standard products under consistent appearance, and provide high-quality products and perfect consumption experience that align with consumers’ expectations, to upgrade product competitiveness.

Yashili has also achieved remarkable results in dealing with major consumer complaints. As of June, the rate of product quality complaints regarding infant formula products and adult milk powder significantly reduced by 20% and 88% respectively year-on-year.

Supply chain

In the first half of 2021, the supply chain department of the Group adhered to the strategic direction of looking at the big picture and achieving breakthrough in innovations and win-win cooperation, and the principle of “supply chain is a service, and service creates value (供應鏈即服務，服務即價值創造)”, to achieve the Group’s strategic goals jointly with the Group’s business divisions.

The supply chain department is committed to “consumers first, first and first”. Through production and sales coordination, the Group is seeking to improve production plans and order fulfilment rate as well as optimizing logistics and transportation network, and to improve network efficiency and enhance customer satisfaction. Through strict compliance with the requirements of the State Administration for Market Regulation, the Group pays strict attention to product quality and various standards, passing 100% of national audits.

The Group’s supply chain department respects values and recognises the achievements of outstanding individuals and teams, acknowledges the contributions of staff members. A Supply Chain Management Institute was introduced to strengthen the professional knowledge pool of employees through online scenario and animation scenario simulation courses.

The Group's supply chain department also focuses on expanding diversified businesses and putting more efforts in cost reduction and efficiency enhancement. With the investment of special resources to comply with the requirements of pandemic control, the Group has carried out more than 60 supply chain improvement projects and achieved remarkable results in cost reduction and efficiency enhancement. At the same time, the Group introduced world-class manufacturing systems, and introduced and implemented world-class standards and best practices, to empower different factories and functional departments alongside with the Manufacturing Committee.

Management system

In the first half of 2021, the Group completed the development of the distributor interaction platform and the distributor order module and realized the integration of distributor business services at the front end and the digitalization of products-to-customers phase at the back end. In addition, the Group had upgraded its consumer tracking mini program, and applied electronic fencing technology to enhance function in market regulation early warning, and comprehensively upgraded market regulation management. The Group's event resources were directly connected to the stores through the development of an activity application, which enhanced the marketing capabilities of the stores and improved the precision investment of event resources. In addition, the Group had also launched a miniCRM application to empower shopping guides at the stores to strengthen member interaction and precision marketing and set up a development team to realize the privatization deployment of the core business systems and the consolidation of data assets, and to improve the delivery capability of digital tools.

In terms of consumer operation, a more valuable membership operation system was built. Through the establishment of an interactive online matrix for consumers – the Ruimeng Club (瑞萌社) and the reward points mall, it links together more than 2 million authentic consumers. At the same time, the Group established online platforms such as Qiwei (企微), the public account (公眾號), Mini Program (小程序) and Guandou (官抖) to achieve refined operation and life-cycle operation of the post-chain and accurate reach of marketing activities.

In terms of quality management, the Group fully covered the inspection processes of raw materials, semi-finished products and finished products through the LIMS system in the first half of the year, and integrated with the existing SAP, ERP and other systems to provide data support for the Group's comprehensive quality management. In order to support the finance and supply chain side to achieve the goal of refined management, multi-dimensional financial BI statements and strategic BI statements were developed and put into use simultaneously to improve the ability and timeliness and accuracy in business data analysis.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2021, the Group's revenue amounted to RMB2,156.9 million (the same period of 2020: RMB1,644.9 million), representing an increase of 31.1% as compared to the same period of last year.

Revenue by product category – for the six months ended 30 June (unaudited)

	2021	2020	Percentage
	<i>RMB million</i>	<i>RMB million</i>	change
Milk powder products	1,861.6	1,290.1	44.3%
Other milk powder products	149.9	224.3	(33.2%)
Dissolvable products	91.1	73.7	23.6%
Others	54.3	56.8	(4.4%)
Total	2,156.9	1,644.9	31.1%

For the six months ended 30 June 2021, milk powder products recorded a revenue of RMB1,861.6 million (the same period of 2020: RMB1,290.1 million), increasing by 44.3% as compared to the same period in 2020. Other milk powder products recorded a revenue of RMB149.9 million (the same period of 2020: RMB224.3 million), decreasing by 33.2% as compared to the same period in 2020, mainly due to the decrease in the sales of base powder of Yashili New Zealand resulting from the decrease in the purchase amount by Danone; dissolvable products recorded a revenue of RMB91.1 million (the same period of 2020: RMB73.7 million), increasing by 23.6% as compared to the same period in 2020; and other products recorded a revenue of RMB54.3 million (the same period of 2020: RMB56.8 million), decreasing by 4.4% as compared to the same period in 2020.

The increase in the Group's sales revenue was mainly due to: (1) Effectiveness in product segmentation and channels expansion strategies contributes to rapid increase in revenue for adult milk powder; (2) Further optimization is undertaken in the brand positioning and product structure of infant formula brand which serve to realise stable income growth; (3) More value is created through advertising and promotional investment empowering by data and intelligence, which in turn enhance products' recognition.

Gross profit

For the six months ended 30 June 2021, the Group recorded a gross profit of RMB815.3 million (the same period of 2020: RMB622.5 million), representing an increase of 31.0% from the same period of last year. The gross profit margin was 37.8%, remained unchanged as last year, which was due to the decrease in the proportion of sales of base powder with low gross profit and other sales which compensated the increase in the proportion of sales of adult powder.

Selling and distribution expenses

For the six months ended 30 June 2021, the Group generated selling and distribution expenses of RMB662.1 million (the same period of 2020: RMB440.7 million), representing an increase of 50.2% from the same period of last year. The selling and distribution expenses as a percentage of revenue was 30.7% for the first half of 2021 (the same period of 2020: 26.8%), representing an increase of 3.9% from the same period of last year, which was mainly due to more publicity expenses are invested in the implementation of strategies such as product segmentation and channel expansion in order to improve the popularity of products.

Administrative expenses

For the six months ended 30 June 2021, administrative expenses amounted to RMB120.5 million (the same period of 2020: RMB91.9 million), representing an increase of 31.1% from the same period of last year, mainly attributable to the increase of basic salary and bonus caused by the increase of the total number of employees.

Net finance income

For the six months ended 30 June 2021, net finance income amounted to RMB19.8 million (the same period of 2020: RMB34.3 million). The decrease in net finance income of 42.3% was mainly attributable to the global adoption of quantitative easing policy under the pandemic, leading to a decrease in deposit rate and capital for deposits.

Income tax

For the six months ended 30 June 2021, the Group's income tax credit was RMB0.3 million (the same period of 2020: RMB11.2 million) and the effective income tax rate was -0.7% (the same period of 2020: 23.9%). The decrease of the income tax expense was mainly due to the increase in the proportion of adult milk powder (its gross profit margin is lower than that of infant milk powder) which caused the profit before tax for the current period is reduced after excluding dividend. As a result, the actual tax burden is reduced.

Inventories

As at 30 June 2021, the balance of inventories of the Group amounted to RMB1,044.5 million (31 December 2020: RMB984.8 million). The increase in inventories of 6.1% was increased with sales revenue growth for the current period.

Other current financial assets/structural bank deposits

As at 30 June 2021, other current financial assets/structural bank deposits mainly included structural bank deposits in total of RMB537.0 million (31 December 2020: RMB121.8 million) with anticipated annualised yields of 3.2% to 3.3% (31 December 2020: 1.2% to 3.5%).

Trade receivables

As at 30 June 2021, the Group's trade receivables amounted to RMB283.3 million (31 December 2020: RMB91.2 million). During the first half of 2021, the trade receivables turnover days were 16 days (31 December 2020: 12 days), representing an increase of 4 days as compared to 2020, mainly due to an increase in the balance of accounts receivable from large-scale modern trade and e-commerce platforms as a result of a noticeable increase in the sales revenue from the Group's adult milk powder.

Human resources and employees' remuneration

As at 30 June 2021, the Group has a total of 2,858 full-time employees (30 June 2020: 2,574). The total staff cost for the period was approximately RMB286.0 million (the same period of 2020: RMB219.0 million). The increase in staff cost was mainly attributable to the cancellation of social insurance and preferential policies after the epidemic in 2021 and the increase in the Group's overall sales volume led to an increase in total staff costs.

Contingent liabilities

As at 30 June 2021, the Group had no material contingent liabilities (31 December 2020: Nil).

Capital commitment

As at 30 June 2021, the Group's capital commitment was RMB6.7 million (31 December 2020: RMB4.3 million), which was mainly related to workshop renovation projects and the purchase of milk powder production equipment.

Use of net proceeds from the Initial Public Offering

The Company's net proceeds from the Initial Public Offering amounted to approximately RMB1,965.8 million after deduction of relevant expenses. As at 30 June 2021, the Company had used up all the net proceeds from the Initial Public Offering in accordance with the manner as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 30 October 2010.

HUMAN RESOURCES

Promoting the implementation of new culture and deepening the application of values

In response to the reshaped corporate culture in 2020, systematic plans were formulated to hasten the promotion and implementation of the new culture in various departments, while the management led the implementation of corporate values. The Group has also worked to integrate values into performance appraisal, selection and employment standards, so as to deepen the implementation of corporate culture in the organizational system.

Flat-top and agile organization management

In order to establish high performance, collaborative and agile organizational management system, the overall organizational structure of the Group was re-examined with its organizational structure flattened, and the department names and responsibilities were standardized to improve internal operational efficiency.

Dual-channel scheme implementation and clear employee development path

In order to support the Group's talent project plan and achieve the strategic goal of generating 70% of talents internally, the Group had issued the "Dual-channel Career Development Plan for Yashili's Employees (Trial) (《雅士利員工職業發展雙通道方案(試行)》)" this year. Employees are encouraged to rotate in multiple roles to form a horizontal and vertical (management and professional) development roadmap. The Group has since approved and completed career promotion assessment schemes on 8 professional areas.

Reforming remuneration system to motivate highly efficient talents

Strategic targets were allocated from the Group to all levels of the organization. The Group's strategy is further assigned into the heads of each department in a more systematic manner. Also, the Group optimized the remuneration structure of non-front-line sales positions and increased the remuneration of blue-collar workers with lower income to enhance employees' sense of belonging. The Group also raised process incentives to improve performance coefficient in annual bonus and conducted annual salary adjustment for employees with high efficiency and in key positions to retain outstanding talents.

Creating a good workplace atmosphere and enhancing employer's brand image

The Company holds regular communication meetings with employees and seminars for new employees and continues to promote the platform for direct communication with senior management, so that employees can communicate directly with senior management and improve the communication mechanism of the Company. The Yazhiyin platform (雅之音平台) delivers information of the Group and each unit in real-time to employees, helping them to keep abreast of the Company's development as well as creating a more inclusive and dynamic workplace environment so as to enhance their sense of ownership. With excellent human resources management and practice, the Group was awarded the "2021 Outstanding Human Resources Management Award" by 51job.com, which enhanced the Group's employer brand image.

SOCIAL RESPONSIBILITY

In 2021, in response to the nation's "Healthy China 2030" Plan (《「健康中國2030」規劃綱要》) initiative, the Group had launched a series of campaigns including the "Yashili Firefly Public Welfare Action (「雅士利螢火蟲公益行動」)" and the sustainable public welfare projects such as the "Reeborne Poverty Alleviation Plan (「瑞哺恩扶貧計劃」)", the "Elder War Veterans Poverty Alleviation Plan (「抗戰老兵扶貧計劃」)" and the "Aged Assistance and Poverty Alleviation Plan (「晚年助養扶貧計劃」)", and adhered to the corporate mission of "Every drop of nutrition brings joy to every life (「點滴營養綻放每個生命」)", to proactively perform corporate social responsibility and contribute corporate force to the healthy China strategy.

The Company actively promoted the “Reeborne Poverty Alleviation Plan” in partnership with the China Children and Teenagers’ Fund and launched the “Warmth accompanied with Love (「溫暖相伴，與愛同行」)” campaign for breast milk caring. The Company went to 10 provinces and more than 20 cities and counties and donated milk powder products with a value of more than RMB8,970,000 to local welfare institutions and poor households.

At the same time, Yashili strengthened its mutual cooperation with public welfare institutions and provided assistance and support to families with serious illnesses through sharing of scientific knowledge on nutrition, material donation and special fund assistance. At the same time, the Group had raised public’s concern on the nutrition of vulnerable groups, especially those with serious illnesses, and continued to promote the construction of a healthy China. Yashili’s caring team visited the “Guangzhou Medical Assistance for Children’s Hope (「兒童希望廣州助醫小家」)” and sent warm and care to children and families with serious illnesses. The team also visited Guangxi Lingshan Special Education School and provided milk powder and materials to support the healthy growth of special children.

Yashili has continued to explore new approaches in public welfare, combining corporate development with local advantages, and actively cooperated with local stores, distributors and other industry forces to carry out nutrition and public welfare activities for the continuous expansion of scope and influence in public welfare. In Hubei, Yashili organized local caring teams to visit people in need and forwarded milk powder and other supplies in the Huopai township, the Guyi township and the Zhuji township in the Xiangzhou District, Xiangyang City. In Guangxi, Yashili worked with its partners to visit Minglang Kindergarten in Pubei county to deliver nutrition products to local children and organized a birthday party for the elderly in Yuezhou nursing home to actively donate nutritional milk powder. In Ganzhou, Jiangxi, Yashili responded to the call of China Dairy Industry Association and donated M8 children’s milk formula products of RMB100,000 to the people in the old revolutionary base area.

In addition, Yashili visited the medical workers who devoted fully to their positions during the prevention and control of the COVID-19 pandemic, and paid tribute to the “white angels” who worked hard to fight against the COVID-19 pandemic. Yashili and Guangdong Provincial Association of Prevention Medicine jointly donated nutritional products to Guangzhou Shipai Street Community Health Service Center and Guangzhou Xiancun Community Health Service Center.

With the support and help of all sectors of society, Yashili will continue to actively fulfil its social responsibilities, and contribute to the construction of a harmonious society and the healthy life of the people.

PUBLIC RELATIONS AND CRISIS MANAGEMENT

2021 is the first year of the “14th Five-Year Plan” and the 100th anniversary of the founding of the Communist Party of China. In this special context, effective communication with the government, media and consumers through various channels in an active, open, healthy and proactive manner has also become the top priority of the Group’s public affairs work this year.

In the first half of the year, the Group actively disseminated brand value and information to a wide range of consumers and potential customers through public relations activities, which was conducive to expanding the brand awareness and driving the long-term development of the brand. Through the promotion of authoritative media such as the Xinhua News Agency and the People.cn, and tools such as the video media iQIYI (愛奇藝), and KOLs of new media, the Company established a good relationship with consumers, media, cooperative enterprises and government agencies and created a good corporate image while fostering a good environment for future development of the Company.

In order to promote sales in the market, the Group implemented innovative public relations activities on a regional basis and gained recognition from distributor clients and trust from consumers by leveraging local media to endorse regional sales activities, thereby facilitating sales and opening up the market.

The Group has always been highly sensitive to news media reports and public opinion and actively conducted public opinion and reputational risk monitoring to strengthen crisis warning and management. The Group timely and accurately replied to consumers’ questions and quickly respond to and handle consumers’ demands, in order to fulfil public’s right to know and effectively prevent the occurrence of crisis events. At the same time, the Company continued to enhance its corporate and brand image through effective communication with the public and the media.

INVESTOR RELATIONS

The Group believes that effective communication with shareholders, investors and potential investors is essential for enhancing investor relationship and enabling investors to understand its business performance and strategies. The Group communicates with investors through various channels and means such as onsite receptions, telephone conferences, non-deal roadshows and investment summits of securities companies.

To facilitate effective communication, the Group has also set up a website (www.yashili.hk) to publish its latest financial information, corporate governance practices and other updated data for public reference.

FUTURE PROSPECTS

Policy implications

On 18 March 2021, the National Health Commission issued three national standards, namely the “National Food Safety Standard for Infant Formula Food (《食品安全國家標準嬰兒配方食品》)”, the “National Food Safety Standard for Older Infant Formula Food (《食品安全國家標準較大嬰兒配方食品》)” and the “National Food Safety Standard for Young Children Food (《食品安全國家標準幼兒配方食品》)”. A two-year standard transitional period will be allowed for enterprises. On 15 June 2021, the State Administration for Market Regulation issued the “Questions and Answers on the Registration of Infant Formula Milk Powder Products (《嬰幼兒配方乳粉產品配方註冊問答》)”, marking the official launch of a new round of infant formula registration.

The new standards set higher requirements on the raw material procurement, supply chain, research and development and stability of production process for infant formula enterprises, which further raised the entry barrier of the industry. The launch of the new standards presents not only a challenge but also an opportunity for domestic milk powder, and also a right timing for domestic milk powder to take lead. If an enterprise can complete their formula registrations as soon as possible in accordance with the new requirements, the company can leverage a first-mover advantage to a certain extent and seize the market share.

On 31 May 2021, the Political Bureau of the CPC Central Committee considered and approved the “Decision on Optimizing the Maternity Policy to Promote the Long-term Balanced Development of Population (《關於優化生育政策促進人口長期均衡發展的決定》)”, which further optimized maternity policy and its implementation and supporting measures to allow couples to have three children. It is expected that after the relaxation of the three-child policy, there will be approximately 300,000 additional new infants in China each year. Once the three-child policy is implemented, the sales volume of infant milk formula can be expected a further boost.

With the continuous update and release of policies, regulations and standards, it is expected that the quality of infant milk formula will be further improved, along with continuing optimization of the industry structure, which shall further contribute to the survival of the fittest.

Industry trend

Consumption upgrade drives product enrichment

The trends towards high-end and diversification has become the main development directions in the infant milk formula industry. After the rapid expansion of products sub-categories in the milk powder industry in 2020, various dairy enterprises launched infant milk formula products with differentiated milk sources. They include new sub-categories such as goat milk powder, A2 milk powder and organic milk powder, and extended new categories such as adult milk powder, children's milk powder and auxiliary food for infants. In 2021, major manufacturers are set to pay more attention to product segments and explore breakthroughs and developments in product segments facing intensified competition in the entire infant milk powder market.

An aging population drives dairy companies to accelerate deployment in the adult milk powder market

According to the latest population census data, China's aging population trend continues, along with the rising living standards and health awareness of Chinese residents reflect huge market potential for milk powder for the middle-aged and the elderly. Therefore, the strategic upgrade of products from simple nutritional supplements to formula-based and functional milk powder will become the development trend of milk powder for adults. Market data also shows that the prices of various adult milk powder products are on the rise. A number of leaders in dairy product industry, including those specialized in infant formula milk powder, have actively made their deployment in the milk powder market for the middle-aged and the elderly, and launched products suitable for the middle-aged and the elderly in different physical conditions according to their nutrition and health needs.

Capturing enormous opportunities in lower-tier markets

With difference in regional birth rate of new-born across the country, the focus of the milk powder sales market is shifting. Lower willingness to give birth and the delayed female child-bearing age in first-tier and second-tier cities have gradually led to lower birth rate in major cities. On the other end, economic prosperity and willingness to give birth in the third- and fourth-tier markets and the lower-tier markets are in upward spiral, which contribute to more significant new-born growth, and serve to consolidate them as an emerging base for milk powder sales. Many enterprises are also expanding into the lower-tier markets.

In comparison, foreign brands have lower coverage in the lower-tier markets, while domestic brands are well-positioned in these markets to capture the opportunities arising from consumption upgrade and sales volume growth.

All-rounded investment in channels and digital development

The large- and medium-sized mother-and-baby chain stores are in gradual search of new industry innovations, with emerging trends such as commercial supermarket, digitalization and platform taking shape. More single unit mother-and-baby stores go through natural selection gradually and are exiting the market under competition. New changes in retail have also brought about more investment and development in terms of capital, manpower and store operation models. With the digital and intelligent transformation of China's retail industry, emerging marketing approaches such as live streaming, community operations, content e-commerce and interest-based e-commerce are set to see a rapid growth in 2021.

Company strategies

Brand strategies

Focusing on brand and product category

The Group will continue to regard infant formula as its main product category and strive to consolidate its position in cow milk powder product market, and expand the market for organic and goat milk products, while gradually developing the market for dissolvable nutritional products. In particular, the Reeborne brand will focus on organic products; the Arla brand will focus on high-end organic products; and the Doraler brand will serve as a breakthrough brand in imported goat milk, thereby forming a sound infant formula brand and product portfolio. On the other hand, under the two major trends of aging population and younger sub-healthy population, the Group will continue to develop the strategy of multi-brand operation, focus on sub-health populations, and build a high-end adult milk powder brand with health maintenance functions for the middle-aged and elderly.

Enhancing brand image in multiple dimensions

In the second half of 2021, the Group will focus on the continuous investment in brands such as Reeborne, Arla Baby & Me, Doraler, Dumex, and Yourui Middle-aged Series and M8 Child Growth Formula Milk to enhance brand awareness, strengthen brand penetration, and further consolidate its high-end and professional image. Arla Baby & Me series will receive upgrade in the second half of the year to be fully upgraded to organic A2 milk source; Lanxi will focus on the development of brain power by integrating a new MFGM milk fat spherical film formula; Milex will join the Baby & Me family and focus on the formula design that benefits absorption.

The Group will continue to maintain sufficient and diversified media investment in the second half of 2021. The Group will fully utilise media resources and continue to focus resources on the core markets to actively strengthen distribution, terminal construction and consumer cultivation and interaction in the core markets. In addition to television commercials and cooperation with local media programs, the Group will also produce and place new contents such as advertisements and videos on internet platforms such as TikTok, Xiaohongshu and mother-and-child vertical platforms, so as to leverage digital media to empower first-line sales and cater comprehensively to consumers' communication approaches, thereby driving the overall brand sales capabilities of online and offline channels.

Product research and development

In the second half of 2021, the Group will continue to strengthen research efforts on breast milk nutritional components, including cooperating with industry-leading food and nutrition science experts in the industry and research institutes such as the Jiangnan University, the China Agricultural University and the Inner Mongolia Agricultural University to carry out researches on infant formula products, and to implement and materialise the research results of the “13th Five-Year Plan”. At the same time, the Group strengthened the introduction of nutrition research talents into its team to improve the innovation capability of nutrition science and carried out research on nutrition and health evaluation standards of adult milk powder to implement the product upgrade.

The Group will continue to enhance its differentiated product advantages and continuously upgrade the entire product line of the infant formula milk products already on the market. By combining the latest research results of breast milk nutrition composition, the Group will continue to develop innovative formula for infant milk powder product and are preparing to renew and upgrade the packaging of the product series under the brand, with an aim to attract more consumers and raise the consumption level of the products.

To cater for the diversified needs of the market, the Group will continue to enrich its product portfolio and tailor unique formulas to different groups such as children, adolescents, adults, women and the middle-aged and the elderly. Actions include strengthening the innovation and development of children’s milk powder that meets different nutritional needs and satisfying the diversified needs of the middle-aged and the elderly population.

Sales channels

Continuously deepening store development and strengthening operation in the lower-tier markets

In the second half of 2021, the Group will continue to advance the development of its stores to empower them and to improve their qualities, and to achieve balanced development in the second- and third-tier markets and the fourth- and fifth-tier markets. For online market, the Group will launch a more scientific and effective development scheme for large-scale chained systems and seek to gradually establish solid partnerships with large-scale chained mother-and-baby systems, which pave the way to enter the core chain mother-and-baby market and continue to uplift the market share of advantageous brands in the chain mother-and-baby market. At the same time, the Group is promoting the “Store Blasting” campaign (「門店爆破」計劃) nationwide. The campaign focuses resources on stores to support their operation and sales and promotes the in-depth development of channels. For the offline market, the Group will continue to strengthen its operation and further expand market coverage in counties, towns and villages, which serve to further achieve the distribution of complete product categories, as well as further improving the output per store and improving consumer’s preference.

Expediting e-commerce and social retail development

Benefiting from a shift in consumers' online consumption habits and the increasing purchasing power of the internet generation, the Group will seize new opportunities brought on by the new e-commerce and social retail models, which have put forward new requirements for its online business. In terms of the planning of e-commerce business, the Group will strengthen its comprehensive cooperation with the Alibaba Group in Tmall direct sales, Alimama digital media and Tmall new retail, as well as the Alibaba Cloud Smart. The Group will develop plans for e-commerce sales platform, digital media, business model exploration and big data mining and utilization. The Group will accelerate the build-up of online sales and services of infant formula milk powder, enhance online and offline customer flow and improve overall services. At the same time, the Group is gradually exploring innovative business models in the arena of social retail such as WeChat community operation, short video social networking and live streaming. Driven by the expansion of innovative projects such as the e-commerce platforms and new social retail, new channels growth points will be brought to the Group.

Supply chain

In the second half of 2021, the Group's supply chain will continue to focus on factory positioning and production management business and optimize the existing structure with continue expansions of income sources and reduction of expenditure, and development of new businesses, to support the Group to achieve its strategic goals.

The Group's supply chain factories will continue to improve capacity utilization under the leadership of a world-class manufacturing system. Through best practices and process improvements, the Group is working to drive operational improvements across its value chain and maintain its competitive edge.

The Group's supply chain will optimize its structure and launch competitive staff recruitment and ensure organization. The Group will work hard to recruit potential talents, recognise outstanding managers and improve the leadership management ability of the team. In terms of business, the Group will explore more new businesses and improve its capacity utilization and seek to generate revenue from more sources. The Group has also implemented incentive schemes to promote sustainable development of talents and help the Group achieve its strategic goals.

Human resources

Further endowing corporate culture and strengthening performance management

The Group will continue to promote the new corporate culture and deepen employees' understanding of this culture. At the same time, the Company adopts a competitive remuneration incentive mechanism and a scientific assessment mechanism to retain outstanding talents. The Group will continue to strengthen its mechanisms in performance management and promote the improvement of organizational efficiency and individual efficiency.

Consolidating business divisions and refining functions

The Group will ride on its positioning to strive for excellence, to fill with energy and continuously optimize its organizational structure to form a platform-based and digital intelligent organization; The Group will strengthen its business divisions and refine its functions to facilitate the realization of the Group's strategic objectives.

Focusing on talent quality and continuously broadening the talent ladder

The Group will place talents for key positions, and identify employees with high potential, and promote outstanding talents in line with career assessment as according to the professional career ladder and through empowerment and training through the “Tidal Program (浪潮計劃)”. The Group relies on its customized “Zhide Online Platform (「值得線上平台」)” to allow online learning and empowerment of all employees, with more than 4,000 professional courses on the platform.

Building up employer brand and enhancing corporate image

In the second half of the year, the Group will carry out a series of employee care activities based on its corporate culture, and launch a number of mainstream media platforms such as an subscription accounts (訂閲號) and channels (視頻號), so as to enhance employer's image and reputation and attract more outstanding talents.

INTERIM DIVIDENDS

The Board does not recommend an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil), and recommends to retain the earnings for the period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES AS AT 30 JUNE 2021

As at 30 June 2021, the Directors and the chief executives of the Company and their respective associates had or was deemed to have the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), which have been notified to the Company and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities (the “Listing Rules”):

Directors' interests in the shares of the Company:

Name of Director	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage to the issued share capital²
Mr. Yan Zhiyuan	Beneficial owner	8,949,100 ^(L)	0.19%

Notes:

- Grant of 8,949,100 phantom shares by the Company pursuant to the phantom share incentive scheme adopted by the Company on 15 July 2020. The phantom share incentive scheme does not involve the grant of options over new shares or other new securities that may be issued by the Company (or any of its subsidiaries). The recipients of phantom shares do not own any shares, nor enjoy voting rights or allotment rights of the shares.
- The total issued Shares of the Company as at 30 June 2021 was 4,745,560,296.

(L) The interest is held in long position.

Directors' interests in the shares of China Mengniu Dairy Company Limited (“**Mengniu Dairy**”) (being a holding company and an associated corporation of the Company):

Name of Director	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage to the issued share capital of Mengniu Dairy¹
Mr. Jeffrey, Minfang Lu	Beneficial owner	11,651,240 ^(L)	0.30%
Mr. Zhang Ping	Beneficial owner	1,992,613 ^(L)	0.05%
Mr. Yan Zhiyuan	Beneficial owner	82,255 ^(L)	0.00%

Notes:

- The calculation is based on the number of shares as a percentage of the total number of issued shares of Mengniu Dairy (i.e. 3,948,416,082 shares) as at 30 June 2021.

(L) All the shares are held in long position.

Save as disclosed above, as at 30 June 2021, none of the Directors or chief executives of the Company had or was deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Save as disclosed above, at no time was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AS AT 30 JUNE 2021

To the best of knowledge of any Director or chief executive of the Company, as at 30 June 2021, the persons or corporations (other than Directors or chief executives of the Company) who had interest or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage to the issued share capital⁵
Mengniu Dairy ¹	Interests in a controlled corporation	2,422,150,437 ⁴	51.04%
Mengniu International ¹	Beneficial owner	2,422,150,437 ⁴	51.04%
Danone SA ²	Interests in a controlled corporation	1,186,390,074 ⁴	25.00%
Danone Baby and Medical Nutrition BV ²	Interests in a controlled corporation	1,186,390,074 ⁴	25.00%
Nutricia International BV ²	Interests in a controlled corporation	1,186,390,074 ⁴	25.00%
Danone Asia ²	Beneficial owner	1,186,390,074 ⁴	25.00%
Vanguard International Investment Co., Ltd ³	Interests in a controlled corporation	303,462,119 ⁴	6.39%
Zhang Yangui ³	Interests in a controlled corporation	303,462,119 ⁴	6.39%
Zhang International Investment Limited ³	Beneficial owner	303,462,119 ⁴	6.39%

Notes:

- (1) As at 30 June 2021, Mengniu Dairy held 99.95% interest in China Mengniu International Company Limited (“**Mengniu International**”) and Mengniu International directly held the relevant shares.
- (2) As at 30 June 2021, Danone SA held 100% interest in Danone Baby and Medical Nutrition BV. Danone Baby and Medical Nutrition BV held 100% interest in Nutricia International BV. Nutricia International BV held 100% interest in Danone Asia and Danone Asia directly held the relevant shares.
- (3) As at 30 June 2021, Zhang International Investment Limited was held as to 35.06% by Vanguard International Investment Co., Ltd, which is in turn wholly owned by Mr. Zhang Yangui.
- (4) All the above shares are held in long position (as defined under Part XV of the SFO).
- (5) The total number of issued shares of the Company as at 30 June 2021 was 4,745,560,296.

Save as disclosed above, as at 30 June 2021, the Directors of the Company were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Pre-IPO Share Option Scheme**”) on 8 October 2010, and adopted a share option scheme (the “**Share Option Scheme**”) on 8 October 2010. On 23 July 2013, Mengniu International made a voluntary general offer to option holders of the Company (“**Option Offer**”), to cancel the outstanding options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. On 13 August 2013 (being the final closing date of the Option Offer), the Option Offer was accepted in respect of 52,088,266 options. The underlying options together with all the rights attached thereto were cancelled and given up and all the outstanding options automatically lapsed upon acceptance of the Option Offer.

No option was granted by the Company nor was there any outstanding option granted by the Company from 1 January 2021 to 30 June 2021.

PHANTOM SHARE INCENTIVE SCHEME

To motivate the employees to maximize the value of and share the results with the Company in order to achieve sustainable development of the Group, the Company adopted the Phantom Share Incentive Scheme (the “**Phantom Share Incentive Scheme**”) on 15 July 2020 for certain key management team, middle and senior management personnel and key personnel who have a material influence on the operating performance and sustainable development of the Company (the “**Incentive Recipients**”).

The Phantom Share Incentive Scheme does not involve the grant of options over new shares or other new securities that may be issued by the Company (or any of its subsidiaries) and therefore, it does not fall within the ambit of, and is not subject to, the requirements under Chapter 17 of the Listing Rules.

The Phantom Share Incentive Scheme shall be valid for a period of 10 years commencing from the effective date of the Scheme (the “**Effective Period**”). The Board could terminate the Scheme before the expiry of the Effective Period if the Board considers it necessary. The total number of Phantom Shares to be granted under the Effective Period shall not exceed 474,556,029 Shares. The Incentive Recipients do not own any shares, nor enjoy voting rights or allotment rights of the shares. Phantom Shares cannot be transferred or used as security or for repayment of debts.

On 15 July 2020, the Board approved the initial grant of 59,660,700 Phantom Shares under the Scheme. On 15 July 2021, the Board has approved the grant of 62,619,000 Phantom Shares under the Scheme of which 9,393,000 Phantom Shares were granted to Mr. Yan Zhiyuan, an executive director of the Company.

For further details of the Phantom Share Incentive Scheme and the grant of Phantom Shares on 15 July 2020 and 15 July 2021, please refer to the announcement issued by the Company on 16 July 2020 and 15 July 2021.

FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk primarily from bank deposits, other receivables and bank loans, denominated in foreign currencies, that are currencies other than the functional currencies of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euro, Australian dollars, US dollars, New Zealand dollars and Hong Kong dollars.

PLEGGED ASSETS

As at 30 June 2021, the Group has pledged bank deposits, other current assets and non-current assets in aggregate of approximately RMB2,154.2 million (31 December 2020: RMB1,715.8 million).

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2021, the liquidity of the Group was comprised of cash and cash equivalents, pledged deposits to be released within one year and other current financial assets amounted to RMB3,065.1 million in aggregate (31 December 2020: RMB3,089.0 million), representing a decrease of 1%, which was remained flat approximately.

OPERATING ACTIVITIES

For the six months ended 30 June 2021, the Group’s net cash outflows from operating activities amounted to RMB504.8 million (six months ended 30 June 2020: net outflows of RMB47.8 million). Net cash outflows from operating activities increase from that of the same period of last year, which was mainly due to the Group settled advertising and construction costs, and increased inventory accordingly to meet sales demand during the period; and the balance of receivables from large-scale modern trade and e-commerce platforms increased in line with the increase in revenue from adult milk powder.

INVESTING ACTIVITIES

For the six months ended 30 June 2021, the net cash outflow used in investing activities amounted to RMB516.4 million (six months ended 30 June 2020: net inflows of RMB317.4 million). The increase in net cash outflows from investing activities as compared to the same period of last year was mainly attributable to the decrease in the sale of financial assets this period, resulting in less cash inflow.

FINANCING ACTIVITIES

For the six months ended 30 June 2021, the net cash inflows generated from financing activities amounted to RMB530.6 million (six months ended 30 June 2020: net cash inflows of RMB255.9 million). The increase in net cash inflows from financing activities as compared to the same period of last year was mainly attributable to the deposit and lending business of banks has room for interest margin against the background of quantitative easing, increasing borrowings to earn interest margin and increasing revenue.

INTEREST BEARING BANK AND OTHER BORROWINGS

As at 30 June 2021, the Group's interest bearing bank and other borrowings amounted to RMB933.5 million (31 December 2020: RMB365.9 million). As at 30 June 2021, the total equity of the Group amounted to RMB5,699.2 million (31 December 2020: RMB5,723.1 million), debt to assets ratio (total interest bearing bank and other borrowings at period end divided by total assets) was 11.8% (31 December 2020: 4.7%). The capital structure of the Group is reviewed by the Board annually, including the dividend policy and share repurchase activities of the Group.

CORPORATE GOVERNANCE

The Group is dedicated to ensuring high standards of corporate governance with an emphasis on the building up of a diligent and dedicated Board, a sound internal control system, with a view to enhancing its transparency and accountability to shareholders. The Board acknowledges that good corporate governance practices and procedures are beneficial to the Group and its shareholders.

During the period from 1 January 2021 to 30 June 2021, the Company has complied with all code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules, except for the deviation from code provision A.2.1 as explained below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The positions of Chairman and Chief Executive Officer (“CEO”) of the Company are held by Mr. Jeffrey, Minfang Lu and Mr. Yan Zhiyuan respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company’s business development and daily management and operations generally. The Board considers that the responsibilities of the Chairman and CEO respectively are clear and distinctive and hence written terms thereof are not necessary.

BOARD OF DIRECTORS

During the period from 1 January 2021 to 30 June 2021, the Board was comprised of four non-executive Directors, one executive Director, and three independent non-executive Directors. The non-executive Directors were Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Gu Peiji (alias Philip Gu); the executive Director was Mr. Yan Zhiyuan; and the independent non-executive Directors were Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.10A of the Listing Rules, independent non-executive Directors shall represent at least one-third of the board. During the period from 1 January 2021 to 30 June 2021, the Board of the Company comprises eight members, three of whom are independent non-executive Directors. Therefore, Rule 3.10A has been duly complied with by the Company during the said period.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51(2) AND 13.51(B)(1) OF THE LISTING RULES

Save that Mr. Jeffrey, Minfang Lu has been appointed on 30 July 2021 and is currently serving as a non-executive director and the chairman of the board of directors of China Shengmu Organic Milk Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1432), there are no changes in the Directors’ biographical details since the date of the 2020 annual report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules.

SECURITIES TRANSACTIONS OF DIRECTORS

The Board has adopted the Model Code as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company.

The Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2021.

COMPANY SECRETARY

Mr. Kwok Wai Cheong, Chris is the company secretary of the Company. Mr. Kwok is the financial controller and company secretary of Mengniu Dairy (the holding company of the Company), and is not an employee of the Company. Mr. Kwok contacts the management of the Company and reports to the chairman of the Board and/or the chief executive officer of the Company through Mr. Eric Fang of Investment Management Division, when necessary in accordance with the code provisions set out in the CG Code in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee comprises two independent non-executive Directors, namely Mr. Lee Kong Wai Conway (Chairman) and Mr. Mok Wai Bun Ben and one non-executive Director, namely Mr. Zhang Ping (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise).

The Audit Committee has reviewed together with the management, the accounting principles and policies adopted by the Group and the Group's unaudited interim results for the six months ended 30 June 2021, and was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

In addition, the independent auditors of the Company, Ernst & Young, have reviewed unaudited interim results for the six months ended 30 June 2021 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

SCOPE OF WORK OF ERNST & YOUNG

The financial figures set out in the announcement of interim results for the six months ended 30 June 2021 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft condensed consolidated financial information for the current period. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the announcement of interim results.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2021 containing all the applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yashili.hk) in due course.

By order of the Board
Yashili International Holdings Ltd
雅士利國際控股有限公司
CEO and Executive Director
Yan Zhiyuan

Hong Kong, 25 August 2021

As at the date of this announcement, the board of directors of the Company comprises: Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Gu Peiji (alias Philip Gu) as non-executive directors; Mr. Yan Zhiyuan as executive director; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.