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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: 1230)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

FINANCIAL HIGHLIGHTS

(All amounts in Renminbi (“RMB”) million unless otherwise stated)

	For the year ended 31 December		Percentage change
	2022	2021	
Key results			
Revenue	3,738.2	4,434.7	(15.7%)
Gross profit	1,050.3	1,460.0	(28.1%)
Operating loss	(229.4)	(144.8)	58.4%
(Loss)/Earnings before interest, tax, depreciation and amortization (EBITDA)	(81.5)	19.7	(513.7%)
Loss attributable to equity holders of the Company	(230.7)	(81.4)	183.4%
Net operating cash flow <i>(Note 1)</i>	(495.4)	(264.4)	87.4%
Basic loss per share (RMB cents) <i>(Note 2)</i>	(4.9)	(1.7)	188.2%
Net asset value per share (RMB yuan) <i>(Note 3)</i>	1.1	1.2	(8.3%)
Proposed special dividend per share (RMB cents)	—	—	—
Dividend payout ratio	—	—	—

Notes:

1. Cash inflow generated from operating activities for the year less cash outflow generated from operating activities for the year.
2. Loss attributable to equity holders of the Company for the year divided by the weighted average number of ordinary shares in issue for the year.
3. Net assets at year end divided by the number of ordinary shares in issue at year end.

The board of directors (the “**Board**”) of Yashili International Holdings Ltd (the “**Company**” or “**Yashili**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022 prepared in accordance with the International Financial Reporting Standards (the “**IFRS(s)**”) together with the comparative figures for 2021. The financial information of the Group for the year ended 31 December 2022 prepared in accordance with the IFRSs are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	4	3,738,212	4,434,700
Cost of sales	5	(2,687,867)	(2,974,679)
Gross profit		1,050,345	1,460,021
Other income and gains	4	125,149	59,461
Selling and distribution expenses		(1,088,206)	(1,146,819)
Administrative expenses		(233,132)	(239,301)
Provision of impairment of financial assets, net		(153)	(2,669)
Other expenses and losses		(83,432)	(275,542)
Finance income		50,054	72,948
Finance costs		(23,528)	(21,181)
LOSS BEFORE TAX	5	(202,903)	(93,082)
Income tax (expense)/credit	6	(27,814)	11,719
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	7	<u>(230,717)</u>	<u>(81,363)</u>
Loss per share			
Basic and diluted (<i>RMB cents</i>)	7	<u>(4.9)</u>	<u>(1.7)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022	2021
	RMB'000	RMB'000
LOSS FOR THE YEAR	<u>(230,717)</u>	<u>(81,363)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR (AFTER TAX)		
Items that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	<u>18,393</u>	<u>(114,335)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>18,393</u>	<u>(114,335)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>(212,324)</u></u>	<u><u>(195,698)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,417,293	1,538,718
Construction in progress		166,583	20,318
Investment properties		61,067	62,508
Right-of-use assets		53,309	93,165
Intangible assets		58,867	145,532
Goodwill		802,236	991,236
Deferred tax assets		283,224	382,369
Long-term bank deposits	<i>10</i>	245,124	370,558
Debt investments at amortised cost		—	24,532
Prepayments, other receivables and other assets		786	1,011
		<hr/>	<hr/>
Total non-current assets		<u>3,088,489</u>	<u>3,629,947</u>
CURRENT ASSETS			
Inventories	<i>8</i>	1,074,443	815,970
Trade receivables	<i>9</i>	409,212	414,730
Prepayments, other receivables and other assets		104,262	107,519
Other current financial assets		—	93,865
Derivative financial assets		—	1,901
Pledged deposits	<i>10</i>	98,840	90,354
Cash and bank balances	<i>10</i>	1,791,001	2,125,047
Assets held for sale		521,675	—
		<hr/>	<hr/>
Total current assets		<u>3,999,433</u>	<u>3,649,386</u>

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	<i>11</i>	627,306	813,885
Other payables and accruals	<i>12</i>	509,107	569,228
Interest-bearing bank and other borrowings	<i>13</i>	479,742	320,758
Derivative financial liabilities		5,686	407
Lease liabilities		7,297	6,575
Tax payable		3,109	92
Liabilities held for sale		23,850	—
		<hr/>	<hr/>
Total current liabilities		1,656,097	1,710,945
		<hr/>	<hr/>
NET CURRENT ASSETS		<u>2,343,336</u>	<u>1,938,441</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>5,431,825</u>	<u>5,568,388</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	<i>13</i>	99,000	—
Deferred income		13,932	10,074
Lease liabilities		2,885	7,220
Deferred tax liabilities		—	23,035
		<hr/>	<hr/>
Total non-current liabilities		115,817	40,329
		<hr/>	<hr/>
NET ASSETS		<u>5,316,008</u>	<u>5,528,059</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		399,352	399,352
Reserves		4,916,656	5,128,707
		<hr/>	<hr/>
TOTAL EQUITY		<u>5,316,008</u>	<u>5,528,059</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

1. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with IFRSs (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Boards (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for other current financial assets and structural bank deposits which have been measured at fair value. These consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary; (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received; (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*

- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts-cost of fulfilling a contract*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

3. 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 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 these financial statements.

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.

	Year ended 31 December 2022				
	Milk powder products RMB'000	Other milk powder products RMB'000	Dissolvable products RMB'000	Others RMB'000	Total RMB'000
Segment revenue (Note 4)					
Sales to external customers	2,968,217	511,750	195,004	63,241	3,738,212
Intersegment sales	—	156,964	—	—	156,964
	<u>2,968,217</u>	<u>668,714</u>	<u>195,004</u>	<u>63,241</u>	<u>3,895,176</u>
Elimination of intersegment sales	—	(156,964)	—	—	(156,964)
Revenue					<u><u>3,738,212</u></u>
Segment results	(72,992)	(15,951)	46,074	5,008	(37,861)
Finance income					50,054
Finance costs (other than interest on lease liabilities)					(22,866)
Other income and gains					125,149
Unallocated other expenses					(317,379)
Loss before tax					<u><u>(202,903)</u></u>
Other segment information					
Total depreciation and amortisation	<u>117,836</u>	<u>20,316</u>	<u>7,741</u>	<u>2,044</u>	<u>147,937</u>

	Year ended 31 December 2021				
	Milk powder products RMB'000	Other milk powder products RMB'000	Dissolvable products RMB'000	Others RMB'000	Total RMB'000
Segment revenue (Note 4)					
Sales to external customers	3,650,352	438,353	221,221	124,774	4,434,700
Intersegment sales	—	37,800	—	—	37,800
	<u>3,650,352</u>	<u>476,153</u>	<u>221,221</u>	<u>124,774</u>	<u>4,472,500</u>
Elimination of intersegment sales	—	(37,800)	—	—	(37,800)
Revenue					<u>4,434,700</u>
Segment results	260,532	(507)	12,725	40,452	313,202
Finance income					72,948
Finance costs (other than interest on lease liabilities)					(20,587)
Other income and gains					59,461
Unallocated other expenses					(518,106)
Loss before tax					<u>(93,082)</u>
Other segment information					
Total depreciation and amortisation	<u>86,433</u>	<u>32,369</u>	<u>14,776</u>	<u>31,000</u>	<u>164,578</u>

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers		
Sale of goods	3,736,166	4,385,818
Consigned processing services	2,046	48,882
	<u>3,738,212</u>	<u>4,434,700</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 year ended 31 December 2022				
	Milk powder products <i>RMB'000</i>	Other milk powder products <i>RMB'000</i>	Dissolvable products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segments					
Types of goods or services					
Sale of goods	2,968,217	511,750	193,872	62,327	3,736,166
Consigned processing services	—	—	1,132	914	2,046
Total revenue from contracts with customers	<u>2,968,217</u>	<u>511,750</u>	<u>195,004</u>	<u>63,241</u>	<u>3,738,212</u>
Geographical markets					
Mainland China	2,961,780	209,334	195,004	63,241	3,429,359
Overseas	6,437	302,416	—	—	308,853
Total revenue from contracts with customers	<u>2,968,217</u>	<u>511,750</u>	<u>195,004</u>	<u>63,241</u>	<u>3,738,212</u>
Timing of revenue recognition					
Goods transferred at a point in time	2,968,217	511,750	193,872	62,327	3,736,166
Services transferred at a point of time	—	—	1,132	914	2,046
Total revenue from contracts with customers	<u>2,968,217</u>	<u>511,750</u>	<u>195,004</u>	<u>63,241</u>	<u>3,738,212</u>

	For the year ended 31 December 2021				
	Milk powder products <i>RMB'000</i>	Other milk powder products <i>RMB'000</i>	Dissolvable products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segments					
Types of goods or services					
Sale of goods	3,650,352	438,353	221,221	75,892	4,385,818
Consigned processing services	—	—	—	48,882	48,882
Total revenue from contracts with customers	<u>3,650,352</u>	<u>438,353</u>	<u>221,221</u>	<u>124,774</u>	<u>4,434,700</u>
Geographical markets					
Mainland China	3,611,723	228,698	221,221	44,928	4,106,570
Overseas	38,629	209,655	—	79,846	328,130
Total revenue from contracts with customers	<u>3,650,352</u>	<u>438,353</u>	<u>221,221</u>	<u>124,774</u>	<u>4,434,700</u>
Timing of revenue recognition					
Goods transferred at a point in time	3,650,352	438,353	221,221	75,892	4,385,818
Services transferred at a point of time	—	—	—	48,882	48,882
Total revenue from contracts with customers	<u>3,650,352</u>	<u>438,353</u>	<u>221,221</u>	<u>124,774</u>	<u>4,434,700</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>160,033</u>	<u>220,522</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of dairy and nourishment products

Revenue from the sale of dairy and nourishment products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the dairy and nourishment products.

Consigned processing services

Revenue from the provision of consigned processing service is recognised when dairy and nourishment products are delivered.

An analysis of other income and gains is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other income and gains		
Gross rental income from investment property operating leases		
— Income relating to fixed lease payments	11,737	11,234
Write back of accounts payable	1,998	7,998
Government grants		
— Compensation for expenses incurred	12,866	1,573
— Compensation for acquisition of assets	1,142	240
— Taxes refunded	994	778
Net gain on disposal of property, plant and equipment	2,277	—
Foreign exchange gains, net	—	14,614
Investments income	2,236	865
Service income (<i>Note i</i>)	18,044	3,512
Net gain from transactions related to Arla business (<i>Note ii</i>)	55,750	—
Others	18,105	18,647
	<u>125,149</u>	<u>59,461</u>

Note i: The Group entered into service contracts with subsidiaries of Mengniu Dairy to provide a series of services.

Note ii: On 30 September 2022, the Group, entered into the Business Transfer Agreements (“**the Disposal**”) with Arla Foods a.m.b.a (“**Arla**”) and Arla Foods Dairy Products Technical Service (Beijing) Co., Ltd., (“**Arla Beijing**”, a wholly owned subsidiary of Arla), collectively as the Buyers, to sell the distribution business of Arla brand infant milk formula products and other products manufactured by Arla and its affiliates in Mainland China and Hong Kong (the “**Arla Business**”) and all right, title and interest in and to the assets primarily used in Arla Business, including certain tangible and intangible assets such as inventories, intellectual property rights, books and records, contracts and certain employees working with the Arla Business (the “**Arla Assets**”). The Disposal was completed on 30 September 2022 and the consideration has been settled during the year. The cash consideration received less of cash disposed as part of the disposal is recorded as “net cash inflow on disposal of business” in the investing activities in the consolidated statement of cash flows.

The consideration for the Disposal comprises EUR15,000,000 and the cost price for the Arla Assets of approximately EUR 3,000,000, which resulted in a total of RMB123,506,000.

For the year ended 31 December 2022, taking into account of the Disposal and other transactions related the Arla Business, the net gain to the profit or loss related to the Arla Business for the year amounted to RMB55,750,000.

5. LOSS BEFORE TAX

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

	2022	2021
	RMB'000	RMB'000
Cost of goods sold	2,686,321	2,923,606
Cost of consigned processing services	1,546	42,073
	<u>2,687,867</u>	<u>2,974,679</u>
Depreciation of property, plant and equipment	108,454	127,230
Depreciation of investment properties	5,019	4,567
Depreciation of right-of-use assets	10,862	11,430
Amortisation of other non-current assets	3,828	2,045
Amortisation of intangible assets	19,774	19,306
	<u>147,937</u>	<u>164,578</u>
Total depreciation and amortisation		
Impairment of trademarks	—	200,000
	<u>—</u>	<u>200,000</u>
Lease payments not included in the measurement of lease liabilities	38,654	49,803
	<u>38,654</u>	<u>49,803</u>
Auditor's remuneration	3,980	3,113
	<u>3,980</u>	<u>3,113</u>
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries and allowances	464,642	499,342
Expense of termination benefits	10,833	14,012
Pension scheme contributions	37,823	36,027
Expenses of equity-settled share-based payment expenses	273	640
	<u>513,571</u>	<u>550,021</u>

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	(50,054)	(63,285)
Other investment income	—	(9,588)
Fair value gains on derivative instruments, net	—	(75)
	<u> </u>	<u> </u>
Total financial income	<u>(50,054)</u>	<u>(72,948)</u>
Impairment of trade and other receivables, net	153	2,669
Write down of inventories	39,960	48,078
Net loss on disposal of inventories	<u>5,421</u>	<u>10,604</u>

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6. INCOME TAX

PRC income tax has been provided at the rate of 25% (2021: 25%) on the estimated assessable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	10,297	(4)
Deferred income tax	17,517	(11,715)
	<u> </u>	<u> </u>
Tax charge/(credit) for the year	<u>27,814</u>	<u>(11,719)</u>

A reconciliation of the income tax charge/(credit) applicable to loss before tax at the PRC statutory income tax rate and the income tax charge/(credit) at the Group's effective income tax rate for the year is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Loss before tax	<u>(202,903)</u>	<u>(93,082)</u>
At the PRC statutory tax rate of 25% (2021: 25%) (i)	(50,726)	(23,271)
Effect of non-deductible expenses	3,252	1,242
Effect of tax rate differences (i)	(767)	(18,009)
Tax losses not recognised	81,661	50,994
Utilisation of tax losses and temporary differences previously not recognised	(2,383)	(14,166)
Effect of super deduction on research and development expenses	(2,805)	(1,925)
Reversal of tax losses previously recognised	6,396	—
Effect of non-taxable income	<u>(6,814)</u>	<u>(6,584)</u>
Tax charge/(credit) for the year	<u>27,814</u>	<u>(11,719)</u>

- (i) 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 located in Mainland China is 25%, except for Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. ("**Oushi Mengniu**") which is 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", and Ya Ou Duo (Inner Mongolia) Nutrition & Food Co., Ltd. ("**Ya Ou Duo**") which is subject to a preferential tax rate of 20% in accordance with "The Notice of Preferential Policies Relating to The Taxation of Small and Low-profit Enterprise".

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The provision for Hong Kong profits tax for 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profit for the year.

Pursuant to the rules and regulations of New Zealand, Yashili New Zealand is subject to income tax at a rate of 28% (2021: 28%) in New Zealand.

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the losses for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,745,560,296 (2021: 4,745,560,296) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2022 (31 December 2021: nil).

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Loss:		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculations	<u>(230,717)</u>	<u>(81,363)</u>
	Number of shares	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Shares:		
Weighted average number of ordinary shares for the purpose of the basic and diluted loss per share calculations	<u>4,745,560</u>	<u>4,745,560</u>

8. INVENTORIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Finished goods	266,574	299,925
Work in progress	475,555	219,108
Raw materials	289,135	261,370
Packing materials	34,486	32,366
Low-value consumables	8,513	3,201
	<u>1,074,443</u>	<u>815,970</u>

9. TRADE RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	415,976	426,513
Loss allowance for expected credit losses	<u>(6,764)</u>	<u>(11,783)</u>
	<u>409,212</u>	<u>414,730</u>

The Group normally allows a credit limit and credit term to its customers which are adjustable in certain circumstances. The Group closely monitors overdue balances. The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk. The group does not hold any collateral or other credit enhancements over its trade receivables. Trade receivables are non-interest-bearing.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	307,500	365,080
3 to 6 months	64,309	46,198
6 months to 1 year	36,026	2,679
1 to 2 years	<u>1,377</u>	<u>773</u>
	<u>409,212</u>	<u>414,730</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At beginning of year		11,783	12,053
Impairment losses, net	5	<u>(5,019)</u>	<u>(270)</u>
At end of year		<u>6,764</u>	<u>11,783</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing of the balances for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2022	Ageing			Total
	Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	1%	67%	100%	
Gross carrying amount (RMB'000)	411,862	4,114	—	415,976
Expected credit losses (RMB'000)	<u>4,027</u>	<u>2,737</u>	<u>—</u>	<u>6,764</u>

As at 31 December 2021	Ageing			Total
	Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	1%	83%	100%	
Gross carrying amount (RMB'000)	420,121	4,425	1,967	426,513
Expected credit losses (RMB'000)	<u>6,164</u>	<u>3,652</u>	<u>1,967</u>	<u>11,783</u>

10. CASH AND BANK BALANCES AND OTHER DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and cash equivalents as stated in the consolidated statement of cash flows	1,648,640	1,529,931
Pledged deposits	98,840	90,354
Time deposits with original maturity of more than three months	<u>387,485</u>	<u>965,674</u>
	<u>2,134,965</u>	<u>2,585,959</u>
Less: Short-term pledged deposits for banking facilities	98,840	90,354
Less: Long-term bank deposits	<u>245,124</u>	<u>370,558</u>
Cash and bank balances as stated in the consolidated statement of financial position	<u>1,791,001</u>	<u>2,125,047</u>

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
The above balances denominated in:		
— RMB	1,993,979	2,499,407
— Hong Kong dollar (“ HKD ”)	7,883	10,415
— United States dollar (“ USD ”)	98,943	33,332
— New Zealand dollar (“ NZD ”)	19,195	30,683
— European dollar (“ EUR ”)	10,721	1,956
— Australian dollar (“ AUD ”)	4,244	10,166
	<hr/> 2,134,965 <hr/>	<hr/> 2,585,959 <hr/>

The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. As at 31 December 2022, the effective annual interest rates of short-term time deposits were approximately 0.3% to 5.29% (31 December 2021: 2.20% to 4.18%), which would be due within a year. The effective interest rate of long-term deposits was 3.55% to 3.85% (31 December 2021: 3.65% to 3.95%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2022, the short-term bank deposits of RMB98,840,000 (31 December 2021: the long-term bank deposits amounting to RMB50,000,000 and the short-term bank deposits of RMB40,354,000) were pledged for bank loans amounting to RMB284,000,000 and bank acceptance bills (31 December 2021: bank loans amounting to RMB120,556,000 and bank acceptance bills).

As at 31 December 2022, the bank deposits of RMBNil were pledged for banking facilities (31 December 2021: the long-term bank deposits amounting to RMB20,000,000 and the short-term bank deposits amounting to RMB50,000,000 were pledged for banking facilities).

11. TRADE AND BILLS PAYABLES

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	524,268	698,714
3 to 6 months	54,371	21,143
More than 6 months	48,667	94,028
	<u>627,306</u>	<u>813,885</u>

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

12. OTHER PAYABLES AND ACCRUALS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Accrued expenses	139,078	63,516
Contract liabilities	56,941	160,033
Accrued payroll	74,377	106,761
Payables for constructions of property, plant and equipment	75,907	65,278
Guarantee deposits from customers	55,385	75,645
Other tax payables	24,231	47,374
Interest payable	42	111
Others	83,146	50,510
	<u>509,107</u>	<u>569,228</u>

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2022			As at 31 December 2021		
	Effective	Maturity	RMB'000	Effective	Maturity	RMB'000
	interest rate			interest rate		
	(%)			(%)		
Current						
Bank loans — secured	1.30 to 5.10	2023	320,530	2.55 to 2.80	2022	120,556
Credit loans	2.30 to 2.95	2023	159,212	3.30	2022	200,202
subtotal			<u>479,742</u>			<u>320,758</u>
Non-current						
Credit loans	2.90	2024	99,000			—
subtotal			<u>99,000</u>			<u>—</u>
Total			<u><u>578,742</u></u>			<u><u>320,758</u></u>
				2022		2021
				RMB'000		RMB'000
Bank loans denominated in						
— RMB				542,412		320,758
— USD				36,330		—
				<u>578,742</u>		<u>320,758</u>

As at 31 December 2022, the time deposits amounting to RMB98,840,000 were pledged for bank loans amounting to RMB284,000,000 (31 December 2021: time deposits amounting to RMB70,000,000 were pledged for bank loans amounting to RMB120,556,000).

As at 31 December 2022, Yashili New Zealand pledged and assigned to the bank the right of all its assets for a loan facility of RMB41,954,000 (NZD9,500,000). As at 31 December 2022, the loan balance for this line of secured loan amounted to RMB36,330,000 (NZD8,227,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2022, the Chinese consumer market faced challenges including regional Covid-19 rebounds and the multi-year downward trend in the domestic newborn population continued, leading the development of China's milk powder market to fall short of expectations. However, the pandemic situation has normalized since pandemic prevention and control policies were adjusted at the end of the year, creating good conditions for a recovery in the consumer market. At the same time, China's milk powder market is becoming more concentrated and domestic producers of infant formula powder are taking greater market share against the backdrop of the "new national standards" and "Formula re-registration" policies. Furthermore, children's milk powder, adult milk powder, and green zero-carbon milk powder have all emerged as new market focuses.

Birth rate trends downward; infant formula market reaches saturation

Over the past two decades, due to the decrease in newborn population and other factors, competition in China's infant formula milk powder market has intensified as producers compete for existing volume in an increasingly saturated market.

The new national standards for infant formula milk powder issued by the National Health Commission in 2021 came into force on 22 February 2023 after a two-year transitional period. The new national standards set stricter regulations on the nutritional content of infant formula milk powder products. Under the "Formula re-registration" system, infant milk powder products that passed the first batch of formula registrations in 2017 were required to resubmit their applications in 2022. The companies applying for formula re-registration must meet the requirements of the new national standards, which is expected to pose challenges to some small and medium-sized brands. This could lead some brands to voluntarily withdraw from the market or merge with large companies, providing opportunities for leading brands to capture a greater share of the existing market. In addition, COVID-19 and other factors have hindered relevant departments' recent efforts to conduct on-site audits abroad, giving domestic milk powder an advantage in formula registration.

Domestic infant formula milk powder accounts for a growing share of the market

The COVID-19 pandemic has posed challenges to foreign brands, affecting the registration, production and transportation of infant formula produced in overseas factories and further accelerating domestic infant formula brands' market share gains. Moreover, domestic consumers have gained confidence in local Chinese brands thanks to the growing popularity of the China-chic trend during the period, coupled with domestic food safety regulators' stricter supervision of the infant formula industry. Currently, domestic infant formula milk powder accounts for more than 60% of the overall market. The market share of domestic infant formula brands is expected to rise further with the full implementation of the new national standards and product re-registration.

Children's and adult milk powder present new opportunities for industry growth

The milk powder industry is increasingly shifting its corporate development focus from producing infant formula milk powder to providing full life-cycle professional nutrition. As nutrition awareness grows, Chinese parents are paying greater attention to the nutritional and health needs of children over 3 years old. Leading dairy companies have launched milk powder products targeting children over 3 years old in hopes of retaining this large consumer group, extending the product life cycle and driving supply-side upgrades in the industry. In addition, data from the National Bureau of Statistics shows that by the end of 2022, the country's population aged over 60 or above reached 280 million, accounting for 19.8% of the total population. The National Health Commission estimates that China will enter the "medium aging stage" during the 14th Five-Year Plan, by which time the population aged over 60 or above will exceed 300 million to account for more than 20% of China's total population. Milk powders for the middle-aged and the elderly currently have a low market penetration rate, but are expected to become a major driving force of the adult milk powder industry as aging trends continue.

Major new consumption trend for green zero-carbon milk powder products

The dairy industry is undergoing a green frenzy, with producers rolling out products such as "zero-carbon cow milk", "zero-carbon yogurt", "zero-carbon milk powder", and "zero-carbon ice cream". This signals a new stage of high-quality development in China's dairy market. One after another, leading Chinese brands have launched their first carbon-neutral milk powders to cater to these trends and support the national dual-carbon strategy. Milk powder companies have also taken the initiative to reduce carbon emissions in their production process. On one hand, these actions demonstrate companies' green sustainable development business philosophies and burnish their brand reputations. On the other hand, they also positively influence consumer purchasing decisions.

BUSINESS REVIEW

Staying true to its original aspiration, the Group is committed to becoming the brand of choice that provides consumers with comprehensive nutrition and health solutions they can trust. The Group has tremendous support in resources from its controlling shareholder, China Mengniu Dairy Company Limited (“**Mengniu Dairy**”, together with its subsidiaries, the “**Mengniu Group**”), which advances the Group’s business exploration and internationalization.

Segment results

Milk powder products

For the year ended 31 December 2022, the results of the milk powder products segment were RMB2,968.2 million (2021: RMB3,650.4 million), decreased by 18.7% as compared to the last year, mainly due to the impact of the pandemic on the sales of adult milk powder and infant formula milk powder.

Other milk powder products

For the year ended 31 December 2022, the results of other milk powder products segment amounted to RMB511.8 million (2021: RMB438.4 million), representing an increase of 16.7% from the last year, mainly due to the increase in the sales of Yashili New Zealand Dairy Co., Limited (“**Yashili New Zealand**”) driven by the increase in orders for whole milk powder.

Dissolvable products

For the year ended 31 December 2022, the results of the dissolvable products segment were RMB195.0 million (2021: RMB221.2 million), decreasing by 11.8% as compared to the last year, which was mainly due to the decrease in sales as a result of adjustment to product mix.

Others

For the year ended 31 December 2022, the results of other segments were RMB63.2 million (2021: RMB124.7 million), representing a decrease of 49.3%, which was mainly due to the decrease in OEM business.

Product introduction

The Group strives to become consumers' preferred brand for all-round nutrition and health solutions. Its products are divided into two major categories, namely infant formula milk powder and health and nutrition products, with cow milk powder, organic milk powder and goat milk powder covering markets at various price points — including ultra-high-end, high-end and middle-end. 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 and stringent quality management, enabling it to gather high-quality resources from around the world to supply the highest quality dairy products worthy of consumers' trust. Its brands include:

Reeborne

Reeborne is a high-end infant milk formula brand under Yashili. The brand has seven product lines in three categories, namely basic milk powder, organic milk powder, and goat milk powder, to meet infants' nutritional needs and provide Chinese mothers with comprehensive feeding solutions.

Reeborne products include the Reeborne “Enzhi” series and the Reeborne “Jingzhi” series, which are the first two products to pass the registration of the new national standards; Reeborne “Kieember”, the star product produced, canned, and exported from Yashili's New Zealand factory; “Reeborne” organic milk powder, which has obtained WIT organic certification; and Reeborne “TruYn” goat milk powder, which is made with high-quality small molecule goat milk protein.

The Reeborne “Enzhi” series is Reeborne's first infant milk formula in the world to contain the innovative MLCT-structured lipid (Medium and long-chain fatty acid triglyceride edible oil) and new OPO ingredients. It is the product of research that has helped China solve the long-term issue of dependence on foreign import of the core foundation lipid materials for infant formula products.

The Reeborne “Jingzhi” series is Reeborne's first infant milk formula in the world to use premium organic desert raw cow milk. Its milk sources, organic OPO, and products have all been certified organic in China and the European Union. Meanwhile, the “Enzhi” series and the “Jingzhi” series have simultaneously launched A2 β -casein and organic A2 β -casein milk source products, marking its entry into the specialty milk source race.

Yourui

Yourui is a series of products tailored to the physical characteristics and nutritional supplement needs of the middle-aged and elderly. Focusing on areas such as bone, gut, blood sugar, and cardiovascular health, the series includes Yourui Guyi, Yitian, Shunyi, Liyi, Xinpei, Goat Milk Powder Rich in Selenium and Calcium, Probiotic Formula Camel Milk Powder, Pure Camel Milk Powder, and Tihuli Milk Powder. The products cover three major categories, namely cow milk powder, goat milk powder, and camel milk powder. Apart from meeting the basic needs of high calcium and high protein, Yourui products contain added ingredients such as colostrum basic protein powder, lactobacillus casei Zhang, CaHMB, EPA/DHA, and lactoferrin to address various health problems faced by the middle-aged and elderly and to provide scientific nutritional solutions for their physical needs.

M8 Children's Formula Milk Powder

M8 children's formula milk powder is a product specially developed to cater to the nutritional needs of children aged 3 and above, by adding Bifidobacterium lactis Probio-M8, zinc elements and 28 kinds of fruit and vegetable powders with dietary fiber to address parents' concerns about children's picky and unbalanced eating habits and help children grow.

1.88M Children's Growth Formula Milk Powder

Mengniu 1.88M Children's Growth Formula Milk Powder was developed for children aged between 3 and 15 in China, focusing on the concept of supporting children's height growth. It is scientifically formulated with nutrients needed for children's growth and development, namely high calcium and high vitamin D, CBP (colostrum basic protein powder), vitamin K, breast milk-derived probiotics (bifidobacterium lactis Probio-M8), lactoferrin, DHA, ARA and lutein. It aims to help parents make the most of the golden period in children's development and promote children's healthy growth.

Huicongming (慧聰明)

Huicongming is a student milk powder brand that strives to meet students' nutrition and health needs. The Huicongming product series includes Golden Package Student Milk Powder, Super Golden Package Student Milk Powder, Original DHA Student Milk Powder, and Jingxue Ruixue (菁學睿學) Student Milk Powder.

Zhengwei Mofang

Zhengwei Mofang focuses on the functional nutritional food market. The recently launched Zhengwei Mofang — “Goji” (Goji Berries) the Rising Star series aims to respond to the skin nourishing needs of young women. The product formula is based on a nourishing goji berry puree and innovative skin nourishing ingredients, namely collagen peptide and nicotinamide, providing women with a scientific and diversified skin nourishing program.

Fruit Oatmeal

Fruit oatmeal targets the nutritional needs of young female consumers between the ages of 18 and 35. It contains diverse ingredients including nuts, milk, and rose petals. Emphasizing the low-calorie concept, it is rich in dietary fiber and beneficial to the intestines.

Pure Cow Milk Powder

Mengniu Pure Cow Milk Powder has a simple formula and a focus on health to serve modern consumers. The ingredients consist solely of raw cow milk high in calcium and premium protein, with no additives or added sugar. It is safe with a rich and fragrant taste.

Brand strategies

Bringing together its superior resources to focus on brand building, in 2022, the Group conveyed its brand story to consumers through integrated online and offline marketing efforts, supplemented by three-dimensional multi-media campaigns. These brand-building efforts have begun to show results.

Technological innovation builds high-quality brands; precise communication promotes consumption transformation

In 2022, Reeberne focused on technological innovation. Its project entitled “MLCT-structured Lipid and new OPO Enzymatic Synthesis Key Technology and its Application in Infant Formula (《結構脂肪MLCT和新型OPO酶法合成關鍵技術及其在嬰配粉中的應用》)” passed the appraisal of the national authorities and received highly favourable comments from a number of members of the Chinese Academy of Engineering and other experts. An expert committee unanimously declared that the project had reached an international leading level¹. The project was also awarded First Prize in the Product Innovation Awards of the Chinese Institute of Food Science and Technology. In addition, Reeberne “Enzhi”, Reeberne’s first infant formula milk powder in the world to contain the innovative MLCT-structured lipid and new OPO ingredients, and Reeberne “Jingzhi”, Reeberne’s first infant formula milk powder series in the world to use organic desert raw cow milk, were the first two products to pass the registration of the new national standards.

In terms of nutrition products, the product design of the Yourui series further addresses the health needs of the middle-aged and the elderly. Yourui Goat Milk Powder Rich in Selenium and Calcium contains selected Holland whole goat milk powder, yeast rich in selenium, calcium, and various vitamins. Yourui Guyi milk powder for the middle-aged and the elderly contains Colostrum basic protein powder (CPB) and milk mineral salt, offering special care for the bones and joints. Yourui Yitian milk powder for the middle-aged and the elderly specifically contains Inulin powder and high dietary fiber, which is suitable for daily use. Several products under the Yourui series have obtained the National Low GI Certification.

In addition, the Group is the first infant milk powder company in China to have its products assessed and certified under EU food standards (SGS)². The Group conducts quality control strictly in accordance with high standards to ensure that products meet high standards at home and abroad.

Notes:

- 1 According to the Scientific Technology Achievement Assessment Report issued by the Chinese Institute of Food Science and Technology.
- 2 In compliance with: (EC) No 1881/2006, (EC) No 2073/2005 (For items involving requirements for formulating milk powder).

To highlight its products' technological innovation, the Group helped its innovative products gain precision exposure among target groups through online search campaigns and product promotions. At the same time, the Group used joint publications with industry organizations and cooperation with authoritative industry social media channels, to rapidly increased the influence of the innovative products. The Group also put out high-quality content through expert promotional sharing, professional nutritionist recommendations, and various promotional channels to communicate our products' key advantages in a way that resonated with consumers, deepened brand awareness and expanded our fan base, while helping terminal stores and channels communicate with consumers and turn these efforts into sales results. The Group fully utilized public and private traffic and achieved full-spectrum online and offline omnichannel marketing.

Leveraging top sporting events to enhance brand influence

In 2022, the Reeborne and Yourui brands succeeded in leveraging top sporting events and working closely with spokespersons to enhance brand awareness and influence. At the beginning of the year, the Group refreshed the theme layout in terminal stores and on e-commerce channels and carried out continuous interactions related to hot topics, highlighting Eileen Gu's gold medal-winning moment, such that the Group have effectively increased the popularity and influence of the Reeborne brand on social media and in communities. During the FIFA World Cup in Qatar, the Reeborne brand cooperated with tens of thousands of offline stores to carry out World Cup-themed promotional activities and strengthened its online community marketing efforts. At the same time, the Group interacted with consumers on the hot topic of the World Cup final match and on our new product features to establish a good foundation for our brand assets. In addition, the Group further expanded Yourui's brand influence by promoting its status as the "Global Official Milk Powder of the FIFA World Cup".

Product research and development

During 2022, the Group made satisfactory progress in the registration of infant formula milk powders and the research and development of adult nutrition products. The Group created differentiated products by leveraging its strong and professional research and development team and responding to market trends and consumer demands. The Group continued to develop infant formula milk powder products based on the scientific standard of breast milk nutritional composition, while innovating and developing new milk powder series for children, women, adults, the middle-aged, and the elderly to cover the increasingly diversified nutritional needs of different consumer groups.

Successful formula registrations of infant formula milk powder

As of 31 December 2022, the Group has submitted a number of applications for formula registration of infant formula milk powder products to the Center for Food Evaluation, State Administration for Market Regulation. As of the date of this annual results announcement, nine formulas from three product series have passed the formula registration. Among these, Reeborne “Enzhi” infant formula milk powder, Reeborne’s first product in the world to contain MLCT and UPU-structured lipid, and Reeborne “Jingzhi” infant formula milk powder, Reeborne’s first product in the world to contain organic desert raw cow milk, both successfully passed the formula registration on 13 October 2022. In addition, Reeborne “Qinyi” infant formula milk powder, the Group’s second product containing MLCT and UPU-structured lipids, passed the formula registration in January 2023.

Enriching the brand mix and building high-end specialty milk powder

During the period, the Group launched a brand-new series of “Native DHA” student milk powder products based on raw milk rich in DHA for students at the important stage of learning and brain development. In addition, the Group deepened research into consumer needs, utilized innovative raw materials, and enriched the brand mix by developing specialty products like skim milk powder with fruit and vegetable enzymes and goji drinks with collagen peptides.

Continuously improving research and development

The Group continued to embark on collaborative projects with industry-leading research institutes in the areas of food, agriculture, and nutrition, achieving great success working with experts and scholars from Jiangnan University, China Agricultural University, Inner Mongolia Agricultural University, Sun Yat-sen University, and other institutions to conduct nutritional research on the nutritional needs of and the products for infants and toddlers, children, adults, and the middle-aged and elderly.

In terms of basic research, the Group co-published two English-language academic articles, five Chinese-language academic articles and four academic theses related to product health benefit verification research during the period. In terms of patents, the Group obtained four granted patents and submitted seven patent applications during the period. In addition, one of the Group’s achievements in maternal and infant R&D, the creation of new OPO infant formula milk powder produced by utilising MLCT ingredients and UPU technology for the first time (首次應用MLCT成分和UPU技術生產的新型OPO的嬰幼兒配方乳粉的創制), was awarded the Science and Technology Innovation Award — First Prize of Product Innovation Award (科技創新獎 — 產品創新獎一等獎) by the Chinese Institute of Food Science and Technology for its application of innovative R&D.

Sales channels

In 2022, Yashili continued to strengthen its sales channels for infant formula milk powder and nutritional products. On the one hand, the Group continued to develop channels to increase channel coverage. During the period, the Group was committed to opening channels in lower-tier markets, and established cooperative relations with well-known mother-and-baby chain stores and regional chain stores in the country, especially in key provinces such as Anhui and Henan. On the other hand, the Group continued to deepen channel development, build high-quality stores, and consolidate the foundation of its channels. The Group launched the In-can Code to help offline stores stabilize their sales orders and boost channel confidence. During the period, the Group achieved remarkable results in deepening channel development and the number of high-quality partner stores continued to increase.

For the launch of Reeborne “Enzhi” and Reeborne “Jingzhi”, the Group implemented a channel layout with district-level and county-level mother-and-baby chain stores and achieved preliminary results in channel structure optimization. In order to respond to the changes in sales channels, the Group increased investment in digital marketing which, in conjunction with targeted channel product portfolios and a sound product line, established a solid distribution foundation in core sales channels. Moreover, during the period, the Group continued to enhance stores’ sales rates, attract new customers, and drive repeat sales. The Group stepped up consumer education efforts and carried out tens of thousands of promotional activities. At the same time, the Group utilized sports marketing resources, including spokespersons, World Cup marketing, etc., to step up marketing efforts.

Under the effect of the pandemic, the Group fully utilized community marketing, pop-up stores, and live streaming commerce, and helped stores get better at using digital tools and innovative marketing. In terms of membership management, the Group used In-Can Codes to build a parenting ecosystem driven by a membership points award system and content marketing, strengthening brand loyalty among customers. The Group used the membership upgrade system to empower terminal stores and help them lock in repeat purchases by customers. In addition, the Group engaged deeply with consumers through product experience projects and made consumers the mainstay of its brand marketing efforts through private domain operations.

Quality safety and management

In 2022, the Group firmly adhered to its quality policy with the targets of TOP (i.e. Trust (信賴), Outstanding (卓越) and Preferred (首選)). With quality strategic planning as its guiding principle, the Group will continue to carry out comprehensive quality management to facilitate its development.

In terms of its overall quality management strategy, Yashili continued to comply with FSSC22000, SQF, BRCGS, and other leading global quality and food safety systems during the period. The Group improved the 4Q quality management system and comprehensively managed the four aspects of quality planning (QP), quality control (QC), quality assurance (QA), and quality support (QS), which covers the whole industry chain and the entire product life cycle. At the same time, the Group strengthened the cohesion between “operation and standard, standard and business, business and system” and focused on inspection management and partnership management. We worked towards the four first-class requirements, namely first-class system (一流質量體系), first-class standard (一流質量標準), first-class quality (一流質量品質), and first-class organization (一流質量組織).

In terms of improving product quality, adhering to its corporate value of “consumer first, first, and first (消費者第一、第一、第一)”, the Group targeted consumers’ concerns and launched a dedicated improvement campaign to optimize products. Product life-cycle management and forward-looking management have been strengthened, and quality design has been integrated into new product development activities to ensure consumers are provided with quality products. The Group has fully upgraded its control requirements for food safety indicators (chemical and microbial) in key raw materials according to the new national standards. During the period, our infant formula milk powder and modified milk powder obtained EU product certifications issued by the authoritative international certification agency SGS and the Group became the first domestic infant formula milk powder company to have its products assessed and certified under EU food standards.

In terms of corporate safety management, the Group adheres to the bottom line of compliance to control risks and observes the three core pillars of safe production, low-carbon environmental protection, and health protection. During the period, there were zero grade four or above safety or environmental accidents and zero occupational disease accidents. During the period, the Group organized hundreds of “Environment, Health and Safety (EHS)” trainings covering 100% of employees. The Group improved the EHS management knowledge of staff at all levels using events such as “Earth Day”, “Occupational Health Week”, “Environment Day”, “National Low-Carbon Day”, “Safety Month”, etc. In addition, the Group strengthened efforts to identify and control hidden EHS dangers and risks, and implemented timely rectification and prevention measures for all EHS hidden dangers discovered during the period.

In terms of low-carbon management, the Group has successfully launched its first zero-carbon product — Reeborne’s first organic desert raw milk infant formula milk powder in the world — which meets both the new national standards and the zero-carbon standard. This has improved the Group’s corporate social responsibility image and created an improved concept for new products. The Group imposes low-carbon control at the source, and has introduced seven low-carbon construction technology applications to reduce thousands of tons of carbon dioxide emissions. A “zero-carbon factory” construction plan has also been incorporated into new factory design.

Supply chain

In 2022, the Group achieved its three major objectives of “high quality, low cost, and high speed” through optimizing and upgrading the entire business chain and overcoming the challenges and changes in the external environment. The Group has always insisted on the policy of “building a solid foundation and preventing risks” and its corporate value of “consumer first, first and first” to facilitate product sales.

During the period, in the face of various pandemic-related difficulties, the Group persisted in completing its strategic supply chain goals. During the outbreak periods from February to April and October to December in 2022, the Group carried out closed-loop management to ensure normal and safe production operations. During these periods, fresh milk was processed in a timely manner to build sufficient reserves for whole milk powder production. During the pandemic, the Group donated and delivered milk powder to affected areas to ensure that infants were not deprived of food. In terms of downstream logistics business management, the Group adopted various procedures to ensure that products reached consumers and met customers’ needs. In addition, the Group continued to improve its warehousing layout and organize its transportation routes, successfully maintaining the standard logistic transportation time of three days.

In terms of coordination, the Group continued to plan resources and improve production allocation to maximize production capacity. At the same time, the Group leveraged technological innovation to pursue cost-saving projects in the hopes of streamlining supply chain processes, improving work efficiency, and strengthening supply security to meet sales demand.

Management system

In 2022, the Group raised digitalization to a strategic priority. The business has been digitalized end-to-end, with In-Can Code tracking and dynamic marketing achieved on the marketing end and TRM system iteration and upgrade completed on the channel end. The digital business model is advancing at an accelerating pace.

In terms of marketing, the Group used the In-Can Code to ensure the recruitment of authentic members and facilitate data connection of “Product line — Business — Consumer”. In terms of channels, the Group continued to iterate and upgrade the channel-end TRM system. The Group optimized procedures such as expense reimbursement and expense crediting by connecting online and offline systems. Offline financial processes such as budget control have been taken online and handled intelligently. The Group have refined the management and control of marketing expenses and greatly reduced manual operations, making financial data more accurate and secure.

In terms of quality management, the Group established a formula product R&D framework to speed up product definition by the R&D department and created standard procedures for the management of the R&D process. Based on the business objectives of each department, the Group ensured that business processes and management systems were rational and feasible, maximized the utilization and sharing of resources, reduced the communication and coordination barriers between various departments, and thereby improved product quality and promoted optimized cost management.

The Group follows the 4Q quality management system to build a comprehensive platform for improving quality in all aspects of the business. The Group used the quality system to analyse the needs of each business department and factory, and harnessed big data and AI algorithms to build a smart quality management system that provides analysis, early warning, and prediction.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, the Group's revenue amounted to RMB3,738.2 million (2021: RMB4,434.7 million), representing a decrease of 15.7% as compared to the corresponding period of last year.

By product category	2022 <i>RMB million</i>	2021 <i>RMB million</i>	Percentage change
Milk powder products	2,968.2	3,650.4	(18.7)%
Other milk powder products	511.8	438.4	16.7%
Dissolvable products	195.0	221.2	(11.8)%
Others	63.2	124.7	(49.3)%
Total	<u>3,738.2</u>	<u>4,434.7</u>	<u>(15.7)%</u>

As of 31 December 2022, sales revenue from milk powder products amounted to RMB2,968.2 million (2021: RMB3,650.4 million), representing a decrease of 18.7% from the last year, which was mainly due to the impact of the pandemic on the sales of adult milk powder and infant formula milk powder. The sales revenue from other milk powder products amounted to RMB511.8 million (2021: RMB438.4 million), representing an increase of 16.7% from the last year, which was mainly due to the increase in the sales of Yashili New Zealand driven by the increase in orders for whole milk powder. The sales revenue from dissolvable products amounted to RMB195.0 million (2021: RMB221.2 million), representing a decrease of 11.8% from the last year, mainly attributable to the decrease in sales as a result of optimization of product mix. The sales revenue from other products amounted to RMB63.2 million (2021: RMB124.7 million), representing a decrease of 49.3% from the last year, which was mainly due to the decrease in OEM business.

The decrease in the sales revenue of the Group was mainly attributable to the downward trend in revenue as a result of the pandemic, fierce market competition and decline in birth rate.

Gross profit

For the year ended 31 December 2022, the Group recorded a gross profit of RMB1,050.3 million (2021: RMB1,460.0 million), representing a decrease of 28.1% from the last year. The gross profit margin was 28.1% (2021: 32.9%), representing a decrease of 4.8% over the last year, which was a result of an increase in the cost of raw materials and a higher sales proportion of whole milk powder, which had a lower gross profit margin.

Selling and distribution expenses

For the year ended 31 December 2022, the Group generated selling and distribution expenses of RMB1,088.2 million (2021: RMB1,146.8 million), representing a decrease of 5.1% from the last year. The selling and distribution expenses as a percentage of revenue was 29.1% (2021: 25.9%), representing an increase of 3.2% over the last year, which was mainly a result of the implementation of product segmentation and channel expansion strategies and the greater input in advertising and promotion in the face of fierce market competition.

Administrative expenses

For the year ended 31 December 2022, administrative expenses amounted to RMB233.1 million (2021: RMB239.3 million), representing a decrease of 2.6% from the last year, which was mainly attributable to improved efficiency in fees utilisation as a result of stringent cost control by functional divisions.

Net finance income

For the year ended 31 December 2022, net finance income was RMB26.5 million (2021: RMB51.8 million). The decrease of 48.8% in net finance income was mainly attributable to the reduction of funds available for deposits and the continuous decrease in interest rates of RMB arising from several cuts to interest rates and required reserve ratios.

Income tax

For the year ended 31 December 2022, the income tax expenses of the Group were RMB27.8 million (income tax credit of 2021: RMB11.7 million), and the effective income tax rate was 13.7% (2021: 12.6%). The increase in income tax expenses was mainly due to use of deferred income tax assets recognised in previous years by some legal persons.

Inventory

As at 31 December 2022, the balance of inventory of the Group amounted to RMB1,074.4 million (31 December 2021: RMB816.0 million), representing an increase of 31.7%, which was mainly due to the increase in the balance of inventories of the self-sprayed whole milk powder.

Other current financial assets

As at 31 December 2022, other current financial assets amounted to RMB0 million (31 December 2021: RMB93.9 million).

Trade receivables

As at 31 December 2022, the Group's trade receivables amounted to RMB409.2 million (31 December 2021: RMB414.7 million). In 2022, the trade receivables turnover days were 40 days (2021: 21 days), representing an increase of 19 days from last year, which was mainly attributable to the increase in the trade receivables from large-scale modern trade and e-commerce platforms within normal credit period as a result of higher percentage of revenue from adult milk powder during the period.

Contingent liabilities

As at 31 December 2022, the Group had no material contingent liabilities (31 December 2021: nil).

Capital commitment

As at 31 December 2022, the Group's net cash outflow in capital expenditure was RMB196.6 million (31 December 2021: RMB222.2 million). As at 31 December 2022, the Group's capital commitment was RMB151.9 million (2021: RMB1.2 million), mainly related to the purchase of milk powder production equipment and optimization in software systems.

Provision for doubtful debts of trade receivables

As at 31 December 2022, the Group had provisions for doubtful debts of RMB6.8 million (2021: RMB11.8 million). These provisions were made for impaired receivables relating to customers that were in delinquency of payments. The Group does not hold any collateral or other credit enhancements over such amounts. An impairment analysis is performed by the Group using a provision matrix to measure expected credit losses. The provision rates are based on the ageing of the balances for the groupings of various customer segments with similar default patterns (e.g. by customer type). The calculation reflects the probability weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Provision for impairment and disposal losses of inventories

As at 31 December 2022, the Group's balance of provision for the impairment on inventories was RMB51.9 million (2021: RMB44.0 million), which was mainly because some of the inventories had longer age and corresponding provision of impairment was required in accordance with policy. In addition, the Group recorded losses on disposal of inventories of RMB5.4 million in 2022 (2021: RMB10.6 million), which was mainly because, under the impact of rebranding, unsuitable packaging materials were disposed of and the provision for inventory impairment of deteriorated inventory were required.

Pledge of assets

As at 31 December 2022, the Group has pledged assets with an aggregate value of approximately RMB1,410.7 million (31 December 2021: RMB1,501.3 million).

Loss attributable to equity holders of the Company

For the year ended 31 December 2022, the loss attributable to equity holders of the Group amounted to RMB230.7 million (2021: loss attributable to equity holders of the Group amounted to RMB81.4 million). This was mainly due to fierce market competition, a decline in revenue and increased costs for seizing market share.

Liquidity and capital resources

As at 31 December 2022, the Group's liquidity and capital resources, including cash and bank balances, pledged deposits to be released within one year, other current financial assets/structured bank deposits and long-term bank deposits, amounted to RMB2,135.0 million (31 December 2021: RMB2,679.9 million), representing a decrease of 20.3%. The decrease was mainly due to the Group's strategical stocking occupying part of the operating capital.

Operating activities

For the year ended 31 December 2022, the Group's net cash outflow from operating activities was RMB495.4 million (2021: net outflow of RMB264.4 million). Net cash outflows from operating activities increased, mainly due to the working capital used for strategical stocking in order to cope with the risk of material price increases.

Investing activities

For the year ended 31 December 2022, net cash inflow generated from investing activities amounted to RMB492.8 million (2021: net outflow of RMB65.5 million), mainly due to the maturity of deposit products during the year.

Financing activities

For the year ended 31 December 2022, net cash inflow generated from financing activities amounted to RMB173.7 million (2021: net inflow of RMB53.7 million), which was mainly attributable to more loans due to be paid last year.

Interest-bearing bank and other borrowings

As at 31 December 2022, the Group's interest-bearing bank and other borrowings amounted to RMB578.7 million (31 December 2021: RMB320.8 million). The above loans shall be repayable on demand upon maturity. As at 31 December 2022, the Group's gearing ratio, which is calculated by total interest-bearing bank and other borrowings at year end divided by total assets at year end, was 8.2% (31 December 2021: 4.4%).

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 of 30 June 2018, 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

As of 31 December 2022, the Group had a total of 2,434 (31 December 2021: 2,762) full-time employees. The total staff cost for the year was approximately RMB526.4 million (2021: RMB561.7 million).

Refining headquarters functions and strengthening the business divisions

In 2022, the Group continued to refine the functions of the headquarters and strengthen the business divisions to transform organizational strength into business results. With the normalization of the pandemic, newly developed content e-commerce and social e-commerce channels have become new growth drivers. During the period, the Group actively developed new models of e-commerce and further built an online marketing platform to increase brand exposure and strengthen connections with consumers.

Embracing leadership and professionalism and building the organization's talent team

The Group attaches great importance to leadership and professionalism and consolidates its talent reserves through sales management teams. It held learning activities in functional sectors such as supply chain, quality, finance, and human resources to improve employees' professional capabilities and continuously develop the talent team.

Reforming remuneration and performance systems to motivate high-performing talents

This year, the Group optimized its remuneration structure, enhanced the external competitiveness and internal fairness of employee remuneration, and added new welfare holidays such as parental leave, single-child and non-single-child care leave, and male employee care leave. The Group reformed and optimized its performance management system based on industry experience, management needs, and the results of the survey on performance management effectiveness.

Enhancing the Group's employer image and attracting outstanding external talents

In 2022, the Group was awarded the "Outstanding Human Resources Management Award" by 51job.com and the "Work Different" award by Liepin. The Group exhibited its working experience and atmosphere through campus recruitment activities, live broadcasts, and social media platforms. In addition, the Group launched the certification project for interviewers, which improved interview quality and strengthened concepts of fair recruitment, thus creating a better experience for job candidates.

SOCIAL RESPONSIBILITY

Since the beginning of the Covid-19 pandemic, the Group has responded to the nation's call and undertaken the corporate mission of “Nutrient in a drop, blooming every life (「點滴營養，綻放每個生命」)”. The Group actively assisted in the prevention and control of the pandemic and provided daily nutritional supplements for the people. The Group has taken real actions to fulfil its corporate social responsibility and has made donations-in-kind totalling more than RMB47 million.

Mid-February 2022 saw a resurgence of Covid-19 in the Inner Mongolia Autonomous Region. In response, the Group launched the “fight against COVID-19 at home” campaign. Within a week, hundreds of nutritional supplies including Reeborne “Kieember (菁珀)” milk powder, Mengniu Yourui Shunyi, Yitian milk powder etc., with a total value of more than RMB250,000 were delivered to the Third Hospital of the Inner Mongolia Autonomous Region, the epidemic response headquarters, and other front-line anti-epidemic units.

Abroad, Yashili New Zealand actively organized and participated in local charitable activities while providing local employment and contributing to economic development. In August 2022, Yashili New Zealand held a fundraising activity to raise funds for cancer research in the community where the Yashili New Zealand factory is located, and all funds were donated to the New Zealand Cancer Society.

In October 2022, the Group launched the “Firefly Public Welfare Program” immediately after learning that several critically ill children admitted into the Hohhot No. 1 Hospital in the Inner Mongolia Autonomous Region were in urgent need of milk powder. The first batch of Reeborne's Qinyou milk powder was urgently allocated to the hospital to ensure food supply for hospitalized patients.

At the end of October 2022, Guangzhou faced the most complicated and severe anti-epidemic situation since the pandemic began. The Group learned that the quarantine personnel and epidemic prevention and control personnel at the mobile hospitals in Guangzhou urgently needed nutritional supplements. In November, two batches of hundreds of boxes of milk powder for infants, children, the middle-aged and the elderly, and other nutritional supplies worth nearly RMB100,000, were sent to the quarantine zones. They were mainly used as daily nutritional supplements for quarantine personnel and medical staff on-site.

PUBLIC RELATIONS AND CRISIS MANAGEMENT

In 2022, the Group kept abreast of the times and upheld the principles of open, active, and mutual communication. The Group used mass, organizational, and interpersonal communication channels to immediately answer questions from the public, the media and the government, and to disseminate positive messages about the Group and its brands on every channel, building brand and product awareness and improving the Group's corporate image.

During the year, the Group announced the “MLCT-structured Lipid and new OPO Enzymatic Synthesis Key Technology and its Application in Infant Formula” project, showcasing its leading innovative scientific research results to the media and consumers. During the period, Reeborne launched two new products that passed the formula registration under the new national standards. The Group highlighted these upgraded products and new achievements to the public. In addition, the Group participated for the fifth time in the high-profile China International Import Expo, demonstrating the scientific research level of Chinese dairy companies to the world.

In addition, the Group made every effort to improve public opinion crisis management by establishing and optimizing a mechanism for the prevention, control, assessment, and handling of public opinion risks. Through the sensitive and prompt monitoring of public opinion, the Group used this mechanism to achieve positive results in public opinion management. In addition, various consumer complaints were handled in a timely manner by various departments working together under the crisis alert and prompt response mechanism. The Group attached great importance to the market, served and coordinated market sales to provide a stronger support for sales and provide timely answers to consumers, effectively preventing the occurrence of crisis events.

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, and non-deal roadshows.

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.

PROPOSED PRIVATISATION OF THE COMPANY

Reference is made to (1) the announcement dated 6 May 2022 (the “**3.5 Announcement**”) jointly issued by the Company, Star Future Investment Company Limited (the “**Offeror**”) and Mengniu Dairy and (2) the announcement dated 9 March 2023 (the “**Fulfilment of Scheme Pre-Conditions Announcement**”) jointly issued by the Company, the Offeror and Mengniu Dairy.

As disclosed in the 3.5 Announcement, Mengniu Dairy has proposed that upon the satisfaction of the pre-conditions, it will, through the Offeror, put forward a proposal to the holders of shares of the Company in issue (other than those held by Mengniu Dairy directly or indirectly) for the privatisation of the Company (the “**Privatisation Proposal**”) by way of a scheme of arrangement under section 86 of the Companies Act of the Cayman Islands (the “**Scheme**”), on the terms and subject to the conditions as described in the 3.5 Announcement and as amended in the announcement of the Company, Mengniu Dairy and the Offeror dated 16 August 2022, such that upon the Scheme becoming effective, all scheme shares will be cancelled in exchange for the cash payment of the cancellation price of HK\$1.20 per scheme share.

As disclosed in the Fulfilment of Scheme Pre-Conditions Announcement, all pre-conditions to the making of the Privatisation Proposal and implementation of the Scheme had become fulfilled as of 9 March 2023. With all the pre-conditions having been fulfilled, the implementation of the Privatisation Proposal is subject only to the satisfaction (or where applicable, waiver) of the conditions to the Privatisation Proposal.

EVENTS AFTER THE REPORTING PERIOD

Dumex China Disposal

Reference is made to the circular of the Company dated 29 July 2022 (the “**Circular**”).

As disclosed in the 3.5 Announcement and the Circular, on 6 May 2022, Yashili International Group Co. Ltd. (“**Yashili Guangdong**”) and Danone Asia Pacific Holdings Pte. Ltd. (“**Danone APAC**”) entered into the equity transfer agreement, pursuant to which Yashili Guangdong agrees to sell, and Danone APAC agrees to purchase, 100% of the equity interest in Dumex Baby Food Co., Ltd. (“**Dumex China**”), subject to the terms and conditions therein (the “**Dumex China Disposal**”).

The Dumex China Disposal was completed on 2 March 2023. Upon the completion of the Dumex China Disposal, the Company had ceased to hold any interest in Dumex China and Dumex China had ceased to be a subsidiary of the Company. Accordingly, the financial results of Dumex China will no longer be consolidated into the consolidated financial statements of the Group.

FUTURE PROSPECTS

Policy implications

The three new national standards for infant formula milk powder jointly issued by the National Health Commission and the State Administration for Market Regulation in 2021 were implemented in February 2023. The new national standards set higher requirements for infant formula milk powder companies in terms of raw materials, supply chain, research and development, and process stability. The product registration approval process will become more rigorous in the future, and products that have passed the formula registration under the new national standards will be subject to more stringent supervision.

The implementation of the new national standards is conducive to accelerating product R&D innovation and industry transformation and upgrade, further driving the high-quality development of the infant formula milk powder industry. The tightening of regulatory regulations will encourage companies to strengthen raw material control, improve R&D, production, inspection and other capabilities, and strictly control product quality. It will encourage the infant formula milk powder industry to persist in innovation and inject bold ideas in the production process, technical equipment and quality management. Product innovation and differentiated selling points will become the core elements of competition between high-quality milk powders in the future. In addition, the implementation of the new national standards gives domestic milk powder a first-mover advantage. If companies can promptly complete the formula registration in accordance with the new standards, they will have a better chance to seize market share early. Domestic infant formula milk powder's quality, market competitiveness, and reputation among consumers will improve further.

In February 2022, the State Council issued the “Notice on the 14th Five-Year Plan for the Development of the National Aging Cause and Elderly Care Service System” (《「十四五」國家老齡事業發展和養老服務體系規劃的通知》), actively responding to the aging population. Against this backdrop, adult milk powder, especially milk powder for the middle-aged and the elderly, is a category with high potential. A large number of young and middle-aged consumers and teenagers also present possible growth opportunities for the adult milk powder category. There is great potential for development. It is expected that industry players will focus on R&D investment, continue to develop product unique selling points, and integrate products, channels and brand advantages with the underlying objective of ensuring the quality and nutrition of adult milk powders. Companies that have gained considerable advantages in niche functional segments and seized opportunities in the rapidly changing market will have the opportunity to differentiate themselves.

Industry trend

The dairy products industry in China has entered a phase of steady development. At the 2020 NetEase New Force Dairy Industry Summit in December 2022, China Dairy Industry Association vice chairman Liu Chao said that the dairy product industry will maintain a CAGR of 4.8% over the next five years, with revenue reaching over RMB590 billion by 2026, according to the estimates of certain institutions.

In February 2023, following the implementation of the new national standards, the re-registration of infant formula products will enter the final stage. This will further fuel competition in the infant formula industry. Market regulation will be tightened further and might cause some brands to exit the market. Given the similarity between products of different brands, leading brands in each product segment will enjoy enhanced opportunities. Industry participants will further step up efforts in scientific research and launch new and more competitive products, with major differentiation lying in the ability to capture segment position, strengthen specific nutritional elements, and use specific milk sources.

In the coming year, with the impact of COVID-19 gradually fading, it is believed that the willingness to give birth in third-and fourth-tier and lower-tier markets will increase, and the birth rate of newborn babies in these markets will rise significantly compared with upper-tier markets. In addition, as the consumption power of families in these places increases, mothers of the post-90s and post-95 generations will drive the growth in the infant formula market. In the future, deepening of research and business development efforts in lower-tier markets will help brands gain advantages in the competition for existing market volume.

In addition, the digitalization and platformization of sales channels for mother-and-baby milk powder products will continue to develop. Meanwhile, digital marketing channels such as live streaming, community marketing, and private domain operations will continue to develop at higher speeds and spur new developments in customer collaboration and physical store operations.

As for the adult milk powder market, actively responding to the aging population has been incorporated in national strategies. It is anticipated that the market for milk powder for the middle-aged and the elderly will see greater opportunities for development. In addition, the new national standards have imposed higher standards for milk powder formula for the middle-aged and the elderly, which will be favourable for enhancing product quality. In the future, market attitudes on milk powder for the middle-aged and the elderly will become more stringent, and enterprises will increasingly collaborate with professional institutions to customize solutions to address the nutritional needs and health issues of the middle-aged and the elderly identified by research and big data on this age group.

COMPANY STRATEGIES

Brand strategies

Creating quality products and strengthening brand image

In 2023, to effectively navigate the new market landscape following the implementation of the new national standards and re-registration requirement, the Group will advance the development of new technology and innovations in infant formula under its Reeborne brand, while focusing its resources on brand marketing of “Enzhi” and “Jingzhi” under the Reeborne brand. Meanwhile, the Group will continue to strengthen its brand image and showcase Reeborne’s scientific research capabilities and social responsibility to consumers. At the same time, through brand innovation, the Group will further reinforce Reeborne’s brand influence and deepen trust and cooperation with distributors and channels in order to increase Reeborne’s brand recognition among consumers of mother-and-baby products.

As for nutritional products, Mengniu Yourui milk powder for the middle-aged and the elderly will be extended to more segments to comprehensively satisfy the nutritional supplement needs of the middle-aged and elderly population. The Group will continuously optimize the product formula and enhance the strength of the product with a more professional upgraded formula, so as to take the brand to a new level. Meanwhile, the Group will vigorously expand milk powder products for students, the native DHA student milk powder series under the Huicongming “慧聰明”. The 1.88M Children’s milk powder will continue to apply the CBP component to satisfy the key concern of consumers.

Stepping up marketing activities to deepen communication with consumers

In 2023, Reeborne will focus on targeted online and offline communication to reach the brand’s target customers, boost brand awareness, improve brand recognition, and enhance conversion. The Group will communicate through major channels including event marketing, public relations as well as digital and intelligent targeted communication, in order to stay at the forefront of new and hot innovation trends in the infant formula industry. The Group will continue to connect the Reeborne brand with consumers through content marketing, and step up digital media efforts to empower front-end sales. Knowledge-sharing by scientific experts, endorsement from reputable KOLs and consumer word-of-mouth will enable the Group to strengthen its brands in terms of scientific expertise and deliver product information in greater depth.

As for nutrition products, Reeborne will fully leverage its resource and media advantages, continue to make diversified media marketing efforts in core and potential markets, and roll out short videos to showcase product features in scenarios that grab consumers' attention. Meanwhile, the Mengniu Yourui brand will actively strengthen cooperation with sports IPs, and will combine digital media with international sports events to promote the brand on the front line and enhance brand awareness at all levels. The 1.88M Children's milk powder will focus on comprehensively generating private domain traffic to expand its influence in the fan economy, with the aim of driving omnichannel sales online and offline.

Product research and development

In 2023, the Group will continue to implement the registration of infant formula milk powder under the new national standards, continuously assimilate the latest research findings in breast milk nutrition, develop innovative formulas for infant milk powder products with breast milk components, continue to track the launch of its innovative technology products, and conduct testing, verification and research into product efficacy.

In addition, the Group will carry out further in-depth research on the nutritional needs of specific groups, and develop nutritional products with specific custom-made functions, thus enriching the brand matrix and meeting the needs of groups such as students, women, the middle-aged and the elderly.

On the other hand, the Group will continue to strengthen its cooperation with research institutions, and carry out research on the nutritional needs of different groups, the composition of nutritional components, and the health benefits of various products in partnership with relevant experts from Jiangnan University, the China Agricultural University, the Inner Mongolia Agricultural University and Sun Yat-sen University. The targets of the Group's nutritional research include infants, children, adults, the middle-aged and the elderly. The Group will continue to apply the existing research results of the project to its business and products. In addition, the Group will continue to strengthen the introduction of nutrition, process research, and product research and development talents into its team to improve its innovation capabilities in nutrition science and process research.

Sales channels

Focus on the core market and cultivate channels

In 2023, the Group will develop its core market through channel and resource integration, developing district-level and county-level chain store coverage and deepening store development. It will continue to implement the In-Can Code to establish higher standards for safety and traceability and to stabilize channel sales orders. Meanwhile, the Group will launch the “precision marketing” system to accurately match people, goods, and venues and improve marketing efficiency. Across the country, the Group will cooperate with top provincial and municipal mother-and-baby chain stores through various strategies to rapidly increase its sales share in chain stores and establish steady cooperation with manufacturers.

Empowering the business with smart and dynamic marketing

In respect of marketing and digital intelligence innovation, the Group will continue to allocate manpower and resources to promotional activities and will increasingly use dynamic marketing to educate consumers in order to increase trial rates and achieve high conversion rates and repeat purchases among new customers. The Group will deepen its membership marketing system and use content marketing within its membership marketing strategy to optimize its conversion mechanism and loyalty program. In addition, the pandemic has accelerated the rise of contactless online retail and “livestream shopping”, leading many brands to invest more in online marketing. The Group has captured opportunities in these areas to drive the continued development of its business.

Supply chain

In 2023, the Group will provide the business capabilities and technical support required for digital operation to users of its factories through consolidating the business capabilities and data resources internally and leveraging various external platforms. The Group will enhance the prediction, alert and data analysis capabilities within its supply chain system to achieve the objectives of collaborative operations, strategic decision-making, and operational excellence.

The Group will focus on the sustainable development of the entire value chain and promote the full implementation of the strategic system of “Group — Business Department — Factory (集團 — 事業部 — 工廠)”, heeding consumer demand and adjusting its structural thinking to accelerate the digital and smart transformation of production.

In terms of production management, the Group will implement real-time data sharing, improve production adaptability, and strengthen data application management to support operational decision-making. The Group will also optimize the management of spare products and parts by enhancing information management of materials and inventory. The Group will improve the inspection, maintenance, and repair of equipment and implement systematic management to lower failure rates and monitor its operational status in real time.

The Group will enhance cross-departmental business and technology sharing and interaction. Business units will be consolidated in order to establish connections, synergies, and optimization between internal and external system platforms. The Group will streamline, optimize, and reshape its business processes and enhance its digital supply chain analysis system to achieve innovation.

HUMAN RESOURCES

Maintaining synergy throughout the entire value chain

In 2023, the Group will maintain the highly efficient synergy throughout the value chain of “research and development, production, sales and services (研、産、銷、服)”, ensuring that resources are consolidated and input repetition is minimized, thus enhancing the organization’s operational capability and efficiency. In the meantime, the Group will devote additional resources to its research and development platform in order to meet consumer needs, enhance competitiveness, and facilitate the growth of emerging channels.

Upgrading the talent training system

The Group will create a differentiated and targeted talent training system emphasizing the three dimensions of leadership, professionalism and general knowledge. The Group will optimize the talent development path, build the talent ladder, reform organizational and talent-related structures to support business development and implement the organization’s strategy.

Enhance staff capability with remuneration and performance incentives

The Group will strengthen the correlation between remuneration, incentives and performance, optimize its performance management system, and drive the improvement of personal performance and ability throughout the organization, enabling the Group to achieve its medium and long-term strategic goals and phased operational and management goals.

SHARE OPTION SCHEMES

The Company adopted a pre-IPO 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. Details of the Share Option Scheme are as follows:

The Company has adopted the Share Option Scheme for the purpose of motivating eligible participants to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of the ordinary shares of the Company (the “**Shares**”) which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at 1 November 2010 (the “**Listing Date**”), that is, 350,000,000 Shares, which represented approximately 7.38% of the Company’s shares in issue as at the date of this report. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company’s issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.00 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange’s daily quotations sheets on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

On 23 July 2013, China Mengniu International Company Limited (“**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. Please refer to the composite offer and response document issued by the Company, Mengniu Dairy and Mengniu International relating to, among other things, the Option Offer dated 23 July 2013 for further details.

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.

The Share Option Scheme expired on 1 November 2020, after which no further option was granted or offered. As at 1 January 2022 and 31 December 2022, there was no outstanding option granted by the Company.

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 impact on the operating performance and sustainable development of the Company (the “**Incentive Recipients**”).

Phantom Share Incentive Scheme does not involve the grant of new or existing shares or options over new shares or other securities of 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.

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 Phantom Share Incentive Scheme.

On 15 July 2021, the Board approved the grant of 62,619,900 Phantom Shares under the Phantom Share Incentive Scheme.

On 15 July 2022, the Board approved the further grant of 47,232,800 Phantom Shares under the Phantom Share Incentive Scheme.

For further details of the Phantom Share Incentive Scheme and the grant of Phantom Shares on 15 July 2020, 15 July 2021 and 15 July 2022, please refer to the announcements issued by the Company on 16 July 2020, 15 July 2021 and 15 July 2022.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2022 (31 December 2021: nil).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as the Group’s code of conduct regarding directors’ securities transactions.

Specific enquiry has been made by the Company with all directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2022.

The Company has also established written guidelines (the “**Employees Written Guidelines**”) on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Board of directors (the “**Board**”) of the Company is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”).

The Board is of the view that throughout the year ended 31 December 2022, the Company has complied with all applicable code provisions as set out in the CG Code, except for the deviation from code provision C.2.1 as explained under the paragraph “Chairman and Chief Executive Officer” below.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the growth of its business and to reviewing such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (“CEO”)

Code provision C.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 CEO should be clearly established and set out in writing.

The positions of Chairman and 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.

AUDIT COMMITTEE

The audit committee of the Company has reviewed, with the Company’s management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group’s financial statements for the year ended 31 December 2022.

SCOPE OF WORK OF KPMG

The financial figures in respect of Group’s consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yashili.hk). The annual report of the Company for the year ended 31 December 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the above websites in due course.

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

Hong Kong, 29 March 2023

As at the date of this announcement, the board of directors comprises: Mr. Jeffrey Minfang Lu (Chairman) and Mr. Zhang Ping 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.