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Ausnutria

Annual Report
2023

Nourishing Life & Growth

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

Nourishing Life & Growth

Ausnutria Dairy Corporation Ltd
Annual Report 2023

Contents

MISSION

Nourishing Life
& Growth.

VISION

To become the most
trustworthy milk formula,
nutrition and health-care
enterprise in the world.

SUSTAINABILITY VISION

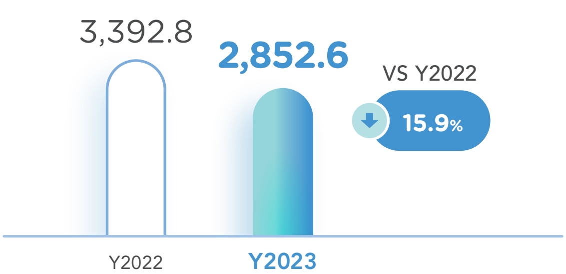
We strive to nourish life and growth by providing quality nutritional options to all on a global level. We are committed to creating value in a sustainable manner, and helping build a world in which everyone is empowered to live a healthy and prosperous life.

Revenue Contribution

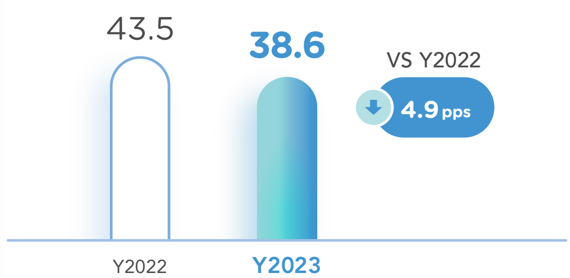
Own-branded Cow milk formula

	Y2023	Y2022	Change
Own-branded Cow milk formula	RMB 2,562.3M	RMB 2,923.5M	↓ 12.4%
Own-branded Goat milk formula	RMB 3,283.0M	RMB 3,591.0M	↓ 8.6%
Private Label and others	RMB 1,252.2M	RMB 1,148.0M	↑ 9.1%
Nutrition products	RMB 284.5M	RMB 133.0M	↑ 113.9%

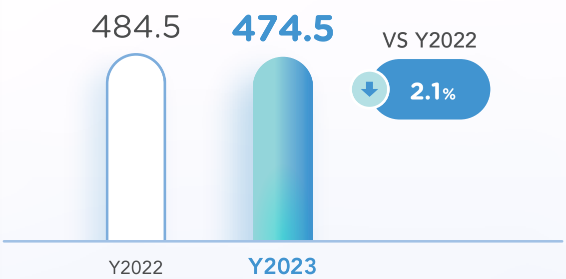
Gross profit
(RMB'M)



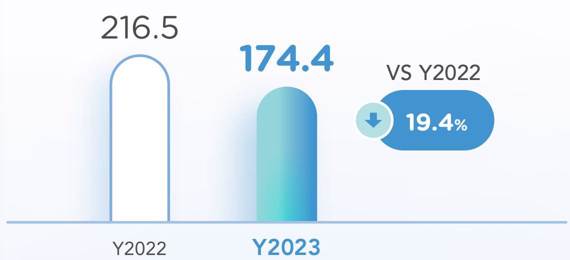
Gross profit
(in %)



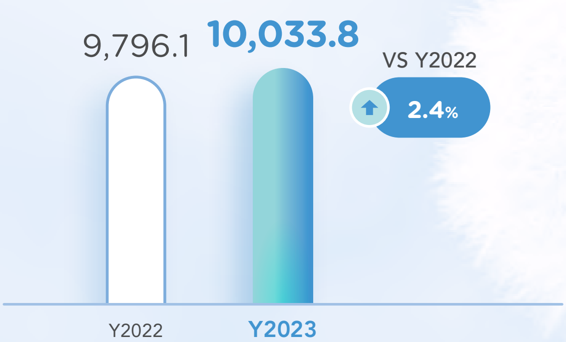
EBITDA
(RMB'M)



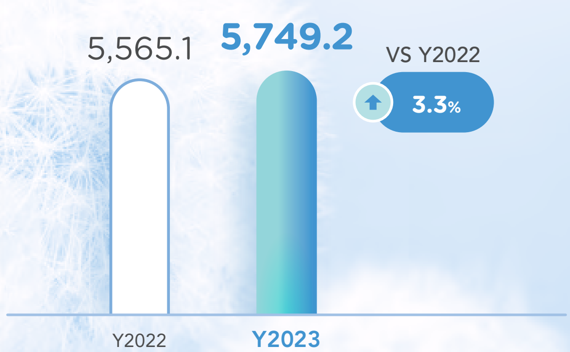
Profit attributable to Shareholders
(RMB'M)



Total assets
(RMB'M)



Net assets
(RMB'M)



(RMB'M, unless otherwise stated)	2019*	2020*	2021*	2022	2023
Revenue	6,686.6	7,823.8	8,575.2	7,795.5	7,382.0
Gross profit	3,483.8	3,819.9	4,153.4	3,392.8	2,852.6
Gross profit (in %)	52.1	48.8	48.4	43.5	38.6
EBITDA	1,255.9	1,338.3	1,158.4	484.5	474.5
Profit before tax	1,071.5	1,095.9	890.7	251.3	201.8
Profit attributable to Shareholders	852.9	908.3	763.8	216.5	174.4
EPS (in RMB cent)	53.3	55.1	44.5	12.1	9.7
Cash inflows from/(used in) operating activities	970.8	1,130.2	1,071.3	(357.5)	224.7
Net assets	3,903.5	4,865.9	4,931.1	5,565.1	5,749.2
Total assets	8,386.8	9,317.8	9,632.5	9,796.1	10,033.8
Net cash/(debt)	866.9	983.3	1,214.4	426.7	(331.4)

* Restated.

BOARD OF DIRECTORS

Executive Directors

Mr. Ren Zhijian *(Chief Executive Officer)*
Mr. Bartle van der Meer
Mr. Zhang Zhi

Non-executive Directors

Mr. Zhang Zhanqiang *(Chairman)*
Mr. Sun Donghong *(Vice-Chairman)*
Ms. Yan Junrong

Independent Non-executive Directors

Mr. Ma Ji
Mr. Song Kungang
Mr. Aidan Maurice Coleman

COMPANY SECRETARY

Ms. Wong Pui Kiu Ingrid

AUTHORISED REPRESENTATIVES

Mr. Zhang Zhanqiang
Ms. Wong Pui Kiu Ingrid

AUDIT COMMITTEE

Mr. Ma Ji *(Chairman)*
Mr. Song Kungang
Mr. Aidan Maurice Coleman

NOMINATION COMMITTEE

Mr. Zhang Zhanqiang *(Chairman)*
Mr. Sun Donghong
Mr. Ma Ji
Mr. Song Kungang
Mr. Aidan Maurice Coleman

REMUNERATION COMMITTEE

Mr. Song Kungang *(Chairman)*
Mr. Zhang Zhanqiang
Mr. Ren Zhijian
Mr. Ma Ji
Mr. Aidan Maurice Coleman

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISER

As to Hong Kong law
Skadden, Arps, Slate, Meagher & Flom and affiliates

FINANCIAL ADVISER ON RETAINER BASIS

Asian Capital Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACES OF BUSINESS

In Hong Kong

Unit 16, 36/F.,
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

In Mainland China

Block A, Building 1, Ausnutria Building,
Suncity, Purui East Road,
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Wangcheng District, Changsha City,
Hunan Province, the PRC

In the Netherlands

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8025 BM Zwolle
The Netherlands

In Australia

25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Rabobank
China Construction Bank
Bank of China
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank Hong Kong

STOCK CODE

1717

INVESTORS' CONTACT

Ms. Tracy Sun
Email: ir@ausnutria.com

COMPANY'S WEBSITE

www.ausnutria.com.hk

Chairman's Statement

On behalf of the board of directors (the "**Board**") of Ausnutria Dairy Corporation Ltd ("**Ausnutria**" or the "**Company**"), I hereby present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2023 (the "**Year 2023**").

2023 marked the 20th year in the development of Ausnutria. It was also an unprecedented year. Throughout 2023, the turbulent international relations increased the level of uncertainties. In the People's Republic of China (the "**PRC**"), the economy slowed down with relatively insufficient consumption willingness, the infant formula (the "**IMF**") industry experienced intensified consolidation with increasing market concentration, and accelerating technological advancements have turned cross-sectoral integration into the new normal. Despite all these, the entire staff of Ausnutria across the globe made concerted efforts, successfully achieved hard-won progresses and results which led to steady growth in such a complicated macro-environment.

I. STABLE GROWTH OF CORE BUSINESSES AND MOVING TOWARDS A NEW CHAPTER

Revenue of the Company for 2023 amounted to RMB7,382.0 million, representing a year-on-year ("**YoY**") decrease of RMB413.5 million or 5.3%. Gross profit was RMB2,852.6 million, representing a YoY decrease of RMB540.2 million or 15.9%. Net profit attributable to the equity holders of the Company amounted to RMB174.4 million, representing a YoY decrease of RMB42.1 million or 19.4%. Nevertheless, the Company's own-branded goat milk formulas ("**Kabrita**") fortified its leadership position in terms of market share in the PRC. In respect of the international business, Kabrita's goat milk formulas experienced rapid growth in several markets around the world and continued to rank first among goat milk formulas across the globe. The Company's own-branded cow milk formulas also witnessed a YoY improvement in profits, while the nutrition business maintained rapid growth in revenue.

II. PERSISTENT PURSUIT IN THE NUTRITION AND HEALTH INDUSTRY WITH MULTIPLE ACCOLADES

Attributed to its innovation and development in the fields of nutrition and health, the Company became the only food and nutrition enterprise in Hunan Province, the PRC to obtain the "National May Day Labour Medal (全國五一勞動獎章)". Ausnutria ranked 7th among advanced organisations in the "2nd New Hunan Contribution Award (第二屆新湖南貢獻獎)" and 27th in the Top 100 Private Enterprises in Hunan (三湘民營企業百強榜). Ausnutria also received high praise from the society by proactively fulfilling its social responsibilities and continuing to make charitable donations. In June 2023, the Company became the first company in the PRC food industry whose sustainability report received a rating of AA by Morgan Stanley Capital International ("**MSCI**").

III. REMARKABLE BRAND-BUILDING EFFORTS AND RISING BRAND INFLUENCE

In October 2023, Ausnutria participated in the China International Import Expo in Shanghai to showcase several new products as well as new brand IPs and images to show its strength in terms of globalised development. Meanwhile, our top brands of own-branded cow and goat milk formula businesses further increased their brand-building investment. In particular, Kabrita recorded over 15 billion public appearances during the year, thereby increasing its brand equity by 20% as compared with 2022. Our own-branded cow milk formula Hyproca also unleashed its brand potential by accurately positioning itself in the niche market as a premium imported brand. Aunulife, on the other hand, became one of the top 3 children probiotic brands in terms of purchases.

IV. EXTENSION OF PRODUCT RANGE AND DIVERSIFICATION OF PRODUCT MIX WITH SCHEDULED LAUNCH OF NEW PRODUCTS

In respect of our own-branded goat milk formulas, Kabrita YueHu (悅護) was widely favoured by channels and consumers and was highly sought-after since its launch. With respect to our own-branded cow milk formulas, Hyproca Nutrient Star (海普諾凱營養星球) was proudly launched to provide consumers with an additional nutritious choice, while Allnutria Jinz (能立多金鑽版) broadened the brand's portfolio. As for nutrition products, the roll-out of Aunulife AnMin (愛益森安敏) and new products of the Aunulife Daily Supplements (愛益森每日營養系列) was on schedule, while NC Gastro Repair (NC固胃淨優膠囊) and NC Daily Probiotics Gold (NC每日冷鏈益生菌) had made their first global appearances. All these have demonstrated the strength of Ausnutria's globalised product portfolio.

V. PERSISTENT IN-HOUSE INNOVATION AND DEVELOPMENT WITH AMPLE ACHIEVEMENTS IN SCIENTIFIC RESEARCH

In the innovative R&D arena, Ausnutria also yielded ample achievements during the year. In July, the Group fulfilled all requirements set out by the United States Food and Drug Administration (the "**US FDA**") for Kabrita and successfully entered the market of the United States of America (the "**US**") for marketing and distributing the infant goat milk formula (0-12 months) of Kabrita ("**Kabrita IMF**"). Kabrita IMF was the first IMF product produced in Europe that has fulfilled the US FDA's requirements. In September, with the support of the People's Government of Hunan Province, the PRC, Ausnutria was approved to initiate the establishment of the Hunan Province Infant Formula Technology Innovation Center (湖南省孕嬰童食品技術創新中心), laying down the foundation for a new scientific research and innovation hub. In November, the Probiotics Industrialisation Production Demonstration Line of Bioflag Nutrition Corporation Ltd ("**Bioflag**") formally commenced production and has become the only national-level demonstrative probiotics production line in the PRC which will boost the development of Ausnutria's overall health business. Accordingly, Ausnutria became the only enterprise with a complete probiotic industry chain in the PRC dairy industry. In addition, the results of the "Separation, Selection and Industrialised Application of Dog– and Cat-based Probiotics (犬、貓源益生菌的分離篩選及產業化應用)", a scientific research project completed in collaboration with China Agricultural University, was assessed as international advanced technological standards and filled in the relevant gap in the market.

VI. IMPROVEMENT IN GLOBAL SUPPLY CHAIN NETWORK DEVELOPMENT, ENHANCEMENT OF SUPPLY EFFICIENCY AND PRODUCT QUALITY, AND REDUCTION IN OPERATING COSTS

As to supply chain development, the main structure of the Moon Factory in the Netherlands has been completed. Production efficiency and supply chain costs have been improved by establishing a comprehensive coordination and planning system for the three existing packaging factories and formulating a complete chain that spans from planning and ordering to procurement and production. Transportation efficiency and the freshness of imported products have also been effectively enhanced by realising quick deployment of products from the Netherlands and reducing rail transportation time. Our procurement costs have also been effectively reduced through engaging in procurement collaborations across the globe.

VII. NEW BREAKTHROUGHS IN DIGITALISATION TO SUPPORT BOTH BUSINESS DEVELOPMENT AND MANAGEMENT

In 2023, the digitalisation centre achieved new breakthroughs in terms of, among other things, member, channel, marketing, business and financial digitalisation in accordance with the Group's business needs and has been in line with its "four horizontal and five vertical" overall digitalisation framework.

VIII. OUTLOOK

Looking forward to 2024, the macro-environment remains uncertain, the trend for industry reduction continues, consumers' demand becomes more diverse and market competition intensifies. To succeed in the fierce competition, we have to stay strategically focused and strengthen our execution capability. With a clear future development blueprint in mind, the Company has formulated strategic plans and laid down sophisticated and strategic road maps and key tasks as follows:

1) In 2024, we will nurture and maintain the stable growth of both core businesses, namely own-branded cow and goat milk formula businesses, and strive for the continuous and rapid growth of Kabrita international and nutrition businesses. We will also continue to expand and strengthen core operations and brands according to our strategic road maps; fight for the leadership position in the domestic probiotics market by unleashing the strength of our complete nutrition product industry chain; and achieve breakthroughs in terms of sales in core markets such as the US and the Middle East by upholding our globalised marketing strategy;

2) We will build up our core strengths and perfect our management systems. In accordance with Ausnutria's five-year strategic plan, we will take practical steps to bolster our core competitive strengths in five aspects, namely brand, product, channel, organisational and digital powers. We will also further perfect and rapidly roll out all management systems and procedures, digitalise the whole operation, implement lean management, increase operational efficiency and improve overall cost control and profitability;

3) We will strive for growth by way of innovation. As the industry in which Ausnutria operates has a relatively long history, one of our key tasks is to attract the next generation of consumers. Going forward, we have to make further efforts in capturing market trends and opportunities, closely monitor market developments and outrun our peers with dogged determination and great diligence by thoroughly understanding the market and analysing our competitors. Ausnutria will step up its investment in innovation and R&D, reinforce the protection of intellectual properties, utilise all sorts of resources in an effective manner, promote industry collaborations and enhance the overall competitiveness of its industry chain through technological innovations; and

4) We will take good care of, and share our growth with, our employees who are the most precious asset of an enterprise. Therefore, we have to listen to our employees, care about their growth, maintain good work environments and development platforms, share the fruit of our corporate growth with them, and make everyone in Ausnutria proud of their jobs. At the same time, we will stay conscious of the shifts in social development, fulfil our social responsibilities, build a harmonious society and create a bright future as a responsible consumer goods company.

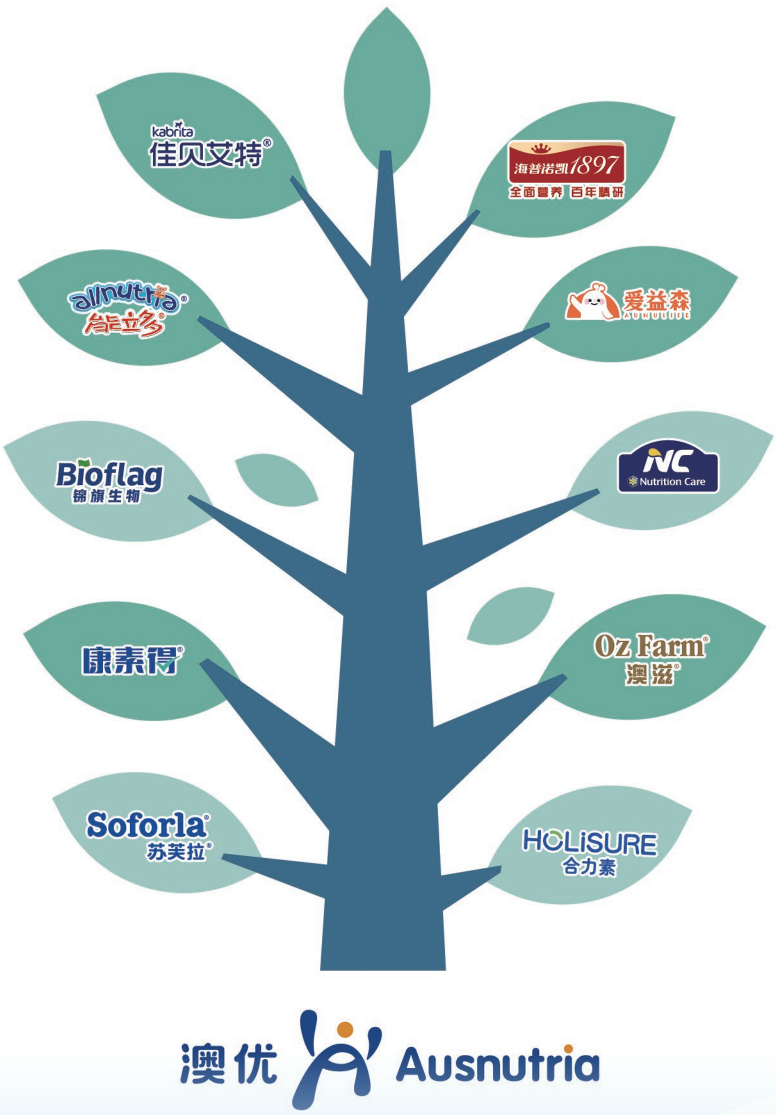
ACKNOWLEDGEMENT

On behalf of the Board, I would like to sincerely thank our customers, partners, shareholders and governments for their continued support, trust and help. I am also grateful for the contributions and dedication of the Board, the senior management and the entire staff in 2023.

In 2024, let us reach another height in unity.

Zhang Zhanqiang
Chairman

The PRC
27 March 2024


kabrita
佳贝艾特
海普诺凯1897
全面营养 百年精研
allnutria
能立多
爱益森
Bioflag
锦旗生物
NC
Nutrition Care
康素得
Oz Farm
澳滋
Soforla
苏芙拉
HOLISURE
合力素
澳优 Ausnutria

INDUSTRY OVERVIEW

Affected by the declining birth rates and weak domestic demand in recent years, the PRC IMF industry and market faced challenges. According to relevant industry data, the PRC IMF industry recorded a YoY double-digit percentage decrease in its overall scale in the Year 2023. To compete under market shrinkage, industry players proactively upheld market prices and controlled their inventory levels and product delivery in the Year 2023 with the aim of restoring market order. Furthermore, the promulgation and implementation of new national standards (the "**New GB**") in February 2023 resulted in the elimination of certain uncompetitive players, sped up market consolidation and in turn provided industry leaders with new room for development.

Recent data from the National Bureau of Statistics of China showed that the number of newborns in the PRC in 2023 was 9.02 million, which exceeded market expectations and exhibited a slowdown in its decline. 2024 is the year of the dragon, which represents luck, power and prestige in Chinese culture. The positive connotation of the year is expected to boost the number of births in 2024 and in turn benefit the IMF industry as a whole.

FINANCIAL REVIEW

Analysis on Consolidated Statement of Profit or Loss

Revenue

					Proportion to total revenue	
	Notes	2023 RMB'M	2022 RMB'M	Change %	2023 %	2022 %
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	2,562.3	2,923.5	(12.4)	34.7	37.5
Goat milk (in the PRC)	(i)	2,898.5	3,325.3	(12.8)	39.3	42.7
Goat milk (elsewhere)	(i)	384.5	265.7	44.7	5.2	3.4
Goat milk total		3,283.0	3,591.0	(8.6)	44.5	46.1
		5,845.3	6,514.5	(10.3)	79.2	83.6
Private Label and others:						
Private Label	(ii)	244.4	207.7	17.7	3.3	2.7
Others	(iii)	1,007.8	940.3	7.2	13.6	12.0
Private Label and others total		1,252.2	1,148.0	9.1	16.9	14.7
Dairy and related products		7,097.5	7,662.5	(7.4)	96.1	98.3
Nutrition products	(iv)	284.5	133.0	113.9	3.9	1.7
Total		7,382.0	7,795.5	(5.3)	100.0	100.0

Notes:

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

(ii) Representing the sales of formula milk powder products (including IMF) under the customers' own brands.

(iii) Representing mainly the sales of milk, milk powder, cream and other milk derived ingredients such as whey protein powder, etc.

(iv) Representing the sales of nutrition products in the PRC and Australia.

The Group recorded revenue of RMB7,382.0 million for the Year 2023, representing a decrease of RMB413.5 million, or 5.3%, from RMB7,795.5 million for the year ended 31 December 2022 (the "**Year 2022**"). The decrease in revenue was mainly due to the external factor of the declining birth rate in the PRC, which led to intensified competition in the industry.

The decrease was partly compensated by the (i) significant surge in the performance of Kabrita overseas; and (ii) growth in the nutrition segment contributed by the consolidation of the probiotic business as a result of the acquisition of additional interest in Bioflag (together with its subsidiaries, the "**Bioflag Group**") on 3 January 2023.

Own-branded cow milk formulas

For the Year 2023, the Group's revenue derived from its own-branded cow milk formulas amounted to RMB2,562.3 million, representing a YoY decrease of RMB361.2 million or 12.4% and accounted for the Group's total revenue of 34.7% (Year 2022: 37.5%). The decrease in milk powder sales was primarily due to the overall declining market resulted from lower birth rate and decreased demands affecting the entire IMF industry in Mainland China. To boost its competitive strength and optimise its resources allocation, the Group further consolidated two major cow milk formula business units ("**BU(s)**"), namely Hyproca Bio-Science and Allnutria, in the second quarter of 2023. The Group believes that after the consolidation, its cow and goat milk dual business model will better serve consumers with diverse needs. Such integration and sales team organisation updates affected the sales of the own-branded cow milk formulas to a certain extent in the short run, but will result in increase of profitability, and further build competitive strength in the long run.

In respect of channels, Hyproca 1897 (one of the Group's core brands) turned over a new leaf in its channel empowerment strategy in February 2023 and officially launched the "Hyproca 1897 Honour-win Maternal and Infant Alliance (荷天下母嬰聯盟)" that focuses on the latest market trends, channel profitability and new customers. In September, Hyproca's National Distributor Summit was held in Chengdu. Representatives from distributors across the nation gathered to discuss and formulate future plans for high-quality development that caters to the new circumstances and trends in the maternal and children products market.

With respect to brand development, the Group's cow milk formula BU adhered to its brand concept of "Comprehensive Nutrition, Decades of Research (全面營養，百年精研)" and strived to deliver "professional products" and "premium brands". It continued to maximise the impact of its brand-building efforts by accurately engaging as many target customers as possible through trending dramas on a number of video and television platforms. In the offline sector, the Group collaborated with its ambassadors to capitalise on the most suitable upmarket promotional activities. In June, the first live global source tracking programme jointly produced by Hyproca 1897 and the news channel of China Central Television ("**CCTV**") premiered. This programme showcased century-old farms and the Group's production lines in the Netherlands to 20 million new mothers. It also demonstrated the Group's premium milk source, top quality dairy cattle and sophisticated dairy technologies in the Netherlands to the Chinese consumers, as well as helped building the consumers' trust in the quality and strength of the Group's brands. In July, Ausnutria Foundation's "Hyproca Tundra Rose Public Welfare Project (海普諾凱格桑花公益行)" returned to provide free doctor consultations, education on nutritional knowledge, family visits and other charitable activities in collaboration with 11 member channels in the "Hyproca 1897 Honour-win Maternal and Infant Alliance". In September, Hyproca 1897 and its channels jointly debuted the "Super Brand Day (超級品牌日)" entitled "Star Products Developed with Love (精研之選 因愛閃耀)". This joint marketing event featured a wide range of brand new contents and innovative games with the aim of escorting innumerable "Pro" moms through their journeys. In November, Hyproca 1897 grandly participated in the 14th Chinese Conference on Maternal and Child Health Care for Development (中國婦幼健康發展大會) and showcased its diversified product mix that caters to the nutritional needs of infants, growing toddlers and pregnant moms. Hyproca 1897's product mix was highly praised by experts at the conference and fortified Hyproca's brand image in the professional maternity and children healthcare sector.

In terms of new products, new products launched in 2023 included the New GB version of Hyproca 1897's Hollary, which provides comprehensive nutrition from a century of development, the New GB version of Allnutria, which boosts the immune system, and other channel-specific new products, such as the New GB version of Allnutria Aiyou (能立多愛優), Allnutria Ruihuo (能立多睿活) and Neolac (悠藍), the Allnutria Jinz and Hyproca 1897's Nutrient Star toddler formula, which is positioned as nutritional supplement and immune booster for picky eaters. These new products satisfy market demand by catering to the diversified nutritional and health needs of the consumers and broadening the Group's cow milk formula product portfolio.

Own-branded goat milk formulas (Kabrita)

For the Year 2023, sales of the Group's own-branded goat milk formulas amounted to RMB3,283.0 million, representing a YoY decrease of RMB308.0 million, or 8.6% and accounted for 44.5% of the Group's total revenue (Year 2022: 46.1%), among which revenue derived from the PRC and overseas market amounted to RMB2,898.5 million (Year 2022: RMB3,325.3 million) and RMB384.5 million (Year 2022: RMB265.7 million), respectively. The Group's own-branded goat milk formulas are mostly produced in the Netherlands and marketed globally.

Sales of the Group's own-branded goat milk formulas for the Year 2023 from:

a) the PRC had a YoY decrease of 12.8%. Major reasons for the pressure on sales revenue are: (i) volumes declined as a result of market declines, in addition, the Group rebalanced channel inventory to improve channel dynamics during the Year 2023 to ensure long term healthy development and competitiveness of Kabrita; (ii) in order to undertake new product launches and optimise product portfolio, the Group has carried out discount promotions for old label Youzhuang (悠裝); and (iii) to ensure long term healthy development of Kabrita, the Group has decreased the discount of Kabrita in the third quarter of 2023 which resulted in short-term sales pressure.

   After months of adjustment, sales revenue of the Group's goat milk formulas increased period-over-period by 21.2% in the second half of 2023, actual retail prices were recovering progressively and the Group's market share rose further as compared with the last year. The Group attributed such compensatory growth to the insistence of its goat milk formula BUs (1) on intensive scientific research of goat milk in order to provide authoritative support for the stable growth of the industry – at the Asian Congress of Nutrition (亞洲營養大會) in September, the Group debuted the Bluebook on Goat Milk Scientific Researches (《羊乳科研藍寶書》), which is the first book to integrate the achievements of both Chinese and Dutch scientific researches over the years by consolidating the results of 10 years of R&D conducted by Kabrita, features a comprehensive introduction to goat milk scientific researches and demonstrates the leading R&D strength of Kabrita; (2) launching new products and extending its playing field – it rolled out Kabrita YueHu goat milk formula, which spotlights easy absorption and immune system boosters to capture the post-pandemic immune-health market; (3) increasing investment in brand-building and marketing and securing its number one position in terms of market recognition among goat milk formula brands – it launched nationwide academic cooperation meetings at all levels and brand academic activities, thereby enhancing the brand's professional reputation and strengthening the influence of the brand in the professional channel industry; adopted the dual celebrity endorsements model by engaging Ms. Tang Yan (唐嫣女士) and Mr. Huang Lei (黃磊先生), released monthly trending dramas, focused on combinations of media attentions such as escalator advertising, commercial district screens and new media platforms in key cities, to achieve multiple interactions with target consumers, and, as a result, topped the charts among goat milk formulas in terms of branded searches on major platforms actively used by target consumers in 2023; and (4) empowering channels, standardising management and penetrating end markets – since the launch of the "Leading Goat Club (領頭羊俱樂部)", Kabrita has consolidated key channels and stimulated them by long-term resource support, progressive project support and membership marketing. In 2023, Kabrita further penetrated end channels by staying abreast of industry trends and expanding its retail network in an orderly manner under a new campaign named "Thousands Counties and Townships (千縣萬鎮)".

b) overseas (including Europe, the US, the Middle East, the CIS, Mexico, South Korea, Vietnam, etc.) amounted to RMB384.5 million (Year 2022: RMB265.7 million), representing an increase of 44.7%. The surge of revenue was mainly attributed to the (i) global relaxation of pandemic restrictions; and (ii) solid YoY growth in the United Arab Emirates (UAE) in the Middle East with growing acceptance of goat milk formula.

With years of efforts made and scientific proof obtained by Kabrita's US and Dutch teams through co-operating closely under Ausnutria's "1+6+N" global proprietary R&D system, Kabrita IMF was registered and approved by the US FDA in July 2023 to be sold in the US as the first goat milk IMF across the world that has fulfilled the US FDA's nutrition and safety requirements and can be marketed in the US. Such approval highlighted Kabrita's strong R&D strength and outstanding product quality as the world's number one goat milk brand. In January 2024, Kabrita IMF was formally launched in the US market, which is the largest IMF market in the world second only to the PRC. Since then, the whole range of Kabrita's goat milk IMF can be marketed in the US. Such admittance has not only diversified the feeding options of US families, but has also accelerated the growth of Kabrita's US operation and turned a new leaf in the globalisation of Kabrita. Add to that Kabrita's successful market penetration and increasing acceptance in the Middle East, and Kabrita's share in the international market will continue to grow steadily.

In the goat milk formula market, Kabrita firmly upheld its leadership position. According to NielsenIQ, the market share of Kabrita, being the world's number one goat milk brand, in the imported infant and young children's goat milk powder market in the PRC exceeded 60% for five consecutive years (2018 to 2022). The Kabrita brand also topped the chart of searches and ranked first in terms of first association among goat milk formulas on major platforms, such as TikTok, Xiaohongshu, Baidu and other vertical maternal and infant marketplaces, actively used by target consumers.

Moving forward, in light of the increasing brand concentration, Kabrita will continue to adhere to its existing dual development strategy to meet the needs of consumers and channels by providing professional products and services, and will continue to expand its leading position as the world's number one goat milk brand.

Private Label and Others

The Group's sales of formula milk powder products on an original equipment manufacturing basis (the "**Private Label**") amounted to RMB244.4 million (Year 2022: RMB207.7 million), representing a YoY increase of 17.7%. The increase in the sales of the Private Label for the Year 2023 was mainly due to an increase of sales in South America and the expansion of distribution regions in the Middle East. Based on a solid long-term strategy, the Private Label continued to grow and win market share in dynamic and challenging market circumstances.

Nutrition business

During the Year 2023, revenue derived from the nutrition products amounted to RMB284.5 million, representing a YoY increase of RMB151.5 million, or 113.9%. The increase was mainly due to the consolidation of Bioflag after progressively increasing its investment from 27.5% to approximately 82.0% during the Year 2023.

In view of the grave challenges faced by the formula milk powder businesses, the Group has been looking for new business breakthroughs. As such, the Group regards the nutrition business as a focal point of development and an important strategic segment. In the post-COVID-19 world, consumers are more and more concerned about health and nutrition, and, therefore, market demand for relevant products has been on the rise. In particular, probiotics become the new superstar thanks to its positive effect on gut health and the immune system. To capitalise on this market development and optimise its shareholding structure, the Group increased its shareholding in Bioflag to 61.1% in early 2023 and further to 82.0% in late 2023. Capitalising on its first-mover advantages and scientific research strength in the probiotics field, the Group formally commenced the production of Bioflag's smart probiotics factory in Huai'an, Jiangsu Province in November 2023. Upon the commencement of production, the first phase of this project can produce raw probiotics powders of 33 strains in 8 categories. The factory will strive to become a world-leading functional probiotics research, production, application and smart manufacturing base. After years of development, Bioflag turned around from losses to profits in 2023 and will make contributions to the Group in terms of both revenue and profits.

To optimise resources and enhance operating efficiency, Aunulife, a probiotics brand targeting at infants and toddlers, merged with NC (Nutrition Care), an Australian professional gut nutrition brand with 40 years of history and experience targeting at adults, to form the new Aunulife BU in 2023. Upon the merger, both brands extended their targets to each other's customers, established an all-channel "Comprehensive Family Nutrition and Health" network, consolidated internal resources and cemented their competitive strengths. Coupled with the aforementioned investment made in Bioflag, this merger allowed the Group to reinforce its competitive edge by building a complete industry chain in the probiotics sector spanning from R&D, production to the sale of in-house brands.

In terms of new products, Aunulife ShouHu (愛益森首護), a star probiotics product of Aunulife, completed a comprehensive upgrade in terms of both formula and taste in April 2023. Aunulife AnMin, an anti-allergy probiotics, and new products of Aunulife Daily Supplements were grandly rolled out in July and August, respectively, during the Year. Since then, Aunulife has formulated a product mix covering 6 major nutritional needs of children in the PRC. NC Gastro Repair and NC Daily Probiotics Gold, both being new products of NC's most famous gut relief series, were globally launched at the China International Import Expo.

With respect to brand building, Aunulife started a new page in its brand development by conducting campaigns in various cities in the PRC using the white-hot national IP of Journey to the West (《西遊記》), a cartoon of CCTV. In April, Aunulife was identified by NielsenIQ as one of the top three children probiotic products in the industry as well as the number one children probiotic products in terms of reputation on Tmall. In 2023, Aunulife topped the chart of interaction in the category of children probiotic products on Xiaohongshu with the fabulous information in its content marketing campaign. On the World Digestive Health Day (國際護胃日), NC published the *White Paper on Stomach Health* (《胃健康白皮書》) at ChinaGUT (中國腸道大會) to safeguard the gastronomic health of the Chinese with data.

As to channel strategies, Aunulife concentrated on cultivating selected accounts and successfully fortified its position in certain big retail chains, local chain stores and international supermarkets with strong influence in the country and the industry, thereby maintaining its top position in the probiotics segment and accumulating strong marketing impact and brand influence.

Gross profit and gross profit margin

	Gross profit		Gross profit margin	
	2023 RMB'M	2022 RMB'M	2023 %	2022 %
Own-branded formula milk powder products:				
Cow milk	1,379.9	1,513.3	53.9	51.8
Goat milk	1,611.2	1,967.6	49.1	54.8
	2,991.1	3,480.9	51.2	53.4
Private Label and others	27.3	53.6	2.2	4.7
Dairy and related products	3,018.4	3,534.5	42.5	46.1
Nutrition products	107.6	82.6	37.8	62.1
	3,126.0	3,617.1	42.3	46.4
Less: write-down of inventories to net realisable value	(273.4)	(224.3)		
Total	2,852.6	3,392.8	38.6	43.5

The Group's gross profit for the Year 2023 was RMB2,852.6 million, representing a YoY decrease of RMB540.2 million, or 15.9%. The decrease in the gross profit margin of the Group from 43.5% for the Year 2022 to 38.6% for the Year 2023 was primarily due to the aggregate effect of the (i) increase in discount and rebates granted to distributors for the Group's own-branded formula milk powder products of Youzhuang to undertake new product launches and optimise product portfolio; (ii) increase in raw goat milk price; (iii) the continuous appreciation of EUR against RMB; and (iv) temporary increase of inventory provision.

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 25.8% (Year 2022: 27.8%) of the Group's revenue. In view of the continuous increase in market competition and the decline in birth rate, the Group has undertaken a number of cost-saving measures, particularly on the BU integration, in order to increase its competitiveness. Selling and distribution expenses decreased accordingly for the Year 2023.

Administrative expenses

Administrative expenses mainly comprised staff costs, travelling expenses, office expenses, auditor's remuneration, professional fees and depreciation. The decrease in administrative expenses was mainly contributed by the cost-saving plan implemented by the Group, particularly the BU Integration.

Other income, other gains/(losses) – net

	Notes	2023 RMB'M	2022 RMB'M
Other income			
Interest income	(i)	35.7	38.2
Government grants	(ii)	80.4	27.5
Rental income		4.5	3.3
		120.6	69.0
Other gains/(losses) – net			
Impairment of goodwill		–	(162.0)
Charitable donations	(iii)	(6.4)	(11.7)
Foreign exchange losses, net	(iv)	(23.2)	(9.5)
Restructuring costs	(v)	(38.9)	–
Others		(39.0)	(19.3)
		(107.5)	(202.5)
Total other income, other gains/(losses) – net		13.1	(133.5)

Notes:

(i) The amount mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC.

(ii) The amount mainly represented subsidies received from the government in Mainland China for the contribution made by Ausnutria Dairy (China) Co., Ltd. in the Hunan province, the PRC.

(iii) The amount was mainly for charitable activities.

(iv) The amount represented net foreign currency exchange losses arising from the foreign currency transactions, mainly between EUR and RMB, and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency rates of exchange ruling at the end of the reporting period.

(v) The amount represented the expenses in the Netherlands and the PRC during the restructuring of the group business in the Year 2023.

Finance costs

The finance costs of the Group for the Year 2023 amounted to RMB57.7 million (Year 2022: RMB14.9 million), representing mainly the interests on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

The increase in finance costs was mainly due to (i) the increase in bank loans for the financing of the building of a new IMF base powder facility (the "**New IFBP Facility**") in the Netherlands; and (ii) the increase in average interest rate as a result of the change in monetary policy in the European countries. As at 31 December 2023, approximately 95.8% (31 December 2022: 87.8%) of the Group's bank loans and borrowings are denominated in EUR.

Share of profits and losses of investments accounted for using the equity method

The amount mainly represented share of losses of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**") of RMB18.9 million (Year 2022: share of profits of RMB22.6 million) and profits of Amalthea Group B.V. and its subsidiaries (the "**Amalthea Group**") (which was acquired on 9 February 2023) of RMB2.5 million for the Year 2023. The Farmel Group is principally engaged in the collection and trading of milk and dairy related commodities in Europe. The purpose for the investment in the Farmel Group is to secure the long-term cow milk supply for the Group's operations in the Netherlands. The Amalthea Group is principally engaged in the exploitation of cheese factory and the trading of goat cheese and related products.

Income tax expenses

The effective income tax rate of the Group decreased from 25.0% for the Year 2022 to 16.3% for the Year 2023. The decrease in effective income tax rate by 8.7 percentage points was mainly due to the recognition of deferred tax asset in the current period due to the disposition of a non-wholly owned subsidiary, Pure Nutrition Limited ("**Pure Nutrition**"), in the Year 2023, which was partially offset by the impact of the change in the applicable corporate income tax ("**CIT**") rate of Hyproca Nutrition Company Limited, one of the most profit-making companies of the Group, from 15% to 25% following the expiry of its High-tech Enterprises preferential CIT rate after the Year 2022.

Profit attributable to the equity holders of the Company

The Group's profit attributable to the equity holders of the Company for the Year 2023 amounted to RMB174.4 million, representing a decrease of RMB42.1 million, or 19.4% when compared with the Year 2022.

The decrease was mainly attributable to the continuous intensive competition of the formula milk market in the PRC which resulted in the decrease in sales and the gross profit margin.

Analysis on Consolidated Statement of Financial Position

As at 31 December 2023, the total assets and net asset value of the Group amounted to RMB10,033.8 million (2022: RMB9,796.1 million) and RMB5,749.2 million (2022: RMB5,565.1 million), respectively.

The increase in total assets of the Group as at 31 December 2023 was mainly attributable to the net effect of:

(i) the additions of construction in progress of RMB510.6 million mainly for the building of the New IFBP Facility in the Netherlands;

(ii) the decrease in inventories by RMB137.3 million mainly driven by improvement in production planning and logistic lead time in the global supply chain; and

(iii) the decrease in trade and bills receivables by RMB71.0 million.

The increase in net assets of the Group as at 31 December 2023 was mainly a result of the net effect of the (i) net profit generated for the Year 2023 of RMB168.9 million (Year 2022: RMB188.3 million); (ii) appreciation of the EUR against RMB which contributed to an increase in exchange differences on translation of foreign operation of RMB115.8 million; and (iii) payment of final dividend of RMB98.5 million during the Year 2023.

Working Capital Cycle

As at 31 December 2023, the current assets to current liabilities ratio of the Group was 1.24 times (2022: 1.49 times).

An analysis of key working capital cycle is as follows:

	2023 Number of days	2022 Number of days	Change Number of days
Inventories turnover days	174	183	(9)
Debtors' turnover days	31	26	5
Creditors' turnover days	43	40	3

The decrease in turnover days of the Group's inventories was mainly due to the continuous improvement in production planning and logistics lead time in the global supply chain.

The increase in turnover days of the Group's trade receivables was mainly due to the proportionate increase in sales from the Group's overseas markets which have a comparatively longer credit terms than those in the PRC.

Analysis on Consolidated Statement of Cash Flows

	2023 RMB'M	2022 RMB'M
Net cash flows from/(used in) operating activities	224.7	(357.5)
Net cash flows used in investing activities	(740.9)	(724.0)
Net cash flows from financing activities	682.4	664.1
Net increase/(decrease) in cash and cash equivalents	166.2	(417.4)

Net cash flows from/(used in) operating activities

The net cash flows from operating activities of the Group for the Year 2023 amounted to RMB224.7 million (Year 2022: net cash flows of RMB357.5 million used in operating activities). The increase in cash flows from operating activities was mainly attributable to the operation profits and acceleration of inventory movement to maintain a balanced inventory level.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2023 of RMB740.9 million (Year 2022: RMB724.0 million) mainly represented the net effect of (i) the purchases of property, plant and equipment of RMB610.0 million (Year 2022: RMB571.5 million) mainly for the building of the New IFBP Facility and other related facilities in the Netherlands; (ii) the acquisition of the 50% issued shares together with additional capital injection in the joint venture, Amalthea Group, amounted to approximately RMB171.9 million; and (iii) the net proceeds of RMB111.0 million from the disposal of Pure Nutrition.

Net cash flows from financing activities

The net cash flows from financing activities of the Group for the Year 2023 of RMB682.4 million (Year 2022: RMB664.1 million) was primarily attributed to the net effect of (i) the decrease in restricted cash of RMB119.5 million (Year 2022: RMB130.0 million); (ii) dividends paid during the year of RMB98.5 million (Year 2022: RMB430.2 million); (iii) the net drawdown of new bank loans and other borrowings and lease payments of a total of RMB743.9 million (Year 2022: RMB260.8 million); and (iv) the acquisition of the 20.9% equity interest in Bioflag at a consideration of US$10.9 million (equivalent to RMB77.4 million) in December 2023.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

On 9 February 2023, Ausnutria B.V., a wholly-owned subsidiary of the Company, completed the acquisition of 50% equity interests in the Amalthea Group. The total cash consideration together with additional capital injection was approximately EUR22.7 million (equivalent to approximately RMB171.9 million). The Amalthea Group is principally engaged in the exploitation of cheese factory and the trading of goat cheese and related products. The Amalthea Group became a joint venture of the Company thereafter. Further details regarding the acquisition are set out in the announcement of the Company dated 23 October 2022.

On 6 June 2023, Ausnutria New Zealand Limited ("**Ausnutria NZ**"), a wholly-owned subsidiary of the Company, Westland Milk Products Investments Limited ("**Westland**"), an indirect wholly-owned subsidiary of Inner Mongolia Yili Industrial Group Co., Ltd ("**Yili Industrial**"), and Pure Nutrition, a non-wholly owned subsidiary of the Company, entered into an agreement pursuant to which Ausnutria NZ agreed to sell and Westland agreed to purchase (i) the Group's entire 60% equity interest in Pure Nutrition; and (ii) the outstanding amount of indebtedness payable by Pure Nutrition to the Group, at a consideration of approximately NZD25.4 million (equivalent to approximately RMB111.6 million). Further details regarding the aforesaid disposal are set out in the announcement of the Company dated 6 June 2023. The aforesaid disposal was completed on 26 June 2023.

Subsequent to the reporting period, on 19 January 2024, the Company (through its wholly-owned subsidiary, as the purchaser), Yuanta Asia Growth Investment L.P. and Yuanta Venture Capital Co., Ltd. (as the vendors) entered into share purchase agreements in relation to the acquisition of approximately 7.70% of the issued shares of Bioflag at a total consideration of US$4,007,690.40 (equivalent to approximately RMB28.39 million) in cash. Upon completion of this acquisition, the Company will be interested in approximately 89.74% of the issued shares in Bioflag. On the same date, Bioflag and Hongkong Jingang Trade Holding Co., Limited ("**Jingang Trade**"), a wholly and beneficially owned company of Yili Industrial entered into an agreement pursuant to which Jingang Trade conditionally agreed to subscribe for, and Bioflag has conditionally agreed to allot and issue, 1,796,326 new shares of Bioflag at the consideration of US$1,904,105.56 (equivalent to approximately RMB13.49 million) (i.e. an issue price of US$1.06 per share)(the "**Bioflag Subscription**"). Upon completion of the Bioflag Subscription, the equity interest of the Group in Bioflag will be reduced from approximately 89.74% to approximately 86.57%. Further details of the Bioflag Subscription are set out in the announcement of the Company dated 19 January 2024.

Save as disclosed above, the Company did not make or hold any significant investments (including any investment in an investee company representing 5% or more of the Company's total assets as at December 31, 2023) during the Year 2023 and there were no other material acquisitions or disposals of subsidiaries, joint ventures or associated companies during the Year 2023 and up to the date of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as otherwise disclosed in this report, the Company did not have other plans for material investments or purchase of capital assets.

TREASURY POLICY

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

A summary of liquidity and financial resources is set out below:

	As at 31 December	
	2023 RMB'M	2022 RMB'M
Interest-bearing bank loans and borrowings	(2,378.0)	(1,465.6)
Lease liabilities	(37.6)	(94.8)
Less: Restricted cash[(1)]	5.7	125.2
Long-term time deposits[(2)]	40.9	–
Cash and cash equivalents[(2)]	2,037.6	1,861.9
	(331.4)	426.7
Total assets	10,033.8	9,796.1
Shareholders' equity	5,693.5	5,646.6
Gearing ratio[(3)]	3.3%	N/A
Solvency ratio[(4)]	56.7%	57.6%

Notes:

(1) An analysis of restricted cash by currency is set out below:

	2023		2022	
Currency	RMB'M	%	RMB'M	%
RMB	3.9	68.4	123.4	98.6
Others	1.8	31.6	1.8	1.4
Total	5.7	100.0	125.2	100.0

(2) An analysis of long-term time deposits and cash and cash equivalents by currency is set out below:

	2023		2022	
Currency	RMB'M	%	RMB'M	%
RMB	1,670.0	80.3	1,543.8	82.9
EUR	181.6	8.7	3.0	0.2
AUD	48.7	2.3	72.9	3.9
HK$	46.3	2.2	93.4	5.0
US$	16.8	0.8	40.7	2.2
Others	115.1	5.7	108.1	5.8
Total	2,078.5	100.0	1,861.9	100.0

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

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

The Group is dedicated to maintain its overall liquidity by maximising the cashflows generated from operating activities and increasing the facilities with banks to reserve sufficient funding to support its business development, in particular to meet the Group's strategy of building of the New IFBP Facility and other related facilities in the Netherlands and the expansion into the nutrition business segment.

Following the change in ultimate shareholder of the Company, the Group has undergone a bank refinancing exercise in the Netherlands with more favorable terms and conditions during the Year 2023. As a result of the refinancing, all the previous pledge of the property, plant and equipment (including land and buildings, plant and machinery, motor vehicles and office equipment), inventories, investment property and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR283.4 million, equivalent to approximately RMB2,104.0 million for the banking facilities granted in the Netherlands as at 31 December 2022 have been released and replaced by corporate guarantee executed by the ultimate shareholder (namely, Yili Industrial) during the Year 2023.

As at 31 December 2023, the Group had outstanding borrowings of RMB2,378.0 million (2022: RMB1,465.6 million), all of which was due within one year (2022: RMB1,021.6 million due within one year and RMB444.0 million due over one year).

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

	2023		2022	
Currency	RMB'M	%	RMB'M	%
EUR	2,277.9	95.8	1,286.7	87.8
RMB	–	–	152.0	10.4
Others	100.0	4.2	26.9	1.8
Total	2,378.0	100.0	1,465.6	100.0

As at 31 December 2023, there was significant drop in the restricted cash balance by RMB119.5 million to RMB5.7 million (2022: RMB125.2 million), which was mainly due to the banking facilities guarantee being replaced by the corporate guarantee executed by Yili Industrial and no longer require the pledged deposit placed by the Group.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the Year 2023, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), EURO ("**EUR**"), United States dollars ("**US$**"), Australian dollars ("**AUD**") or Taiwan dollars ("**TWD**") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in RMB, EUR and AUD, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, EUR, US$, AUD or TWD against RMB.

The management monitors closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. The Group will consider and enter into interest rate swap or cap contract to mitigate the risk of floating interest rate if necessary. In order to minimise the impact of the interest rate exposure, the Group has entered into two interest rate cap contracts with a bank of a notional amount of EUR28.0 million and EUR90.0 million, with 3-month floating Euro Interbank Offered Rate being capped at an interest rate of zero and 3.0% per annum, respectively. These contracts have expired as at 31 December 2023 and the Group will consider to enter into the new contracts from time to time if necessary.

CREDIT RISK

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

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

CAPITAL COMMITMENTS

As at 31 December 2023, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of land and buildings, plant and machinery, intangible assets and acquisition of dairy related assets of a total of RMB198.8 million (2022: RMB597.9 million).

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any significant contingent liabilities (2022: Nil).

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia	Others	Total
31 December 2023	2,631	10	761	83	135	3,620
31 December 2022	3,282	11	741	108	148	4,290

As at 31 December 2023, the male to female ratio in the workforce of the Group including senior management is approximately 47:53 (2022: 47:53). The Group will continuously keep the right mix of people to work together and the gender diversity at all levels of the Group for better collaboration.

For the Year 2023, total employee costs, including Directors' emoluments, amounted to RMB1,362.7 million (Year 2022: RMB1,481.0 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

USE OF PROCEEDS FROM YILI SUBSCRIPTION

Yili Industrial, through its wholly and beneficially owned company, the Subscriber, subscribed for an aggregate of 90,000,000 new Shares at a subscription price of HK$10.06 per subscription share and a net price of HK$10.05 per subscription share after deducting related expenses (the "**Yili Subscription**"). The gross and net proceeds raised from the Yili Subscription which was completed on 28 January 2022 amounted to approximately HK$905.4 million and HK$905.0 million, respectively. As at the date of this report, the utilisation of the net proceeds from the Yili Subscription is set out below:

	Net proceeds from the Yili Subscription HK$'M	Utilised during the year from the completion of the Yili Subscription to the date of this report HK$'M	Unutilised balance as at the date of this report HK$'M
Expansion of the Company's upstream production facilities	271.5	(271.5)	–
Acquisition of nutrition-related business	271.5	(271.5)	–
Enhance the Group's processing and logistics capabilities in the PRC	181.0	(164.4)	16.6*
Investment in the Group's brand building related activities	90.5	(90.5)	–
General working capital:			
(a) Repayment of bank loans and bank borrowings in Hong Kong and the Netherlands	45.2	(45.2)	–
(b) Working capital	45.3	(45.3)	–
General working capital total	90.5	(90.5)	–
Total	905.0	(888.4)	16.6

* The Company expects to utilise the balance by the end of 2024.

The Directors are pleased to present the corporate governance report (the "**CG Report**") for the Year 2023.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix C1 to the Listing Rules as its own code of corporate governance practices. The Board also strives to implement the best practices embodies in the CG Code whenever feasible and as far as practicable.

Save for the deviation for reasons set out below, during the Year 2023, in the opinion of the Board, the Company has applied the principles of good corporate governance and has complied with the respective code provisions of the CG Code. The Company will continue to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

According to the diversity requirement under Rule 13.92 of the Listing Rules, the Stock Exchange will not consider diversity to be achieved for a single gender board. Subsequent to the resignation of Ms. Ng Siu Hung as an executive Director on 12 September 2023, the Company was with a single gender Board. Following the appointment of Ms. Yan Junrong as a non-executive Director on 24 November 2023, the Company had achieved gender diversity on the Board and thus had re-complied with the diversity requirement under Rule 13.92 of the Listing Rules and the CG Code.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the Year 2023, the Company segregated the duties of the chairman of the Board (the "**Chairman**") and the chief executive officer of the Company (the "**CEO**"), except for the period from 27 January 2023 to 12 September 2023, during which Mr. Bartle van der Meer resigned as the CEO and Mr. Yan Weibin, the then Chairman, was appointed as the then CEO. The Board continued to review the effectiveness of this structure to ensure that it is appropriate to the Group's circumstances. On 12 September 2023, following Mr. Yan Weibin's resignation from the Board, Mr. Ren Zhijian was appointed as an executive Director and the CEO and Mr. Zhang Zhanqiang, a non-executive Director, was appointed as the Chairman, thus, the Company had re-complied with the requirements under code provision C.2.1 of the CG Code since then.

MODEL CODE FOR TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix C3 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2023 and up to the date of this report.

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

THE BOARD

Board Composition

The Board currently comprises nine members, including three executive Directors (the "**EDs**"), three non-executive Directors (the "**NEDs**") and three independent non-executive Directors (the "**INEDs**"). Save for Mr. Zhang Zhanqiang, Mr. Sun Donghong and Ms. Yan Junrong who are working in Yili Industrial, a substantial Shareholder, the Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure that strong independence exists across the Board, with diversity in skills, expertise, experience and qualifications concerning the Directors. The biographies of the Directors, including the relationship between the members, if any, are set out in the section headed "Management Profiles" on pages 54 to 56 of this report.

The Board is dedicated to make decisions objectively in the best interests of the Group. Each Director has a wide spectrum of valuable business experience, knowledge and professionalism, which enables the Board to be efficient and effective.

For the Year 2023 and up to the date of this report, the Board comprised the following members and each of their roles are as follows:

	Board Committee		
	Audit Committee	Nomination Committee	Remuneration Committee
Director			
Executive Directors:			
Mr. Ren Zhijian (CEO) (appointed on 12 September 2023)	/	/	Member
Mr. Bartle van der Meer (resigned as CEO on 27 January 2023)	/	/	/
Mr. Zhang Zhi (appointed on 12 September 2023)	/	/	/
Mr. Yan Weibin (resigned on 12 September 2023)	/	/	/
Ms. Ng Siu Hung (resigned on 12 September 2023)	/	/	/
Non-executive Directors:			
Mr. Zhang Zhanqiang (Chairman)	/	Chairman	Member
Mr. Sun Donghong (Vice-Chairman)	/	Member	/
Ms. Yan Junrong (appointed on 24 November 2023)	/	/	/
Mr. Zhang Lingqi (resigned on 24 November 2023)	/	/	/
Independent Non-executive Directors:			
Mr. Ma Ji	Chairman	Member	Member
Mr. Song Kungang	Member	Member	Chairman
Mr. Aidan Maurice Coleman	Member	Member	Member

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the Year 2023, the Board at all times met the requirements of the Listing Rules of appointing at least three INEDs representing one-third of the Board pursuant Rule 3.10A of the Listing Rules with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10(2) of the Listing Rules.

During the Year 2023, each of Mr. Ren Zhijian and Mr. Zhang Zhi, who was appointed as a Director on 12 September 2023, had obtained the legal advice referred to in Rule 3.09D of the Listing Rules on Hong Kong law as regards the requirements under the Listing Rules that are applicable to him as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange on 12 September 2023, and each of them had confirmed he understood his obligations as a director of a listed issuer.

During the Year 2023, Ms. Yan Junrong, who was appointed as a Director on 24 November 2023, had obtained the legal advice referred to in Rule 3.09D of the Listing Rules on Hong Kong law as regards the requirements under the Listing Rules that are applicable to her as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange on 24 November 2023, and she had confirmed she understood her obligations as a director of a listed issuer.

Board Responsibilities

The Board is responsible for leading, directing and supervising the Group's affairs to enable its long-term sustainability as well as setting strategic objectives focusing on value creation and risk management. The Board is also responsible for ensuring adequacy of resources, staff qualifications and experience, especially for the Group's accounting, internal audit and financial reporting function.

All the Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times. In order to ensure that their duties can be properly discharged, the Directors are entitled to seek advice from independent professional advisers whenever deemed necessary by them at the expense of the Company.

The Directors shall disclose to the Company details of other offices they held and the Board regularly reviews each of the Directors' required contribution to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Independence Mechanism

During the Year 2023, the Board reviewed the implementation and effectiveness of the mechanisms in place to ensure that independent views and opinions are available to the Directors. Having considered the following aspects, the Board considered that the Company maintained an effective mechanism to ensure a potent and sufficient element of independence in the Board:

- there are three INEDs in the Board (representing one-third of the Board), all of whom continued to devote sufficient time to the Company; other Board committees are also comprised of sufficient number of INEDs to ensure that independent views are available to each Board committee;

- the Board reviews its structure, size and composition (including skills, knowledge, experience, gender balance and length of tenure) and the implementation and effectiveness of the diversity policy at least annually to maintain a balanced Director composition in the Board;

- the Nomination Committee assesses the independence of all INEDs annually in accordance with the independence standards set out in the Listing Rules to ensure that they are always able to exercise independent judgment;

- all Directors (including the INEDs) have equal opportunities and multiple channels to convey and express their independent views and input to the Board and Board committees;

- all Directors (including the INEDs) may request further data and documentation from the management of the Company on matters discussed at Board meetings;

- all Directors may seek assistance from the secretary to the Board and the company secretary and seek external independent professional advice at the Company's expense;

- all Directors (including the INEDs) shall not vote on any Board resolution approving any contract or arrangement in which he/she or any of his/her associates has a material interest nor shall he/she be counted in the quorum of the meeting; and

- the Chairman of the Board at least annually holds meetings with the INEDs without the presence of other Directors to discuss matters and address concerns.

Board's Responsibilities for Financial Reporting in respect of Financial Statements

The Board acknowledges its responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2023, the Board ensured that (i) the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards, and they have been applied consistently; (ii) judgments and estimates made are prudent, fair and reasonable; and (iii) the consolidated financial statements are prepared on a going concern basis. The Board is also responsible for the timely publication of the consolidated financial statements of the Group.

The Directors confirm that, having made all reasonable enquiries, to the best of their knowledge, information and belief, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement made by PricewaterhouseCoopers, the independent auditors of the Company, about their reporting responsibilities is set out in the section headed "Independent Auditor's Report" of this report.

Executive Directors

All the EDs have entered into service agreements with the Company for a term of 3 years and are subject to retirement by rotation and re-election at the annual general meeting of the Company (the "**AGM**") in accordance with the provisions of the articles of association of the Company (the "**Articles of Association**"). Their emoluments are determined with reference to each of their experience and contributions to the Group, the Group's performance and profitability, as well as the prevailing market conditions. An ED shall not vote on any Board's resolution regarding the amount of his/her emolument and/or bonus (if any).

Non-Executive Directors

The NEDs have the same duties of care and skill and fiduciary duties as the EDs. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The NEDs bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at the Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on the Board committees, all NEDs make various contributions to the effective direction of the Company.

All the NEDs have entered into service agreements with the Company for a term of 2 years and are subject to retirement by rotation and eligible for re-election in accordance with the provisions of the Articles of Association.

Independent Non-Executive Directors

The INEDs have the same duties of care and skill and fiduciary duties as the EDs. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs are experienced professionals with expertise in respective areas of the dairy industry and related technical know-how, accounting and finance. With their professional knowledge and experience, the INEDs advise the Company on its operation and management as well as provide independent opinions on the Company's connected transactions, particularly in relation to the issuance of new Shares pursuant to the Subscription Agreement and the continuing connected transactions, and participate in various Board committees' meetings. The INEDs also provide adequate checks and balances to protect the interests of the Group and the Shareholders as a whole and to promote the development of the Group. Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has three INEDs of whom Mr. Ma Ji is a member of the Chinese Institute of Certified Public Accountants.

All the INEDs have entered into service agreements with the Company for a term of 2 years and are subject to retirement by rotation and eligible for re-election in accordance with the provisions of the Articles of Association.

Each INED is required to inform the Stock Exchange as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during the Year 2023.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers all INEDs are independent in accordance with the definition of the Listing Rules for the Year 2023. The Chairman had a meeting with all the INEDs without the presence of other Directors in the Year 2023 pursuant to Rule C.2.7 of the CG Code.

Appointment, Re-election and Removal of Directors

The Company has established a formal and transparent procedures for the appointment of the Directors. The Company has adopted the procedures for the Shareholders to propose a person for election as a Director which are available and accessible on the Company's website under the section of "Governance" at www.ausnutria.com.hk.

Article 84 of the Articles of Association provides that all Directors, including the Chairman, are subject to retirement from office at least once every 3 years at each AGM and shall be eligible for re-election. Under Article 83 of the Articles of Association, the office of a Director is liable to be vacated in certain circumstances and the Company may remove any Director by an ordinary resolution at a general meeting as prescribed in Article 83 of the Articles of Association.

The procedures and process of appointment, re-election and removal of the Directors are set out in the Articles of Association. The nomination committee of the Board (the "**Nomination Committee**") is responsible for reviewing the Board's composition, developing and formulating the relevant procedures for nomination and appointment of the Directors, monitoring the appointment and succession planning of the Directors and assessing the independence of the INEDs.

Chairman of the Board and Chief Executive Officer

Under the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the Year 2023, the Company segregated the duties of the Chairman and the CEO, except for the period from 27 January 2023 to 12 September 2023, during which Mr. Bartle van der Meer resigned as the CEO and Mr. Yan Weibin, the then Chairman, was appointed as the then CEO. On 12 September 2023, following Mr. Yan Weibin's resignation from the Board, Mr. Ren Zhijian was appointed as an ED and the CEO and Mr. Zhang Zhangqiang, a NED was appointed as the Chairman, thus, the Company had re-complied with the requirements under code provision C.2.1 of the CG Code since then.

Directors' Liability Insurance

The Company has subscribed for appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against the Directors arising out of corporate activities. The coverage and the sum insured under the policy are reviewed and renewed on an annual basis. The insurance coverage was renewed on 7 January 2024.

Induction and Continuous Professional Development

All Directors keep abreast of their responsibilities as a Director and of the conduct, business activities and development of the Company. Each newly appointed Director receives a comprehensive, formal and tailored induction on his/her first occasion of appointment to ensure his/her understanding of the business, operations and corporate governance structure of the Company, awareness of a Director's responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. To facilitate the Directors to discharge their responsibilities, the Directors are updated from time to time on the latest legislative and regulatory developments to ensure that they are fully aware of their responsibilities under the Listing Rules as well as the applicable legal and regulatory requirements in the industry. All Directors are encouraged to attend relevant training courses at the expense of the Company.

Based on the training records as provided to the Company by the Directors, the Directors have participated in the following training during the Year 2023:

	Types of training
Executive Directors:	
Mr. Ren Zhijian (appointed on 12 September 2023)	B, C
Mr. Bartle van der Meer	B
Mr. Zhang Zhi (appointed on 12 September 2023)	B, C
Mr. Yan Weibin (resigned on 12 September 2023)	B
Ms. Ng Siu Hung (resigned on 12 September 2023)	B
Non-executive Directors:	
Mr. Zhang Zhanqiang	B
Mr. Sun Donghong	B
Ms. Yan Junrong (appointed on 24 November 2023)	B, C
Mr. Zhang Lingqi (resigned on 24 November 2023)	B
Independent Non-executive Directors:	
Mr. Ma Ji	B
Mr. Song Kungang	B
Mr. Aidan Maurice Coleman	B

Notes:

A: training and seminars
B: read newspapers, journals and updates relating to the Group's business and regulatory requirements, and materials relating to the Listing Rules and relevant laws
C: induction training by Hong Kong lawyers for newly appointed Directors

Board's Corporate Governance Functions

The Board is responsible for determining the policy for corporate governance of the Company and performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Company;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct applicable to the employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the CG Report.

During the Year 2023, the Board has reviewed (i) the Company's corporate governance policies and practices; (ii) the training and continuous professional development of the Directors and senior management; and (iii) the Company's policies and practices on compliance with legal and regulatory requirements.

Board and Board Committee meetings

The Board meets regularly, no less than four times a year pursuant to Rule C.5.1 of the CG Code, to discuss the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications. The schedule for the regular meetings of the Board and the Board committees was prepared and approved by the Board at the end of the previous year or beginning of the year. Formal notices were sent to the Directors at least 14 days before the respective meetings shall be held officially.

All Directors are provided with appropriate, complete and reliable materials for their review at least 3 days prior to respective meetings. The agenda for each meeting is prepared and circulated after sufficient consultation with the Board/Board committee members and approved by the respective chairmen. The company secretary department is responsible for circulating the papers of the meetings of the Board and the Board committees, and relevant information to the Directors. The Directors have separate and independent access to the company secretary of the Company (the "**Company Secretary**") and the senior management at all times and may seek independent professional advice at the expense of the Company. Where queries are raised by the Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for the meetings of the Board and the Board committees.

Full minutes of the Board and the Board committee meetings are kept by the Company and are open for inspection by any Director. Draft and final versions of minutes were sent to all Directors for their comments and records respectively within a reasonable time after the meeting.

BOARD COMMITTEES

The Board has established three Board committees, namely, audit committee (the "**Audit Committee**"), the Nomination Committee and remuneration committee (the "**Remuneration Committee**"). Each Board committee is governed by specific terms of reference approved by the Board, covering its functions, duties and powers.

Audit Committee

As at the end of the reporting period, the Audit Committee comprised three members and they are all the INEDs (Mr. Ma Ji, Mr. Song Kungang and Mr. Aidan Maurice Coleman). The Audit Committee is chaired by Mr. Ma Ji, who is a member of the Chinese Institute of Certified Public Accountants pursuant to Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are to monitor the integrity of the Company's financial statements, annual and interim reports, account, risk management and internal control as well as maintain an appropriate relationship with the Company's external auditors; give material advice in respect of financial reporting, internal control and risk management systems and the effectiveness of internal audit function of the Company; make recommendations to the Board on the appointment and removal of external auditors; and review arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee is also responsible for ensuring the internal audit function is staffed by employees with appropriate qualification, experience, integrity and independence of mind, has appropriate standing within the Company, and reviewing and monitoring its effectiveness. The written terms of reference of the Audit Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

The Audit Committee had reviewed the Company's interim results for the six months ended 30 June 2023, the annual results for the Year 2023, risk management and internal control systems of the Group, the effectiveness of the Company's internal audit function as well as considered and discussed with the external auditors regarding their re-appointment and independence. During the reporting period, the Audit Committee also met with the external auditors for at least two times. All issues raised by the external auditors and the Audit Committee have been addressed by the Board. No issues brought to the attention of the Board were of sufficient significance for disclosure in this report.

Full minutes of the Audit Committee meetings are kept by the Company and are open for inspection by any committee members. Draft and final versions of minutes were sent to all members of the Audit Committee for their comments and records respectively within a reasonable time after the meeting.

Nomination Committee

As at the end of the reporting period, the Nomination Committee comprised five members, two NEDs (Mr. Zhang Zhanqiang and Mr. Sun Donghong) and all three INEDs (Mr. Ma Ji, Mr. Song Kungang and Mr. Aidan Maurice Coleman). The Nomination Committee is chaired by Mr. Zhang Zhanqiang. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, the nomination policy, diversity policy and independence mechanism of the Board and the Nomination Committee on a regular basis; recommend to the Board suitable candidates for directorship after considering the nominees' independence and quality in order to ensure the fairness and transparency of all nominations; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors if necessary. In the selection process of a candidate to act as a Director, the Nomination Committee makes reference to criteria including but not limited to, reputation for integrity, accomplishment and experience in the industry, professional and educational background, and commitment in respect of available time and assesses the independence of the INEDs. The written terms of reference of the Nomination Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange, and are available to the Shareholders upon request.

Nomination procedures and process

(i) *Appointment by the Board*

The Nomination Committee has been delegated authority to identify and recommend potential candidates to the Board on the selection of individuals nominated for directorship through different means, including recommendations from existing Directors or any other means that it deems appropriate.

Once a candidate has been identified, the Nomination Committee, will request the candidate to provide his/her biographical information and other additional information and documents deemed necessary, including but not limited to (i) information on his/her interests in the securities of the Company (if any); (ii) his/her consent to act as a Director and disclosure of information relating to his/her proposed appointment; and (iii) for an INED candidate, his/her declaration of independence in accordance with the criteria under the Listing Rules.

The Nomination Committee will review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required. The Nomination Committee may, at its discretion, invite the candidate to meet with the Nomination Committee members in order to assist them in their consideration of the proposed nomination or recommendation. The Nomination Committee will then make recommendations for the Board's consideration and approval.

(ii) *Appointment by the Shareholders at a general meeting*

For the procedures of shareholders' nomination of any proposed candidate for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director", which is available on the Company's website.

(iii) *Re-appointment at a general meeting*

The Nomination Committee will review the profile of the existing Directors who have offered themselves for re-appointment to consider their suitability in the light of the Group's corporate strategy, the structure, size and composition of the Board at that time. The Nomination Committee will then make recommendations for the Board's consideration and the Board will, at its discretion, make recommendations to the Shareholders.

Board Diversity Policy

The Board has adopted a board diversity policy which recognises and embraces the benefits of having a diverse and inclusive Board, and agrees to increase diversity at Board level continuously, in order to achieve and maintain good corporate governance, sustainable development and competitive advantage. Board diversity has been considered from a range of diverse perspectives, including but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining the optimum composition of the Board and should be balanced appropriately when possible and necessary. The Board believes a diversified board promotes board effectiveness and enables better decisions to be made due to the lessened risk of groupthink. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including the structure, size and composition of the Board, gender diversity on the Board, how and when gender diversity will be achieved in respect of the Board and the numerical targets and timelines set for achieving gender diversity on the Board. The Nomination Committee will identify and make recommendations in relation to the aforesaid to the Board for adoption and consideration to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile.

As at the date of this report, the Board consists of one female Director and eight male Directors. The Board considers that the gender diversity in respect of the Board with reference to the Group's business needs is satisfactory. The Board targets to maintain at least the current level of female representation. In considering the Board's succession, the Nomination Committee will search from, including but not limited to, different professional firms, legal, accounting, directorship bodies or through independent professional search firms to help identify potential candidates, as and when necessary. The Board will continue increasing the proportion of female members over time as and when suitable candidates are identified.

During the Year 2023, the Nomination Committee reviewed the Board diversity policy, the Board independence mechanism, the procedure for the selection, appointment and reappointment of Directors, the structure, size and composition of the Board, the independence of the INEDs and considered the qualifications of the retiring Directors standing for re-election at the AGM on an annual basis.

Full minutes of the Nomination Committee meetings are kept by the Company and are open for inspection by any committee members. Draft and final versions of were sent to all members of the Nomination Committee for their comments and records respectively within a reasonable time after the meeting.

Details of workforce composition were disclosed under the section headed "Management Discussion and Analysis" in this report. The current gender diversity of workforce was appropriate taking into account the business models and operational needs of the Group.

Remuneration Committee

As at the end of the reporting period, the Remuneration Committee comprised five members, an ED (Mr. Ren Zhijian), a NED (Mr. Zhang Zhanqiang) and all three INEDs (Mr. Ma Ji, Mr. Song Kungang and Mr. Aidan Maurice Coleman). The Remuneration Committee is chaired by Mr. Song Kungang. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall emolument policy and structure relating to all Directors and senior management of the Group, review performance-based remuneration, and ensure none of the Directors determines their own remuneration. The written terms of reference of the Remuneration Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

During the Year 2023, the Remuneration Committee reviewed the emolument policy and structure of the Company, the share option plan, the remuneration packages as well as the annual bonuses of the Directors and the senior management and assessed the performance of the EDs.

Full minutes of the Remuneration Committee meetings are kept by the Company Secretary and are open for inspection by any committee members. Draft and final versions of minutes were sent to all members of the Remuneration Committee for their comments and records respectively within a reasonable time after the meeting.

Attendances of the Directors at various Board meetings, Board committee meetings and general meetings during the Year 2023:

	Board meetings	Audit Committee meetings	Nomination Committee meeting	Remuneration Committee meeting	Year 2022 AGM
Executive Directors:					
Mr. Ren Zhijian (appointed on 12 September 2023)	4/4	N/A	N/A	N/A	N/A
Mr. Bartle van der Meer	12/13	N/A	N/A	N/A	0/1
Mr. Zhang Zhi (appointed on 12 September 2023)	4/4	N/A	N/A	N/A	N/A
Mr. Yan Weibin (resigned on 12 September 2023)[1]	8/8	N/A	1/1	1/1	1/1
Ms. Ng Siu Hung (resigned on 12 September 2023)	8/8	N/A	N/A	N/A	0/1
Non-executive Directors:					
Mr. Zhang Zhanqiang [1]	13/13	N/A	N/A	1/1	0/1
Mr. Sun Donghong	13/13	N/A	2/2	N/A	0/1
Ms. Yan Junrong (appointed on 24 November 2023)	1/1	N/A	N/A	N/A	N/A
Mr. Zhang Lingqi (resigned on 24 November 2023)	12/12	N/A	N/A	N/A	0/1
Independent Non-executive Directors:					
Mr. Ma Ji [2]	13/13	7/7	2/2	1/1	1/1
Mr. Song Kungang [3]	10/13	6/7	2/2	1/1	0/1
Mr. Aidan Maurice Coleman	8/13	5/7	1/2	1/1	1/1

Notes:

(1) Mr. Yan Weibin acted as the Chairman of the Board and the Nomination Committee during the Year 2023 until he resigned on 12 September 2023. Mr. Zhang Zhanqiang was appointed as the Chairman of the Board and the Nomination Committee on 12 September 2023.

(2) Chairman of the Audit Committee.

(3) Chairman of the Remuneration Committee.

Delegation by the Board

The Board reserves for its decision for all major matters of the Group, including but not limited to, monitor and approval of material transactions, reviews and approval of annual business plan and financial budget, matters involving a conflict of interest for a substantial Shareholder or Director, approval of the quarterly, interim and annual results, sustainability report and other disclosures to the public or regulators.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The Board delegated various responsibilities to the Board committees and other committees the responsibility for overseeing particular aspects of affairs of the Group. The Board committees should report to the Board on the decisions or recommendations they made.

The Board has delegated to the CEO and the senior management of the Group the authority and responsibility for the day-to-day management and operation of the Group and has the full support of them for discharge of their responsibilities. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the CEO and the senior management of the Group.

Remuneration of Directors and Senior Management

The remuneration of Directors and the senior management by band for the Year 2023 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	6
1,000,001 – 1,500,000	2
1,500,001 – 2,000,000	–
2,000,001 – 2,500,000	2
2,500,001 – 3,000,000	1
3,000,001 – 3,500,000	–
11,500,001 – 12,000,000	–
	11

Further particulars regarding Directors' and chief executive's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix D2 to the Listing Rules are set out in notes 10 and 11 to the consolidated financial statements.

COMPANY SECRETARY

Ms. Wong Pui Kiu Ingrid ("**Ms. Wong**") has been appointed as the Company Secretary on 12 September 2023. Ms. Wong is currently a senior manager of Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services.

All Directors have access to the advice and services of the Company Secretary on corporate governance and board practices and matters. Ms. Cheung Ka Lai, Deputy Company Secretary of the Company, has been designated as the primary contact person at the Company who would work and communicate with Ms. Wong on the Company's corporate governance and secretarial and administrative matters.

For the Year 2023, Ms. Wong has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid/payable to the Company's external auditors in respect of audit and non-audit services for the Year 2023 is set out below:

PricewaterhouseCoopers

Type of Services	RMB'000
Audit services	12,735
Other assurance services	200
Subtotal	12,935
Non-audit services*	1,145
Total	14,080

* Represented mainly tax consultancy services.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control Framework

The Group has established a risk management and internal control ("**RMIC**") framework and procedures to proactively manage risks. The approach used is partly based on both COSO ERM and ISO 31000 and specifically tailored for use within the Group. The Group adopted the "Three Lines" model to address how specific duties related to risk and control should be assigned and coordinated within the Group. The RMIC systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The main features of the RMIC systems are to provide a clear governance structure, policies and procedures, as well as a reporting mechanism to facilitate the Group to manage its risks across business operations.

Risk Management Approach

Each department or division is responsible for identifying and assessing principal risks within its department or division that may potentially impact the business of the Group, among others, operating activities, the reliability of its financial reports and its compliance with laws and regulations on a regular basis and establishing mitigation plans to manage the risks identified. The assessment result will be escalated to the respective local management and/or Audit Committee with risk mitigation proposals and the management is responsible for overseeing the Group's risk management and internal control activities, attending regular meetings with each department or division to ensure principal risks are properly managed, and new or changing risks are identified and documented. In addition to the regular internal control and risk assessment, the management also monitors and manages designated outstanding risk(s) on an ongoing basis.

Internal Control Systems

The Group has established an internal control system to monitor its internal control in accordance with the requirements of the Stock Exchange. Group-wide policies are also adopted to mitigate risks threatening the Group such as anti-fraud, anti-corruption and whistleblowing procedures are in place to facilitate employees of the Company to raise and report concerns and issues about possible improprieties in financial reporting, internal control or other matters of the Company. External consultants will be appointed when appropriate, to review the Group's internal control, workflows, and the management systems, and to make suggestions on system enhancement.

Internal Audit

The Group has established an independent internal audit department at a very early stage of its establishment. The person in charge of the department is granted the liberty to communicate with the Audit Committee and directly report the progress of works, including but not limited to audit work planning, work results, important audit findings and rectification. The internal audit department is issue-oriented and risk-oriented, which reinforces the supervision and strengthens the functions of management through various works on audit. The internal audit department will also communicate with and support the external auditors if and when necessary.

Representatives of the internal audit department attends Audit Committee meetings and reports their work at least twice a year. Resources such as the annual budget, staffing of the department and competence are guaranteed to be taken into consideration by the Audit Committee and necessary support for the internal audit department will be provided. This is to ensure that sufficient audit resources are allocated to the internal audit department for the effective fulfilment of annual work objectives and responsibilities.

Handling and Dissemination of Inside Information

The Group has adopted a guideline, namely, the "Employees' Code of Dealing the Securities of the Company" for its senior management and employees who are likely to be in possession of unpublished inside information of the Company on terms no less exacting than the Model Code and the Guidelines on Disclosure of Inside Information of the SFO. The aforementioned guideline sets out the procedure and internal control procedures to ensure timely disclosure of inside information of the Group and fulfilment of the Group's continuous disclosure obligations and provides a general guideline and standards for the Company's senior management, officers and relevant employees in dealing in the securities of the Company to ensure inside information is kept confidential until disclosures are made. During the Year 2023, no incident of non-compliance of the "Employees' Code of Dealing the Securities of the Company" was noted by the Group.

Assessing The Effectiveness of Risk Management and Internal Control System

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The review process comprises, among other things, meeting with senior management, internal audit department and external auditors, reviewing the relevant work reports and information of key performance indicators, the management's self-assessment on internal control as detailed above and discussing the major risks with the senior management of the Company. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems on an annual basis covering the Year 2023, among others, the financial, operational and compliance controls. The Board considered the risk management and internal control systems of the Group are effective and adequate. No other material deficiencies nor significant areas of concern that might affect the Shareholders were identified during the review. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders, investors and potential investors. To the best belief of the Board, the Company has published all of its announcements on time in accordance with the Listing Rules. All these information are available for public access on the Company's website and the website of the Stock Exchange.

Besides, the Board maintains regular dialogues with institutional investors and analysts and participates in media interviews and specialist industry forums to keep the Shareholders and investors timely informed of the Group's strategy, operations, management and plans. The Directors and members of the various Board committees would attend and answer questions raised at the AGM, and significant issues will be put as separate proposed resolutions.

The Company encourages the Shareholders to attend AGMs and other general meetings to communicate their views and concerns to the Board directly to ensure a high level of accountability. The Directors acknowledge their responsibility for the timely holding of AGMs. The last Shareholders' meeting was the AGM held on 30 May 2023 at 22nd Floor, Block A, Building 1, Ausnutria Building, Suncity, Purui East Road, Yueliangdao Street, Wangcheng District, Changsha City, Hunan Province, the PRC for approval of, among other things, the audited consolidated financial statements and the Directors' Report and of the Auditors Report for the Year 2022, the general mandates to issue the Shares and repurchase Shares, the re-election of the retiring Directors, authorizing the Board to fix the Directors' remuneration and emolument, the payment of a final dividend and the proposed amendments to the memorandum and articles of association of the Company. Particulars of the major items considered at the meeting are set out in the circular of the Company dated 25 April 2023. All proposed ordinary and special resolutions were passed by way of poll at the meeting.

The AGM for the Year 2023 will be held on 30 May 2024. The notice of AGM will be sent to the Shareholders at least 21 clear days before the AGM.

To promote effective communication, the Company maintains a website at www.ausnutria.com.hk where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices, press release and other information are posted and available for public access. Investors may write directly to the Company or via email to ir@ausnutria.com for any enquiries.

Shareholders' Communication Policy

The Company has in place a Shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The Board has reviewed the implementation of shareholders' communication policy and is satisfied that it has been effective for the Company to communicate with the Shareholders through available channels.

Dividend Policy

According to the dividend policy of the Company (the "**Dividend Policy**"), the declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the Articles of Associations. In accordance with the Articles of Association, the Company in general meeting may from time to time by ordinary resolution declare dividends in any currency to be paid to the Shareholders, but no dividend shall be declared in excess of the amount recommended by the Board. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of the share premium account or any other fund or account which can be authorised for this purpose in accordance with relevant laws, rules and regulations.

Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the financial status, the capital sufficiency, the earnings, losses and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company.

The Board will review the Dividend Policy from time to time and reserves its right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy. There can be no assurance that dividends will be paid in any particular amount for any given period.

Constitutional Documents

During the Year 2023, the Company has amended its Articles of Association, which came into effect on 30 May 2023. The amendments were to, among others, bring the Articles of Association in line with the amendments made to the applicable laws of the Cayman Islands and the Listing Rules, in particular Appendix A1 to the Listing Rules regarding the core shareholder protection standards which became effective on 1 January 2022. Details of the amendments are set out in the circular dated 25 April 2023 to the Shareholders. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Shareholders' Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Stock Exchange and the Company after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles of Association, any one or more Shareholders holding at the date of submission of the requisition not less than one-tenth of the paid-up capital of the Company, on a one vote per share basis, carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business or resolution specified in such requisition; and such meeting shall be held within two months after the submission of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association for Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company with the contact details set out below. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
For the attention of the Board of Directors

Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communication.

The Directors hereby present their report and the audited consolidated financial statements for the Year 2023.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in

(i) the dairy industry with activities ranging from R&D, milk collection, processing, production, packaging, marketing and distribution of IMF and other dairy products to customers in the PRC, the Netherlands, Australia, the Middle East and other overseas countries; and

(ii) R&D, production, marketing and distribution of nutrition products to customers principally located in the PRC and the Netherlands.

There were no significant changes in the nature of the Group's principal activities during the Year 2023. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

An analysis of the Group's performance for the Year 2023 by operating segment is set out in note 5 to the consolidated financial statements of this report.

BUSINESS REVIEW

Discussion on the business and performance can be found throughout this report and the cross reference are set out below. The business reviews form part of this directors' report.

Topics	Sections
A fair review of the business of the Group during the Year 2023 and the Group's future business development	Chairman's Statement (pages 8 to 10)
A discussion of the principal risks and uncertainties facing the Group, measures undertaken to manage such risks and an analysis of the Group's performance using key performance indicators	Management Discussion and Analysis (pages 12 to 25)
The Company's key relationships with its employees	Chairman's Statement (pages 8 to 10) Directors' Report (pages 41 to 42)
The Company's key relationships with its customers and suppliers	Directors' Report (page 44)
A discussion on relationships with the Company's stakeholders	Corporate Governance Report (pages 26 to 40)

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and has provided guidelines to staff on compliance with laws and regulations. The Group's main operations are carried out by the Company's subsidiaries in the PRC, the Netherlands and Australia while the Company is listed in Hong Kong. During the Year 2023 and up to the date of this report, the Board was not aware of any non-compliance with the relevant laws and regulations that has a significant impact on the Group.

SUSTAINABILITY POLICIES AND PERFORMANCE

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

During the Year 2023, in May, Bioflag received the Year 2023 Innovation Award on iSEEAWARD held in Shanghai, the PRC, with its innovation and being the first Chinese corporation which has independently developed the first strain of lactobacillus rhamnosus MP108 (a strain of new food raw materials that can help prevent different types of inflammation in children) in the PRC. The recognition of the critical importance and the technological and innovative quality of this strain by such an authority in the industry demonstrated Ausnutria's powerful R&D ability as well as bold courage and creativity, which will also facilitate the Group's future development of its probiotic business. Furthermore, in June, a leading global provider of indexes, MSCI, upgraded the rating of Ausnutria in the MSCI ESG Ratings assessment from A to AA. Ausnutria became the only company in the food industry in the PRC to receive a rating of AA as at the rating date and brought the highest honour in the history of MSCI ESG Ratings to the whole PRC food industry. In July, the Group's own-branded infant goat milk formula (Kabrita) fulfilled all requirements set out by the US FDA and accordingly, the Group successfully entered the US market for the marketing and distribution of Kabrita IMF, which is the first IMF produced in Europe that has fulfilled the US FDA's requirements. In December, the "Ausnutria Hunan Provincial Maternal, Infant and Child Food Technology Innovation Center – Ausnutria Basic Life & Nutrition Science Research Center" was successfully unveiled in a conference organized by the China Youth Entrepreneurs Association. At present, the centre has built two major scientific research platforms: (i) a full industrial chain technology research that is of great significance for the development of self-owned intellectual property strains and the promotion of localisation of probiotic strains; and (ii) a "five-in-one" comprehensive evaluation system which can provide scientific research support for products and markets.

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

Pursuant to Rule 4(2)(d) to Appendix C2 to the Listing Rules, the Company will publish a sustainability report at the same time as the publication of the annual report, in compliance with the provisions set out in the ESG Reporting Guide in Appendix C2 to the Listing Rules. For more information about Ausnutria's sustainability commitment and performance for the Year 2023, please refer to the sustainability report published at the same time as this annual report. The English and Chinese versions of the sustainability report 2023 are available to be viewed and/or downloaded on the Company's website at www.ausnutria.com.hk (by clicking "ESG Reports" under the section headed "Investors") and the Stock Exchange's website at www.hkexnews.hk.

RESULTS AND DIVIDENDS

The Group's results for the Year 2023 and the Group's financial position at that date are set out in the consolidated financial statements on pages 62 to 68 of this report.

The Board is pleased to recommend the payment of a final dividend of HK$0.05 (Year 2022: HK$0.06) per Share for the Year 2023 to be distributed out of the Company's share premium account. Subject to the approval of the Shareholders at the forthcoming AGM to be held on 30 May 2024, the proposed final dividend is expected to be paid on or around 25 June 2024. As at the date of this report, there was no arrangement with any Shareholders under which he/she/it has waived or agree to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the forthcoming AGM

For the purpose of determining Shareholders who are eligible to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from 27 May 2024 to 30 May 2024 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified to attend the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 24 May 2024.

(b) Entitlement for the proposed final dividend

For the purpose of determining Shareholders who are qualified for the proposed final dividend, the register of members of the Company will be closed from Thursday, 6 June 2024 to Tuesday, 11 June 2024 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 5 June 2024.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 172 of this report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2023 are set out in note 16 to the consolidated financial statements.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the Year 2023 are set out in note 17 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 30 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the Year 2023 are set out in notes 34 and 35 to the consolidated financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to the Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 31 October 2023, the Company exercised a call option and repurchased 20,000,000 Shares at nil consideration in accordance with the terms as set out in a sale and purchase agreement dated 9 April 2020 for cancellation. Such Shares were cancelled on 6 November 2023. Details of the call option and repurchase are set out in the announcements of the Company dated 9 April 2020, 31 October 2023 and 14 November 2023.

Save for the above, neither the Company nor any of its subsidiaries purchased, redeemed or sold interest in any of the Shares during the Year 2023.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2023 are set out in note 44 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's accumulated losses amounted to RMB177,128,000 (2022: RMB188,564,000). As at 31 December 2023, the Company's share premium account available for distribution under certain conditions, amounted to RMB2,993,283,000 (2022: RMB3,089,922,000), of which RMB80,659,000 (2022: RMB96,479,000) has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the Year 2023, the Group made charitable contributions totaling RMB6,406,000 (Year 2022: RMB11,680,000).

MAJOR CUSTOMERS AND SUPPLIERS

The Group seeks to build, sustain and grow its customer relationships by promoting interactions with and among business partners and customers through different engagement programs and social platforms. The Group sustains a strong customer relationship by providing updated health and nutritional information, and collecting feedback through a variety of communication channels while protecting its customers' rights. This allows the Group to better capture feedback from customers, and for business partners and customers to have a better knowledge on the Group's dairy and nutritional products.

The Group works closely with its suppliers to build long-term partnerships that are mutually beneficial to all. The Group also establishes strategic alliances with suppliers to ensure that its sustainable standards are strictly adhered to throughout the entire value chain with rigorous and selective screening criteria and procedures to guarantee that it only collaborates with those who share the same values. The Group also supports its suppliers to adopt sustainable practices. Regarding this aim, the Group has established stringent supplier selection procedures to ensure only suppliers who share the same values with the Group are engaged. Regular performance monitoring and assessments are also in place to ensure compliance and to maintain a reliable and stable supply.

During the Year 2023, sales to the Group's five largest customers accounted for 11.6% (Year 2022: 7.0%) of the total sales for the year and sales to the largest customer included therein amounted to 4.2% (Year 2022: 1.8%). Purchases from the Group's five largest suppliers accounted for 23.9% (Year 2022: 27.8%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 7.4% (Year 2022: 11.6%).

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers or the five largest suppliers.

DIRECTORS

The Directors who were in the office during the Year 2023 and up to the date of this report were as follows:

Executive Directors:

Mr. Ren Zhijian (appointed as executive Director and CEO on 12 September 2023)	*(CEO)*
Mr. Bartle van der Meer (resigned as CEO on 27 January 2023)	
Mr. Zhang Zhi (appointed on 12 September 2023)	
Mr. Yan Weibin (appointed as CEO on 27 January 2023 and resigned as ED, CEO and Chairman on 12 September 2023)	
Ms. Ng Siu Hung (resigned on 12 September 2023)	

Non-executive Directors:

Mr. Zhang Zhanqiang (appointed as Chairman on 12 September 2023)	*(Chairman)*
Mr. Sun Donghong	*(Vice-Chairman)*
Ms. Yan Junrong (appointed on 24 November 2023)	
Mr. Zhang Lingqi (resigned on 24 November 2023)	

Independent Non-executive Directors:

Mr. Ma Ji
Mr. Song Kungang
Mr. Aidan Maurice Coleman

In accordance with Article 83(3) of the Articles of Association, Mr. Ren Zhijian, Mr. Zhang Zhi and Ms. Yan Junrong who were appointed as Directors to fill casual vacancy of the Board shall hold office until the forthcoming AGM and being eligible, offer themselves for re-election.

Further, in accordance with Article 84 of the Articles of Association, Mr. Zhang Zhanqiang, Mr. Sun Donghong and Mr. Ma Ji will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received annual confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2023. The Company considers all of the INEDs to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Management Profiles" on pages 54 to 56 of this report.

MANAGEMENT CONTRACTS

Save for the service contracts of the Directors, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the Year 2023.

DIRECTORS' SERVICE CONTRACTS

Each of the EDs, NEDs and INEDs has entered into a service contract with the Company for a term of 3 years, 2 years and 2 years, respectively, which will continue thereafter unless otherwise terminated in accordance with the terms of the service contract.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICY

The remuneration of the Directors is determined by the Board, as authorised by the Shareholders at general meeting, with reference to the recommendation by the Remuneration Committee after taking into consideration of the Directors' experience, duties, responsibilities, performance, time devoted to the Group, the results of the Group as well as the prevailing market conditions. Details of remuneration of the Directors during the Year 2023 are set out in note 10 to the consolidated financial statements. As at the date of this report, there was no arrangement with any Director under which he/she has waived or agreed to waive any emoluments and there were no emoluments paid by the Group to any of the Directors of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office. The remuneration of the senior management of the Group is recommended to the Board by the Remuneration Committee on the basis of their merit, qualifications and competence.

The Company has adopted a share option scheme (the "**Share Option Scheme**") as an incentive to the Directors and employees of the Group, details of these are set out in the section headed "Share Option Scheme" of the Directors' Report and in note 35 to the consolidated financial statements.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the transactions as disclosed in the section headed "Connected Transactions" and the related party transactions (which did not constitute as "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules) as disclosed in note 42 to the consolidated financial statements, no Director or an entity connected with the Director or the controlling Shareholders had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2023. During the Year 2023, there was no contract of significance for the provision of services to the Group by any controlling Shareholder or any of its subsidiaries.

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

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares of the Company:–

	Number of Shares held, capacity and nature of interest			
Name of Director	Beneficial Owner	Interest of a controlled corporation	Total	Approximate percentage of issued share capital [2]
Mr. Bartle van der Meer	1,509,000	93,205,230[1]	94,714,230	5.32%

Long positions in ordinary shares of associated corporations:–

Name of Director	Company/ Name of associated corporation	Capacity/ Nature of interest	Number of shares interested	Total	Approximate percentage of interest in such corporation[3]
Mr. Ren Zhijian	Yili Industrial	Beneficial owner	280,000	280,000	0.00%
Mr. Zhang Zhi	Yili Industrial	Beneficial owner	138,400	138,400	0.00%
Mr. Zhang Zhanqiang	Yili Industrial	Beneficial owner	108,500		
	Yili Industrial	Person having a security interest in shares	100,000	208,500	0.00%
Mr. Sun Donghong	Yili Industrial	Beneficial owner	25,758,211		
	Yili Industrial	Person having a security interest in shares	666,000	26,424,211	0.42%
Ms. Yan Junrong	Yili Industrial	Beneficial owner	546,000		
	Yili Industrial	Person having a security interest in shares	83,400	629,400	0.01%

Notes:

(1) The Shares are held by Dutch Dairy Investments HK Limited ("**DDIHK**"), which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer. Mr. Bartle van der Meer is therefore deemed to be interested in 93,205,230 Shares held by DDIHK and is interested in 94,714,230 Shares in aggregate under the SFO.

(2) As at 31 December 2023, the total number of issued ordinary shares of the Company was 1,780,111,841.

(3) As at 31 December 2023, the total number of issued A shares of Yili Industrial was 6,366,098,705.

Save as disclosed above, as at 31 December 2023, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations which were required (a) to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", at no time during the Year 2023 and up to the date of this report were there 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 any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates had any interest in a business which competed or was likely to compete with the business of the Group during the Year 2023 and up to the date of this report, which would require disclosure under Rule 8.10 of the Listing Rules.

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

As at 31 December 2023, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Long position in the shares of the Company:

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital[4]
Inner Mongolia Yili Industrial Group Co, Ltd.	1	1,070,113,149	Interest of controlled corporation	60.11%
Center Laboratories, Inc.		146,918,271	Beneficial owner	8.25%
Dutch Dairy Investments HK Limited	2	93,205,230	Beneficial owner	5.24%
Dutch Dairy Investments B.V.	2	93,205,230	Interest of a controlled corporation	5.24%
Fan Deming BV	2	93,205,230	Interest of a controlled corporation	5.24%
Citagri Easter Ltd.	3	92,400,738	Beneficial owner	5.19%
Changsha Kunxin Xin'Ao Investment LP	3	92,400,738	Interest of controlled corporation	5.19%
Chengtong CITIC Agriculture Investment Fund	3	92,400,738	Interest of controlled corporation	5.19%
China Structural Reform Fund Co., Ltd* (中國國有企業結構調整基金股份有限公司)	3	92,400,738	Interest of controlled corporation	5.19%
Citagri Nutrition Investment Co., Limited	3	92,400,738	Interest of controlled corporation	5.19%
CITIC Agri Fund Management Co., Ltd.	3	92,400,738	Interest of controlled corporation	5.19%
CITIC Agriculture Technology Co., Ltd.	3	92,400,738	Interest of controlled corporation	5.19%
CITIC Limited	3	92,400,738	Interest of controlled corporation	5.19%
CITIC Group Corporation	3	92,400,738	Interest of controlled corporation	5.19%

Notes:

1. Yili Industrial is beneficially interested in 1,070,113,149 Shares through its wholly-owned subsidiary, Jingang Trade.

2. DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. Bartle van der Meer. Each of DDI, Fan Deming B.V. and Mr. Bartle van der Meer is therefore deemed to be interested in the Shares held by DDIHK under the SFO.

3. Citagri Easter Ltd. is owned as to approximately 53.14% by Changsha Kunxin Xin'Ao Investment LP* (長沙鯤信信澳股權投資合夥企業(有限合夥))("**Kunxin Xin'Ao**"), 30.40% by Easter Fund II LP and 16.46% by Easter Fund LP. Kunxin Xin'Ao is owned as to 91.17% by Chengtong CITIC Agriculture Investment Fund as a limited partner, which in turn is owned as to 34.69% by China Structural Reform Fund Co., Ltd.* (中國國有企業結構調整基金股份有限公司) and owned as to 36.90% by CITIC Agriculture Technology Co. Ltd (中信農業科技股份有限公司). Citagri Nutrition Investment Co., Limited, the general partner of Easter Fund LP and Easter Fund II LP, is indirect wholly-owned subsidiary of CITIC Agri Fund Management Co., Ltd. CITIC Agri Fund Management Co., Ltd. is the general partner of Kunxin Xin'Ao and its largest shareholder is CITIC Agriculture Technology Co., Ltd., which owns 40.41% of the equity interest in CITIC Agri Fund Management Co., Ltd. CITIC Agriculture Technology Co., Ltd. is an indirect wholly-owned subsidiary of CITIC Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 267), and CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation.

4. As at 31 December 2023, the total number of the issued Shares of the Company was 1,780,111,841.

* *For identification purposes only*

Save as disclosed above, as at 31 December 2023, the Directors are not aware of any other person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of Terms

A new share option scheme was conditionally approved and adopted by all Shareholders on 26 May 2022 (the "**New Share Option Scheme**") whereby the Board was authorised, at their discretion, to invite, among other eligible participants, employees of the Group (including proposed employees, whether full-time or part-time and including any executive Director), non-executive Directors (including independent non-executive Directors), advisers and consultants, to take up options to subscribe for the Shares. The purpose of the New Share Option Scheme is to enable the Company to grant options to the selected participants as incentives or rewards for their contribution to the Group. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 of the Company at the subscription price as the Board may in its absolute discretion determine in accordance with the terms of the New Share Option Scheme. The New Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the New Share Option Scheme is approved (i.e. valid till 25 May 2032). In respect of any particular option, the period within which the option may be exercised by the grantee shall be a period to be determined by the Board at its discretion and notified by the Board to each grantee, and such period shall not be more than 10 years from the date on which such option is granted. Further details of the New Share Option Scheme are set out in the circular of the Company dated 22 April 2022.

The total number of the Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall not in aggregate exceed 10% of the total number of the Shares in issue as at the date of approval of the New Share Option Scheme (i.e. 180,854,584 Shares), which represents approximately 10.16% of the issued Shares as at 31 December 2023. As at 1 January 2023 and 31 December 2023, 180,854,584 options were available for grant under the New Share Option Scheme.

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon the exercise of the share options granted to each eligible person (including exercised, cancelled and outstanding share options) in any 12-month period shall not exceed 1% of the relevant class of securities of the Company in issue. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

As at 31 December 2023, no option had been granted or agreed to be granted under the New Share Option Scheme.

CONNECTED TRANSACTIONS

Connected Transactions

Details of the connected transactions of the Company for the Year 2023 are set out in the section headed "Material Investments and Acquisition and Disposal" on page 21 of this report.

Continuing Connected Transactions

Details of the continuing connected transactions of the Company for the Year 2023 are set out as follows:

Financial Services Framework Agreement

On 29 August 2023, the Company entered into an agreement (the "**Financial Services Framework Agreement**") with Yili Finance Company Limited ("**Yili Finance**"). Pursuant to which Yili Finance agreed to provide a range of financial services, namely the deposit services, the loan services, the settlement services and other financial services, to the Group for a term commencing from 29 August 2023 to 28 August 2026.

The maximum daily balance of deposits (including the interest accrued thereon) under the deposit services for the period from 29 August 2023 to 28 August 2026 shall not exceed RMB270.0 million.

The maximum daily balance of deposit (including the interest accrued thereon) under the deposit services for the period from 29 August 2023 to 31 December 2023 did not exceed RMB270.0 million.

Processing Service Framework Agreement

On 23 September 2022, the Company entered into an agreement (the "**Processing Service Framework Agreement**") with Yili Industrial. Pursuant to which the Group agreed to provide processing services in respect of the production of milk powder (other than infant formulas) and related products for Yili Industrial and its subsidiaries ("**Yili Industrial Group**") from time to time during the terms of the Processing Service Framework Agreement. The duration of the Processing Service Framework Agreement started from 23 September 2022 to 31 December 2024.

The annual cap in respect of the transactions contemplated under the Processing Service Framework Agreement for each of the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 is RMB100.0 million, RMB150.0 million and RMB200.0 million, respectively. The actual transaction amount for the provision of processing services to Yili Industrial Group under the Processing Service Framework Agreement for the Year 2023 was approximately RMB4.0 million.

Supply Framework Agreement

On 23 September 2022, the Company entered into an agreement (the "**Supply Framework Agreement**") with Yili Industrial, pursuant to which Yili Industrial Group agreed to purchase the goat milk powder and related products from the Group from time to time during the terms of the Supply Framework Agreement. The duration of the Supply Framework Agreement started from 23 September 2022 to 31 December 2024. On 11 September 2023, the Company and Yili Industrial entered into a supplemental agreement to the Supply Framework Agreement to extend the range of products to cover whole milk powder, skim milk powder, organic whole milk, whey protein concentrate, other milk powder ingredients and formula produced by the Group.

The annual cap in respect of the sale of goat milk powder and related products by the Group to Yili Industrial Group under the Supply Framework Agreement for each of the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 is RMB100.0 million, RMB150.0 million and RMB200.0 million, respectively. The actual transaction amount for the sales of products to Yili Industrial Group under the Supply Framework Agreement for the Year 2023 was approximately RMB14.6 million.

Procurement Framework Agreement

On 23 September 2022, the Company entered into an agreement (the "**Procurement Framework Agreement**") with Yili Industrial, pursuant to which the Group agreed to purchase milk base powder and related ingredients from Yili Industrial Group from time to time during the terms of the Procurement Framework Agreement. The duration of the Procurement Framework Agreement started from 23 September 2022 to 31 December 2024. On 11 September 2023, the Company and Yili Industrial entered into a supplemental agreement to the Procurement Framework Agreement to extend the range of products to cover base milk powder, Lactoferrin, other related ingredients and IMF produced by the Yili Industrial Group.

The annual cap in respect of the purchase of milk base powder and related ingredients by the Group from Yili Industrial Group under the Procurement Framework Agreement for each of the financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 is RMB200.0 million, RMB250.0 million and RMB300.0 million respectively. The actual transaction amount for the purchase of products from Yili Industrial Group under the Procurement Framework Agreement for the Year 2023 was approximately RMB8.1 million.

At the date of signing the above agreements, Yili Industrial is a controlling Shareholder and Yili Finance is a wholly-owned subsidiary of Yili Industrial. Accordingly, each of Yili Industrial and Yili Finance is a connected person of the Company under the Listing Rules and accordingly, the transactions contemplated under the above agreements constitute continuing connected transactions of the Company under the Listing Rules. Further details regarding the above transactions are set out in the announcements of the Company dated 23 September 2022, 29 August 2023 and 11 September 2023, respectively.

In accordance with Rule 14A.55 of the Listing Rules, the INEDs have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

PricewaterhouseCoopers, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions of the Group in accordance with Rule 14A.56 of the Listing Rules.

The auditors of the Company have confirmed that regarding the continuing connected transactions of the Group, nothing has come to their attention that causes them to believe that: (i) the continuing connected transactions as disclosed above have not been approved by the Board; (ii) for transactions involving the provision of goods or services by the Group, such transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; or (iv) the transaction amount of the continuing connected transactions as disclosed above have exceeded the annual cap as set by the Company or approved by the shareholders of the Company (as the case may be).

A summary of all significant transactions with related parties (the "**Related Party Transactions**") entered into by the Group during the reporting period is contained in note 42 to the consolidated financial statements. During the reporting period, other than the continuing connected transactions of the Group set out above which are disclosed pursuant to the Listing Rules, no Related Party Transactions disclosed in note 42 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the Reporting Period.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holdings of the Shares.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, on 19 January 2024, the Company (through its wholly-owned subsidiary), Yuanta Asia Growth Investment L.P. and Yuanta Venture Capital Co., Ltd. as the vendors entered into share purchase agreements in relation to the acquisition of approximately 7.70% of the issued shares of Bioflag at a total consideration of US$4,007,690.40 (equivalent to approximately RMB28.39 million) in cash. Upon completion of this acquisition, the Company will be interested in approximately 89.74% of the issued shares in Bioflag. On the same date, Bioflag and Jingang Trade, a wholly- and beneficially-owned company of Yili Industrial entered into an agreement pursuant to which Jingang Trade conditionally agreed to subscribe for, and Bioflag has conditionally agreed to allot and issue, 1,796,326 new shares of Bioflag at the consideration of US$1,904,105.56 (equivalent to approximately RMB13.49 million) (i.e. an issue price of US$1.06 per share)(the "**Bioflag Subscription**"). Upon completion of the Bioflag Subscription, the equity interest of the Group in Bioflag will be reduced from approximately 89.74% to approximately 86.57%. Further details of the Bioflag Subscription are set out in the announcement of the Company dated 19 January 2024.

Save as disclosed above, there were no other material event after the reporting period.

FINANCIAL ADVISORS' INTEREST

The Company extended the appointment of Asian Capital Limited as the Company's financial advisor on a retainer basis for consultation on compliance with the Listing Rules for a period of one year commencing from 24 August 2023. During the term of the appointment, Asian Capital Limited will be accountable to the Audit Committee. As notified by Asian Capital Limited, during the Year 2023 and up to the date of this report, neither Asian Capital Limited nor any of its directors, employees or associates had any interests in the Shares or shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares or shares of any member of the Group.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section head "Share Option Schemes" on pages 49 to 50 of this report, no equity-linked agreement was entered into by the Company during the Year 2023 or subsisted at the end of the Year 2023.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public during the Year 2023 and up to the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the CG Report on pages 26 to 40 of this report.

PERMITTED INDEMNITY PROVISION

The Company has subscribed appropriate and sufficient insurance coverage on directors' and officers' liability insurance throughout the Year 2023, which provides appropriate cover for the Directors and officers of the Company.

AUDITORS

An extraordinary general meeting of the Company was held on 5 September 2022, the Shareholders approved the removal of Ernst & Young as the auditor of the Company and its subsidiaries and the appointment of PricewaterhouseCoopers as the auditor of the Company. Saved as disclosed above, there were no other changes in the Company's auditors in the preceding three years.

The consolidated financial statements for the Year 2023 had been audited by PricewaterhouseCoopers, who shall retire at the forthcoming AGM and, being eligible to offer themselves for re-appointment. A resolution of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Zhang Zhanqiang
Chairman

The PRC
27 March 2024

Management Profiles

Biographical details of the Directors and the senior management of the Group as at the date of this report are set out below:

DIRECTORS

Executive Directors

Mr. REN Zhijian ("Mr. Ren")

Mr. Ren, aged 50, was appointed as an ED and the CEO on 12 September 2023. He joined the Group in July 2022 and is the chief executive officer of the Group in the PRC region. He is responsible for the overall business strategies and operations management of the PRC region. Mr. Ren graduated from Inner Mongolia College of Finance and Economics (內蒙古財經學院), now known as Inner Mongolia University of Finance and Economics (內蒙古財經大學). Before joining the Group, he was the deputy general manager of the milk powder business department of Yili Industrial and served at the cold beverage and milk powder business departments of Yili Industrial for more than 20 years with extensive experience in sales management and operations management.

Mr. Bartle VAN DER MEER ("Mr. van der Meer")

Mr. van der Meer, aged 77, was appointed as an ED and the CEO on 7 June 2013 and resigned as the CEO on 27 January 2023. Mr. van der Meer is one of the founders of Ausnutria B.V. and has been involved in the strategic management since the establishment of Ausnutria B.V. in 1994. He is also a member of the board of directors of Ausnutria B.V. since January 2020 and has been the chairman of the one-tier board from January 2020 to July 2023. Mr. van der Meer is primarily responsible for the Group's corporate merger and acquisition, dairy supply related strategies and management and new capital expenditure projects in the Netherlands. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of Fan Deming B.V., a private equity company which owned 100% equity interests in DDI, a substantial Shareholder, since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998 to March 2022.

Mr. ZHANG Zhi

Mr. Zhang Zhi, aged 41, was appointed as an ED on 12 September 2023. He joined the Group in January 2023 and is the chief supply chain officer of the Group responsible for the overall production, supply chain security and quality management of the Company. Mr. Zhang Zhi graduated from Inner Mongolia University (內蒙古大學) in 2004 with a bachelor's degree in biotechnology, and is an EMBA student of Tianjin University (天津大學). Prior to joining the Group, he was the director of supply chain of the international business department of Yili Industrial. He worked for, among others, the cold beverage business department and the milk powder business department of Yili Industrial for a total of 19 years. He has extensive experience in international business, supply chain management and operation management.

Non-executive Directors

Mr. ZHANG Zhanqiang, Chairman

Mr. Zhang Zhanqiang, aged 56, was appointed as a NED of the Company on 18 March 2022 and the Chairman on 12 September 2023. Mr. Zhang Zhanqiang graduated from Inner Mongolia School of Finance and Economics in 1991 with a major in corporate finance, from Inner Mongolia University of Finance and Economics with a major in accounting in 1995, and from Central University of Finance and Economics with a bachelor's degree in management in 2007 respectively. He is a certified public accountant in the PRC, a certified tax agent in the PRC, and is qualified to practise accounting in the PRC. He joined Yili Industrial in January 2007, and has been the assistant to the president of the Yili Industrial group since 2019. Prior to that, he also served as the deputy general manager of the liquid milk business department and the general manager of the financial management department of Yili Industrial. Prior to joining Yili Industrial, he was primarily engaged in the accounting industry and served as a partner in Beijing Zhongtian Huazheng Accountancy Firm.

Mr. SUN Donghong ("Mr. Sun"), Vice-chairman

Mr. Sun, aged 52, was appointed as a NED on 18 March 2022. Mr. Sun graduated from Inner Mongolia University of Technology with a bachelor's degree in engineering in 1994. He has 28 years of experience in the dairy industry and has been successively engaged in production technology, production management, business operation management, strategic operations, etc. He joined Yili Industrial in 1994. He has been the assistant president of Yili Industrial since 2017 and is in charge of the Yili Industrial group's milk powder business department, yoghurt business department, cheese business department, dairy technology research institute and other new businesses.

Ms. YAN Junrong ("Ms. Yan")

Ms. Yan, aged 52, was appointed as a NED on 24 November 2023. She graduated from Inner Mongolia University of Technology in 1994 with a bachelor's degree in engineering. She has 29 years of experience in the dairy industry and has been engaged in quality management, corporate culture building and management and operation of the president's office. Ms. Yan joined Yili Industrial in 1994 and has been the assistant to the president and the directors of the President's Office and of the Management and Operation Office of Yili Industrial since 2019, managing the President's Office of Yili Industrial group. Prior to that, she was an executive director of Yili Industrial.

Independent Non-executive Directors

Mr. MA Ji ("Mr. Ma")

Mr. Ma, aged 46, was appointed as an INED on 20 April 2022. Mr. Ma graduated from Peking University in 2000 with a bachelor's degree in economics, and China Europe International Business School in 2016 with an executive master of business administration degree. Mr. Ma is a member of the Chinese Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. Mr. Ma is now the chief financial officer of YQNLink. Mr. Ma was the chief financial officer of Autonavi Holdings Limited from 2013 to 2014, the senior director of Alibaba Group Holding Limited, a company listed on the Stock Exchange (stock code: 9988) from 2014 to 2015, and the vice president of JD.com, Inc., a company listed on NASDAQ and the Stock Exchange (stock code: JD and 9618) from 2015 to 2021. Mr. Ma has worked in Deloitte Touche Tohmatsu CPA Ltd. for over ten years and has extensive financial management experience.

Mr. SONG Kungang ("Mr. Song")

Mr. Song, aged 75, was appointed as an INED on 2 December 2022. Mr. Song graduated from the department of animal husbandry of Beijing Agricultural University (currently known as China Agricultural University) with a bachelor of agriculture degree majoring in animal husbandry in 1982. Mr. Song was responsible for the management of the dairy industry as assistant engineer, engineer and senior engineer at the Department of Food Industry of the Ministry of Light Industry of the PRC and the department of food and papermaking of the China Light Industry Association from 1982 to 1998. Furthermore, he was the chairman of the first, second, third and fourth councils of the China Dairy Industry Association and the vice chairman and chairman of the China national committee of the International Dairy Federation ("**IDF**") from 1995 to 2012. Subsequently, Mr. Song acted as the honorary chairman of the China Dairy Industry Association and the chairman of the China national committee of the IDF from 2012 to 2017. Mr. Song has been an adviser to the China Dairy Industry Association since 2017.

Mr. Aidan Maurice COLEMAN ("Mr. Coleman")

Mr. Coleman, aged 68, was appointed as an INED on 6 December 2018. Mr. Coleman graduated with a Bachelor of Arts degree in Economics and Psychology from The University of Auckland in 1978 and a Bachelor of Business Studies degree in marketing from The Massey University of New Zealand in 1991. He is a founder and currently the managing director of Longpoint Consulting Pty. Ltd., which provides private consulting and advisory services to various companies in Australia and New Zealand including retailers, dairy trading companies and FMCG marketing businesses. He has over 31 years of extensive experience in the manufacturing and marketing of consumer and food-service food and agricultural product. Prior to joining Longpoint Consulting Pty. Ltd., Mr. Coleman was the chief executive officer of Bega Cheese Limited (stock code: BGA.ASX), a company listed on the Australian Securities Exchange, until 2017. He was also the chief executive officer of Tatura Milk Industries Ltd. ("**Tatura**"), a wholly-owned subsidiary of Bega Cheese Limited, from 2008 to 2011 and an executive director of Tatura from 2011 to 2017. Prior to joining Tatura, he was the managing director of Fonterra Brands (Australia) Pty. Ltd from 2005 to 2007, an Australian company which manufactures, markets and distributes dairy and non-dairy products.

SENIOR MANAGEMENT

Mr. WANG Wensong ("Mr. Wang")

Mr. Wang, aged 40, was appointed as the chief financial officer (the "**CFO**") of the Company on 22 February 2023 and the secretary of the Board on 12 September 2023. He graduated from Simon Fraser University in Canada in 2008 with a bachelor's degree majoring in Finance and Accounting and graduated from the University of Toronto in 2018 with a Master of Business Administration degree. He is a member of the Chartered Professional Accountants of Canada, the American Institute of Certified Public Accountants, and the Chartered Financial Analyst (CFA) Institute. Mr. Wang joined Yili Industrial in January 2019 and had been the finance director of the financial management department and the head of the mergers and acquisitions department. Prior to that, Mr. Wang was mainly engaged in accountancy practices and worked for Deloitte and PricewaterhouseCoopers in the PRC and Canada for nearly 10 years. Mr. Wang also has extensive experience in financial management.

Mr. LI Wei ("Mr. Li")

Mr. Li, aged 43, was appointed as the chief research and development officer of the Company on 17 January 2024. He joined the Group in June 2022 and has been the director of Ausnutria Institute of Food and Nutrition since August 2022. Mr. Li graduated from the School of Biological Engineering of the Tianjin University of Science & Technology. Prior to joining the Group, he was the deputy R&D director of the milk powder BU of Yili Industrial. He worked in the field of R&D of milk powder for more than 20 years and has extensive experience in product development and R&D management of IMF and milk powder for special medical purposes.

Save for the information disclosed above and in this annual report, there is no other information required to be disclosed in this report pursuant to rule 13.51B(1) of the Listing Rules.

pwc 羅兵咸永道

To the shareholders of Ausnutria Dairy Corporation Ltd
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 62 to 171, comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Accounting for sales incentive program in Mainland China
- Assessment of net realisable value of inventories

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for sales incentive program in Mainland China *Refer to Note 4.1 (Significant accounting judgements and estimates) and Note 6 (Revenue from contracts with customers) to the Group's consolidated financial statements.* As at 31 December 2023, the Group recognised contract liabilities amounting to RMB451 million, in connection with the sales incentive program offered to distributors in Mainland China. There are a large number of distributors in Mainland China with sales contracts containing various incentives arrangements provided to distributors, in the form of volume rebates, discounts and other promotion and marketing supports. The consideration received or receivable from a distributor is allocated between the products immediately sold and the incentives for distributor's future redemption of products. The amount allocated to the incentives is recorded as a contract liability and deferred until the incentives are redeemed. Such allocation involved management consideration of various forms of incentives and the respective contract terms of the sales incentive program. We focused on this area because of 1) the large number of distributors' contracts in Mainland China and the different forms of sales incentives, and 2) the material amount of contract liabilities which involve complex computation and allocation against sales revenue, which require significant effort in performing the audit.	We understood, evaluated and tested management's controls in respect of the Group's revenue recognition and the accounting for sales incentive program in Mainland China, and assessed the inherent risk of material misstatement by considering the degree of complexity and level of other inherent risk factors. We tested the general control environment of the Group's information technology systems and the automated controls that were related to the recording of revenue and sales incentives. We conducted the sales contracts review and interviews with certain distributors to confirm the contract terms and policies related to the sales incentive program on a sample basis. We verified the computation and allocation of sales incentives, on a sample basis, by checking to the forms and contract terms of the sales incentive program, and tested the formulae used and mathematical accuracy of the calculation. We circularised distributors confirmations on a sample basis on the incentive awards as at the balance sheet date. We tested the accuracy and completeness by comparing the incentive amounts accrued as at the balance sheet date with the subsequent settlements on a sample basis. We tested the sales incentives recorded after the balance sheet date on a sample basis to assess whether they were recognised in the correct reporting periods. Based on the work performed, we found that the Group's accounting for the sales incentive program in Mainland China was supported by the evidences that we obtained.

KEY AUDIT MATTERS (continued)

Key Audit Matter

Assessment of net realisable value of inventories

Refer to Note 4.4 (Significant accounting judgements and estimates), Note 23 (Inventories) and Note 45.12 (Summary of other potentially material accounting policies) to the Group's consolidated financial statements.

As at 31 December 2023, the Group's balance of inventory was RMB2,089 million, against which a write-down of RMB273 million was made during the year.

Inventories are carried at the lower of cost and net realisable value. The Group performs regular reviews of the carrying amounts of inventories to determine whether any write-down of inventories to net realisable value is required after considering the expiration dates and conditions of inventories, and the future sales forecast.

We focused on this area because of the material amount of inventory balance, estimation uncertainty in the determination of net realisable value of inventories, the subjectivity of future sales forecast and the significance of management judgements applied.

How our audit addressed the Key Audit Matter

We obtained an understanding of the management's internal controls and assessment process of net realisable value of inventories, and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors.

We evaluated the outcome of prior period assessment of net realisable value of inventories to assess whether there is management bias in the relevant policies of write-down of inventories and to evaluate the effectiveness of the management's estimation process.

We evaluated and validated the key controls related to the assessment of net realisable value of inventories, including the information technology general controls and system reports used by management to assess net realisable value of inventories.

We observed physical inventory conditions and checked the expiration dates of inventories on a sample basis during stocktake process, and compared with management's report where slow moving, damaged or obsolete inventory items were identified.

We obtained and compared, on a sample basis, the recent sales volumes, selling prices, rate of selling expenses and future sales forecast with the key assumptions and data used in determination of net realisable value of inventories.

We tested the mathematical accuracy of the calculations of net realisable value of inventories and related write-downs.

Based on the work performed, we found that the Group's assessment of net realisable value of inventories and related write-downs was supported by the evidences that we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2024

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

(All amount in RMB unless otherwise stated)

	Notes	2023 RMB'000	2022 RMB'000
Revenue	6	7,382,007	7,795,512
Cost of sales	7	(4,529,457)	(4,402,707)
Gross profit		2,852,550	3,392,805
Selling and distribution expenses	7	(1,907,975)	(2,167,165)
Administrative expenses	7	(535,412)	(604,217)
Research and development expenses	7	(132,025)	(197,101)
Net impairment losses on financial assets	3.1(b)	(8,543)	(16,133)
Other income, other gains/(losses) – net	9	13,080	(133,518)
Operating profit		281,675	274,671
Finance costs	8	(57,727)	(14,943)
Share of profits and losses of investments accounted for using the equity method	22	(22,147)	11,598
Impairment of investments accounted for using the equity method	22	–	(20,049)
Profit before income tax		201,801	251,277
Income tax expense	12	(32,945)	(62,934)
Profit for the year		168,856	188,343
Attributable to:			
The equity holders of the Company		174,387	216,526
Non-controlling interests		(5,531)	(28,183)
		168,856	188,343
Earnings per share attributable to the equity holders of the Company			
Basic earnings per share (RMB cents)	14	9.70	12.08
Diluted earnings per share (RMB cents)	14	9.70	12.08

The notes on pages 69 to 171 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

(All amount in RMB unless otherwise stated)

	2023 RMB'000	2022 RMB'000
Profit for the year	168,856	188,343
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	66,277	(134,888)
Item that will not be reclassified to profit or loss		
Remeasurement income on the defined benefit plan, net of tax	92	1,001
Exchange differences on translation of foreign operations	49,523	298,331
Total other comprehensive income for the year	115,892	164,444
Total comprehensive income for the year	284,748	352,787
Attributable to:		
The equity holders of the Company	283,233	391,110
Non-controlling interests	1,515	(38,323)
	284,748	352,787

The notes on pages 69 to 171 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

31 December 2023

(All amount in RMB unless otherwise stated)

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	3,139,682	2,521,841
Investment property	17	132,612	116,925
Right-of-use assets	18(a)	140,563	271,937
Goodwill	19	192,225	102,323
Other intangible assets	20	508,366	472,046
Investments accounted for using the equity method	22	318,793	364,368
Financial assets at fair value through profit or loss	21	28,145	28,009
Prepayments, deposits and other assets	25	85,518	113,337
Long-term time deposits	26	40,871	–
Deferred tax assets	33	366,119	442,857
Total non-current assets		4,952,894	4,433,643
Current assets			
Inventories	23	2,089,409	2,226,735
Trade and bills receivables	24	590,861	661,903
Prepayments, other receivables and other assets	25	256,088	442,685
Income tax recoverable		101,192	37,213
Derivative financial instruments	29	–	6,808
Restricted cash	26	5,712	125,248
Cash and cash equivalents	26	2,037,602	1,861,860
Total current assets		5,080,864	5,362,452
Total assets		10,033,758	9,796,095
LIABILITIES			
Current liabilities			
Trade and bills payables	27	516,960	559,808
Other payables and accruals	28	716,229	822,555
Contract liabilities	6	451,316	1,036,288
Interest-bearing bank loans and other borrowings	30	2,377,952	1,021,632
Lease liabilities	18(b)	16,623	70,415
Income tax payable		11,179	89,916
Total current liabilities		4,090,259	3,600,614

31 December 2023

(All amount in RMB unless otherwise stated)

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
Non-current liabilities			
Interest-bearing bank loans and other borrowings	30	–	443,982
Lease liabilities	18(b)	21,025	24,407
Defined benefit plan	31	1,823	1,952
Deferred revenue	32	81,020	82,064
Deferred tax liabilities	33	81,339	74,987
Other liabilities		9,096	3,033
Total non-current liabilities		194,303	630,425
Total liabilities		4,284,562	4,231,039
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	34	154,226	156,061
Reserves	36	5,539,242	5,490,510
		5,693,468	5,646,571
Non-controlling interests	40	55,728	(81,515)
Total equity		5,749,196	5,565,056
Total equity and liabilities		10,033,758	9,796,095

The notes on pages 69 to 171 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 62 to 171 were approved by the board of directors on 27 March 2024 and were signed on its behalf by:

Mr. Ren Zhijian
Director

Mr. Zhang Zhi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023
(All amount in RMB unless otherwise stated)

	Attributable to the equity holders of the Company									
	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Share option reserves RMB'000	Statutory surplus reserves RMB'000	Exchange fluctuation reserves RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2023	156,061	3,089,922	(1,835,772)	52,989	176,946	(181,920)	4,188,345	5,646,571	(81,515)	5,565,056
Profit for the year	–	–	–	–	–	–	174,387	174,387	(5,531)	168,856
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	108,754	–	108,754	7,046	115,800
Remeasurement income on the defined benefit plan, net of tax	–	–	–	–	–	–	92	92	–	92
Total comprehensive income for the year	–	–	–	–	–	108,754	174,479	283,233	1,515	284,748
Cancellation of shares (Note 34)	(1,835)	1,835	–	–	–	–	–	–	–	–
Disposal of a subsidiary (Note 41)	–	–	(72,179)	–	–	–	–	(72,179)	85,254	13,075
Final 2022 dividend paid	–	(98,474)	–	–	–	–	–	(98,474)	–	(98,474)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(5,119)	(5,119)
Increase in non-controlling interests from acquisition of a subsidiary	–	–	–	–	–	–	–	–	67,241	67,241
Acquisition of non-controlling interest in subsidiaries (Note 40)	–	–	(65,683)	–	–	–	–	(65,683)	(11,713)	(77,396)
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	65	65
Transfer from retained profits	–	–	–	–	4,147	–	(4,147)	–	–	–
As at 31 December 2023	154,226	2,993,283	(1,973,634)	52,989	181,093	(73,166)	4,358,677	5,693,468	55,728	5,749,196

The notes on pages 69 to 171 are an integral part of these consolidated financial statements.

For the year ended 31 December 2023

(All amount in RMB unless otherwise stated)

	Attributable to the equity holders of the Company										
	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Treasury shares RMB'000	Share option reserves RMB'000	Statutory surplus reserves RMB'000	Exchange fluctuation reserves RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2022	149,485	2,824,031	(1,835,772)	–	48,081	164,957	(355,503)	3,982,807	4,978,086	(46,975)	4,931,111
Profit for the year	–	–	–	–	–	–	–	216,526	216,526	(28,183)	188,343
Other comprehensive income/(loss) for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	173,583	–	173,583	(10,140)	163,443
Remeasurement income on the defined benefit plan, net of tax	–	–	–	–	–	–	–	1,001	1,001	–	1,001
Total comprehensive income for the year	–	–	–	–	–	–	173,583	217,527	391,110	(38,323)	352,787
Issue of shares (Note 34)	7,346	731,678	–	–	–	–	–	–	739,024	–	739,024
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	2,905	2,905
Final 2021 dividend paid	–	(430,160)	–	–	–	–	–	–	(430,160)	–	(430,160)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(922)	(922)
Cancellation of equity-settled share option arrangements	–	–	–	–	4,908	–	–	–	4,908	–	4,908
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	1,800	1,800
Repurchase of shares (Note 34)	(770)	(35,627)	–	36,397	–	–	–	–	–	–	–
Cancellation of repurchased shares (Note 34)	–	–	–	(36,397)	–	–	–	–	(36,397)	–	(36,397)
Transfer from retained profits	–	–	–	–	–	11,989	–	(11,989)	–	–	–
As at 31 December 2022	156,061	3,089,922	(1,835,772)	–	52,989	176,946	(181,920)	4,188,345	5,646,571	(81,515)	5,565,056

The notes on pages 69 to 171 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

(All amount in RMB unless otherwise stated)

	Notes	2023 RMB'000	2022 RMB'000
Net cash flows generated from/(used in) operating activities	38(a)	224,711	(357,537)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(609,974)	(571,513)
Additions to other intangible assets		(74,052)	(133,030)
Payments for acquisition of investments accounted for using the equity method	22	(175,506)	(28,407)
Purchases of financial assets at fair value through profit and loss		–	(8,009)
Proceeds from disposal of financial assets at fair value through profit and loss		1,000	–
Increase in time deposits with maturity more than 3 months	26	(40,871)	–
Proceeds from disposal of a subsidiary – net	41	111,021	5,500
Proceeds from disposal of property, plant and equipment		13,652	11,475
Proceeds from acquisition of subsidiaries – net		21,190	–
Dividends received	22	12,623	–
Net cash flows used in investing activities		(740,917)	(723,984)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	739,024
New bank loans and other borrowings		2,450,105	847,081
Repayments of bank loans		(1,624,201)	(528,784)
Principal portion of lease payments	38(d)	(82,012)	(57,507)
Acquisition of non-controlling interests	40	(77,396)	–
Contributions from non-controlling shareholders		–	1,800
Repurchase of shares		–	(36,397)
Dividends paid to the equity holders of the Company		(98,460)	(430,176)
Dividends paid to non-controlling shareholders		(5,119)	(922)
Decrease in restricted cash		119,536	129,989
Net cash flows generated from financing activities		682,453	664,108
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		166,247	(417,413)
Cash and cash equivalents at beginning of year	26	1,861,860	2,262,188
Effect of foreign exchange rate changes, net		9,495	17,085
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,037,602	1,861,860

The notes on pages 69 to 171 are an integral part of these consolidated financial statements.

For the year ended 31 December 2023
(All amount in RMB unless otherwise stated)

1 CORPORATE INFORMATION

Ausnutria Dairy Corporation Ltd (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located at (i) Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong; (ii) Block A, Building 1, Ausnutria Building, Suncity, Purui East Road, Yueliangdao Street, Wangcheng District, Changsha City, Hunan Province, the People's Republic of China (the "**PRC**"); (iii) Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands; and (iv) 25-27 Keysborough Avenue, Keysborough VIC 3173, Australia. The shares of the Company (the "**Shares**") have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 8 October 2009. The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

The Company acts as an investment holding company of the Group. During the year, the Group is principally engaged in research and development, production, marketing and distribution of dairy and related products and nutrition products to its worldwide customers, particularly in the PRC.

In the opinion of the directors, the parent and the ultimate holding company of the Company is Hongkong Jingang Trade Holding Co., Limited ("**Jingang Trade**") and Inner Mongolia Yili Industrial Group Co., Ltd. ("**Yili Industrial**"), respectively.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

2.1 Basis of preparation

(a) Compliance with IFRS and HKCO

These consolidated financial statements of the Group have been prepared in accordance with IFRS Accounting Standards (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622) ("**HKCO**").

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments) measured at fair value; and
- defined benefit pension plans – plan assets measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statement are disclosed in Note 4.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

2.2 Change in accounting policies

(a) New and amended standards adopted by the Group

The following new and amended accounting standards and interpretations have been adopted by the Group for the first time to the financial reporting periods commencing on or after 1 January 2023:

		Effective for accounting periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IAS 12 (Amendments)	International tax reform – the Pillar Two model rules	Immediately, except for certain disclosures

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New and amended standards not yet adopted by the Group

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the reporting period beginning on 1 January 2023 and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions:

		Effective for accounting periods beginning on or after
IFRS 16 (Amendments)	Leases liability in a sale and leaseback	1 January 2024
IAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
IAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
IAS 7 and IFRS 7 (Amendments)	Supplier finance arrangements	1 January 2024
IAS 21 (Amendments)	Lack of exchangeability	1 January 2025
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

(c) Change in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**") which will be effective from 1 May 2025 (the "**Transition Date**"). Under the Amendment Ordinance, any accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme ("**MPF Benefits**") of an entity would no longer be eligible to offset against its obligations on long service payment ("**LSP**") for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in IAS 19 paragraph 93(b) (the "**practical expedient**") to account for the offsetable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" (the "**Guidance**") which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a "simple type of contributory plans" to which the practical expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the practical expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with IAS 19 paragraph 93(a). This change in accounting policy upon the cessation in applying the practical expedient has resulted in a catch-up adjustment for past service costs and a corresponding increase in the Group's LSP obligations in the year of enactment of the Amendment Ordinance.

Obligations on LSP accrued was immaterial for the Group; therefore, the above-mentioned change in accounting policy does not have significant impact to the consolidated financial statements of the Group.

3 FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and other borrowings, and cash and bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 45.14 to the consolidated financial statements.

3.1 Financial risk factors

(a) *Market risk*

(i) *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings with floating interest rates.

The Group manages its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group entered into interest rate cap contracts with a notional amount of EUR118,000,000 with 3-month floating EURIBOR being capped at an interest rate of zero or 3% per annum. All contracts either expired or were early terminated and no new interest rate cap contract was signed as at 31 December 2023.

As at 31 December 2023, after taking into account of the effect of the interest rate cap, approximately 100.0% (2022: approximately 85.7%) of the Group's interest-bearing borrowings bore interest at floating rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB'000
2023		
Euro ("EUR")	100	(10,351)
EUR	(100)	10,351
Hong Kong Dollars ("HK$")	100	(545)
HK$	(100)	545
2022		
EUR	100	(6,607)
EUR	(100)	6,607

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Foreign currency risk

The Company operates internationally and has a number of subsidiaries operating in various countries and regions, including Mainland China, the Netherlands, Hong Kong, Australia and New Zealand. The Group is therefore exposed to currency risk primarily through transactions which give rise to balances that are denominated in a currency other than the functional currency of the operations in the countries or regions to which the transactions relate.

For the subsidiaries in Mainland China, of which the functional currency is Renminbi ("RMB"), the exposure to foreign currency risk (mainly cash and cash equivalents and trade payables) at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2023	31 December 2022	
	Cash and cash equivalents RMB'000	Cash and cash equivalents RMB'000	Trade and bills payables RMB'000
United States Dollars ("US$")	2	15	–
Australian Dollars ("AUD")	–	–	(15,878)
EUR	–	–	(14,354)

As the US$ denominated assets in the Group's PRC subsidiaries were not material, the impact of foreign currency risk is insignificant.

For the subsidiaries in the Netherlands, of which the functional currency is EUR, the exposure to foreign currency risk (mainly cash and cash equivalents) at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2023 Cash and cash equivalents RMB'000	31 December 2022 Cash and cash equivalents RMB'000
US$	7,139	2,435
HK$	–	25
RMB	–	15

As at 31 December 2023, if EUR had weakened/strengthened by 5% against foreign currencies with all other variables held constant, the Group's profit before tax for the year ended 31 December 2023 would have been increased/decreased by approximately RMB357,000 (2022: increased/decreased by approximately RMB124,000).

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Foreign currency risk (continued)

For the subsidiaries in Hong Kong, the functional currency is HK$, the exposure to foreign currency risk (mainly cash and cash equivalents, other receivables and trade payables) at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2023			31 December 2022		
	Cash and cash equivalents RMB'000	Trade and bills receivables RMB'000	Trade and bills payables RMB'000	Cash and cash equivalents RMB'000	Trade and bills receivables RMB'000	Trade and bills payables RMB'000
RMB	23,482	16,292	–	27,146	43,736	(17,175)
EUR	167	9,587	(51)	–	849	(1,882)
AUD	559	–	–	961	2,100	(3,319)

In the opinion of the directors, US$ is reasonably stable under the Linked Exchange Rate System with HK$ and the transactions denominated in HK$ are not significant. Accordingly, the Company does not have any significant foreign exchange risk from HK$ dominated transactions and no sensitivity analysis is performed.

As at 31 December 2023, if HK$ had weakened/strengthened by 5% against foreign currencies other than US$ with all other variables held constant, the Group's profit before tax for the year ended 31 December 2023 would have been increased/decreased by approximately RMB2,502,000 (2022: increased/decreased by approximately RMB2,621,000).

For the subsidiaries in Australia, of which the functional currency is AUD, the exposure to foreign currency risk (mainly cash and cash equivalents) at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2023 Cash and cash equivalents RMB'000	31 December 2022 Cash and cash equivalents RMB'000
US$	5,232	1,129

As at 31 December 2023, if AUD had weakened/strengthened by 5% against foreign currencies with all other variables held constant, the Group's profit before tax for the year ended 31 December 2023 would have been increased/decreased by approximately RMB262,000 (2022: increased/decreased by approximately RMB56,000).

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) *Credit risk*

Credit risk is managed on a group basis. Credit risk mainly arises from cash and cash equivalents and other bank deposits, other receivables, as well as credit exposures to customers, including outstanding trade and bills receivables and committed transactions. Majority of the Group's sales are settled in cash by its customers before delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that settlement of trade receivables is followed up on a timely basis.

Credit risk of cash and cash equivalents

Cash and cash equivalents mainly refer to cash deposits at banks. To manage this risk, cash deposits at banks are mainly placed with state-owned and reputable financial institutions in the countries or regions where the Group entities operate. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant.

Credit risk of trade and bills receivables

The Group has trade and bills receivables for provision of sales of goods subject to the expected credit loss model on adoption of IFRS 9.

The Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the number of days past due.

The expected loss rates are based on the payment profiles of sales over a certain period before the reporting period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the economic conditions of the customers and the performance of the customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Bills receivables are all bank acceptance bills. Since they are substantially issued by state-owned banks and other medium or large sized listed banks, management does not expect that there will be any significant losses from non-performance by these counterparties.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit risk of trade and bills receivables (continued)

On that basis, the loss allowance as at 31 December 2023 and 2022 was determined as follows for trade and bills receivables:

31 December 2023	Within 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over one year RMB'000	Total RMB'000
Expected loss rate	0.2%	0.2%	0.0%	46.8%	2.7%
Gross carrying amount – trade receivables (Note 24)	502,257	42,240	24,290	32,156	600,943
Loss allowance	1,060	102	1	15,039	16,202

31 December 2022	Within 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over one year RMB'000	Total RMB'000
Expected loss rate	0.2%	0.5%	5.5%	47.2%	3.4%
Gross carrying amount – trade receivables (Note 24)	529,118	52,222	20,798	40,876	643,014
Loss allowance	1,215	284	1,147	19,304	21,950

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit risk of other receivables

Other receivables mainly include deposits and loans to related parties and other receivables due from third parties.

For these receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records and past experience.

The directors of the Group consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the year. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the third party;
- significant changes in the expected performance and behavior of the third party, including changes in the payment status of the third party.

Impairment on other receivables is measured as 12-month expected credit losses and the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Impairment of financial assets

As at 31 December 2023 and 2022, the loss allowance for trade receivables, other receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables RMB'000	Other receivables RMB'000	Total RMB'000
Opening loss allowance as at 1 January 2022	57,311	–	57,311
Increase in loss allowance recognised in the consolidated statement of profit or loss during the year	15,908	225	16,133
Receivables written off during the year as uncollectible	(53,799)	–	(53,799)
Exchange realignment	2,530	–	2,530
Closing loss allowance as at 31 December 2022	21,950	225	22,175
Increase in loss allowance recognised in the consolidated statement of profit or loss during the year	1,965	6,578	8,543
Receivables written off during the year as uncollectible	(8,723)	(885)	(9,608)
Exchange realignment	1,010	–	1,010
Closing loss allowance as at 31 December 2023	16,202	5,918	22,120

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) *Liquidity risk*

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at 31 December 2023	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	2,979	13,838	13,483	8,527	38,827
Interest-bearing bank loans and other borrowings	27,419	2,409,804	–	–	2,437,223
Trade and bills payables (Note 27)	513,138	3,822	–	–	516,960
Financial liabilities included in other payables and accruals	299,070	155,342	–	–	454,412
Total	842,606	2,582,806	–	–	3,447,422

As at 31 December 2022	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	–	73,091	17,665	8,632	99,388
Interest-bearing bank loans and other borrowings	642,714	385,535	459,442	–	1,487,691
Trade and bills payables (Note 27)	483,656	72,802	3,005	345	559,808
Financial liabilities included in other payables and accruals	430,521	168,740	20,984	–	620,245
Total	1,556,891	700,168	501,096	8,977	2,767,132

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 2022.

The Group monitors capital using a gearing ratio, which is net debt divided by total assets. Net debt is calculated as the sum of interest-bearing bank loans and other borrowings, and lease liabilities, less restricted cash, long-term time deposits and cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Interest-bearing bank loans and other borrowings (Note 30)	(2,377,952)	(1,465,614)
Add: Lease liabilities (Note 18)	(37,648)	(94,822)
Less: Restricted cash (Note 26)	5,712	125,248
Long-term time deposit (Note 26)	40,871	–
Cash and cash equivalents (Note 26)	2,037,602	1,861,860
(Net debt)/Surplus cash	(331,415)	426,672
Total assets	10,033,758	9,796,095
Gearing ratio	3.3%	N/A

The increase of the gearing ratio during the year is a result of the increase in interest-bearing bank loans of the Netherlands' operation.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

(a) Fair value hierarchy

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

As at 31 December 2023

	Recurring fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Non-current				
Financial assets at fair value through profit or loss ("**FVPL**") (Note 21)	–	–	28,145	28,145

As at 31 December 2022

	Recurring fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Current				
Derivative financial instruments (Note 29)	–	6,808	–	6,808
Non-current				
Financial assets at FVPL (Note 21)	–	–	28,009	28,009

There were no transfers among levels of the fair value measurements during the year ended 31 December 2023 (2022: Nil).

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

(a) *Fair value hierarchy (continued)*

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2023 was assessed to be insignificant. The fair value of interest rate caps is determined using the market rate provided by the banks at the balance sheet date. The fair values of other financial instruments (investments in unlisted companies) are determined using market approach and binomial tree pricing model.

(b) *Fair value measurements using significant unobservable inputs (level 3)*

The following table presents the changes in level 3 items for the years ended 31 December 2023 and 2022:

	Equity investments at fair value through profit or loss RMB'000
Opening balance as at 1 January 2022	20,000
Acquisitions	8,009
Closing balance 31 December 2022	28,009
Exchange realignment	136
Closing balance 31 December 2023	28,145

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Sales incentives

There are a large number of sales contracts with distributors in Mainland China, including various incentives provided to distributors in the form of volume rebates, discounts and other promotion and marketing supports. The consideration received or receivable from the distributors is allocated between the products immediately sold and the incentives for distributors' future redemption. The amount allocated to the incentives is recorded as a contract liability and deferred until the incentives are redeemed. Such calculation and allocation involved management consideration of various contract terms and forms of the sales incentive program. Management is required to use judgement in assessing the nature of sales incentives and whether the payments to customers are in exchange of distinct goods and services.

4.2 Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2023 was RMB192,225,000 (2022: RMB102,323,000). No goodwill impairment charge (2022: RMB162,011,000) was recorded in the consolidated financial statements of 2023 based on the results of the goodwill impairment test. Further details are included in Note 19 to the consolidated financial statements.

4.3 Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate the expected credit loss ("**ECLs**") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is included in Note 24 to the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

4.4 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion, selling expense and related tax. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

4.5 Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4.6 Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2023 was RMB157,179,000 (2022: RMB146,239,000). Further details are included in Note 16 to the consolidated financial statements.

4.7 Useful lives of other intangible assets

The Group determines the estimated useful lives and consequently the related amortisation charges for other intangible assets. These estimates are based on the historical experience of the actual useful lives of those intangible assets of similar nature and functions and by reference with industry experiences. Management will increase the amortisation charges where useful lives are less than previously estimated lives, which may also result in impairment of intangible assets. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in amortisable lives and therefore amortisation expenses in future periods. The amortisation provided for the year ended 31 December 2023 is included in Note 20 to the consolidated financial statements.

4.8 Deferred tax assets

Deferred tax assets are mainly recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2023 was RMB285,690,000 (2022: RMB138,314,000). The amount of unrecognised tax losses as at 31 December 2023 was RMB532,497,000 (2022: RMB490,491,000). Further details are contained in Note 33 to the consolidated financial statements.

5 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had two reportable operating segments in 2023 as follows:

The dairy and related products segment: comprises the manufacturing and sale of dairy and related products, particularly on formula milk powder products, to its worldwide customers; and

The nutrition products segment: comprises the manufacturing and sale of nutrition products (mainly including probiotic related products and gut relief products) to its customers principally in Mainland China and Australia.

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

Segment assets exclude cash and cash equivalents, restricted cash and long-term time deposits as these assets are managed on a group basis.

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

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Year ended 31 December 2023			
Segment revenue (Note 6)			
Sales to external customers	7,097,545	284,462	7,382,007
Intersegment sales	–	–	–
	7,097,545	284,462	7,382,007
Rental income (Note 9)	4,475	–	4,475
Segment results	293,108	(36,479)	256,629
Reconciliation:			
Interest income (Note 9)			35,706
Finance costs (other than interest on lease liabilities) (Note 8)			(55,066)
Corporate and other unallocated expenses			(39,943)
Profit before tax			201,801

5 OPERATING SEGMENT INFORMATION (continued)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
As at 31 December 2023			
Segment assets	7,939,880	470,334	8,410,214
Reconciliation:			
Elimination of intersegment receivables			(460,641)
Corporate and other unallocated assets			2,084,185
Total assets			10,033,758
Segment liabilities	1,857,739	509,512	2,367,251
Reconciliation:			
Elimination of intersegment payables			(460,641)
Corporate and other unallocated liabilities			2,377,952
Total liabilities			4,284,562
Year ended 31 December 2023			
Other segment information			
Impairment losses recognised in profit or loss	303,477	3,570	307,047
Share of profits and losses of investments accounted for using the equity method (Note 22)	(22,171)	24	(22,147)
Investments accounted for using the equity method (Note 22)	317,769	1,024	318,793
Depreciation and amortisation	232,896	17,773	250,669
Capital expenditure*	554,185	110,414	664,599

5 OPERATING SEGMENT INFORMATION (continued)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Year ended 31 December 2022			
Segment revenue (Note 6)			
Sales to external customers	7,662,551	132,961	7,795,512
Intersegment sales	–	–	–
	7,662,551	132,961	7,795,512
Rental income (Note 9)	3,282	–	3,282
Segment results	404,799	(141,738)	263,061
Reconciliation:			
Interest income (Note 9)			38,193
Finance costs (other than interest on lease liabilities) (Note 8)			(11,661)
Corporate and other unallocated expenses			(41,598)
Profit before tax			251,277

5 OPERATING SEGMENT INFORMATION (continued)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
As at 31 December 2022			
Segment assets	7,821,974	331,254	8,153,228
Reconciliation:			
Elimination of intersegment receivables			(344,241)
Corporate and other unallocated assets			1,987,108
Total assets			9,796,095
Segment liabilities	2,733,391	376,275	3,109,666
Reconciliation:			
Elimination of intersegment payables			(344,241)
Corporate and other unallocated liabilities			1,465,614
Total liabilities			4,231,039
Year ended 31 December 2022			
Other segment information			
Impairment losses recognised in profit or loss	388,333	60,095	448,428
Share of profits and losses of investments accounted for using the equity method (Note 22)	19,937	(8,339)	11,598
Investments accounted for using the equity method (Note 22)	176,089	188,279	364,368
Depreciation and amortisation	243,573	12,901	256,474
Capital expenditure*	697,519	7,024	704,543

* Capital expenditure consist of additions to property, plant and equipment and other intangible assets.

5 OPERATING SEGMENT INFORMATION (continued)

(a) Non-current assets

	2023 RMB'000	2022 RMB'000
The PRC	1,255,851	1,197,189
The Netherlands	3,088,252	2,555,553
Australia and New Zealand	242,672	238,044
	4,586,775	3,990,786

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

(b) Information about major customers

During the year, there was no revenue from a single external customer accounting for 10% or more of the Group's total revenue (2022: Nil).

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of revenue is as follows:

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers	7,382,007	7,795,512

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(a) Disaggregated revenue information

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

	Year ended 31 December 2023		
	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	7,093,462	284,462	7,377,924
Rendering services	4,083	–	4,083
Total revenue from contracts with customers	7,097,545	284,462	7,382,007
Geographical markets			
The PRC	5,611,092	276,697	5,887,789
European Union	831,903	–	831,903
Middle East	291,660	–	291,660
North and South America	179,217	–	179,217
Southeast Asia	121,739	–	121,739
Australia	24,312	7,765	32,077
New Zealand	1,364	–	1,364
Others	36,258	–	36,258
Total revenue from contracts with customers	7,097,545	284,462	7,382,007
Timing of revenue recognition			
At a point in time	7,093,462	284,462	7,377,924
Over time	4,083	–	4,083
Total revenue from contracts with customers	7,097,545	284,462	7,382,007

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(a) Disaggregated revenue information (continued)

	Year ended 31 December 2022		
	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	7,652,048	132,961	7,785,009
Rendering services	10,503	–	10,503
Total revenue from contracts with customers	7,662,551	132,961	7,795,512
Geographical markets			
The PRC	6,436,059	127,497	6,563,556
European Union	739,371	–	739,371
Middle East	167,577	–	167,577
North and South America	153,319	–	153,319
Southeast Asia	118,931	–	118,931
Australia	30,480	5,464	35,944
New Zealand	3,918	–	3,918
Others	12,896	–	12,896
Total revenue from contracts with customers	7,662,551	132,961	7,795,512
Timing of revenue recognition			
At a point in time	7,652,048	132,961	7,785,009
Over time	10,503	–	10,503
Total revenue from contracts with customers	7,662,551	132,961	7,795,512

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(b) Contract liabilities

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Contract liabilities	451,316	1,036,288

Contract liabilities include consideration received from customers in advance and the fair value of sales incentives not yet redeemed.

Details of contract liabilities are set out below:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Short-term advances received from customers for the sale of goods and deferred sales incentives	451,316	1,036,288

Set out below is the amount of revenue recognised from:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Amounts included in contract liabilities at the beginning of the year	1,036,288	1,593,098

Significant changes in contract liabilities

Contract liabilities for customer contracts have decreased by RMB584,972,000 due to more redemption of sales incentives during the year.

(c) Performance obligations

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

Sales of goods

The performance obligation is satisfied upon delivery of the goods to the customers where payment in advance is normally required.

Customers mainly referring to distributors, are entitled to incentives according to the sales incentive program which results in allocation of a portion of the transaction price to the incentives entitled by the distributors. Revenue is recognised when the incentives are redeemed.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(c) Performance obligations (continued)

Sales of goods (continued)

In addition, the Group updates its estimates of the incentives that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

All the remaining performance obligations are expected to be recognised within one year.

(d) Accounting policies of revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sales of goods

The Group manufactures and sells dairy related products and nutrition products in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

For certain payments to customers for promotion activities, the Group did not provide a distinct good or service to customers and therefore recorded as a deduction of sales price.

Sales incentive program

The Group operates the sales incentive program to provide additional incentives to distributors and customers that provide a material right to each of them when they purchase products of the Group.

The sales incentives can then be redeemed for free products, subject to a minimum number of incentives being obtained. The consideration received or receivable from the products sold is allocated between the incentives earned by the distributor incentive program members and the other components of the sales transactions. The amount allocated to the incentives earned by the distributor incentive program members, based on the relative stand-alone selling prices, is deferred with a contract liability recognised and the related contract liabilities are recognised as revenue until the incentives are redeemed when the Group fulfils its obligations to supply products.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(d) Accounting policies of revenue recognition (continued)

Rendering services

The Group provides product processing services to customers. Revenue from providing services is recognised over a period of time based on the stage of completion of such service, which is determined by the proportion of costs incurred to the estimated total costs. As at the balance sheet date, the Group reassesses the stage of completion so as to better reflect the changes in obligation performance.

Trade receivables are recognised when the Group has an unconditional right to collection.

7 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and research and development expenses were analysed as follows:

	Notes	2023 RMB'000	2022 RMB'000
Raw materials, packaging materials, consumables and purchased commodity used		3,726,729	3,278,221
Changes in inventories of finished goods		(313,745)	(22,630)
Employee benefit expenses, including directors' emoluments	(a)	1,323,809	1,481,025
Promotion and advertising expenses		1,077,724	1,207,261
Write-downs of inventories to net realisable value		273,405	224,302
Depreciation of property, plant and equipment	16	157,179	146,239
Transportation expenses		135,054	177,476
Office expenses		114,558	95,659
Laboratory expenses		82,116	106,245
Consulting expenses		71,300	91,433
Amortisation of other intangible assets	20	65,960	66,873
Repair and maintenance expenses		65,473	68,390
Travel and entertainment expenses		63,733	132,459
Short-term rental expenses	18	55,975	17,567
Sampling expenses		54,022	91,385
Depreciation of right-of-use assets	18	23,219	39,594
Auditors' remunerations			
– Audit and other assurance services		12,935	13,820
Depreciation of investment property	17	4,311	3,768
Impairment of property, plant and equipment	16	25,099	5,199
Impairment of other intangible assets	20	–	20,734
Others		86,013	126,170
		7,104,869	7,371,190

7 EXPENSES BY NATURE (continued)

(a) Employee benefit expenses (including directors' remuneration (Note 10))

	2023 RMB'000	2022 RMB'000
Wages, salaries and staff expenses	976,312	938,327
Temporary staff costs	129,565	302,634
Other employee related expenses	129,164	157,898
Pension scheme contributions*	88,768	77,258
Cancellation of equity-settled share option arrangements (Note 35)	–	4,908
	1,323,809	1,481,025
Restricting costs (Note 9)	38,873	–
Total employee benefit expenses	1,362,682	1,481,025

* As at 31 December 2023, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2022: Nil).

8 FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	2023 RMB'000	2022 RMB'000
Interest on bank loans, overdrafts and other loans		83,922	24,428
Interest on lease liabilities	18	2,661	3,282
		86,583	27,710
Amount capitalised		(35,664)	(5,956)
Total interest expense on financial liabilities not at fair value through profit or loss		50,919	21,754
(Gain)/Loss on interest rate caps	29	6,808	(6,811)
		57,727	14,943

9 OTHER INCOME, OTHER GAINS/(LOSSES) – NET

	Notes	2023 RMB'000	2022 RMB'000
Other income			
Government grants (a)		80,446	27,546
Interest income		35,706	38,193
Rental income	18	4,475	3,282
		120,627	69,021
Other gains/(losses) – net			
Restructuring costs		(38,873)	–
Foreign exchange losses, net		(23,161)	(9,501)
Charitable donations		(6,406)	(11,680)
Gain on disposal of a subsidiary		–	1,949
Impairment of goodwill	19	–	(162,011)
Others		(39,107)	(21,296)
		(107,547)	(202,539)
Total other income, other gains/(losses) – net		13,080	(133,518)

(a) The amount mainly represented incentive income received from the government in Mainland China, where the Company's subsidiaries operate. There were no unfulfilled conditions or contingencies relating to these grants.

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, sections 383 (1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2023 RMB'000	2022 RMB'000
Fees	2,610	2,311
Other emoluments:		
Salaries, allowances and benefits in kind	9,621	9,768
Pension scheme contributions	350	114
	9,971	9,882
	12,581	12,193

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

Executive directors, non-executive directors and independent non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2023				
Executive directors:				
Ren Zhijian*	–	1,965	162	2,127
Zhang Zhi*	–	2,177	106	2,283
Yan Weibin**	270	1,907	43	2,220
Bartle van der Meer	270	1,743	–	2,013
Ng Siu Hung**	270	1,829	39	2,138
	810	9,621	350	10,781
Non-executive directors:				
Zhang Zhanqiang	270	–	–	270
Sun Donghong	270	–	–	270
Zhang Lingqi***	270	–	–	270
Yan Junrong****	–	–	–	–
	810	–	–	810
Independent non-executive directors:				
Aidan Maurice Coleman	315	–	–	315
Ma Ji	360	–	–	360
Song Kungang	315	–	–	315
	990	–	–	990
	2,610	9,621	350	12,581

* appointed on 12 September 2023
** resigned on 12 September 2023
*** resigned on 24 November 2023
**** appointed on 24 November 2023

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

Executive directors, non-executive directors and independent non-executive directors (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022				
Executive directors:				
Yan Weibin	258	6,598	57	6,913
Bartle van der Meer	258	1,665	–	1,923
Ng Siu Hung	258	1,505	57	1,820
	774	9,768	114	10,656
Non-executive directors:				
Shi Liang	54	–	–	54
Tsai Chang Hai	54	–	–	54
Qiao Baijun	78	–	–	78
Zhang Zhanqiang*	204	–	–	204
Sun Donghong*	204	–	–	204
Zhang Lingqi**	181	–	–	181
	775	–	–	775
Independent non-executive directors:				
Aidan Maurice Coleman	301	–	–	301
Jason Wan	91	–	–	91
Lau Chun Fai Douglas	104	–	–	104
Ma Ji**	241	–	–	241
Song Kungang***	25	–	–	25
Ren Fazheng****	–	–	–	–
	762	–	–	762
	2,311	9,768	114	12,193

* appointed on 18 March 2022
** appointed on 20 April 2022
*** appointed on 2 December 2022
**** appointed on 20 April 2022 and resigned on 2 December 2022

11 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one (2022: one) directors, details of whose remuneration are set out in Note 10 above. Details of the remuneration for the year of the remaining four (2022: four) non-director highest paid employees of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	12,923	19,434
Pension scheme contributions	282	143
	13,205	19,577

The number of non-director highest paid employees whose remuneration fell with the following bands is as follows:

	Number of employees	
	2023	2022
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	2	1
HK$3,000,001 to HK$3,500,000	–	1
HK$4,500,001 to HK$5,000,000	2	–
HK$14,500,001 to HK$15,000,000	–	1
	4	4

For the year ended 31 December 2023

(All amount in RMB unless otherwise stated)

12 INCOME TAX

Taxes on assessable profits of the Company's subsidiaries have been calculated at the rates of tax prevailing in the jurisdictions in which the subsidiary operates.

Under Mainland China income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25%. Ausnutria China, Bioflag Co., Ltd. and Bioflag (Anhui) Co., Ltd. (subsidiaries of Bioflag) were designated as a High-tech Enterprises and were granted a preferential CIT rate of 15% up to the year ended 31 December 2023.

Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 19% (2022: 15%) for the first EUR200,000 (2022: EUR395,000) taxable profits and 25.8% (2022: 25.8%) for taxable profits exceeding EUR200,000 (2022: EUR395,000). Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") have been granted a preferential tax benefit in April 2021 for the assessable profits generated in the Netherlands which covers the period from 2018 to 2024 for the recognition of Ausnutria B.V. Group's contribution on research and development in the past years. The preferential tax rates are 7% and 9% for the periods from 2018 to 2020 and from 2021 to 2024, respectively, on earnings that were or are to be generated by qualifying intellectual property.

Under Hong Kong tax laws, profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2022: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

A reconciliation of tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to tax expense at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

	2023 RMB'000	2022 RMB'000
Profit before tax	201,801	251,277
Income tax at the statutory income tax rate	52,466	61,581
Tax effects on preferential tax rates	(16,417)	(74,041)
Income not subject to tax	–	(17,713)
Non-deductible items and others, net	4,111	55,470
Profits and losses attributable to associates and joint ventures	5,002	2,516
Additional deduction of research and development and other expenses	(10,446)	(25,119)
Tax losses and other temporary differences for which no deferred income tax assets were recognised	22,162	27,789
Utilisation of previously unrecognised tax losses	(751)	(5,644)
Reversal of previously recognised tax losses	–	47,877
Changes in balance of deferred tax assets due to adjustment in tax rate	–	(35,152)
Withholding tax on profits retained by PRC subsidiaries	10,467	22,492
Adjustments for current tax of prior periods	(4,713)	2,878
Deferred tax related to loss of investment in a subsidiary	(28,936)	–
Tax charge at the Group's effective rate	32,945	62,934

12 INCOME TAX (continued)

(a) The Organisation for Economic Co-operation and Development ("OECD") Pillar Two model rules

The Group has operations mainly in Mainland China, Hong Kong, Taiwan, the Netherlands, United Arab Emirates, United States of America, Australia, Cayman Islands and British Virgin Islands. It is within the scope of the OECD Pillar Two model rules. As of the reporting date, there is no public announcement in jurisdictions including Mainland China, Taiwan, United States of America, Cayman Islands and British Virgin Islands. Hong Kong has announced that it plans to implement the Global Minimum Tax and Hong Kong Domestic Minimum Top-up Tax starting from 2025 onwards but it is still under public consultation with the expectation that draft legislation will be published in the second half of 2024. United Arab Emirates has announced that the Pillar Two model rules will not be implemented in 2024 and a public consultation on the Pillar Two proposals will be released in the first quarter of 2024. Australia announced the implementation of a 15% global minimum tax and domestic minimum tax, key aspects of Pillar Two of the OECD/G20 Two-Pillar Solution in its 2023-24 budget and has not released the draft legislation yet. The Pillar Two model rules have entered into force in the Netherlands on 31 December 2023 and will come into effect from 1 January 2024.

Since the Pillar Two legislation was not effective at the report date, the Group has no related current tax exposure. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

The Group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect. This assessment indicates for certain jurisdictions that the average effective tax rate based on accounting profit is below 15.0% for the annual reporting period to 31 December 2023. However, although the average effective tax rate is below 15%, the Group might not be exposed to paying Pillar Two income taxes in relation to these jurisdictions. This is due to the impact of specific adjustments envisaged in the Pillar Two legislation which give rise to different effective tax rates compared to those calculated in accordance with paragraph 86 of IAS 12.

Due to the complexities in applying the legislation and calculating Global Anti-Base Erosion Proposal ("GloBE") income, the quantitative impact of the enacted or substantively enacted legislation is not yet reasonably estimable. Therefore, even for those entities with an accounting effective tax rate above 15%, there may still be Pillar Two tax implications. The Group will be engaged with tax specialists to assist them with applying the legislation.

13 DIVIDENDS

	2023 RMB'000	2022 RMB'000
Proposed final dividend – HK$5 cents (2022: HK$6 cents) per ordinary share	80,659	96,479

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The dividends paid by the Company in 2023 and 2022 for the years ended 31 December 2022 and 2021 amounted to approximately RMB98,460,000 and RMB430,176,000 respectively.

A dividend in respect of the year ended 31 December 2023 of HK$5 cents per share, amounting to a total dividend of RMB80,659,000 was proposed by the directors at the board of directors meeting held on 27 March 2024 and is to be proposed for approval at the annual general meeting of the Company to be held on 30 May 2024. These consolidated financial statements do not reflect this dividend payable.

14 EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 1,797,098,142 (2022: 1,792,267,948) in issue during the year.

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

Earnings

	2023 RMB'000	2022 RMB'000
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	174,387	216,526

Shares

	Number of shares	
	2023	2022
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	1,797,098,142	1,792,267,948
Effect of dilution – weighted average number of ordinary shares: share options	–	–
	1,797,098,142	1,792,267,948
Basic		
– For profit for the year (RMB cents)	9.70	12.08
Diluted		
– For profit for the year (RMB cents)	9.70	12.08

15 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2023 are set at below.

Name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities*
Spring Choice Limited	British Virgin Islands	US$200	100	–	Investment holding
Ausnutria Dairy Company Limited	Hong Kong	HK$1	–	100	Investment holding and the provision of financing services to the Group
Ausnutria Australia Dairy Pty Ltd	Australia	AUD500,000	–	100	Investment holding
Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**") [(1)]	Mainland China	RMB168,633,832	–	100	Production, marketing and distribution of dairy and related products in Mainland China
Ausnutria Dairy (Dutch) Cooperatief U. A	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria B.V.	The Netherlands	EUR10,465,000	–	100	Investment holding
Ausnutria Kampen B.V.	The Netherlands	EUR21,500	–	100	Manufacturing of dairy and related products
Lypack Leeuwarden B.V.	The Netherlands	EUR18,151	–	100	Processing and packaging of dairy and related products
Ausnutria Heerenveen Hector B.V.	The Netherlands	EUR1,000	–	100	Processing and packaging of dairy and related products
Ausnutria Heerenveen Pluto B.V.	The Netherlands	EUR1,000	–	100	Processing and packaging of dairy and related products
Ausnutria Nutrition B.V.	The Netherlands	EUR18,000	–	100	Marketing and distribution of goat milk nutrition products
Hyproca Nutrition (Hongkong) Company Limited	Hong Kong	HK$1,000,000	–	100	Marketing and distribution of goat milk nutrition products in Hong Kong and Mainland China
Hyproca Nutrition Company Limited ("**HNC**") [(1)]	Mainland China	RMB10,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Ausnutria Private Label B.V.	The Netherlands	EUR30,403	–	100	Marketing and distribution of dairy products under a private label
Ausnutria Dairy Ingredients B.V.	The Netherlands	EUR18,200	–	100	Marketing and distribution of dairy and related products

15 SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities*
Holland Goat Milk B.V.	The Netherlands	EUR12,953	–	100	Collection of goat milk in the Netherlands
Ausnutria Nutrition Europe B.V.	The Netherlands	EUR18,000	–	100	Marketing and distribution of dairy products in Europe
Hyproca Nutrition East Limited	Hong Kong	HK$4,000,000	–	51	Marketing and distribution of dairy products
Hyproca Nutrition ME Trading LLC	Dubai	United Arab Emirates Dirham 300,000	–	100	Marketing and distribution of dairy products in the Middle East
Hyproca Nutrition USA Inc.	United States of America	US$1	–	100	Marketing and distribution of dairy products in the United States
Hyproca Bio-Science (Hong Kong) Company Limited	Hong Kong	HK$50,000,000	–	100	Marketing and distribution of dairy products in Hong Kong
Hyproca Bio-Science Co., Ltd. [(1)]	Mainland China	RMB10,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Allnutria Bio-Science Co., Ltd. ("**Allnutria**") [(1) (2)]	Mainland China	RMB50,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Puredo Health Service (Changsha) Co., Ltd. [(1)]	Mainland China	RMB20,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Changsha AnEr Nutrition Co., Ltd. [(1)]	Mainland China	RMB86,458,140	–	100	Production and distribution of dairy and related products in Mainland China
Ausnutria Pty Ltd	Australia	AUD56,428,571	–	100	Investment holding
ADP Holdings (Australia) Pty Ltd ("**ADP**")	Australia	AUD14,002,000	–	100	Investment holding
Australian Dairy Park Pty Ltd	Australia	AUD14,000,000	–	100	Manufacturing and distribution of dairy and related products
Nutrition Care Pharmaceuticals Pty Ltd	Australia	AUD44,000,000	–	100	Manufacturing and distribution of nutrition products

15 SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities*
Ozfarm Royal Pty Ltd ("**Ozfarm**")	Australia	AUD3,000,100	–	100	Marketing and distribution of dairy and related products in Australia
Aunulife Pty Ltd	Australia	AUD250,000	–	100	Development, distribution and sale of probiotic products
Nutriunion (Hong Kong) Company Ltd.	Hong Kong	HK$100	–	100	Marketing and distribution of nutrition products in Mainland China and Hong Kong
Nutriunion (Guangzhou) Interconnection Technology Co., Ltd. (1)	Mainland China	RMB50,000,000	–	100	Marketing and distribution of nutrition products in Mainland China
Aunulife Bio-Science Co. Ltd. ("**Aunulife**") (1)	Mainland China	RMB50,000,000	–	70	Marketing and distribution of nutrition products in Mainland China
Bioflag Nutrition Corporation Ltd. ("**Bioflag**")(3)	Cayman Islands	US$4,910,591	–	82	Research and development, manufacturing and sale of probiotics and fermentation-related products

* The place of incorporation/registration is also principal country of operation.

(1) These companies are registered as companies with limited liability under PRC law.

(2) On 6 July 2023, the Group acquired 15.0% of the issued share capital of Allnutria. Since then, Allnutria became a wholly-owned subsidiary of the Group.

(3) In 2023, the Group acquired 82.0% of equity interests in and obtained the control of Bioflag upon the completion of a series transactions. Further details are included in Note 37 and Note 40 to the consolidated financial statements.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
2023							
As at 1 January 2023	1,113,489	314,896	4,010	222,956	42,931	823,559	2,521,841
Reclassification	–	81,187	–	(81,187)	–	–	–
Business combination (Note 37)	33,330	17,805	208	5,544	5,925	36,317	99,129
Additions	20,916	46,327	9,650	1,212	2,538	510,596	591,239
Disposals	–	(2,356)	(3,708)	(2,963)	(3,767)	–	(12,794)
Disposal of a subsidiary (Note 41)	(5,845)	(1,559)	–	(116,671)	–	–	(124,075)
Depreciation during the year (Note 7)	(58,175)	(80,887)	(3,366)	(8,275)	(6,476)	–	(157,179)
Impairment during the year (Note 7)	(4,824)	(20,237)	–	(38)	–	–	(25,099)
Transfer from construction in progress	157,297	109,689	7	3,277	–	(270,270)	–
Transfer to investment property (Note 17)	(13,233)	–	–	–	–	–	(13,233)
Transfer from right of use assets (Note 18)	–	146,887	–	–	–	–	146,887
Exchange realignment	40,981	17,604	139	(2,313)	88	56,467	112,966
As at 31 December 2023	1,283,936	629,356	6,940	21,542	41,239	1,156,669	3,139,682
As at 31 December 2023							
Cost	1,619,635	1,074,809	25,493	62,921	85,359	1,156,669	4,024,886
Accumulated depreciation and impairment	(335,699)	(445,453)	(18,553)	(41,379)	(44,120)	–	(885,204)
Net carrying amount	1,283,936	629,356	6,940	21,542	41,239	1,156,669	3,139,682

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
2022							
As at 1 January 2022	854,516	223,391	6,729	219,448	45,739	486,509	1,836,332
Additions	68,203	82,035	2,623	8,332	144	408,471	569,808
Disposals	(4,933)	(2,469)	(622)	(951)	(2,536)	–	(11,511)
Depreciation during the year (Note 7)	(65,987)	(59,994)	(4,841)	(9,114)	(6,303)	–	(146,239)
Impairment during the year (Note 7)	–	(5,071)	–	(128)	–	–	(5,199)
Transfer from construction in progress	18,437	70,521	–	2,715	5,865	(97,538)	–
Transfer from investment in an associate (Note 22)	223,007	–	–	–	–	–	223,007
Exchange realignment	20,246	6,483	121	2,654	22	26,117	55,643
As at 31 December 2022	1,113,489	314,896	4,010	222,956	42,931	823,559	2,521,841
As at 31 December 2022							
Cost	1,436,742	643,525	21,283	266,409	79,337	823,559	3,270,855
Accumulated depreciation and impairment	(323,253)	(328,629)	(17,273)	(43,453)	(36,406)	–	(749,014)
Net carrying amount	1,113,489	314,896	4,010	222,956	42,931	823,559	2,521,841

As at 31 December 2023, the Group's land included in property, plant and equipment with net carrying amounts of EUR7,117,000 (equivalent to approximately RMB55,936,000) (2022: EUR7,117,000, equivalent to approximately RMB52,831,000), and AUD6,620,000 (equivalent to approximately RMB32,094,000) (2022: AUD6,620,000, equivalent to approximately RMB31,205,000) situated in the Netherlands and Australia, respectively, is held as freehold land. The freehold land in New Zealand with net carrying amounts of NZD3,000,000 (equivalent to approximately RMB13,249,000) as at 31 December 2022 was disposed in 2023 as a result of the disposal of a subsidiary in New Zealand (Note 41).

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year of 5.9% (2022: 3.1%) per annum.

Depreciation is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives or, in the case of leasehold improvement, the shorter of lease terms as follows:

Freehold land	Not depreciated
Buildings	25 to 35 years
Leasehold improvement	Shorter of useful lives or lease terms
Plant and machinery	5 to 15 years
Motor vehicles	5 to 10 years
Office equipment	5 to 10 years

See Note 45.16 for the other accounting policies relevant to property, plant and equipment.

17 INVESTMENT PROPERTY

	2023 RMB'000	2022 RMB'000
As at 1 January	116,925	115,821
Transfer from property, plant and equipment (Note 16)	13,233	–
Additions	–	1,705
Depreciation provided during the year (Note 7)	(4,311)	(3,768)
Exchange realignment	6,765	3,167
As at 31 December	132,612	116,925

The balance represented an investment property which is adjacent to the Group's existing production facilities located in Heerenveen, the Netherlands. The investment property, which is leased to a third party under operating lease, is principally used for the production of tins for selling to the Group as well as other third parties. Further details are included in Note 18 to the consolidated financial statements.

As at 31 December 2023, the Group's land included in investment property with net carrying amount of EUR522,000 (equivalent to approximately RMB4,103,000) (2022: EUR522,000, equivalent to approximately RMB3,875,000) situated in the Netherlands, is held as freehold land.

The fair value of the investment property as at 31 December 2023 was RMB160,437,000 (2022: RMB139,449,000).

Details of rental income from operating leases where the Group is a lessor are included in Note 18 to the consolidated financial statements.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life of 20 to 40 years.

See Note 45.17 for the other accounting policies relevant to investment properties.

18 LEASES

The Group as a lessee

The Group has lease contracts for buildings, machinery and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 35 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings and machinery generally have lease terms between 3 and 7 years, while motor vehicles generally have lease terms between 2 and 5 years.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets.

See Note 45.8 for the other accounting policies relevant to leases.

18 LEASES (continued)

The Group as a lessee (continued)

(a) ***Right-of-use assets***

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Buildings and machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2022	84,645	176,334	22,833	283,812
Additions	–	21,206	2,367	23,573
Depreciation charge (Note 7)	(2,388)	(34,532)	(2,674)	(39,594)
Exchange realignment	–	3,629	517	4,146
As at 31 December 2022 and 1 January 2023	82,257	166,637	23,043	271,937
Business combination (Note 37)	19,980	1,107	–	21,087
Additions	–	15,320	2,686	18,006
Depreciation charge (Note 7)	(3,660)	(16,752)	(2,807)	(23,219)
Terminations	–	(5,277)	(327)	(5,604)
Transfer to property, plant and equipment (Note 16)	–	(146,887)	–	(146,887)
Exchange realignment	–	4,953	290	5,243
As at 31 December 2023	98,577	19,101	22,885	140,563

(b) ***Lease liabilities***

The carrying amount of lease liabilities and the movements during the year are as follows:

	2023 RMB'000	2022 RMB'000
As at 1 January	94,822	125,451
New leases	18,006	23,573
Business combination (Note 37)	1,204	–
Interest on lease liabilities (Note 8)	2,661	3,282
Payments	(84,673)	(60,789)
Exchange realignment	5,628	3,305
As as at 31 December	37,648	94,822
Analysed into:		
Current portion	16,623	70,415
Non-current portion	21,025	24,407
	37,648	94,822

The maturity analysis of lease liabilities is disclosed in Note 3.1(c) to the consolidated financial statements.

18 LEASES (continued)

The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities (Note 8)	2,661	3,282
Depreciation charge for right-of-use assets (Note 7)	23,219	39,594
Expense relating to short-term leases (Note 7)	55,975	17,567
Total amount recognised in profit or loss	81,855	60,443

(d) The total cash outflow for leases is disclosed in Note 38(d) to the consolidated financial statements.

The Group as a lessor

The Group leases its investment property (Note 17) consisting of a factory building in the Netherlands under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB4,475,000 (2022: RMB3,282,000) (Note 9).

As at 31 December 2023, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 1 year	5,061	3,196
After 1 year but within 5 years	20,283	12,783
After 5 years	4,247	3,196
	29,591	19,175

19 GOODWILL

	RMB'000
As at 1 January 2022:	
Cost	273,156
Accumulated impairment	(14,468)
Net carrying amount	258,688
As at 1 January 2022	258,688
Impairment during the year (Note 9)	(162,011)
Exchange realignment	5,646
As at 31 December 2022	102,323
As at 31 December 2022:	
Cost	278,475
Accumulated impairment	(176,152)
Net carrying amount	102,323
As at 1 January 2023	102,323
Business combination (Note 37)	84,703
Exchange realignment	5,199
As at 31 December 2023	192,225
As at 31 December 2023:	
Cost	373,407
Accumulated impairment	(181,182)
Net carrying amount	192,225

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("**CGU**") for impairment testing:

Dairy and related products segment:

- Ausnutria B.V. CGU;
- Youluck CGU;
- ADP CGU; and
- Ozfarm CGU.

19 GOODWILL (continued)

Impairment testing of goodwill (continued)

Nutrition products segment:

- Bioflag nutrition CGU; and
- Nutrition Care ("**NC**") nutrition business CGU.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

CGU

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Bioflag nutrition (a)	84,703	–
Ausnutria B.V.* (b)	79,811	75,381
ADP*	11,464	11,146
NC nutrition business*	9,155	8,900
Ozfarm*	4,436	4,312
Youluck*	2,656	2,584
	192,225	102,323

* The change in carrying amounts mainly due to foreign exchange difference of translation at year end.

Management has determined the values assigned to each of the key assumptions as follows:

Compound annual growth rate of revenue during the projection period	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Gross margin (% of revenue)	Based on past performance and management's expectations for the future.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
Pre-tax discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate.

19 GOODWILL (continued)

Impairment testing of goodwill (continued)

The details of the recoverable amounts and the related key assumptions used in the value-in-use ("VIU") calculation supporting the recoverable amounts of the material goodwill amounts are set out below:

(a) Bioflag nutrition CGU

As at 31 December 2023, the recoverable amount of Bioflag nutrition CGU based on VIU calculation was RMB372,783,000, which exceeded its carrying value by RMB34,969,000.

The key assumptions used in the VIU calculation for 2023 were as follows:

Compound annual growth rate of revenue during the projection period	15.6%
Gross margin (% of revenue)	27.4%
Long-term growth rate	2.2%
Pre-tax discount rate	14.1%

If the gross margin used in the value in use calculation for the Bioflag nutrition CGU had been 0.8% PPS lower than management's estimates at 31 December 2023, the Group would have had to recognise an impairment against the carrying amount. If the discount rate had been 1.5% PPS higher than management's estimates at 31 December 2023, the Group would have had to recognise an impairment against the carrying amount. The directors and management have considered and assessed reasonably possible changes for long-term growth rate and have not identified any instances that could cause the carrying amount of the Bioflag nutrition CGU to exceed its recoverable amount.

(b) Ausnutria B.V. CGU

As at 31 December 2023, the recoverable amount of Ausnutria B.V. CGU based on VIU calculation was RMB4,094,935,000, which exceeded its carrying value by RMB1,400,310,000.

The key assumptions used in the VIU calculation for 2023 were as follows:

Compound annual growth rate of revenue during the projection period	15.3%
Gross margin (% of revenue)	17.8%
Long-term growth rate	2.2%
Pre-tax discount rate	12.4%

If the gross margin used in the value in use calculation for the Ausnutria B.V. CGU had been 1.5% PPS lower than management's estimates at 31 December 2023, the Group would have had to recognise an impairment against the carrying amount. If the discount rate had been 2.2% PPS higher than management's estimates at 31 December 2023, the Group would have had to recognise an impairment against the carrying amount. The directors and management have considered and assessed reasonably possible changes for long-term growth rate and have not identified any instances that could cause the carrying amount of the Ausnutria B.V. CGU to exceed its recoverable amount.

20 OTHER INTANGIBLE ASSETS

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Total RMB'000
2023					
As at 1 January 2023	139,530	82,335	171,203	78,978	472,046
Reclassification	35,423	(35,423)	–	–	–
Additions	19,765	–	53,595	–	73,360
Business combination (Note 37)	14,925	93	143	–	15,161
Disposal	(143)	(1,043)	(19)	(355)	(1,560)
Disposal of a subsidiary (Note 41)	–	(77)	(3,266)	–	(3,343)
Amortisation during the year (Note 7)	(22,866)	(6,752)	(25,970)	(10,372)	(65,960)
Exchange realignment	7,752	959	5,638	4,313	18,662
As at 31 December 2023:	194,386	40,092	201,324	72,564	508,366
As at 31 December 2023:					
Cost	310,363	133,763	311,745	114,990	870,861
Accumulated amortisation and impairment	(115,977)	(93,671)	(110,421)	(42,426)	(362,495)
Net carrying amount	194,386	40,092	201,324	72,564	508,366

20 OTHER INTANGIBLE ASSETS (continued)

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Total RMB'000
2022					
As at 1 January 2022	142,128	113,276	162,181	3,394	420,979
Additions	12,622	1,473	34,955	83,980	133,030
Disposal	–	(33)	(5,824)	–	(5,857)
Amortisation during the year (Note 7)	(18,883)	(20,854)	(17,508)	(9,628)	(66,873)
Impairment during the year (Note 7)	–	(13,727)	(7,007)	–	(20,734)
Exchange realignment	3,663	2,200	4,406	1,232	11,501
As at 31 December 2022	139,530	82,335	171,203	78,978	472,046
As at 31 December 2022:					
Cost	250,823	167,978	257,731	108,951	785,483
Accumulated amortisation and impairment	(111,293)	(85,643)	(86,528)	(29,973)	(313,437)
Net carrying amount	139,530	82,335	171,203	78,978	472,046

Amortisation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter of lease terms as follows:

Non-patent technology and licence	5 to 10 years
Trademarks	5 to 10 years
Software	5 to 10 years
Milk collection right	10 years

See Note 45.18 for the other accounting policies relevant to other intangible assets.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classifies the following financial assets at FVPL:

- debt investments that do not qualify for measurement at either amortised cost or at FVOCI,
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As at 31 December 2023, financial assets at FVPL comprised the following investments:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Equity investments in unlisted companies		
– Nanjing Fenyuhe Enterprise Management Co., Ltd.	20,000	20,000
– MAKUKU Ltd.	8,145	8,009
	28,145	28,009

22 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Share of net assets	223,551	364,368
Goodwill on acquisitions	95,242	–
	318,793	364,368

	2023 RMB'000	2022 RMB'000
As at 1 January	364,368	560,993
Additions	82,794	28,407
Goodwill on acquisitions	92,712	–
Share of (losses)/profits of associates and joint ventures	(22,147)	11,598
Dividends received	(12,623)	–
Impairment of a joint venture (a)	–	(20,049)
Transferred to investments in subsidiaries	(192,092)	–
Transferred to property, plant and equipment (b)	–	(223,007)
Exchange realignment	5,781	6,426
As at 31 December	318,793	364,368

(a) The balance as at 31 December 2022 represented goodwill on acquisition of AJM B.V. which was fully impaired during the year due to its continuous under performance.

(b) In 2018, the Group entered into an agreement with an independent property developer for the investment in Hunan Nutrition Port Property Development Co., Ltd. (a previous associated company of the Group), to facilitate the development of the building of the Group's headquarter in Changsha City, Hunan Province in Mainland China (the "**PRC Headquarter**"). Pursuant to the agreement, the risk and reward of the PRC Headquarter building was transferred to the Group in 2022, thus the Group obtained the control over the PRC Headquarter in 2022. All previous cost of the investment amounted to RMB223,007,000 was transferred to property, plant and equipment (Note 16).

22 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

Set out below are the associates and joint ventures of the Group as at 31 December 2023 and 2022. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2023	2022			2023	2022
		%	%			RMB'000	RMB'000
Amalthea Group B.V. (1)	The Netherlands	50.0	–	Joint venture	Equity method	168,106	–
Farmel Holding B.V. (2)	The Netherlands	50.0	50.0	Joint venture	Equity method	92,887	106,555
Hangzhou Investment Management Partnership	Mainland China	42.7	42.7	Associate	Equity method	34,243	34,557
CCIC Europe Food Test B.V. Heerenveen	The Netherlands	40.0	40.0	Associate	Equity method	19,971	24,980
Inner Mongolia Yili Technology Co., Ltd. (3)	Mainland China	7.0	5.0	Associate	Equity method	3,585	2,500
Folo Holding BV	The Netherlands	50.0	50.0	Joint venture	Equity method	1	–
Bella Belle (Hainan) Import and Export Trading Co. Ltd.	Mainland China	35.0	35.0	Associate	Equity method	–	3,684
Dairy protein Cooperation Food BV	The Netherlands	45.0	45.0	Joint venture	Equity method	–	–
Associates disposed in 2023							
Bioflag International Corporation ("Bioflag International") (4)	Cayman island	–	27.5	Associate	Equity method	–	106,361
Bioflag (4)	Cayman Island	(4)	27.5	Associate	Equity method	–	81,918
AJM B.V. (5)	The Netherlands	(5)	50.0	Joint venture	Equity method	–	3,813
						318,793	364,368

(1) On 9 February 2023, Ausnutria B.V., a wholly-owned subsidiary of the Company, acquired 50.0% of the issued shares of Amalthea Group B.V. and its subsidiaries (the "**Amalthea Group**"). The acquisition of issued shares together with additional capital injection in Amalthea Group amounted to EUR22,708,000 (equivalent to approximately RMB171,900,000). Amalthea Group is principally engaged in the exploitation of cheese factory and trading of goat cheese and related products. The purpose of the investment is to strengthen the strategic position of the Group in goat dairy industry.

(2) Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**") is principally engaged in the collection and trading of milk and dairy related commodities in Europe. The purpose of the investment is to secure the long term milk supply for the Group's operations in the Netherlands.

(3) Through the shareholder agreement, the Group is guaranteed one seat on the board of Inner Mongolia Yili Technology Co., Ltd. and participates in all significant financial and operating decisions. The Group has therefore determined that it has significant influence over this entity, even though it only holds 7.0% of the voting rights.

22 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(4) During the year ended 31 December 2023, the Group disposed its 27.5% equity interests in Bioflag International and acquired further equity interest in Bioflag which become a 82.0% owned subsidiary of the Group (Note 15). The details are disclosed in Note 37 to the consolidated financial statements.

(5) On 1 January 2023, Ausnutria B.V., a wholly owned subsidiary of the Group acquired the remaining 50.0% equity interest of AJM B.V. from a third party with a total consideration of EUR650,000 (equivalent to RMB4,825,000). Pursuant to the transactions, AJM B.V. became a wholly subsidiary of the Group (Note 15).

Disclosure about material associates and joint ventures

Summarised financial information for associates and joint ventures

The tables below provide summarised financial information for those associates and joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and joint ventures and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Amalthea Group

Summarised statement of financial position	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current assets	137,029	–
Non-current assets	138,974	–
Current liabilities	(104,984)	–
Non-current liabilities	(24,505)	–
Non-controlling interests	(786)	–
Net assets	145,728	–
Reconciliation to carrying amounts:		
Opening net assets at 1 January	101,011	–
Investment from the equity holders	32,676	–
Profit/(loss) for the year	5,075	–
Exchange realignment	6,966	–
Closing net assets	145,728	–
Group's share in %	50.0	–
Group's share in the investee	72,864	–
Goodwill	95,242	–
Carrying amount	168,106	–

22 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

Disclosure about material associates and joint ventures (continued)

Summarised financial information for associates and joint ventures (continued)

Amalthea Group

Summarised statement of comprehensive income

	2023 RMB'000	2022 RMB'000
Revenue	725,635	–
Interest income	11	–
Interest expense	(1,680)	–
Income tax expense	(4,157)	–
Profit for the year	5,075	–
Total comprehensive income	5,075	–

Farmel Group

Summarised statement of financial position

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current assets	767,673	987,082
Non-current assets	350,834	143,788
Current liabilities	(799,785)	(871,732)
Non-current liabilities	(132,948)	(46,029)
Net assets	185,774	213,109
Reconciliation to carrying amounts:		
Opening net assets at 1 January	213,109	102,714
Investment from the equity holders	–	56,815
(Loss)/profit for the year	(37,880)	45,184
Exchange realignment	10,545	8,396
Closing net assets	185,774	213,109
Group's share in %	50.0	50.0
Group's share in the investee	92,887	106,555
Carrying amount	92,887	106,555

22 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

Disclosure about material associates and joint ventures (continued)

Summarised financial information for associates and joint ventures (continued)

Farmel Group

Summarised statement of comprehensive income

	2023 RMB'000	2022 RMB'000
Revenue	4,225,690	3,686,315
Interest income	8,088	10,375
Interest expense	(32,680)	(19,617)
Income tax expense	(1,274)	(10,304)
(Loss)/profit for the year	(37,880)	45,184
Total comprehensive income	(37,880)	45,184

Individually immaterial associates

In addition to the interests in material associates and joint ventures disclosed above, the Group also has interests in a number of individually immaterial associates and joint ventures that are accounted for using the equity method.

	2023 RMB'000	2022 RMB'000
Aggregate carrying amount of individually immaterial associates	57,800	69,534
Aggregate amounts of the Group's share of:		
Loss from continuing operations	(5,745)	(2,626)
Other comprehensive income	–	–
Total comprehensive income	(5,745)	(2,626)

23 INVENTORIES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Raw materials	425,346	650,216
Finished goods	1,369,079	1,177,056
Semi-finished goods	245,385	380,537
Others	49,599	18,926
	2,089,409	2,226,735

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,686,389,000 (2022: RMB3,479,893,000) for the year ended 31 December 2023.

The Group provided write-downs of inventories to net realisable value amounting to RMB273,405,000 (2022: RMB224,302,000). These were recognised as an expense during the year ended 31 December 2023.

24 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade receivables from third parties	447,529	470,931
Trade receivables from related parties (Note 42(b))	153,414	172,083
	600,943	643,014
Bills receivables	6,120	40,839
Less: Provision for impairment of trade receivables (Note 3.1(b))	(16,202)	(21,950)
	590,861	661,903

The Group normally allows a credit period from 1 to 6 months (2022: from 1 to 6 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management and followed closely by operation terms. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 3 months	502,257	529,118
3 to 6 months	42,240	52,222
6 months to 1 year	24,290	20,798
Over 1 year	32,156	40,876
	600,943	643,014

The Group applies the simplified approach to provide for expected credit loss which was a lifetime expected loss allowance for all trade receivables as prescribed by IFRS 9. Details of the expected loss rates based on the payment profile of sales are set out in Note 3.1(b).

The carrying amounts of trade and bills receivables approximated their fair values as at the balance sheet date.

25 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Prepayments, other receivables and other assets from related parties (Note 42(b))	12,291	1,485
Prepayments and deposits	223,908	384,988
Interest income receivable	–	4,199
Other tax recoverable	92,864	152,481
Others	18,461	13,094
	347,524	556,247
Impairment of other receivables	(5,918)	(225)
	341,606	556,022
Classified as non-current:		
Prepayments, deposits and other assets	(85,518)	(113,337)
	256,088	442,685

26 LONG-TERM TIME DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current		
Cash and bank balances	2,037,023	1,833,510
Time deposits	6,291	153,598
	2,043,314	1,987,108
Non-current		
Long-term time deposits	40,871	–
Total of cash at bank and on hand	2,084,185	1,987,108
Less: Restricted cash	(5,712)	(125,248)
Less: Long-term time deposits	(40,871)	–
Cash and cash equivalents	2,037,602	1,861,860

26 LONG-TERM TIME DEPOSITS AND CASH AND CASH EQUIVALENTS (continued)

As at 31 December 2023 and 2022, total of cash at bank and on hand were denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	1,673,826	1,667,281
EUR	181,617	3,753
HK$	46,260	93,429
US$	16,757	40,674
Others	165,725	181,971
	2,084,185	1,987,108

The restricted cash as at 31 December 2023 and 2022 represented deposits for bank loans and overdrafts and other restricted cash.

The Group's cash at bank and on hand denominated in RMB in Mainland China are the pledged deposits for bank loans and overdrafts and other restricted cash is not freely convertible in the international market. 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 convert RMB into other currencies through banks to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on published daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

27 TRADE AND BILLS PAYABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade payables to third parties	468,541	522,684
Trade payables to related parties (Note 42 (b))	45,777	25,615
	514,318	548,299
Bill payables	2,642	11,509
	516,960	559,808

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 12 months	510,993	556,458
Over 12 months	5,967	3,350
	516,960	559,808

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

The carrying amounts of trade and bills payables approximated their fair values as at the balance sheet date.

28 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Other payables and accruals to related parties (Note 42(b))	8,979	4,336
Deposits	91,528	46,843
Accrued salaries and welfare	148,738	157,437
Other tax payables	113,079	44,873
Other payables	150,607	214,031
Accrued promotion and advertising expenses	157,150	290,547
Other accruals	46,148	64,488
	716,229	822,555

Other payables are non-interest-bearing and have no fixed terms of repayment.

The carrying amounts of other payables and accruals approximated their fair values as at the balance sheet date.

29 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2023		As at 31 December 2022	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Interest rate caps contracts	–	–	6,808	–

The Ausnutria B.V. Group in the Netherlands entered into interest rate cap contracts in year 2022 to manage its interest rate exposures. The interest rate cap contracts were measured at fair value through profit or loss. A net fair value loss on the interest rate cap contracts amounting to RMB6,808,000 (2022: a net fair value gain amounting to RMB6,811,000) was recognised in profit or loss during the year ended 31 December 2023.

30 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current:		
Bank loans – unsecured (a)	2,377,906	152,000
Bank loans – secured (b) (c)	46	205,251
Bank overdrafts – secured (b)	–	637,244
Other loans – secured (d)	–	25,791
Other loans – unsecured (d)	–	1,346
	2,377,952	1,021,632
Non-current:		
Bank loans – secured (b)	–	443,982
	–	443,982
	2,377,952	1,465,614

30 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

The fair values of the Group's interest-bearing bank loans and other borrowings are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

(a) As at 31 December 2023, bank loans of RMB2,377,906,000 (as at 31 December 2022: Nil) were guaranteed by corporate guarantee provided by the ultimate shareholder, Yili Industrial.

(b) Following the change in ultimate shareholder of the Company in 2022, the Group underwent a bank refinancing exercise in the Netherlands with more favourable terms and conditions during 2023. As a result of the refinancing arrangement, all the previous bank loans and overdrafts amounting to RMB1,286,477,000, along with the pledge of the property, plant and equipment (including land and buildings, plant and machinery, motor vehicles and office equipment), investment property, inventories and trade receivables that were attributable to the operations in the Netherlands, with a total carrying value of EUR283,444,000, equivalent to approximately RMB2,103,972,000 for the banking facilities granted in the Netherlands as at 31 December 2022 were restructured with the asset securities fully released and replaced by corporate guarantee provided by the ultimate shareholder, Yili Industrial.

(c) Secured by the pledges of certain of the Group's time deposits amounting to RMB1,027,000 (2022: RMB123,598,000).

(d) Other loans were borrowed from non-controlling shareholder of a subsidiary of the Group and were released because of the disposal of Pure Nutrition Ltd. (mortgages over the Pure Nutrition Ltd.'s land and buildings situated in the New Zealand, which had an aggregate carrying value as at 31 December 2022 of NZD6,000,000, equivalent to approximately RMB26,497,000).

The Group's Interest-bearing bank loans and other borrowings were repayable as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within one year or on demand	2,377,952	1,021,632
In the third to fifth years, inclusive	–	443,982
	2,377,952	1,465,614

The carrying amounts and fair values of the Group's interest-bearing bank loans and other borrowings are as follows:

	Carrying amounts		Fair value	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Interest-bearing bank loans and other borrowings	2,377,952	1,465,614	2,437,223	1,487,691

31 DEFINED BENEFIT PLAN

Ausnutria Ommen B.V. operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 67 (2022: age of 67).

The employees who participate in this defined benefit plan moved to another pension plan which was treated as a defined contribution plan as from 1 January 2015. All the rights from previous years will remain in the old defined benefit plan. Sensitivity on future salaries and pension costs is not applicable for the Group's defined benefit plan.

The Group's defined benefit plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. The trustees decide the amount of contribution based on the results of the annual review.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2023 by EY Financial services in the Netherlands, using the projected unit credit actuarial valuation method. The undersigned actuary of the actuarial valuation is Eva Wieringa, a registered actuary and member of The Royal Dutch Actuarial Association in the Netherlands.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	As at 31 December	
	2023	2022
Discount rate (%)	3.30	3.80
Expected rate of future pension cost increases (%)	3.30	1.20
Expected rate of salary increases (%)	1.25	1.25
Indexation post activities (%)	0.00	0.00

The actuarial valuation showed that the market value of plan assets was RMB24,254,000 (2022: RMB21,074,000) and that the actuarial value of these assets represented 93.0% (2022: 91.5%) of the benefits that had been accrued to qualifying employees. The deficiency of RMB1,823,000 (2022: RMB1,952,000) is expected to be cleared over the remaining life expectancy (based on unconditional future indexations for active and post-active participants).

For the year ended 31 December 2023

(All amount in RMB unless otherwise stated)

31 DEFINED BENEFIT PLAN (continued)

The amounts recognised in the statement of financial position and the movements in the net defined benefit obligation over the year are as follows:

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
As at 1 January 2022	33,998	(30,959)	3,039
Additional charges	–	170	170
Interest expense	391	–	391
Return on plan assets (excluding amounts included in net interest expense)	–	(369)	(369)
Total amount recognised in profit or loss	391	(199)	192
Remeasurements			
Loss from change in demographic assumptions	227	(213)	14
Loss from change in financial assumptions	(11,555)	10,745	(810)
Experience losses	135	(340)	(205)
Total amount recognised in other comprehensive income	(11,193)	10,192	(1,001)
Exchange differences	441	(407)	34
Contribution by the employer	–	(312)	(312)
Benefit payments	(611)	611	–
As at 31 December 2022	23,026	(21,074)	1,952
Additional charges	–	31	31
Interest expense	872	–	872
Return on plan assets (excluding amounts included in net interest expense)	–	(834)	(834)
Total amount recognised in profit or loss	872	(803)	69
Remeasurements			
Loss from change in financial assumptions	1,767	(1,668)	99
Experience losses	(421)	230	(191)
Total amount recognised in other comprehensive income	1,346	(1,438)	(92)
Exchange differences	1,399	(1,505)	(106)
Contributions	–	–	–
Benefit payments	(566)	566	–
As at 31 December 2023	26,077	(24,254)	1,823

31 DEFINED BENEFIT PLAN (continued)

The fair value of the total plan assets as at 31 December 2023 was RMB24,254,000 (2022: RMB21,074,000).

Expected contributions to the defined benefit plan in future years are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within the next 12 months	1,744	1,381
Between 1 and 5 years	7,031	6,725
Between 5 and 10 years	7,260	6,940
Total expected contributions	16,035	15,046

The average duration of the defined benefit obligations at the end of the reporting period was 15.0 (2022: 14.0) years.

32 DEFERRED REVENUE

The movement in deferred revenue was as follows:

	2023 RMB'000	2022 RMB'000
As at 1 January	82,064	62,610
Addition	–	19,454
Charge to the consolidated statement of profit or loss	1,044	–
As at 31 December	81,020	82,064

On 22 May 2018, the Group purchased two plots of land in Changsha city, Hunan province, for the building of the PRC Headquarter. In order to support the long-term growth of the Group, Ausnutria China received government grants as financial subsidies to support the development.

Such government grants received are treated as deferred revenue and are to be amortised and recognised as "Other income" over the expected useful life of the PRC Headquarter of the Group.

33 DEFERRED TAX ASSETS AND LIABILITIES

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Deferred income tax assets:		
Deferred tax assets to be recovered after 12 months	231,206	145,035
Deferred tax assets to be recovered within 12 months	142,338	297,822
Deferred income tax assets – gross	373,544	442,857
Set-off of deferred income tax assets	(7,425)	–
Deferred income tax assets – net	366,119	442,857

33 DEFERRED TAX ASSETS AND LIABILITIES (continued)

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Deferred income tax liabilities:		
Deferred tax liabilities to be recovered after 12 months	81,773	65,429
Deferred tax liabilities to be recovered within 12 months	6,991	9,558
Deferred income tax liabilities – gross	88,764	74,987
Set-off of deferred income tax liabilities	(7,425)	–
Deferred income tax liabilities – net	81,339	74,987

The movements in gross deferred tax assets and liabilities of the Group during the year are as follows:

Deferred income tax assets

2023

	Losses available for offsetting against future taxable income RMB'000	Deductible temporary differences RMB'000	Contract liabilities RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2023	138,314	25,072	229,246	50,225	442,857
Deferred tax (charged)/credited to profit or loss during the year	71,529	18,272	(156,848)	(13,764)	(80,811)
Reclassification based on annual tax filing	70,973	–	(70,973)	–	–
Business combination (Note 37)	–	4,832	–	725	5,557
Exchange realignment	4,874	514	–	553	5,941
As at 31 December 2023	285,690	48,690	1,425	37,739	373,544

2022

	Losses available for offsetting against future taxable income RMB'000	Deductible temporary differences RMB'000	Contract liabilities RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2022	83,367	18,311	270,173	43,105	414,956
Deferred tax (charged)/credited to profit or loss during the year	50,884	6,761	(40,927)	6,051	22,769
Exchange realignment	4,063	–	–	1,069	5,132
As at 31 December 2022	138,314	25,072	229,246	50,225	442,857

33 DEFERRED TAX ASSETS AND LIABILITIES (continued)

Deferred income tax liabilities

2023

	Depreciation allowance in excess of related depreciation	Fair value adjustment arising from acquisition of subsidiaries	Milk collection right	Withholding taxes	Total
As at 1 January 2023	2,165	35,501	343	36,978	74,987
Deferred tax charged/(credited) to profit or loss during the year	7,009	(8,808)	(353)	11,782	9,630
Business combination (Note 37)	–	2,479	–	–	2,479
Exchange realignment	248	760	10	650	1,668
As at 31 December 2023	9,422	29,932	–	49,410	88,764

2022

	Depreciation allowance in excess of related depreciation	Fair value adjustment arising from acquisition of subsidiaries	Milk collection right	Withholding taxes	Total
As at 1 January 2022	837	49,170	666	22,106	72,779
Deferred tax charged/(credited) to profit or loss during the year	1,450	(15,885)	(343)	14,872	94
Exchange realignment	(122)	2,216	20	–	2,114
As at 31 December 2022	2,165	35,501	343	36,978	74,987

Management expects that it is probable that taxable profits will be available against which the above tax losses and deducible temporary differences can be utilised in the coming years.

As at 31 December 2023, the Group has not recognised deferred income tax assets in respect of tax losses of RMB532,497,000 (2022: RMB490,491,000) that are available for offsetting against future taxable profits, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised in the foreseeable future.

Pursuant to Mainland China CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% (2022: 5%). The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

33 DEFERRED TAX ASSETS AND LIABILITIES (continued)

As at 31 December 2023, the Group has not recognised deferred income tax liabilities of RMB253,693,000 (2022: RMB239,706,000) in respect of the withholding tax on the unremitted earnings of subsidiaries, amounting to RMB2,536,928,000 (2022: RMB2,397,060,000), that would be payable upon the distribution of these retained profits out of the PRC subsidiaries as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34 SHARE CAPITAL

(a) Authorized shares

	Number of authorized shares '000
At 1 January 2023 and 31 December 2023	3,000,000
At 1 January 2022 and 31 December 2022	3,000,000

(b) Issued shares

	As at 31 December	
	2023 HK$'000	2022 HK$'000
Issued and fully paid:		
1,780,111,841 (2022: 1,800,111,838) ordinary shares of HK$0.10 each	178,011	180,011

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

	Number of shares in issue '000	Share capital RMB'000
As at 1 January 2022	1,718,546	149,485
Issue of shares (a)	90,000	7,346
Repurchase of shares (b)	(8,434)	(770)
As at 31 December 2022	1,800,112	156,061
Cancellation of shares (c)	(20,000)	(1,835)
As at 31 December 2023	1,780,112	154,226

34 SHARE CAPITAL (continued)

(b) Issued shares (continued)

(a) On 27 October 2021, Jingang Trade, a wholly-owned subsidiary of Yili Industrial entered into a subscription agreement with the Company to subscribe for an aggregate of 90,000,000 new shares of the Company of HK$0.10 each (the "**Subscription Shares**") at the subscription price of HK$10.06 per Subscription Share (the "**Yili Subscription**"). Further details regarding the Yili Subscription are set out in the announcement and circular of the Company dated 27 October 2021 and 15 December 2021, respectively. The issuance of the Subscription Shares to the Subscriber was completed on 28 January 2022.

(b) During the year ended 31 December 2022, the Company repurchased 8,434,000 Shares at a total consideration of HK$39,863,000 (equivalent to approximately RMB36,397,000), of which RMB770,000 was charged to share capital and RMB35,627,000 was charged to share premium account.

(c) During the year ended 31 December 2023, the Company repurchased 20,000,000 Shares at nil consideration in accordance with the terms as set out in a sale and purchase agreement. Such Shares were cancelled on 6 November 2023. Details of the repurchase are set out in the announcements of the Company dated 9 April 2020, 31 October 2023 and 14 November 2023.

35 SHARE OPTION SCHEME

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

(i) any employee or proposed employee (whether full-time or part-time), consultants or advisers of or to the Group, any subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest;

(ii) any supplier of goods or services to the Group or any of subsidiaries of any Invested Entity;

(iii) any customer of the Group or any Invested Entity;

(iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

(v) any shareholder of the Company or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity.

The first Scheme became effective on 8 October 2009 and, unless otherwise cancelled or amended, remained in force for 10 years from that date until 7 October 2019.

35 SHARE OPTION SCHEME (continued)

The second Scheme became effective on 15 January 2019 and, unless otherwise cancelled or amended, remained in force for 10 years from that date until 14 January 2024.

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

Share options granted to a director, chief executive or substantial shareholder of the Group are subject to approval in advance by the directors (excluding any independent non-executive directors who are the grantees of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value of over HK$5,000,000 (based on the price of the Company's shares at the date of grant), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

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

	2023		2022	
	Weighted average exercise price HK$ per Share	Number of options '000	Weighted average exercise price HK$ per Share	Number of options '000
As at 1 January	10.0	–	10.0	37,499
Cancellation during the year	–	–	(10.0)	(37,499)
As at 31 December	10.0	–	10.0	–

35 SHARE OPTION SCHEME (continued)

No share options were exercised during the period. On 17 March 2022, upon final closing of the mandatory conditional cash offer, all outstanding options were lapsed/cancelled. The cancellation of the share options was treated as an acceleration of vesting. The Company recognised immediately an amount of RMB4,908,000 equity-settled share option expenses during the year ended 31 December 2022 that otherwise would have been recognised for services received over the remainder of the vesting period.

A new share option scheme was conditionally approved and adopted by all shareholders on 26 May 2022 (the "**New Share Option Scheme**") whereby the board was authorised, at their discretion, to invite, among other eligible participants, employees of the Group, non-executive directors, advisers and consultants, to take up options to subscribe for the shares. The purpose of the New Share Option Scheme is to enable the Company to grant options to the selected participants as incentives or rewards for their contribution to the Group. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. The New Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the New Share Option Scheme is approved.

As at 31 December 2023, no option has been granted or agreed to be granted under the New Share Option Scheme.

36 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

(i) Capital reserve

The capital reserve represents the net difference between the aggregate of the issued paid-in capital of subsidiaries comprising the Group in 2009 and contribution from the then owners of certain property, plant and equipment, and a lease prepayment for land use rights at nil consideration in 2007 after offsetting the effect arising from the acquisitions of non-controlling interests of subsidiaries.

(ii) Statutory surplus reserve

According to Mainland China Company Law, each of Mainland China subsidiaries of the Group is required to transfer 10% of its after tax profit, calculated in accordance with Mainland China accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of Mainland China subsidiaries, provided that such fund is maintained at a minimum level of 25% of the registered capital.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with presentation currencies other than RMB.

37 MATERIAL BUSINESS COMBINATIONS

On 3 January 2023, Ausnutria Dairy Investments Limited ("**ADI**"), a wholly-owned subsidiary of the Company, entered into sale and purchase agreements with an independent third party (the "**Vendor**") and Centerlab Investment Holding Limited ("**Centerlab**"), a substantial shareholder of the Company. Pursuant to the agreement with the Vendor, ADI agreed to sale its approximately 18.8% equity interests in Bioflag International at a consideration of RMB73,608,000, in exchange of approximately 22.9% equity interests in Bioflag held by Vendor. Pursuant to the agreement with Centerlab, ADI agreed to sale its 8.7% equity interests in Bioflag International at a consideration of RMB34,307,000, in exchange of approximately 10.7% equity interests in Bioflag held by Centerlab. These considerations were determined based on the respective appraisal value of Bioflag and Bioflag International by an independent and qualified valuer. The above equity transfer transactions (the "**Transactions**") were completed on 3 January 2023.

Before the Transactions, the Group owned 27.5% in each of Bioflag and Bioflag International, both were associates of the Group (Note 22). Upon completion of the Transactions, the Group owned approximately 61.1% equity interests in Bioflag which became a subsidiary of the Group and the Group's entire 27.5% equity interests in Bioflag International was fully disposed and accounted for as a disposal of an associate.

The results arising from the Transactions are set out below:

	RMB'000
Total consideration for disposal of 27.5% equity interests in Bioflag International	107,915
Less: investment in an associate disposed (27.5%)	106,361
Disposal gain	1,554
Fair value of 27.5% equity interests in Bioflag	80,670
Less: investment in Bioflag (27.5%)	81,918
Remeasurement loss	(1,248)

37 MATERIAL BUSINESS COMBINATIONS (continued)

The assets and liabilities of Bioflag as at 3 January 2023, being the acquisition date of Bioflag subsidiary, arising from the Transactions are as follows:

	Fair value RMB'000
Property, plant and equipment (Note 16)	99,129
Right-of-use assets (Note 18)	21,087
Other intangible assets (Note 20)	15,161
Financial assets at fair value through profit or loss	1,000
Prepayments, deposits and other assets	7,474
Deferred tax assets	5,557
Inventories	32,422
Trade and bills receivables	15,890
Prepayments, other receivables and other assets	8,252
Cash and cash equivalents	21,700
Trade and bills payables	(13,154)
Other payables and accruals	(9,252)
Contract liabilities	(7,225)
Interest-bearing bank loans and other borrowings	(19,900)
Lease liabilities	(1,204)
Income tax payable	(2,779)
Deferred tax liabilities	(2,479)
Other liabilities	(556)
Non-controlling interests	(1,075)
Total identifiable net assets	170,048
Less: non-controlling interests	(66,166)
Share of net assets (61.1%)	103,882
Add: goodwill	84,703
Total purchase consideration	188,585
Cash and cash equivalents in the subsidiary acquired	21,700
Less: Cash outflow of cash consideration on acquisition	–
Total transaction proceeds – net	21,700

38 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Profit before tax		201,801	251,277
Adjusted for:			
Fair value gains on financial instruments—transactions not qualifying as hedges	8	–	(6,811)
Finance costs	8	57,727	14,943
Share of profits and losses of investments accounted for using the equity method		22,147	(11,598)
Interest income	9	(35,706)	(38,193)
Depreciation of property, plant and equipment	7	157,179	146,239
Depreciation of investment property	7	4,311	3,768
Depreciation of right-of-use assets	7	23,219	39,594
Amortisation of other intangible assets	7	65,960	66,873
Write-downs of inventories to net realisable value	7	273,405	224,302
Impairment of property, plant and equipment		25,099	5,199
Impairment of investment in an associate		–	20,049
Net impairment losses on financial assets	3.1(b)	8,543	16,133
Impairment of goodwill	9	–	162,011
Impairment of other intangible assets	7	–	20,734
Loss on disposal of items of property, plant and equipment		–	36
Gain on disposal of a subsidiary	9	–	(1,949)
Losses on disposal of other intangible assets		1,560	5,857
Cancellation of equity-settled share option arrangements	7	–	4,908
Remeasurement gains on defined benefit plans	31	69	192
Increase in inventories		(41,928)	(234,181)
Decrease/(Increase) in trade and bills receivables		104,589	(238,761)
Decrease/(Increase) in prepayments, other receivables and other assets		191,292	(12,131)
(Decrease)/Increase in trade and bills payables		(54,936)	153,830
Decrease in other payables and accruals and contract liabilities		(652,711)	(798,455)
Cash generated from/(used in) operations		351,620	(206,134)
Interest received		39,905	40,714
Interest paid		(83,922)	(14,943)
Income tax paid		(82,892)	(177,174)
Net cash flows generated from/(used in) operating activities		224,711	(357,537)

38 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB18,006,000 and RMB18,006,000, respectively, in respect of lease arrangements for plant and equipment (2022: non-cash additions to right-of-use assets and lease liabilities of RMB23,573,000 and RMB23,573,000, respectively).

(c) Changes in liabilities arising from financing activities

2023

	Bank and other loans RMB'000	Lease liabilities RMB'000
As at 1 January 2023	1,465,614	94,822
Changes from financing cash flows	825,904	(82,012)
Business combination (Note 37)	–	1,204
Foreign exchange movement	86,434	5,628
New leases	–	18,006
As at 31 December 2023	2,377,952	37,648

2022

	Bank and other loans RMB'000	Lease liabilities RMB'000
As at 1 January 2022	1,177,570	125,451
Changes from financing cash flows	318,297	(57,507)
Foreign exchange movement	(30,253)	3,305
New leases	–	23,573
As at 31 December 2022	1,465,614	94,822

(d) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2023 RMB'000	2022 RMB'000
Within operating activities	55,975	17,567
Within financing activities	82,012	57,507
	137,987	75,074

39 CAPITAL COMMITMENTS

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

	2023 RMB'000	2022 RMB'000
Contracted, but not provided for:		
Land and buildings	12,013	66,580
Plant and machinery	184,578	386,532
Other intangible assets	2,198	1,005
Acquisition of dairy related assets	–	143,774
	198,789	597,891

40 PARTLY OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests ("**NCI**") are set out below:

As at 31 December 2023

	Bioflag (a) As at 31 December	
Summarised statement of financial position	2023 RMB'000	2022 RMB'000
Current assets	88,503	–
Current liabilities	(116,056)	–
Current net liabilities	(27,553)	–
Non-current assets	202,280	–
Non-current liabilities	(2,294)	–
Non-current net assets	199,986	–
Net assets	172,433	–
Accumulated NCI	30,969	–
Summarised statement of comprehensive income	2023 RMB'000	2022 RMB'000
Revenue	165,972	–
Loss for the period	9,238	–
Other comprehensive income	–	–
Total comprehensive loss	9,238	–
Loss allocated to NCI	1,659	–
Dividends paid to NCI	–	–

40 PARTLY OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

As at 31 December 2022

	Pure Nutrition Limited (Note 41) As at 31 December		Allnutria (b) As at 31 December	
Summarised statement of financial position	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Current assets	–	6,177	–	29,094
Current liabilities	–	(333,542)	–	(160,936)
Current net liabilities	–	(327,365)	–	(131,842)
Non-current assets	–	127,700	–	39,581
Non-current liabilities	–	–	–	–
Non-current net assets	–	127,700	–	39,581
Net liabilities	–	(199,665)	–	(92,261)
Accumulated NCI	–	(79,866)	–	(13,839)
Summarised statement of comprehensive income	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Revenue	–	1,591	–	811,295
Loss for the period	–	(44,879)	–	(30,599)
Other comprehensive income	–	–	–	–
Total comprehensive loss	–	(44,879)	–	(30,599)
Loss allocated to NCI	–	(17,952)	–	(4,590)
Dividends paid to NCI	–	–	–	–

40 PARTLY OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

(a) On 12 December 2023, the Group acquired an additional 20.9% of the equity interests in Bioflag at a cash consideration of US$10,903,582 (equivalent to approximately RMB77,395,805). The Group's equity interest in Bioflag was increased to 82.0% (Note 15). The Group recognised a decrease in non-controlling interests of RMB36,125,000 and a decrease in equity attributable to owners of the parent of RMB41,271,000.

The effect on the equity attributable to the owners of the Company during the year is summarised as follows:

	2023 RMB'000
Carrying amount of non-controlling interests acquired	36,125
Consideration paid to non-controlling interests	(77,396)
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	(41,271)

Subsequent to the reporting period end, on 19 January 2024, the Company (through its wholly-owned subsidiary), Yuanta Asia Growth Investment L.P. and Yuanta Venture Capital Co., Ltd. as the vendors entered into share purchase agreements in relation to the acquisition of approximately 7.7% equity interests in Bioflag at a total consideration of US$4,007,690.40 (equivalent to approximately RMB28,385,000) in cash. Upon completion of this acquisition, the Company processed approximately 89.7% equity interests in Bioflag. On the same date, Bioflag and Jingang Trade, the parent company of the Company entered into an agreement pursuant to which Jingang Trade conditionally agreed to subscribe for, and Bioflag has conditionally agreed to allot and issue, 1,796,326 new shares to Jingang Trade at the consideration of US$1,904,105.56 (equivalent to approximately RMB13,486,000) (i.e. an issue price of US$1.06 per share) (the "**Bioflag Subscription**"). Upon completion of the Bioflag Subscription, the equity interests of the Group in Bioflag reduced from approximately 89.74% to approximately 86.57%. Further details of the Bioflag Subscription are set out in the announcement of the Company dated 19 January 2024.

(b) On 6 July 2023, the Group acquired the remaining 15.0% equity interests in Allnutria from the non-controlling shareholder. Allnutria became a wholly-owned subsidiary of the Group thereafter.

41 DISPOSAL OF A SUBSIDIARY

On 6 June 2023, Ausnutria New Zealand Limited ("**Ausnutria NZ**"), a wholly-owned subsidiary of the Company, Westland Milk Products Investments Limited ("**Westland**"), an indirect wholly-owned subsidiary of Yili Industrial, and Pure Nutrition Limited ("**Pure Nutrition**"), a 60.0% owned subsidiary of the Company, entered into an agreement pursuant to which Ausnutria NZ agreed to sell and Westland agreed to purchase (i) the Group's entire 60.0% equity interest in Pure Nutrition; and (ii) the outstanding amount of indebtedness payable by Pure Nutrition to the Group at a consideration of approximately NZD25,363,104 (approximately RMB111,605,000 equivalent) (the "**Disposal**").

The assets and liabilities of Pure Nutrition at the date of disposals are as below:

	RMB'000
Property, plant and equipment	124,075
Other intangible assets	3,343
Inventories	1,185
Trade and bills receivables	1
Prepayments, other receivables and other assets	175,998
Cash and cash equivalents	584
Trade and bills payables	(600)
Other payables and accruals	(2,664)
Total net assets	301,922
Less: share of non-controlling interest (40.0%)	(120,769)
Share of net assets disposed (60.0%)	181,153

The total change in reserve resulted from the above transaction:

Consideration for 60% equity interests in Pure Nutrition	111,605
Less: payable due to Westland	(2,631)
Less: share of net assets disposed	(181,153)
Change in reserve from the transaction	(72,179)
Cash and cash equivalents disposed in Pure Nutrition	(584)
Cash received	111,605
Cash inflow on disposal of equity interest in Pure Nutrition – net	111,021

The Group treated the Disposal as an equity transaction considering its commercial substance. Therefore, the Group recognised the resulting difference as a change in reserve.

Further details of the Disposal are set out in the announcement of the Company dated 6 June 2023. The disposal was completed on 26 June 2023.

42 RELATED PARTY TRANSACTIONS

The ultimate holding company of the Group is Yili Industrial. The directors of the Company are of the view that the subsidiaries of Yili Industrial, the joint ventures and associates of the Group are regarded as related parties.

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

	Notes	2023 RMB'000	2022 RMB'000
Sales and purchases of goods and services			
Sales of products to the associates and joint ventures of the Group	(i)	500,930	290,336
Purchases of products from the associates and joint ventures of the Group	(i)	401,951	277,620
Interests charged from joint ventures	(i)	3,772	–
Sales of products to the subsidiaries of Yili Industrial	(ii)	14,578	33,989
Purchases of products from the subsidiaries of Yili Industrial	(ii)	8,114	31,654
Provision of services to the subsidiaries of Yili Industrial	(ii)	4,083	10,503
Services received from the subsidiaries of Yili Industrial	(ii)	2,362	–
Management fees received from an associate of the Group		–	6

(i) These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

(ii) The above sales of raw materials, purchase of raw materials and finished goods and provision of processing service are carried out in accordance with the terms of the underlying agreements with Yili Industrial.

(b) Outstanding balances with related parties:

(i) Due from related parties

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade and bills receivables (Note 24)		
Amount due from associates and joint ventures of the Group	151,023	150,622
Amount due from the subsidiaries of Yili Industrial	2,391	21,461
	153,414	172,083
Prepayments, other receivables and other assets (Note 25)		
Amount due from associates and joint ventures of the Group	83	1,485
Amount due from the subsidiaries of Yili Industrial	12,208	–
	12,291	1,485
Cash and cash equivalents		
Short-term deposits in a subsidiary of Yili Industrial	5,175	–

42 RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties: (continued)

(ii) Due to related parties

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade and bills payables (Note 27)		
Amount due to associates and joint ventures of the Group	40,920	25,615
Amount due to the subsidiaries of Yili Industrial	4,857	–
	45,777	25,615
Other payables and accruals (Note 28)		
Amount due to associates and joint ventures of the Group	8,979	4,336

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

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	29,398	54,559
Retirement benefit contributions	801	1,324
Total compensation paid to key management personnel	30,199	55,923

All the compensation of key management personnel of the Group has been paid as at year end.

43 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2023

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables (Note 24)	–	590,861	590,861
Financial assets included in prepayments, other receivables and other assets	–	30,752	30,752
Financial assets at fair value through profit or loss (Note 21)	28,145	–	28,145
Long-term time deposits (Note 26)	–	40,871	40,871
Restricted cash (Note 26)	–	5,712	5,712
Cash and cash equivalents (Note 26)	–	2,037,602	2,037,602
	28,145	2,705,798	2,733,943

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables (Note 27)	516,960
Financial liabilities included in other payables and accruals	454,412
Lease liabilities (Note 18)	37,648
Interest-bearing bank loans and other borrowings (Note 30)	2,377,952
	3,386,972

43 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

As at 31 December 2022

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables (Note 24)	–	661,903	661,903
Financial assets included in prepayments, other receivables and other assets	–	25,905	25,905
Financial assets at fair value through profit or loss (Note 21)	28,009	–	28,009
Restricted cash (Note 26)	–	125,248	125,248
Cash and cash equivalents (Note 26)	–	1,861,860	1,861,860
	28,009	2,674,916	2,702,925

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables (Note 27)	559,808
Financial liabilities included in other payables and accruals	620,245
Lease liabilities (Note 18)	94,822
Interest-bearing bank loans and other borrowings (Note 30)	1,465,614
	2,740,489

44 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Assets			
NON-CURRENT ASSETS			
Investments in subsidiaries		541,376	463,979
Total non-current assets		541,376	463,979
CURRENT ASSETS			
Due from subsidiaries		3,268,315	3,282,654
Prepayments, other receivables and other assets		65	2,929
Cash and cash equivalents		5,838	63,858
Total current assets		3,274,218	3,349,441
Total assets		3,815,594	3,813,420
Liabilities			
CURRENT LIABILITIES			
Borrowings		99,982	–
Due to subsidiaries		10,778	41,224
Other payables		4,542	11,517
Total current liabilities		115,302	52,741
Total liabilities		115,302	52,741
EQUITY			
Share capital	34	154,226	156,061
Reserves (a)		3,546,066	3,604,618
Total equity		3,700,292	3,760,679
Total equity and liabilities		3,815,594	3,813,420

The statement of financial position of the Company was approved by the board of directors on 27 March 2024 and were signed on its behalf by:

Mr. Ren Zhijian
Director

Mr. Zhang Zhi
Director

44 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

(a) A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Capital reserve* RMB'000	Treasury shares RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
As at 1 January 2022	2,824,031	171,320	–	48,081	(104,582)	(196,508)	2,742,342
Total comprehensive profit for the year	–	–	–	–	293,146	298,331	591,477
Issues of shares	731,678	–	–	–	–	–	731,678
Cancellation of equity-settled share option arrangements	–	–	–	4,908	–	–	4,908
Repurchase of shares	–	–	(36,397)	–	–	–	(36,397)
Cancellation of repurchased shares	(35,627)	–	36,397	–	–	–	770
Final 2021 dividend paid	(430,160)	–	–	–	–	–	(430,160)
As at 31 December 2022	3,089,922	171,320	–	52,989	188,564	101,823	3,604,618
Total comprehensive profit for the year	–	–	–	–	(11,436)	49,523	38,087
Cancellation of shares	1,835	–	–	–	–	–	1,835
Final 2022 dividend paid	(98,474)	–	–	–	–	–	(98,474)
As at 31 December 2023	2,993,283	171,320	–	52,989	177,128	151,346	3,546,066

* The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganisation in 2009 over the nominal value of the Company's shares issued in exchange therefor.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

45.1 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (see Note 45.2).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated statement of financial position.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.1 Principles of consolidation and equity accounting (continued)

(iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 45.9.

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity holders of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.2 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

45.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). The Company's functional currency is HK$. The functional currency of subsidiaries in Mainland China is RMB and the functional currency of subsidiaries in European is EUR. The consolidated financial statements of the Group are presented in RMB.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within "Other gains/(losses) – net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.4 Foreign currency translation (continued)

(iii) Group companies (continued)

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

45.5 Other income

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.6 Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to land use rights and property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

45.7 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.7 Current and deferred income tax (continued)

(ii) Deferred income tax (continued)

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(iii) Offsetting

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

45.8 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases where the Group is a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Lease of buildings, machinery and motor vehicles

The Group leases buildings, machinery and motor vehicles as a lessee. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.8 Leases (continued)

Leases where the Group is a lessee (continued)

(i) *Lease of buildings, machinery and motor vehicles (continued)*

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that are based on an index or a rate are initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments or a change in assessment of an option to purchase the underlying asset.

The Group's right-of-use assets consist of up-front the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.8 Leases (continued)

Leases where the Group is a lessee (continued)

(ii) Leasehold land

Leasehold land refers to land use rights of the Group's subsidiaries in Mainland China. The cost of land use rights comprises the payments to acquire long-term interest in the usage of land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land and other direct related costs from the date when the respective rights were granted.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases where the Group is a lessor

Rental income from operating leases where the Group is a lessor is recognised in "Other income" on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as rental income. The respective leased assets are included in the statement of financial position based on their nature.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

45.10 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

45.11 Trade receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance. See Note 24 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

45.12 Inventories

Inventories mainly include raw materials, goods in transit, work in progress and finished goods, and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.13 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivative are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.13 Investments and other financial assets (continued)

(iii) Measurement (continued)

Debt instruments (continued)

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in "Other income" using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains/(losses) – net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains/(losses) – net". Interest income from these financial assets is included in "Other income" using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses) – net", and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other gains/(losses) – net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "Other income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other gains/(losses) – net" in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.13 Investments and other financial assets (continued)

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at a amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables and other financial assets at amortised cost is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

45.14 Derivative financial instruments

(a) Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate caps. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of interest rate caps are determined using the rates quoted by the Group's bankers to terminate the contracts.

Any gains or losses arising from changes in fair value of derivative are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.14 Derivative financial instruments (continued)

(b) Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivative that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non- current portions only if a reliable allocation can be made.

45.15 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

45.16 Property, plant and equipment

Property, plant (other than construction in progress) and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 45.9).

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.16 Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction in progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the assets are completed and are ready for operational use.

45.17 Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost model, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life of 20 to 40 years.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

45.18 Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 45.2. Goodwill on acquisitions of subsidiaries is separately disclosed. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(ii) Non-patent technology and licence

Acquired non-patent technology is capitalised on a basis of the costs incurred to acquire and bring to use the specific technology. The licence acquired in a business combination is recognised at fair value at the acquisition date. Non-patent technology and the licence are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.18 Intangible assets (continued)

(iii) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. They are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

(iv) Software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

(v) Milk collection right

Milk collection right is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

(vi) Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding 5 to 7 years, commencing from the date when the products are put into commercial production.

(vii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected lives of 8 years for the customer relationships.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

45.20 Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

45.21 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as "Other income" or "Finance cost".

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

45.22 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.23 Provisions

Provisions for legal claims, and warranties are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

45.24 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

(ii) Other long-term employee benefit obligations

The liabilities for long service benefit, annual leave and other long-term benefit that are not expected to be settled wholly within 12 months after the end of the period. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.24 Employee benefits (continued)

(iii) Post-employment obligations

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

Defined contribution plan

Most of the Group's subsidiaries in the Netherlands operate a defined contribution pension plan for certain of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the pension plan. The assets of the defined contribution pension plan are held separately from those of the Group in an independently administered fund. The Group's employer contribution rests fully with the employees when contributed into the defined contribution pension plan.

The Group's subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's subsidiaries in the Australia and New Zealand operate a defined contribution Superannuation Fund retirement benefit scheme (the "**SF Scheme**") under the Superannuation Fund Schemes for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the SF Scheme. The assets of the SF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contribution vest fully with the employees when contributed into the SF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the relevant authorities of the provinces or the local municipal governments in Mainland China in which the Group's subsidiaries are located. Contributions are made based on a percentage of the companies' payroll costs and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.24 Employee benefits (continued)

(iii) Post-employment obligations (continued)

Defined benefit plan

One of the Group's subsidiaries in the Netherlands operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and

- net interest expense or income.

(iv) Housing funds, medical insurances and other social insurances

The employees of the Group's subsidiaries which operate in Mainland China are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(v) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.25 Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 35 to the consolidated financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

45 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (continued)

45.26 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

45.27 Dividends distribution

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in Note 14 to the consolidated financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

45.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to the equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000 (restated)	2020 RMB'000 (restated)	2019 RMB'000 (restated)
Revenue	7,382,007	7,795,512	8,575,157	7,823,804	6,686,600
Profit before income tax	201,801	251,277	890,651	1,095,938	1,071,483
Income tax expenses	(32,945)	(62,934)	(164,937)	(194,559)	(220,640)
Profit for the year	168,856	188,343	725,714	901,379	850,843
Attributable to:					
The equity holders of the Company	174,387	216,526	763,794	908,318	852,917
Non-controlling interests	(5,531)	(28,183)	(38,080)	(6,939)	(2,074)
	168,856	188,343	725,714	901,379	850,843

	As at 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000 (restated)	2020 RMB'000 (restated)	2019 RMB'000 (restated)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	10,033,758	9,796,095	9,632,501	9,317,813	8,386,797
Total liabilities	(4,284,562)	(4,231,039)	(4,701,390)	(4,451,898)	(4,483,258)
Net assets	5,749,196	5,565,056	4,931,111	4,865,915	3,903,539
Non-controlling interests	(55,728)	81,515	46,975	21,470	(33,620)
	5,693,468	5,646,571	4,978,086	4,887,385	3,869,919

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