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Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

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

	For the year ended 31 December		Percentage change
	2021	2020	
Key results			
Revenue	4,434.7	3,649.2	21.5%
Gross profit	1,460.0	1,333.8	9.5%
Operating profit	-144.8	54.9	-363.8%
Earnings before interest, tax, depreciation and amortization (EBITDA)	19.7	210.3	-90.6%
Profit attributable to equity holders of the Company (<i>Note 1</i>)	-81.4	101.1	-180.5%
Net operating cash flow (<i>Note 2</i>)	-264.4	118.7	-322.7%
Basic earnings per share (RMB cents) (<i>Note 3</i>)	-1.7	2.1	-181.0%
Net asset value per share (RMB yuan) (<i>Note 4</i>)	1.2	1.2	0.0%

Notes:

1. If excluding the effect of the one-off impairment of the Dumex trademark of RMB200 million, profit attributable to equity holders of the Company was RMB118.6 million.
2. Cash inflow generated from operating activities for the year less cash outflow generated from operating activities for the year.
3. Profit attributable to equity holders of the Company for the year divided by the weighted average number of ordinary shares in issue for the year.
4. Net assets at year end divided by the number of ordinary shares in issue at year end.

The board of directors (the “**Board**”) of Yashili International Holdings Ltd. (the “**Company**” or “**Yashili**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 prepared in accordance with the International Financial Reporting Standards (the “**IFRS(s)**”) together with the comparative figures for 2020. The financial information of the Group for the year ended 31 December 2021 prepared in accordance with the IFRSs are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Revenue	4	4,434,700	3,649,206
Cost of sales	5	(2,974,679)	(2,315,373)
Gross profit		1,460,021	1,333,833
Other income and gains	4	59,461	102,039
Selling and distribution expenses		(1,146,819)	(1,039,102)
Administrative expenses		(239,301)	(186,582)
Impairment loss on financial assets		(2,669)	(3,758)
Other expenses and losses		(275,542)	(151,509)
Finance income		72,948	88,470
Finance costs		(21,181)	(13,712)
(LOSS)/PROFIT BEFORE TAX	5	(93,082)	129,679
Income tax credit/(expense)	6	11,719	(28,598)
(LOSS)/PROFIT FOR THE YEAR		<u>(81,363)</u>	<u>101,081</u>
Attributable to:			
Owners of the parent		<u>(81,363)</u>	<u>101,081</u>
		<i>RMB cents</i>	<i>RMB cents</i>
(LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	7		
Basic and diluted		<u>(1.7)</u>	<u>2.1</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
(LOSS)/PROFIT FOR THE YEAR	<u>(81,363)</u>	<u>101,081</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(114,335)</u>	<u>(53,861)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>(114,335)</u>	<u>(53,861)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(114,335)</u>	<u>(53,861)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	<u>(195,698)</u>	<u>47,220</u>
Attributable to:		
Owners of the parent	<u><u>(195,698)</u></u>	<u><u>47,220</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

		2021	2020
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,538,718	1,530,467
Construction in progress		20,318	49,199
Investment properties		62,508	63,924
Right-of-use assets		93,165	101,420
Intangible assets		145,532	345,541
Goodwill		991,236	991,236
Deferred tax assets		382,369	370,995
Long-term bank deposits	10	370,558	736,004
Debt investments at amortised cost		24,532	—
Prepayments, other receivables and other assets		1,011	403
		<u>3,629,947</u>	<u>4,189,189</u>
Total non-current assets		<u>3,629,947</u>	<u>4,189,189</u>
CURRENT ASSETS			
Inventories	8	815,970	984,760
Trade receivables	9	414,730	91,166
Prepayments, other receivables and other assets		107,519	171,745
Other current financial assets		93,865	20,000
Structural bank deposits		—	101,764
Derivative financial assets		1,901	2,175
Pledged deposits	10	90,354	150,261
Cash and bank balances	10	2,125,047	2,080,918
		<u>3,649,386</u>	<u>3,602,789</u>
Total current assets		<u>3,649,386</u>	<u>3,602,789</u>

		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	11	813,885	698,052
Other payables and accruals	12	569,228	950,991
Interest-bearing bank and other borrowings	13	320,758	365,857
Derivative financial liabilities		407	262
Lease liabilities		6,575	8,839
Tax payable		92	4,885
		<hr/>	<hr/>
Total current liabilities		1,710,945	2,028,886
		<hr/>	<hr/>
NET CURRENT ASSETS		1,938,441	1,573,903
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,568,388	5,763,092
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred income		10,074	9,200
Lease liabilities		7,220	10,700
Deferred tax liabilities		23,035	20,075
		<hr/>	<hr/>
Total non-current liabilities		40,329	39,975
		<hr/>	<hr/>
Net assets		5,528,059	5,723,117
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		399,352	399,352
Reserves		5,128,707	5,323,765
		<hr/>	<hr/>
TOTAL EQUITY		5,528,059	5,723,117
		<hr/>	<hr/>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

1. BASIS OF PRESENTATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021.

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

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

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform Phase 2¹*

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

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

Since the Group had no certain interest-bearing bank borrowings based on the London Interbank Offered Rate (“**LIBOR**”) as at 31 December 2021, the amendments did not have any impact on the financial position and performance of the Group.

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

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

	Year ended 31 December 2020				
	Milk powder	Other milk	Dissolvable	Others	Total
	products	powder	products		
	RMB'000	products	products	RMB'000	RMB'000
		RMB'000	RMB'000		
Segment revenue					
Sales to external customers	2,975,566	427,384	166,412	79,844	3,649,206
Intersegment sales	<u>–</u>	<u>111,714</u>	<u>–</u>	<u>–</u>	<u>111,714</u>
	<u>2,975,566</u>	<u>539,098</u>	<u>166,412</u>	<u>79,844</u>	<u>3,760,920</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales	–	(111,714)	–	–	<u>(111,714)</u>
Revenue					<u>3,649,206</u>
Segment results	313,442	31,367	39,512	(89,590)	294,731
<i>Reconciliation:</i>					
Finance income					88,470
Finance costs (other than interest on lease liabilities)					(12,921)
Other income and gains					102,039
Unallocated other expenses					<u>(342,640)</u>
Profit before tax					<u>129,679</u>
Other segment information					
Total depreciation and amortisation	<u>73,253</u>	<u>68,505</u>	<u>9,012</u>	<u>4,658</u>	<u>155,428</u>

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers		
Sale of goods	4,385,818	3,624,284
Consigned processing services	48,882	24,922
	<u>4,434,700</u>	<u>3,649,206</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information:*

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

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

	For the year ended 31 December 2020				
	Milk powder products <i>RMB'000</i>	Other milk powder products <i>RMB'000</i>	Dissolvable products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segments					
Types of goods or services					
Sale of goods	2,975,566	427,384	166,412	54,922	3,624,284
Consigned processing services	—	—	—	24,922	24,922
Total revenue from contracts with customers	<u>2,975,566</u>	<u>427,384</u>	<u>166,412</u>	<u>79,844</u>	<u>3,649,206</u>
Geographical markets					
Mainland China	2,905,787	12,398	165,895	67,164	3,151,244
Overseas	69,779	414,986	517	12,680	497,962
Total revenue from contracts with customers	<u>2,975,566</u>	<u>427,384</u>	<u>166,412</u>	<u>79,844</u>	<u>3,649,206</u>
Timing of revenue recognition					
Goods transferred at a point in time	2,975,566	427,384	166,412	54,922	3,624,284
Services transferred at a point of time	—	—	—	24,922	24,922
Total revenue from contracts with customers	<u>2,975,566</u>	<u>427,384</u>	<u>166,412</u>	<u>79,844</u>	<u>3,649,206</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u><u>220,522</u></u>	<u><u>126,938</u></u>

(ii) *Performance obligations*

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

Sale of dairy and nourishment products

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

Consigned processing services

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

An analysis of other income and gains is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other income and gains		
Gross rental income from investment property operating leases		
— Income relating to fixed lease payments	11,234	9,816
Exempted accounts payable	7,998	5,849
Government grants		
— Compensation for expenses incurred	1,573	11,512
— Compensation for acquisition of assets	240	293
— Taxes refunded	778	944
Foreign exchange gains, net	14,614	40,792
Others	<u><u>23,024</u></u>	<u><u>32,833</u></u>
	<u><u>59,461</u></u>	<u><u>102,039</u></u>

5. PROFIT BEFORE TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of goods sold	2,932,606	2,299,223
Cost of consigned processing services	42,073	16,150
	<u>2,974,679</u>	<u>2,315,373</u>
Depreciation of property, plant and equipment	127,230	119,452
Depreciation of investment properties	4,567	3,882
Depreciation of right-of-use assets	11,430	11,097
Amortisation of other non-current assets	2,045	3,616
Amortisation of intangible assets	19,306	17,381
	<u>164,578</u>	<u>155,428</u>
Total depreciation and amortisation	<u>164,578</u>	<u>155,428</u>
Impairment of trademarks	200,000	–
	<u>200,000</u>	<u>–</u>
Lease payments not included in the measurement of lease liabilities	49,803	48,397
	<u>49,803</u>	<u>48,397</u>
Auditor's remuneration	3,113	2,923
	<u>3,113</u>	<u>2,923</u>

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries and allowances	499,342	424,582
Termination benefits	14,012	1,028
Pension scheme contributions (defined contribution schemes)*	36,027	3,317
Equity-settled share-based payment expenses	640	(3,380)
	<u>550,021</u>	<u>425,547</u>
Interest income	(63,285)	(78,208)
Other investments income	(9,588)	(8,429)
Fair value gains of derivative instruments, net	(75)	(1,833)
Total financial income	<u>(72,948)</u>	<u>(88,470)</u>
Impairment of trade and other receivables, net	2,669	3,758
Impairment of inventories	48,078	75,281
Net loss on disposal of inventories	<u>10,604</u>	<u>21,058</u>

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

6. INCOME TAX

PRC income tax has been provided at the rate of 25% (2020: 25%) on the estimated assessable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax	(4)	3,043
Deferred income tax	(11,715)	25,555
Tax (credit)/charge for the year	<u>(11,719)</u>	<u>28,598</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
(Loss)/Profit before tax	<u>(93,082)</u>	<u>129,679</u>
At the PRC statutory tax rate of 25% (2020: 25%) (i)	(23,271)	32,420
Effect of opening deferred tax of changes in tax rates	–	1,095
Effect of non-deductible expenses	1,242	975
Effect of tax rate differences (i)	(18,009)	(21,717)
Tax losses not recognised	50,994	38,467
Tax losses and unrecognised temporary utilised from previous periods	(14,166)	(15,769)
Tax effect of super deduction on research and development expenses	(1,925)	–
Effect of non-taxable income	<u>(6,584)</u>	<u>(6,873)</u>
Tax (credit)/charge for the year at the effective rate	<u>(11,719)</u>	<u>28,598</u>

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

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

The provision for Hong Kong profits tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profit for the year.

Pursuant to the rules and regulations of New Zealand, Yashili New Zealand is subject to an income tax rate of 28% (2020: 28%) in New Zealand.

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,745,560,296 (2020: 4,745,560,296) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2021 (31 December 2020: nil).

The calculations of basic and diluted (loss)/earnings per share are based on:

	2021 RMB'000	2020 RMB'000
(Loss)/earnings:		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	<u>(81,363)</u>	<u>101,081</u>
	Number of shares	
	2021	2020
	'000	'000
Shares:		
Weighted average number of ordinary shares for the purpose of the basic and diluted (loss)/earnings per share calculations	<u>4,745,560</u>	<u>4,745,560</u>

8. INVENTORIES

	2021 RMB'000	2020 RMB'000
Finished goods	299,925	483,555
Raw materials	261,370	359,722
Work in progress	219,108	109,328
Packing materials	32,366	29,767
Low-value consumables	<u>3,201</u>	<u>2,388</u>
	<u>815,970</u>	<u>984,760</u>

As at 31 December 2021, all the inventories of Yashili New Zealand amounting to RMB93,113,000 (31 December 2020: RMB202,258,000) were collateralised.

9. TRADE RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	426,513	103,219
Provision for impairment	<u>(11,783)</u>	<u>(12,053)</u>
	<u>414,730</u>	<u>91,166</u>

The Group normally allows a credit limit and credit term to its customers which is adjustable in certain circumstances. The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	365,080	80,472
3 to 6 months	46,198	8,817
6 months to 1 year	2,679	1,407
1 to 2 years	<u>773</u>	<u>470</u>
	<u>414,730</u>	<u>91,166</u>

As at 31 December 2021, all the trade receivables of Yashili New Zealand amounting to RMB52,152,000 (31 December 2020: RMB60,507,000) were collateralised.

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

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

	2021 RMB'000	2020 RMB'000
At beginning of year	12,053	11,982
Impairment losses, net	(270)	71
At end of year	<u>11,783</u>	<u>12,053</u>

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

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

	Ageing			Total
	Less than 1 year	1 to 2 years	Over 2 years	
As at 31 December 2021				
Expected credit loss rate	1%	83%	100%	
Gross carrying amount (RMB'000)	420,121	4,425	1,967	426,513
Expected credit losses (RMB'000)	<u>6,164</u>	<u>3,652</u>	<u>1,967</u>	<u>11,783</u>
	Ageing			Total
	Less than 1 year	1 to 2 years	Over 2 years	
As at 31 December 2020				
Expected credit loss rate	9%	83%	100%	
Gross carrying amount (RMB'000)	99,532	2,789	898	103,219
Expected credit losses (RMB'000)	<u>8,836</u>	<u>2,319</u>	<u>898</u>	<u>12,053</u>

10. CASH AND BANK BALANCES AND OTHER DEPOSITS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cash and cash equivalents as stated in the consolidated statement of cash flows	1,529,931	1,818,288
Pledged deposits	90,354	150,261
Time deposits with original maturity of more than three months	965,674	998,634
	2,585,959	2,967,183
Less: Short-term pledged deposits for banking facilities	90,354	150,261
Less: Long-term bank deposits	370,558	736,004
Cash and bank balances as stated in the consolidated statement of financial position	2,125,047	2,080,918
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
The above balances denominated in:		
— RMB	2,499,407	2,505,205
— Hong Kong dollar (“ HKD ”)	10,415	160,811
— United States dollar (“ USD ”)	33,332	151,915
— New Zealand dollar (“ NZD ”)	30,683	116,101
— European dollar (“ EUR ”)	1,956	26,322
— Australian dollar (“ AUD ”)	10,166	6,829
	2,585,959	2,967,183

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

Cash at banks earns interest at the prevailing market interest rates. As at 31 December 2021, the effective annual interest rates of short-term time deposits were approximately 2.20% to 4.18% (31 December 2020: 1.93% to 4.18%), which would be due within a year. The effective interest rate of long-term deposits was 3.65% to 3.95% (31 December 2020: 3.14% to 4.18%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2021, the long-term bank deposits amounting to RMB50,000,000 and the short-term bank deposits of RMB20,000,000 were pledged for bank loans amounting to RMB120,556,000 (31 December 2020: RMB146,000,000).

As at 31 December 2021, the short-term bank deposits amounting to RMB20,354,000 were pledged for bank acceptance bills (31 December 2020: RMB29,369,000).

As at 31 December 2021, no deposit were pledged for letters of credit (31 December 2020: RMB4,476,000).

As at 31 December 2021, the long-term bank deposits amounting to RMB20,000,000 and the short-term bank deposits of RMB50,000,000 were pledged for banking facilities (31 December 2020: long-term bank deposits of RMB44,892,000 and short-term bank deposits of RMB130,000,000 were pledged for banking facilities).

As at 31 December 2021, all the bank deposits of Yashili New Zealand amounting to RMB31,707,000 (31 December 2020: RMB112,956,000) were collateralised.

As at 31 December 2021, the bank deposits of Dumex amounting to RMB50,000,000 (31 December 2020: nil) were collateralised.

11. TRADE AND BILLS PAYABLES

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	698,714	598,593
3 to 6 months	21,143	70,755
More than 6 months	94,028	28,704
	<u>813,885</u>	<u>698,052</u>

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

12. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Accrued expenses		63,516	265,258
Contract liabilities	(a)	160,033	220,522
Accrued payroll		106,761	173,273
Payables for constructions of property, plant and equipment		65,278	83,882
Guarantee deposits from customers		75,645	69,501
Other tax payables		47,374	8,842
Interest payable		111	1,892
Others		50,510	127,821
		<u>569,228</u>	<u>950,991</u>

Note:

(a) Details of contract liabilities are as follows:

	31 December 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>	1 January 2020 <i>RMB'000</i>
<i>Short-term advances received from customers</i>			
Sale of goods	<u>160,033</u>	<u>220,522</u>	<u>126,938</u>

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2021			As at 31 December 2020		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>
Current						
Bank loans — secured	2.55 to 2.80	2022	120,556	2.60 to 3.22	2021	326,664
Credit loans	3.30	2022	200,202	LIBOR+1.20	2021	39,193
			320,758			365,857
				2021	2020	
				RMB'000	RMB'000	
Bank loans denominated in						
— RMB				320,758		326,664
— USD				—		39,193
				320,758		365,857

As at 31 December 2021, the time deposits amounting to RMB70,000,000 were pledged for bank loans amounting to RMB120,556,000 (31 December 2020: time deposits amounting to RMB96,000,000 were pledged for bank loans amounting to RMB178,450,000).

As at 31 December 2021, no bank loans were pledged by structured deposits and bank deposits (31 December 2020: structured bank deposits amounting to RMB100,000,000 and time deposits amounting to RMB50,000,000 were pledged for bank loans amounting to RMB148,214,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2021, as the new-born population of China continued to decline, the infant formula milk powder market became increasingly competitive, driving companies to improve product quality and develop more efficacious product segments. Meanwhile, the market share of domestic milk powder brands continued to expand during the year as the trend of consuming domestic products surged among consumers.

Birth rate further declined, and the industry returned to the competition of quality

In recent years, the number of babies born has been decreasing, and the birth rate in China has further decreased as COVID-19 continued, leading to a decelerated growth in the total consumption of infant formula milk powder. Although China has introduced the three-child policy and its supporting measures since the end of May 2021, it is still uncertain whether it will be able to genuinely promote the significant increase in the number of new-born babies. At present, the infant formula milk powder market features competition for existing market volumes, coupled with the new national standards and recipe re-registration requirement to accelerate industry integration and further enhance concentration. The market is returning to the competition of quality.

Domestic milk powder embraced new opportunities

As the supervision of the milk powder industry has been improving and the market has been further regulated, consumers' confidence in domestic brands has increased significantly. In contrast to the severe global pandemic, COVID-19 has been under effective control in China, resulting in consumers' concerns about the safety of products from foreign brands which instead promotes the development of domestic brands. During the year, the market share of domestic milk powder brands further increased, and their dominant markets expanded from third-and fourth-tier cities to first-and second-tier cities.

Rising spending power drove product iterations

With the steady growth of disposable income in China, the spending power of the mother-and-baby market has continued to rise, and the demand for high-end milk powder has also increased. As consumers paid more attention to health in the wake of the pandemic, the nutrition of infant food has become a major concern, driving product segmentation towards more efficiency. Manufacturers generally consider A2 β -casein protein milk powder, organic milk powder and goat milk powder as the key products for the infant formula milk powder market, and gradually develop niche markets for the milk powder for pregnant women and special formula milk powder at the same time.

Owing to the aging population and the growing per capita income, as well as consumers' increasing emphasis on supplementing nutrition through dairy products during the pandemic, the demand for milk powder for the middle-aged and the elderly, for children and for the whole family demonstrated a substantial growth, and sales for child nutrition products like probiotics, lactoferrin and calcium products spiked.

Post-95 women become the main force of maternity and the development of digital marketing accelerated

With the young women born after 1995 becoming the main force of maternity, digital marketing for milk powder consumers has become more important. Companies in the industry have accelerated the development of new digital businesses such as social retail, WeChat community marketing and live streaming commerce, and have acquired more users and online transaction volume from traditional e-commerce platforms to expand their customer base.

Population aging continued, and adult milk powder products went through strategic upgrades

With the increasing nutritional awareness of middle-aged and elderly consumers, dissolvable milk powder has become their choice of supplemental nutrition. In the context of continuous aging of population, the “silver-haired economy” will become a more obvious driving force for the dairy industry. As a new market breakthrough point, adult milk powder, which is currently at its initial stage of development, is undergoing strategic upgrading on products according to the health needs of the middle-aged and elderly people, demonstrating great growth potential. At present, many Chinese and foreign brands have launched related milk powder products for the elderly, covering goat milk powder, camel milk powder, yak milk powder, etc., and have launched different products for the middle-aged and elderly people targeting different physiques to differentiate themselves.

BUSINESS REVIEW

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

Segment results

Milk powder products

For the year ended 31 December 2021, the results of milk powder products segment were RMB3,650.4 million (2020: RMB2,975.6 million), increased by 22.7% as compared to the last year. which was mainly due to the significant increase in revenue from adult milk powder attributable to the successful strategies such as product segmentation and channel expansion.

Other milk powder products

For the year ended 31 December 2021, the results of other milk powder products segment amounted to RMB438.4 million (2020: RMB427.4 million), representing an increase of 2.6% from the last year, which was mainly because of the increase in the sales of Yashili New Zealand Dairy Co., Limited (“**Yashili New Zealand**”) driven by the increasing orders for whole milk powder.

Dissolvable products

For the year ended 31 December 2021, the results of dissolvable products segment was RMB221.2 million (2020: RMB166.4 million), increasing by 32.9% as compared to the last year, which was mainly due to the adjustment of product strategy.

Others

For the year ended 31 December 2021, the results of other segments were RMB124.7 million (2020: RMB79.8 million), increased by 56.3% as compared to the last year, which was mainly due to the new milk tablet business introduced during the year.

Product introduction

The Group strives to become the preferred brand of all-round nutrition and health solutions for consumers. Its products are divided into two major categories, namely infant formula milk powder and health and nutrition products, with cow milk powder, organic milk powder and goat milk powder covering markets of various price points — including ultra-high-end, high-end and middle-end markets. The milk powder brands of the Group include Yashily, Dumex, Reeborne, Doraler, the strategic cooperative brands Arla Baby & Me, Mengniu, Topconic, M8 children's milk formula, as well as Yourui, the brand which caters to the needs of the middle-aged and the elderly.

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

Yashily

Yashily, a brand focusing on the nutrition research of Chinese babies and production and sale of infant formula milk powder for 39 years, has international standard production bases in China and New Zealand. It sources milk of superior quality from New Zealand and implements quality standards of China and New Zealand, striving to become a world-class “Chinese infant formula expert”. Yashily's products are made from high-quality raw materials worldwide, such as OPO-structured lipid, lactoferrin, prebiotics and nucleotides.

Dumex

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

Reeborne

Since 2020, the Group reshaped the brand proposition of Reeborne with “lighter taste and more nutritious ingredients (更加清淡口味，更多營養成分)” as its brand positioning. The brand launched seven products to address the different nutritional needs of infants, covering mainstream milk powder, high-growth organic milk powder and goat milk powder for segmenting product category.

Reeborne’s “Kieember (菁珀)”, produced in Yashili’s New Zealand factory, adopts the advanced international MSD drying process, which retains the vitality of nutritional ingredients. It contains double high-quality protein, i.e. lactoferrin and α -whey protein, OPO-structured lipid, high living CPP factors and prebiotics in golden ratio and DHA&AA, providing babies with versatile and easy-to-absorb nutrition. Reeborne organic milk powder passes the WIT organic certification and adopts the “one can, one code” tracking system to provide quality assurance. Reeborne’s “TruYn (初穎)” goat milk powder selects high-quality small molecule goat milk protein, and rare ingredients, such as lactoferrin, the OPO-structured lipid and probiotics and prebiotics, are added to provide high-quality nutrition that babies can easily digest and absorb. In addition, Reeborne series also has other products at different prices, with different nutritional content tailored to address the different nutritional needs of infants.

Arla Baby & Me

Arla, a century-old brand, is also the world-renowned organic dairy brand, and the high product quality it affords has made it an authorized brand fit for consumption by Danish royals. Arla “Baby & Me” includes three series, namely “Organic (有機)”, “Lanxi (藍曦)” and “Milex (美力滋)”. The organic milk powder of Arla “Baby & Me” has obtained three major organic certifications. It is produced from rare and selected organic A2 milk sources with high DHA and prebiotics in golden ratios and uses 100% organic lactose. Arla “Baby & Me Lanxi (藍曦)” contains NutriCollab, a unique complementary set of nutrients, MFGM milk fat spherical film and quality nutritious elements such as choline, taurine and nucleotide. The formula of Arla “Milex (美力滋)” combines OPO-structured lipid, BB-12 probiotics and a golden ratio of prebiotics to form the Pro Plus growth formula better matching needs.

Doraler

Originally from Australia, Doraler goat milk powder contains 100% whole goat milk protein, which can be easily digested and absorbed by the human body because it is all natural. Doraler insists on not adding sucrose, flavors and fragrances and maltodextrin in its products, providing babies with the pure and healthy nutrition.

Yourui

Based on the physical characteristics and nutritional supplement needs of the middle-aged and the elderly population, the Group has developed innovative products one after another such as Yourui Guyi (悠瑞骨宜), Yourui Liyi (悠瑞力宜), Yourui Shunyi (悠瑞順宜), Yourui Yitian (悠瑞怡添), Yourui Xinpei (悠瑞心沛), Yourui Goat Milk Powder Rich in Selenium and Calcium, Yourui Probiotic Powder, Yourui Probiotic Formula Camel Milk Powder and Yourui Pure Camel Whole Milk Powder. These products contain ingredients such as strains and dietary fibres which enhance the absorption capabilities of intestines of the middle-aged and the elderly, and boast ingredients such as calcium, Colostrum basic protein powder, Lactobacillus casei Zhang, CaHMB/EPA and DHA to supplement the gradual loss of nutritional content in the bodies of the middle-aged and the elderly.

M8 Children's Formula Milk Powder

M8 children's formula milk powder is specially developed to cater to the nutritional needs of children aged 3 to 6, by adding Bifidobacterium lactis Probio-M8 and 28 kinds of fruit and vegetable powders with dietary fiber to address parents' concerns about children's picky and unbalanced eating habits and help children grow.

1.88M Children's Growth Formula Milk Powder

1.88M Children's growth formula milk powder is developed for the growth needs of children aged between 3 and 15, containing CBP, high calcium, vitamin D+K, and lactoferrin, as well as FOS, GOS, DHA, ARA, PS, taurine, lutein, zeaxanthin, vitamin A, and many other nutrients necessary for growth.

“Goji” (Goji Berries) the Rising Star

Based on an innovative formula of goji berries — a nourishing ingredients, fruits and new food ingredients, “Goji” the Rising Star (我是後「杞」之秀) utilizes modern nutrition science and appropriate calculation of ingredient ratios to provide women with a scientific nutrition program.

Fruit Oatmeal

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

Brand strategies

To integrate superior resources and focus on brand building, the Group launched several rebranding projects in 2020, while in 2021, the Group's rebranding was made effective through the consolidation of both online and offline marketing efforts, supplemented by three-dimensional multi-media campaigns to convey the brand story to consumers. At the same time, the Group has been committed to spreading positive energy for the public by devoting to public welfare.

Rebranding efforts starting to pay off

The core infant formula milk powder brand Reeborne took on the mission of “Nutrient in a drop, blooming every life (點滴營養，綻放每個生命)”, and combed through the cow milk, goat milk and organic milk categories, among others, to restructure the product mix. The Group consolidated online and offline marketing efforts during the year to further enhance brand awareness and create differentiation. At the same time, the Group continued to focus on product innovation, and was awarded the Research Outcome Certificate under the “13th Five-Year Plan” National Key Research Project (「十三五」國家重點研究項目研究成果證書), CBIS Annual Technology Research and Development Award (中童年度技術研發獎) and Editor's Choice Award of MaMa.cn (媽媽網編輯甄選獎), etc. The Group's strength in scientific research was recognized by the industry. As for the brand Arla Baby & Me, during the year, the Group continued to focus on its proposition of “Organic A2, choose Baby & Me (有機A2，選寶貝與我)” and signed up reputable actress Liu Tao as its endorser to vividly communicate the outstanding selling points and advantages of the products to the target audience, robustly connect the brand to the organic category and raise brand awareness among the target consumers.

Regarding nutrition products, the Group launched Mengniu M8 Children's Formula Milk Powder, which is positioned to specifically address the nutritional needs of children aged 3 to 6, concerning their digestive and absorption problems, with famous movie star Deng Chao as the brand endorser to enhance brand awareness. Mengniu Yourui (蒙牛悠瑞) is a high-end milk powder brand under Mengniu Group devoted to setting up a new standard for high-end milk powder, which successfully signed up National Grade 1 Actor Zhang Guoli as the endorser during the year. In addition, Mengniu Group coordinated with the Chinese Football Association and became the official partner of the Chinese Football Team, further strengthening the brand image of Mengniu Yourui (蒙牛悠瑞) and explore the middle-aged milk powder market to a further extent. According to Euromonitor's (歐睿) research: "Mengniu Yourui (蒙牛悠瑞), National Sales Leader of High-end Milk Powder for the Middle-aged and the Elderly (First Half of 2021) (蒙牛悠瑞高端中老年奶粉全國銷量領先 (2021年上半年))".

Media promotion in multiple dimensions and communication through diversified scenarios

During the year, the Group's infant formula milk powder brands proactively carried out media promotions, including arranging "television+outdoor+Internet" multi-media exposure for the Reeborn brand to conduct in-depth interaction with consumers in diversified scenarios. The Group successfully arranged for the brand to appear in the Anhui Spring Festival Gala, which was broadcasted across national satellite televisions and local provincial stations, reaching over 260 million people. The brand also placed advertisements at the entrances of high-speed railways and highways during the peak of the Spring Festival travel, reaching out to people returning to hometowns. During the year, the Group created IP images for Pandas Rui Rui (瑞瑞) and En En (恩恩) and produced a nation trending childcare video "The Amazing Adventures of National Treasure (《國寶成長奇遇記》)" with CCTV.com (央視網) and iPanda (熊貓頻道), covering more than 96 million fans with over 50 million views on Weibo (微博) brand topics. As for Arla "Baby & Me", during the year, the Group made further attempts to capture popularity on social media platforms such as Douyin (抖音) and Xiaohongshu (小紅書) to expand publicity by leveraging the influence of KOLs, while ensuring private domain traffic. In addition, the Group also placed advertisements in elevators in 12 key cities in order to boost the sales of organic A2 products during the launch period.

Spreading positive energy by devoting to public welfare

In 2021, Yashili proactively participated in public welfare activities to establish a positive image for the Company and the brand, reflecting the brand's sense of social responsibility. During the year, Yashili organized over 70 public welfare activities and donated more than 5,000 pieces of nutrition products. In addition, Yashili actively responded to the government's call for "rural revitalization (鄉村振興)" and initiated the "rural revitalization (鄉村振興)" series of public welfare activities in 2021. During the year, the public welfare team visited 18 provinces such as Yunnan, Hubei, Gansu, Qinghai and Anhui, to care for orphaned and disabled children, poor families, widowed and lonely elderly, and school children in mountain areas through donations and visits with a donation amount of nearly RMB9 million. Moreover, after the flooding in Zhengzhou, the Group promptly sent relief materials and supplies to the local children's welfare institutions and women's organizations.

Comprehensive layout to increase membership

In 2021, the Group fully deployed its membership system and expanded the scale of its membership through the "Million Red Packet Gifts in the Year of Ox (牛氣沖天，百萬紅包豪禮)" campaign. Meanwhile, the Group continued to expand the bonus points and rights award system for members, consolidate resources across various industries to channel traffic, create the "21st" membership day IP and export high-quality childcare content, so as to build trust with members and enhance loyalty.

Product research and development

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

Innovation and upgrade of infant formula milk powder

As of the end of December 2021, the Group and its partner Arla had a total of 51 infant formula products in 17 series with recipes registered. To continuously enhance and consolidate the advantages of differentiated products, the Group continued to implement its upgrading plan for infant formula products already launched, entailing research on lipid, protein, and oligosaccharides to develop innovative infant milk powder. The Group also conducted research on product packaging refresh and upgrade based on the needs of infant feeding population to attract more consumers.

Innovation and development of high-end milk powder for adults

In the first half of 2021, the Group launched a variety of children's milk powder to meet different nutritional needs through the application of M8 breast milk-derived probiotics¹. In addition, the Group utilized new raw materials to develop high-end adult functional milk powder. In particular, the Group had developed a series of upgraded Yourui milk powder for the middle-aged and the elderly, which was launched with a brand-new functional portfolio and a new product image during the year. The Group has also developed and launched a series of baked cereals, yam powder and goji drinks based on its own insight and consumers' needs.

Note:

- 1 Breast milk-derived probiotics added to the product refer to Bifidobacterium Probop-M8, which is a strain isolated from healthy breast milk.

Improving research and development level with progressive results

The Group continued to embark on collaborative projects with industry-leading research institutes in the aspects of food, agriculture and nutrition, including the nutrition research on infant formula products, children, adults, middle-aged and elderly populations with experts from Jiangnan University, China Agricultural University, Inner Mongolia Agricultural University, Sun Yat-sen University and other institutions. Regarding the research on the nutritional composition of breast milk under the “13th Five-Year Plan”, the Group has kicked off works related to formula design, trial production and animal experiment. The Group’s continuous investment in research and development has started to bear fruit. During the year, a total of 16 patents were granted, including 2 invention patents, 5 utility models and 9 appearance patents. In addition, the Group continued to strengthen the recruitment of nutrition research talents and process research talents during the year to enhance its innovation capability and product quality in nutrition science and process research.

Sales channels

In 2021, Yashili continued to strengthen the strategic channel deployment entailing “focus infant formula on mother-and-baby stores, nutrition products on modern trade channels, facilitate e-commerce channels and develop new channels and new products (嬰配奶粉聚焦母嬰渠道，營養品聚焦商超渠道，快速發展電商渠道，新渠道新產品全面發展)”. The Group insisted on opening channels in lower-tier markets by cooperating with well-known chain stores and regional chain stores with presence nationwide, complementing its own channels in main markets such as Anhui and Henan. As for offline stores operation, Yashili continued to enhance the overall quality of its stores, taking Hubei, Anhui and Henan as pilot areas to build high-quality stores.

In addition, in order to respond to the changes in sales channels, Yashili increased investment in digital marketing, in conjunction with targeted channel product portfolios and a sound product line, established a solid distribution foundation in core sales channels. During the pandemic, the home delivery service of infant formula milk powder and nutrition products of the Group has also become a standard service, which safeguarded the supply of products to end-consumers, while at the same time receiving good reputation from clients and consumers at all levels.

Improving channels for market penetration and establishing market presence

During the year, Yashili mainly focused on the steady development of the mother-and-baby store channel, and devised a synergistic operation among mother-and-baby store chains, modern trade and e-commerce channels. The Group continued to strengthen dynamic marketing efforts for its stores and launched comprehensive consumer education and dynamic marketing activities around the theme of “First and Foremost, Shelf Sales (動銷為王)”, receiving unanimous praise for its 10,000 “Members’ Day” campaigns. The Group also held the “Smelting Camp (熔煉營)” for marketing agents across the nation to further enhance their marketing skills so as to build a professional and efficient marketing team.

Yashili continued to promote the effective distribution of “TruYn (初穎)” products and continued to build and improve channels to fully penetrate the second-and third-tier markets after gaining traction in certain local markets and key stores. For the organic category, based on its objectives to develop channels and enhance services, the Group has gradually established its market presence by solving the shelf life issue through airfreight and ensuring the imported infant formula milk powder is produced recently.

Strengthening digital marketing system

The rapid development of mobile Internet, coupled with the impact of the pandemic, has led to the continuous proliferation of innovative channels such as community group purchase, live streaming e-commerce and social e-commerce, driving consumers to shift from traditional retailing to new retailing. Changes were not just at the consumer level, B2B has developed into the third largest sourcing channel for small terminal stores. B2B has been able to reach more sales terminals, and terminal stores have made more and bigger orders on the platform since 2020.

During the year, Yashili placed emphasis on the full range of consumer engagement through various self-media platforms, including Douyin (抖音), Xiaohongshu (小紅書), public accounts (公眾號), etc. Combining digital tools and basic sales execution, Yashili fully empowers offline business growth with its highly innovative BC integrated marketing model. Meanwhile, the Group ensures stability of pricing through price control on the online platform and carried out long-term procurement-inventory-sales management and refined production rate management to empower the digitalization of channels.

For membership management, Yashili stepped up its investment in intelligence by building a bonus points award system for members and introducing AI robots to strengthen consumers' loyalty to the brand. Yashili also empowered terminal stores by building the innovative "Ruimenghui O2O Mall (瑞萌惠O2O商城)" to bring traffic and orders to the store in combination with the mechanism of attracting new customers. The Group made innovative uses of "Members' Day (會員日)" and "Parents and Children's Show (親子秀)" and other scenarios to achieve in-depth interaction with consumers, thereby boosting the effect of its consolidated marketing effort as well as increasing consumer loyalty.

Quality management

In 2021, quality management adhered to the Company's quality policy with the targets of TOP (i.e. Trust (信賴), Outstanding (卓越) and Preferred (首選)), based on the principles of "compliance, risk control and safety first (守合規、控風險、保安全)", with the four first-class requirements, namely "first-class system (一流體系)", "first-class standard (一流標準)", "first-class quality (一流品質)" and "first-class organization (一流組織)", as the core pillars, and "perfect products (完美產品)" as the driving force to facilitate sustainable development.

Consolidating the foundation for a first-class system

In 2021, the Group continued to improve the 4Q management system (i.e. quality planning, quality control, quality assurance and quality support) and relevant system documents have been implemented in four factories. In addition, the Group has established an effective replication mechanism of the best practices in factories within the Group to continuously improve quality management by sorting out the merits of factories, and replicating, promoting and implementing them among different factories.

In order to build a first-class system, Yashili has taken the initiative to learn from international advanced quality and food safety management standards. In 2021, the Group introduced the SQF (Safe Quality Food) specification on top of the original ISO9001 and HACCP standards. After six months of study and operation, all four factories in China have successfully passed the high-level food quality standard certification, and together with the addition of FSSC22000 in Chaozhou factory during the year, all factories of the Group in China have passed the SQF and FSSC22000 certifications recognized by GFSI (Global Food Safety Initiative). In addition, both Chaozhou and Shanghai factories have successfully passed the national inspection of the infant formula milk powder system and achieved excellent results, which demonstrated the high standard of the Group's quality system.

Comprehensive upgrading of infant formula food safety and quality

To guarantee safe, healthy and nutritious food for infants at all times, Yashili has established a risk monitoring system for infant formula food with reference to the international standards relating to pollutant limits. Through internal and external communication and study of the EU standards, the Group also identified food safety items within the EU standards for infant formula milk powder and tightened the standards for food safety indicators (chemical and microbiological) of key raw materials. The Group has also managed the entire chain of raw materials and water used in the production process to ensure that its products comply with the requirements of rules under EU food standards assessment and certification. At present, Yashili's eight series of infant formula milk powder have obtained product certifications. Yashili is the first infant formula milk powder company in China to have its products assessed and certified under EU food standards².

Note:

- 2 In compliance with: (EC)No 1881/2006, (EC)No 2073/2005, (EU)No 2016/127 (Only for items involving pesticide residue).

Continuous improvement of product quality

During the year, Yashili optimized its quality design procedures, introducing quality design at the developmental stage of new infant formula milk powder products to account for potential quality and food safety risks right from the phase of product design. In addition, in line with its value of “consumers first, first and first (消費者第一、第一、第一)”, and with the purpose of “improving the existing and avoiding the future (改善現有，規避未來)”, Yashili has been fully implementing the “perfect products (完美產品)” campaign from various dimensions, such as customers’ feeling at the first and second moments of purchasing products, sales site evaluation, service experience and other dimensions. During the year, 44 items were identified for improvement and 14 sub-projects were established accordingly, ten of which were completed by the end of the year to further enhance the competitiveness of the products.

Strengthening digitalization for quality management

After more than a year of research, project work, development and trial run, the Group officially launched the laboratory information system of its Helin factory, Chaozhou factory and Shanxi factory in September 2021, achieving an automatic and paperless quality inspection process, which systematically reducing the time spent on manual data entry and test reports preparation, the three factories can save 1,000 working hours per month, which significantly improves efficiency and ensures all tests are true, reliable and traceable, truly enabling quality management digitalization.

Supply chain

In 2021, driven by the principle of “speeding up for victory (乘勝加速、誓贏冠軍)”, the Group’s supply chain business firmly focused on the three major objectives of high speed, high efficiency and high quality, with an aim to achieve high quality development of the supply chain.

Stable supply

The Group adopted a people-oriented approach, constantly drew on its management experience and improved its management system to create a standardized operation system. In March 2021, the Group implemented world-class WCO operation and the four modules of LMC, OA, FI and AC in its Shanxi factory to achieve the goals of cost reduction and efficiency improvement, enhancing the ability of the factory in solving problems and overall operation and coordination, ultimately achieving zero waste, zero defect, zero failure, zero inventory and zero accident.

In terms of supply coordination, the Group continued to coordinate resources across the region and optimize the allocation of production capacity during the year to maximize the Group's production capacity. At the same time, the Group focused on improving production efficiency to achieve quick and flexible delivery by streamlining the product distribution chain and simplifying the process. In addition, the Group adopted a flexible stocking strategy to meet sales demand and enhance supply security. In terms of logistics support, the Group promoted "direct delivery from the place of origin (產地直發)" during the year to reduce logistics costs. Meanwhile, the Group continued to improve its warehousing layout and organise the its transportation network, successfully maintaining the logistics transportation time of an average of less than three days with all indicators meeting targets.

Quality assurance

The Group's supply chain always adheres to the bottom line of food safety, emphasizes food safety risks and customer satisfaction, enhances and strengthens the relevant management system, and continuously ensures the comprehensive operation of the quality system. During the year, the Group obtained two system certifications (including CNAS laboratory certification) and two product certifications (including SQF quality and food safety regulations), and conducted 14 audits and assessments, including the audit of the infant formula milk powder system in autonomous regions, the audit of the healthcare food system in autonomous regions, four on-site audits of production licenses, and two external audits of the quality and food safety system.

Management system

In 2021, the Group completed the development of the distributor interaction platform and the distributor order module, realizing the integration of distributor business services and the digitalization of products-to-customers phase.

In terms of quality management, the Group fully covered the inspection processes of raw materials, semi-finished products and finished products through the LIMS system and integrated with the existing SAP, ERP and other systems, as well as upgrading the RDL system and establishing a platform framework for formula product development to provide data support for the Group's comprehensive quality management. The Group developed and used multi-dimensional financial BI statements and strategic BI statements simultaneously to achieve refined management of financial and supply chain ends.

In terms of channel management, the Group achieved standardized management of offline channels, launched the self-developed sales service tool "Business Smart Assistant (業務智慧助手)" to strengthen the service management efficiency of the sales team to the terminals, and launched the O2O mall and MiniCRM to enable shopping guides and stores to quickly reach consumers and improve business efficiency.

In terms of marketing, the Group established a marketing business middle-end platform, and commenced the research and development and operation of the product center, membership center, bonus points center and activity center. In particular, the marketing business system has been gradually launched to improve the efficiency of terminal stores. In terms of consumer operation, the Group focused on the concept of "service first (服務第一)", upgraded the C-end service tool, connected more than 2,000,000 real members, and efficiently completed online and offline customer traffic acquisition by establishing online operation matrix for WeCom (企業微信), public accounts (公眾號) and Mini Program (小程序).

In the information security module, the Group has established a unified identity authentication platform, a group-wide smart monitoring platform, an information leakage prevention and control platform and a terminal security management platform to enhance the Group's overall information security management and control capabilities and ensure the stable operation of the Group's core network, data and information systems and the security of data assets.

During the year, Yashili also completed the establishment of a technology independent research and development team to realize the private deployment of core business systems, consolidate data assets, and commence the initial stage of the independent research and development of core business systems to further improve the efficiency of digital tools.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the Group's revenue amounted to RMB4,434.7 million (2020: RMB3,649.2 million), increased by 21.5% as compared to the corresponding period last year.

By product category	2021 <i>RMB million</i>	2020 <i>RMB million</i>	Percentage change
Milk powder products	3,650.4	2,975.6	22.7%
Other milk powder products	438.4	427.4	2.6%
Dissolvable products	221.2	166.4	32.9%
Others	124.7	79.8	56.3%
Total	<u>4,434.7</u>	<u>3,649.2</u>	<u>21.5%</u>

As of 31 December 2021, sales revenue from milk powder products amounted to RMB3,650.4 million (2020: RMB2,975.6 million), representing an increase of 22.7% from the last year, which was mainly due to the significant increase in the sales of adult milk powder. The sales revenue from other milk powder products amounted to RMB438.4 million (2020: RMB427.4 million), representing an increase of 2.6% from the last year, which was mainly because of the increase in the sales of Yashili New Zealand driven by the increasing orders for whole milk powder. The sales revenue from dissolvable products amounted to RMB221.2 million (2020: RMB166.4 million), representing an increase of 32.9% from the last year, which was attributable to the adjustment of product strategies. The sales revenue from other products amounted to RMB124.7 million (2020: RMB79.8 million), representing an increase of 56.3% from the last year, which was mainly due to the new milk tablet business introduced during the year.

The increase in the Group's sales revenue was mainly due to: (1) the significant increase in the revenue from adult milk powder; and (2) enhanced product awareness attributable to media promotion in multiple dimensions and communication through diversified scenarios.

Gross profit

For the year ended 31 December 2021, the Group recorded a gross profit of RMB1,460.0 million (2020: RMB1,333.8 million), representing an increase of 9.5% from the last year. The gross profit margin was 32.9% (2020: 36.6%), representing a decrease of 3.7% from the last year, which was a result of product structure adjustment with larger sales proportion of adult milk powder of lower gross profit.

Selling and distribution expenses

For the year ended 31 December 2021, the Group generated selling and distribution expenses of RMB1,146.8 million (2020: RMB1,039.1 million), representing an increase of 10.4% from the last year. The Group's selling and distribution expenses as a percentage of revenue decreased to 25.9% (2020: 28.5%), representing a decrease of 2.6% from the last year. The main reason for the decrease was the enhancement in the efficiency of selling expense during the year, while the branding strategy was being adjusted according to market conditions, resulting in lower investment.

Administrative expenses

For the year ended 31 December 2021, administrative expenses amounted to RMB239.3 million (2020: RMB186.6 million), representing an increase of 28.2% from the last year, which was mainly attributable to the expiry of the social insurance exemption policy related to the pandemic and the increase in the loss from production suspension of the newly introduced fresh milk project of Yashili New Zealand has led to an increase in expense.

Net finance income

For the year ended 31 December 2021, net finance income amounted to RMB51.8 million (2020: RMB74.8 million). The decrease in net finance income of 30.7% was mainly attributable to the global adoption of quantitative easing policy under the pandemic, leading to a decrease in deposit rate and capital for deposits.

Income tax

For the year ended 31 December 2021, the income tax credit of the Group amounted to RMB11.7 million (income tax expense of 2020: RMB28.6 million), and the effective income tax rate was 12.6% (2020: 22.1%). The decrease in income tax expense was mainly due to the increase of the proportion of adult milk powder (which has lower gross profit than infant formula milk powder), resulting in a lower profit before tax excluding dividends and hence a lower effective tax liability for the current period.

Inventory

As at 31 December 2021, the balance of inventory of the Group amounted to RMB816.0 million (31 December 2020: RMB984.8 million), representing a decrease of 17.1%, which was mainly due to the alleviation of capital pressure through optimized inventory management.

Other current financial assets

As at 31 December 2021, other current financial assets amounted to RMB93.9 million (31 December 2020: RMB121.8 million).

Trade receivables

As at 31 December 2021, the Group's trade receivables amounted to RMB414.7 million (31 December 2020: RMB91.2 million). In 2021, the trade receivables turnover days were 21 days (2020: 12 days), representing an increase of 9 turnover days from last year, which was mainly attributable to the increase in the trade receivables from large-scale modern trade and e-commerce platforms within normal credit period as a result of a notable increase in the revenue from the adult milk powder in the current period.

Contingent liabilities

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

Capital commitment

As at 31 December 2021, the Group's net cash outflow in capital expenditures was RMB222.2 million (31 December 2020: RMB84.1 million). As at 31 December 2021, the Group's capital commitment was RMB1.2 million (2020: RMB4.3 million), which was mainly related to the purchase of milk powder production equipment and optimization in software systems.

Provision for doubtful debts of trade receivables

As at 31 December 2021, the Group had provisions for doubtful debts of RMB11.8 million (2020: RMB12.1 million). These provisions were made for impaired receivables relating to customers that were in delinquency of payments. The Group does not hold any collateral or other credit enhancements over such amounts. An impairment analysis is performed by the Group using a provision matrix to measure expected credit losses. The provision rates are based on the ageing of the balances for the groupings of various customer segments with similar default patterns (e.g. by customer type). The calculation reflects the probability weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Provision for impairment and disposal losses of inventories

As at 31 December 2021, the Group's balance of provision for the impairment on inventories was RMB44.0 million (2020: RMB71.2 million), which was mainly because some of the inventories affected by the rebranding had longer age and corresponding provision of impairment was required in accordance with the policy. In addition, the Group recorded losses on disposal of inventories of RMB10.6 million in 2021 (2020: RMB21.1 million), which was mainly because, under the impact of rebranding, unsuitable packaging materials were disposed of and the provision for inventory impairment of deteriorated inventory were required.

Pledge of assets

As at 31 December 2021, the Group had pledged assets with an aggregate value of approximately RMB1,501.3 million (31 December 2020: RMB1,715.8 million).

(Loss)/profit attributable to equity holders of the Company

For the year ended 31 December 2021, the loss attributable to equity holders of the Group amounted to RMB81.4 million (2020: the profit attributable to equity holders of the Group amounted to RMB101.1 million). This was mainly due to the provision for the impairment on Dumex trademark.

Liquidity and capital resources

As at 31 December 2021, the Group's liquidity and capital resources, including cash and bank balances, pledged deposits to be released within one year, other current financial assets/structured bank deposits and long-term bank deposits, amounted to RMB2,679.9 million in total (31 December 2020: RMB3,089.0 million), representing a decrease of 13.2%. The decrease was mainly due to the increase in the investments for long-term projects and the decrease in daily working capital.

Operating activities

For the year ended 31 December 2021, the Group's net cash outflow from operating activities was RMB264.4 million (2020: net inflow of RMB118.7 million). The decrease in net operating cash inflow was mainly attributable to the higher percentage of revenues from modern trade at the end of the year and higher receivable balances within the normal credit period.

Investing activities

For the year ended 31 December 2021, net cash outflow generated from investing activities amounted to RMB65.6 million (2020: net outflow of RMB1,067.1 million), which was mainly attributable to the increased expense from the fresh milk project of Yashili New Zealand.

Financing activities

For the year ended 31 December 2021, net cash inflow generated from financing activities amounted to RMB53.7 million (2020: net inflow of RMB71.1 million), which was mainly attributable to the repayment of interest-bearing loans due.

Interest-bearing bank and other borrowings

As at 31 December 2021, the Group's interest-bearing bank and other borrowings amounted to RMB320.8 million (31 December 2020: RMB365.9 million). The above loans shall be repayable on demand upon maturity. As at 31 December 2021, the Group's gearing ratio, which is calculated by total interest-bearing bank and other borrowings at year end divided by total assets at year end, was 4.4% (31 December 2020: 4.7%).

Use of net proceeds from the Initial Public Offering

The Company's net proceeds from the Initial Public Offering amounted to approximately RMB1,965.8 million after deduction of relevant expenses. As of 30 June 2018, the Company had used up all the net proceeds from the Initial Public Offering in accordance with the manner as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 30 October 2010.

Event after the reporting period

The Company has issued an announcement on 16 March 2022. The Company was informed by Mengniu Dairy, its controlling shareholder, that Mengniu Dairy was in discussion with other parties regarding its holdings in Yashili and certain other business interests, which may result in a number of potential transactions (the "**Potential Transactions**"), the structure and details of which are yet to be finalized but which may include a potential pre-conditional privatization offer for the Company by Mengniu Dairy (or through its affiliate) (the "**Potential Offer**"). As of the date of this announcement, no definitive agreement or arrangement in respect of any of the Potential Transactions has been entered into. Therefore, the Potential Transactions, including the Potential Offer, may or may not proceed.

HUMAN RESOURCES

As of 31 December 2021, the Group has a total of 2,762 (31 December 2020: 2,919) full-time employees. The total staff cost for the year was approximately RMB561.7 million (2020: RMB435.3 million).

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

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

Flat organization structure with agile management

During the year, the Group further strengthened the operation of business divisions, standardized organizational management, improved organization agility, flattened organizational structure and organized roles and responsibilities, in order to delegate authority and empower the front line and minimize reporting levels. In addition, during the year, the Group strengthened the coordination between departments, which further enhanced the internal operational efficiency.

The establishment of dual-channel career development clarifying employee development path

The Group has released the “Dual-channel Career Development Plan for Employees”, which forms a horizontal and vertical development roadmap for employees. The career promotion assessment schemes on 14 professional areas are also completed. During the year, the Group also introduced Mengniu’s “Zhide (值得)” online learning platform and developed more than 3,000 tailor-made courses in order to strengthen the cultivation of employees with potential.

Reforming remuneration system to motivate talents with excellent performance

During the year, the Group continued to optimize its remuneration structure to enhance the competitiveness on remuneration for its entry level employees, and retained talents for the Company through enhancing in-process incentives, increasing pay for performance component of annual bonus, and promoting a culture of high performance and high incentive. With respect to welfare, the Group continued to raise the sum assured on critical illness and accidents for its entry level employees, emphasize the health condition of employees, and expand the coverage of the medical checkup institution and increase the number of medical checkup items to satisfy the needs from different groups of people.

Enhancing the employer image and attracting the external outstanding talents

In this post epidemic era, the Group demonstrated the inclusive, open and entrepreneurial atmosphere of Yashili to the public through the exploration of emerging channels such as live recruitment and video channel. In addition, the Group was awarded the “Outstanding Human Resources Management Award” by 51job.com and the “Work Different” award by Liepin, which enhanced the Group’s employer image, to better attract middle and high-end talents.

SOCIAL RESPONSIBILITY

In 2021, the Group continued to take the initiative to shoulder its corporate social responsibility to protect the nutritional needs of those in need and to support emergency responders and disaster victims during epidemic prevention and control periods and natural disasters.

During the year, the Group proactively promoted “Reeborne Poverty Alleviation Plan (瑞哺恩扶貧計劃)”, through its partnership with the China Children and Teenagers’ Fund to launch the “Warmth accompanied with Love (溫暖相伴，與愛同行)” campaigns for breast milk caring, reaching out to 18 provinces, municipalities and autonomous regions including Hubei, Hebei, Shandong, Shaanxi, Shanxi, Jiangxi, Gansu, Qinghai, Jiangsu, Zhejiang and Guizhou, and donated milk powder products with a value of nearly RMB9,700,000 to local women’s federations, children’s welfare centers, disabled persons federations, homes for the aged, kindergartens and households in need.

In addition, Yashili has continued to explore the combination of corporate development together with its strong local presences, and actively cooperated with local stores and distributors to carry out public welfare activities. Taking Hubei as an example, Yashili organized local caring teams to visit people in need and delivered milk powder and other supplies in the township of Huopai, Guyi and Zhuji in Xiangzhou District of Xiangyang City. In Guangxi, Yashili worked with its partners to visit Minglang Kindergarten in Pubei county to deliver nutrition products to local children and organized a birthday party for the elderly in Yuezhou nursing home, donating nutritional milk powder to send care to the elderly. In Ganzhou, Jiangxi, Yashili responded to the call of China Dairy Industry Association and donated M8 children’s formula milk powder of RMB100,000 to the people in the old revolutionary base area.

In July 2021, Henan province was severely affected by an extremely rare heavy rainstorm. After learning 600 children in Zhengzhou Institute for Children's Welfare needed to be relocated and were facing a shortage of food, the Group immediately organized donation of disaster relief materials to the areas affected, and delivered Yashili Reeborne's "Kieember (菁珀)" milk powder to the children of the institute to alleviate their immediate needs. In this disaster, Yashili donated a total of 238 milk powder products to Zhengzhou Institute for Children's Welfare of the Party Committee of Zhengzhou City of Henan Province, the Flood Control and Drought Relief Headquarters of Huixian, Henan Province, and the Women's Federation of Xinxiang, Zhengzhou, Henan Province according to the actual demands from the frontline to implement social responsibility, and provide practical help to the people in areas affected by the disaster.

In addition, Yashili visited the medical workers who devoted fully to their positions during the prevention and control of the COVID-19 pandemic, and paid tribute to the "white angels" who worked at the frontline in fighting against the COVID-19 pandemic. Yashili and Guangdong Provincial Preventive Medicine Association jointly initiated the activity of donating nutritional products to Guangzhou Shipai Street Community Health Service Center and Guangzhou Xiancun Community Health Service Center.

Going forward, Yashili will continue to implement corporate social responsibility. It will assist the construction of a harmonious society and contribute itself to the healthy life of the people.

PUBLIC RELATIONS AND CRISIS MANAGEMENT

In 2021, the Group communicated with the government, media and consumers in a timely and effective manner through mass communication, organizational communication and interpersonal communication to gain public understanding of the Group and raise awareness of its brand and products, in order to build a good corporate image for seizing a broader market.

During the year, the Group launched public relations campaigns such as the launch of Reeborne OPO III products and Mengniu M8 children's formula milk powder to publicize the Group's leading research products to the media and consumers. The Group actively participated in the 4th China International Import Expo (第四屆中國國際進口博覽會), which is an international and authoritative event, to recommend the Group's new technologies and products to the world. In addition, the Group made public its breast milk research results at the 1st China Breast Milk Science Conference (第一屆中國母乳科學大會), which was jointly organized by the Chinese Nutrition Society (中國營養學會) and the Institute of Nutrition and Health of the Chinese Center for Disease Control and Prevention (中國疾病預防控制中心營養與健康所) with several academic organizations and institutions, at which the Group's Hong Kong version of Reeborne products were presented, attracting widespread attention from the participants and the industry.

The Group learned from the public opinion prevention and control management measures of Mengniu Group and strived to improve public opinion prevention and control management by establishing an optimal mechanism for the prevention, control and handling of public opinion risks and setting up a public opinion risk management leadership group. Under the operation of the relevant mechanism, the Group's public opinion management achieved positive results with sensitive and prompt monitoring of public opinion during the year. The Group's reputation has increased significantly with increasingly positive comments on the Internet. At the same time, under the leadership of the public affairs office, the Group has established a crisis alert and prompt response mechanism, with various departments working together to handle various consumers' complaints in a timely manner and actively respond to issues of concern from government departments and the media to adopt measures to eliminate potential risks with utmost effort.

INVESTOR RELATIONS

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

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

FUTURE PROSPECTS

Policy implications

In March 2021, China's health regulatory authorities issued three new national standards for infant formula food, which set higher requirements for raw materials, supply chain, research and development and process stability of infant formula milk powder enterprises, and will be implemented as of 2023. The authorities subsequently carried out formula re-registration work after the publication of those standards, and issued a series of relevant policies such as announcements on formula registration related matters, answers to formula registration questions and the labelling and identification regulating infant formula products. In addition, important regulations related to food safety, such as Good Manufacturing Practice for Dairy Products (《乳製品良好生產規範》), Good Manufacturing Practice for Infant Formula Food (《嬰幼兒配方食品良好生產規範》), and the Detailed Rules for the Examination of Production License for Infant Formula Milk Powder (《嬰幼兒配方乳粉生產許可審查細則》), are also being revised. It is expected that the approval of product registration will become more rigorous in the future, and products that have already been registered in the formula will be subject to more stringent supervision.

The tightening of regulatory regulations is expected to drive enterprises to strengthen raw material control and enhance their capabilities in research and development, production and inspection, which will help improve the quality of domestic infant formula milk powder and raise the entry barrier of the industry. The promulgation of new standards provides an opportunity for domestic milk powder to gain a first-mover advantage, such that in the event that an enterprise can complete the formula registration as soon as possible in accordance with the requirements of the new national standards, it is more likely to seize the market share sooner.

In terms of nutrition products, the authorities have not yet introduced specific policies for milk powder for adults to regulate industry development. The market entry barrier for milk powder for adults is relatively low compared to infant formula milk powder. Therefore, if the current requirements for the research and development and design of the formula of milk powder for adults remain high, it is more likely for enterprises to stand out.

In addition, after the revision of the Law of the People's Republic of China on Population and Family Planning (《中華人民共和國人口與計劃生育法》) and the introduction of the three-child policy, provinces, cities and regions have successively implemented supporting measures to support childbirth, which, together with the implementation of the national strategy of "Healthy China (健康中國)", will benefit the milk powder industry.

Industry trend

Increasingly fierce market competition

The number of new-born population in China has declined since 2017. However, with the improvement of consumption level of residents and the upgrade of parenting concept of the younger generation, coupled with the differences in pandemic conditions between China and overseas and the gradual effectiveness of the three-child policy, it is expected that the size of China's infant formula milk powder market will grow steadily in 2022. As dairy enterprises continue to strengthen quality control management, the share of domestic brands is consolidating rapidly, with the leading enterprises continuing to seize the market share of small-and medium-sized enterprises.

Lower-tier markets becoming the new consumption force

According to the Ministry of Commerce, after the implementation of the formula registration requirement, miscellaneous infant formula milk powder brands that are produced through outsourcing are eliminated from the market and are expected to free up market share of 25%. In addition, compared with first-and second-tier cities, third-to fifth-tier cities have lower living costs, slower working and living pace, and young families are more willing to have two children. The infant formula milk powder market in lower-tier cities such as third-to fifth-tier cities, counties and rural areas has a huge development potential.

Increasing share of mother-and-baby store channel, and speedy development of digital marketing

The proportion of products purchased by consumers through mother-and-baby stores has been increasing, while the proportion of sales in traditional modern trade channels has decreased year by year. It is expected that the mother-and-baby store channel will remain the main areas of competition for infant formula milk powder in 2022. With the steady development of small-and medium-sized mother-and-baby chain stores, the trend towards digitalization and platformization of operations has gradually taken shape. In addition, the pandemic has sparked more diverse and flexible digital marketing methods, and consumer interaction and goods delivery are shifting to the Internet. It is expected that emerging marketing methods such as live streaming, community marketing and community e-commerce will continue to develop at a rapid level.

Consumption upgrade speeding up the optimization of product structure

With the rise in national health awareness after the pandemic coupled with the rise of the middle class, consumers have paid more attention to the nutrition and safety of infant formula milk powder, and the sales of high-end and super high-end milk powder have increased rapidly. Domestic milk powder enterprises are continuously increasing investment in research and development and launching diversified products, such as organic milk powder and A2 milk powder, to meet the diverse needs of different consumer groups.

Silver-hair economy demonstrating great market potential

In terms of adult nutrition products, China is moving from a light aging stage to a medium aging stage. According to the Report on the Development of Elderly-related Industry in China (《中國老齡產業發展報告》) issued by the China National Committee on Ageing, the elderly population in China will reach 480 million in 2050, and their consumption potential will increase to RMB106 trillion, accounting for 33% of the GDP. It is expected that the market size of milk powder for adults will continue to expand.

Brand strategies

The Group regards infant formula and adult milk powder as its main product categories. It continues to develop a multiple brands driven operation strategy to build a sustainable and successful business model, striving to consolidate its position in cow milk powder market, and expand the market for organic milk powder and goat milk powder products, while gradually developing the market for dissolvable nutritional products. In particular, cow milk powder and organic milk powder will be the main products for the Reeborne brand, the Arla brand will focus on high-end organic products, and the Doraler brand will seek for breakthroughs in imported goat milk powder, thereby forming a comprehensive infant formula milk powder product mix.

On the other hand, with the emergence of aging population and younger sub-healthy population, the Group will focus on the middle-aged, the elderly and the sub-healthy populations, to create a high-end nutritional category comprising of middle-aged and elderly milk powder and adult nutritional products.

Multiple dimensional strengthening of brand image

In 2022, the Group will solidify the brand images of Reeborne, Arla, Doraler and nutrition products from multiple dimensions. Reeborne will continue to communicate through the benefit points of “good digestion and absorption (好消化吸收)”, “not heaty (不上火)” and “not picky (不挑食)” through the publicity slogan of “lighter taste and more nutritious ingredients (更加清淡口味，更多營養成分)”, and strengthen the high-end quality image through the certification of EU food safety standards. Reeborne will also leverage on Mengniu’s brand influence and top resources, such as Gu Ailing (谷愛凌), World Cup, China Aerospace, etc., to rapidly enhance brand awareness. As for Arla, the Group will adhere to its positioning of “Organic A2, choose Baby & Me (有機A2，選寶貝與我)” to create a story for organic A2 milk source, improve the quality of the material from design to material used, to create a high-end image and enhance brand awareness and consumer recognition. Doraler and Dumex will fully utilize the IP image to attract online and offline channel resources and accumulate private domain traffic for the brand.

In terms of nutrition products, the Group will focus on the renovation of brands such as Yourui and M8 to shape their high-end professional images. For example, the Group will renew its contract with Zhang Guoli, a national first-class actor, as the endorser of Yourui brand to create the concept of “Choosing Yourui for high-end milk powder as a new way of nutrition supplementation (補充營養新選擇， 高端奶粉選悠瑞)” and continue to cooperate with Deng Chao, the endorser, to vigorously promote M8 children’s formula milk powder.

Empowering the retail-end with media and communication

In 2022, the Reeborne brand will adhere to three major channels of communication, including: 1) establishing a national brand image through cooperation with CCTV’s popular brand promotion programs; 2) attracting consumers through online platforms such as Baidu (百度), Xiaohongshu (小紅書) and Douyin (抖音); and 3) establishing brand momentum through outdoor advertising. As for Baby & Me, the Group will use the selling points such as “Selecting Lanxi for better brain development and nutrition (腦力營養， 智選藍曦)” to connect with the membership club with self-media as the core, create a complete closed chain of “appealing-purchasing-sharing (種草 — 購買 — 分享)”, and perform road shows in core key cities.

In terms of nutrition products, the Group will continue to focus its resources on the promotion of new products in all media in 2022, strengthen the education for specialty stores, enter the high-end boutique store market, and professionalize shopping guides for consumers. Meanwhile, the Group will invest in integrated marketing communication through television advertisement, cooperation with local media programs and digital media.

Product research and development

The Group will continuously upgrade all the launched infant formula milk powder products to further enhance the differentiated advantages of its products in 2022. By combining the latest research results of breast milk nutrition composition, the Group innovatively develops infant milk powder product with breast milk composition as the scientific standard. The Group is preparing to renew and upgrade the packaging of the product series under the brand based on the insights of the needs of infant feeding population to attract more consumers and raise the consumption level of the products.

In 2022, the Group will continue to strengthen research efforts on nutritional components and products with research institutions and relevant experts from Jiangnan University, the China Agricultural University, the Inner Mongolia Agricultural University and Sun Yat-sen University. The target groups of nutritional research include infants, children, adults and the middle-aged and the elderly. The Group will continue to materialize the research results of the project from “13th Five-Year Plan”. In addition, the Group will continue to strengthen the introduction of nutrition and process research talents into its team to improve the innovation capability of nutrition science and process research, for the upgrading of its products.

To cater for the diverse needs of the market, the Group will continue to enrich its brand matrix and improve its product portfolio. The Group will devote its efforts on the design of the unique formulas for the nutritional needs for different groups, conduct research on the nutritional health evaluation standard of milk powder, and strengthen its innovation on the development of milk powder series for children, women and the middle-aged and the elderly that cater for the different demands on nutrition, to satisfy the diversified needs of different groups of people.

Sales channels

Continuously strengthening market penetration in lower-tier cities by focusing on high-quality stores

The Group will focus on high-quality store channels in 2022. In fourth-and fifth-tier markets, the Group will continue to expand its channels. Based on focusing on core areas, core customers and high-quality stores, the Group will launch the “In-can Code (罐內碼)” to establish a higher standard safety traceability system and stabilize channel sales orders. In second-and third-tier markets, the Group will further strengthen the development of leading mother-and-baby chain stores in the region. As for national large-scale chain stores, the Group will focus on core regions, strengthen execution in terminal stores, gradually increase the sales share of large chain mother-and-baby store system, and establish a solid cooperation relationship with vendors.

Increasing effort on marketing digitalization with aid of offline promotion

Yashili will continue to invest in digitization in 2022 to improve its digital operation capabilities, including performing in-depth research on consumer big data to provide targeted marketing for channels and providing high-standard services through upgrading the membership marketing platform. At the same time, the Group will continue to optimize the digitalization of marketing to improve the efficiency of logistics distribution and overall service level. In addition, against the backdrop of the pandemic, the Group will ensure the implementation of 10,000 offline campaigns to be carried out in 2022, achieving full coverage of online and offline marketing.

Grasping new opportunities arising from interest-based e-commerce

With the rise of content platforms and live streaming platforms, e-commerce has entered into a dual-domain marketing model. The Group will seize the new opportunities of interest-based e-commerce, establish a self-broadcasting matrix, and launch a series of organic children's milk powder products exclusively for e-commerce channels. From the traditional traffic operation to the dual-driven path of relying on both products and traffic flow, the Group will bring new channel growth points from the four dimensions of traffic, marketing, goods and people. In addition, the Group will focus on the new customer development and brand attraction, further reaching more consumers through popular social platforms such as Douyin (抖音) and Xiaohongshu (小紅書). Online promotion is supplemented by frequent offline activities for mothers to fully support the development of new customers and product sales in the mother-and-baby store channel.

Supply chain

In 2022, the Group will continue to improve the supply chain operation capacity of factories, connect various external cooperation system platforms, and provide business capabilities and technical support required for digital operation, to achieve the objectives of collaborative operation, strategic decision-making and operational excellence.

The Group will focus on the sustainable development of the entire value chain, including promoting the full implementation of the strategic system of “Group-Business Department-Factory (集團 — 事業部 — 工廠)”, and accelerating the digital and smart transformation of production. In terms of refined production management, the Group will promote real-time data sharing, improve production adaptability and clarify quality responsibility. The Group will also continue to promote the information management of materials in and out of inventory, filing and disposal to ensure real-time execution of production tasks, as well as the timeliness and accuracy of material delivery. In addition, the Group will continue to systematically manage the inspection, maintenance and repair of equipment.

For each business interface, the Group will achieve cross-departmental business and technical capability sharing and interaction to achieve capability synergy and optimization. The Group will continue to streamline, optimize and reshape its business processes, improve its data analysis system, and achieve digital application innovation. In addition, the Group will also combine the WCO ideology and practice to achieve business connection and closed-loop management in terms of quality, cost and efficiency.

Human resources

The Group will further promote the integration of “research and development, production, sales and services (研發、生產、銷售、服務)” and implement the integration of authority and responsibility to promote the synergy of the entire value chain and improve efficiency. The Group will focus on strengthening the operation of the headquarters, fully empowering and supporting business departments, and continuously creating an efficient organization.

The Group will strengthen the cultivation of talents, make every effort to build an elite business team, strengthen sales capabilities and functional expertise, and provide employees with new impetus for career development. The Group will also continue to enhance the competitiveness of the remuneration packages of high-performance employees and key personnel by providing an incentive mechanism that matches business growth. Meanwhile, through internal research, the Group will internally select promoters of the Company’s values and proposition for commendation. The Group will also propagate Yashili’s employer brand story to attract outstanding external talents through recruitment platforms, social platforms, new media platforms.

SHARE OPTION SCHEMES

The Company adopted a pre-IPO share option scheme (the “**Pre-IPO Share Option Scheme**”) on 8 October 2010, and adopted a share option scheme (the “**Share Option Scheme**”) on 8 October 2010. Details of the Share Option Scheme are as follows:

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

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

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

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

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

On 23 July 2013, China Mengniu International Company Limited (“**Mengniu International**”) made a voluntary general offer to option holders of the Company (“**Option Offer**”), to cancel the outstanding options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. Please refer to the composite offer and response document issued by the Company, Mengniu Dairy and Mengniu International relating to, among other things, the Option Offer dated 23 July 2013 for further details.

On 13 August 2013 (being the final closing date of the Option Offer), the Option Offer was accepted in respect of 52,088,266 options. The underlying options together with all the rights attached thereto were cancelled and given up and all the outstanding options automatically lapsed upon acceptance of the Option Offer.

The Share Option Scheme expired on 1 November 2020, after which no further option was granted or offered. As at 31 December 2021, there was no outstanding option granted by the Company.

PHANTOM SHARE INCENTIVE SCHEME

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

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

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

On 15 July 2020, the Board approved the initial grant of 59,660,700 Phantom Shares under the Phantom Share Incentive Scheme.

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

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

EQUITY-LINKED AGREEMENTS

Save as disclosed, no equity-linked agreements were entered into by the Group, or existed during the year.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (31 December 2020: nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Wednesday, 8 June 2022. Notice of the annual general meeting and all other relevant documents will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from Wednesday, 1 June 2022 to Wednesday, 8 June 2022, both dates inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Wednesday, 8 June 2022, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 31 May 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made by the Company with all directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

The Company has also established written guidelines (the “**Employees Written Guidelines**”) on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2021.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

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

The Company has applied the principles as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Listing Rules.

The Board is of the view that throughout the year ended 31 December 2021, the Company has complied with all applicable code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 as explained under the paragraph “Chairman and Chief Executive Officer” below.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (“CEO”)

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

The positions of Chairman and CEO of the Company are held by Mr. Jeffrey, Minfang Lu and Mr. Yan Zhiyuan respectively.

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company’s business development and daily management and operations generally. The Board considers that the responsibilities of the Chairman and CEO respectively are clear and distinctive and hence written terms thereof are not necessary.

AUDIT COMMITTEE

The audit committee of the Company has reviewed, with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's financial statements for the year ended 31 December 2021.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2021 has been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yashili.hk). The annual report of the Company for the year ended 31 December 2021 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board

Yashili International Holdings Ltd

雅士利國際控股有限公司

Yan Zhiyuan

Chief Executive Officer and Executive Director

Hong Kong, 30 March 2022

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