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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

(all amounts in RMB million unless otherwise stated)

| | For the six months ended 30 June | |
|--|----------------------------------|---------------------|
| | 2022 (Unaudited) | 2021 (Unaudited) |
| Key results | | |
| Revenue | 1,886.7 | 2,156.9 |
| Gross profit | 596.7 | 815.3 |
| (Loss)/profit for the period attributable to owners of the parent | (159.1) | 44.2 |
| Loss/(earnings) per share | | |
| — Basic and diluted (RMB cent) | (3.4) | 0.9 |

For the six months ended 30 June 2022, the revenue of the Group amounted to RMB1,886.7 million (the same period of 2021: RMB2,156.9 million), representing a decrease of 12.5%. Summary of the Group's business in the first half of the year is as follows:

1. Revenue of adult milk powder and infant formula milk powder demonstrated a slight decrease compared to the same period of last year due to the impact of the pandemic on spending power, fierce competition in external market and decline in birth rate.
2. The increase in the cost of major raw materials led to an increase in production costs, which resulted in a decrease in gross profit margin for the period.

The board of directors (the “**Board**”) of Yashili International Holdings Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the interim period ended 30 June 2022 together with the comparative figures for the same period of 2021 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022 — unaudited

(Expressed in Renminbi (“**RMB**”))

| | <i>Note</i> | Six months ended 30 June | |
|--|-------------|--------------------------|----------------------|
| | | 2022 | 2021 |
| | | <i>RMB’000</i> | <i>RMB’000</i> |
| Revenue | 3 | 1,886,689 | 2,156,869 |
| Cost of sales | | (1,290,038) | (1,341,602) |
| Gross profit | | 596,651 | 815,267 |
| Other income and gains | 3 | 44,634 | 30,154 |
| Selling and distribution expenses | | (618,259) | (662,121) |
| Administrative expenses | | (117,679) | (120,534) |
| (Provision)/reversal of impairment of financial assets, net | | (2,694) | 3,528 |
| Other expenses and losses | | (45,621) | (42,250) |
| Finance income | | 31,704 | 39,125 |
| Finance costs | | (34,624) | (19,368) |
| (Loss)/profit before tax | 4 | (145,888) | 43,801 |
| Income tax (expense)/credit | 5 | (13,180) | 349 |
| (Loss)/profit for the period attributable to owners of the parent | | <u>(159,068)</u> | <u>44,150</u> |
| (Loss)/earnings per share | 7 | | |
| Basic and diluted (RMB cents) | | <u>(3.4)</u> | <u>0.9</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022 — unaudited

(Expressed in RMB)

| | Six months ended 30 June | |
|--|--------------------------|------------------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| (Loss)/profit for the period | (159,068) | 44,150 |
| Other comprehensive income for the period (after tax) | | |
| Items that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | <u>(43,388)</u> | <u>(68,591)</u> |
| Other comprehensive income for the period, net of tax | <u>(43,388)</u> | <u>(68,591)</u> |
| Total comprehensive income for the period | <u>(202,456)</u> | <u>(24,441)</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 — unaudited

(Expressed in RMB)

| | | 30 June 2022 | 31 December 2021 |
|---|-------------|------------------|---------------------|
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current assets | | | |
| Property, plant and equipment | | 1,450,993 | 1,538,718 |
| Construction in progress | | 21,228 | 20,318 |
| Investment properties | | 61,891 | 62,508 |
| Right-of-use assets | | 94,321 | 93,165 |
| Intangible assets | | 138,167 | 145,532 |
| Goodwill | | 991,236 | 991,236 |
| Deferred tax assets | | 374,684 | 382,369 |
| Long-term bank deposits | | 354,343 | 370,558 |
| Debt investments measured at amortised cost | | — | 24,532 |
| Prepayments, other receivables and other assets | 10 | 117 | 1,011 |
| Total non-current assets | | 3,486,980 | 3,629,947 |
| Current assets | | | |
| Inventories | 8 | 1,231,435 | 815,970 |
| Trade receivables | 9 | 453,119 | 414,730 |
| Prepayments, other receivables and other assets | 10 | 125,545 | 107,519 |
| Debt investments measured at amortised cost | | 25,074 | — |
| Other current financial assets | | 20,000 | 93,865 |
| Derivative financial assets | | — | 1,901 |
| Pledged deposits | 11 | 55,000 | 90,354 |
| Cash and bank balances | 11 | 1,474,603 | 2,125,047 |
| Total current assets | | 3,384,776 | 3,649,386 |
| Current liabilities | | | |
| Trade and bills payables | 12 | 475,546 | 813,885 |
| Other payables and accruals | | 483,372 | 569,228 |
| Interest-bearing bank and other borrowings | 13 | 410,844 | 320,758 |
| Derivative financial liabilities | | 26,188 | 407 |
| Lease liabilities | | 8,677 | 6,575 |
| Tax payable | | 1,065 | 92 |
| Total current liabilities | | 1,405,692 | 1,710,945 |
| Net current assets | | 1,979,084 | 1,938,441 |
| Total assets less current liabilities | | 5,466,064 | 5,568,388 |

| | | 30 June 2022 | 31 December 2021 |
|--|-------------|-------------------------|---------------------|
| | <i>Note</i> | RMB'000 | RMB'000 |
| Non-current liabilities | | | |
| Interest-bearing bank and other borrowings | 13 | 100,000 | — |
| Deferred income | | 9,552 | 10,074 |
| Lease liabilities | | 7,454 | 7,220 |
| Deferred tax liabilities | | 23,735 | 23,035 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 140,741 | 40,329 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Net assets | | 5,325,323 | 5,528,059 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | 399,352 | 399,352 |
| Reserves | | 4,925,971 | 5,128,707 |
| | | <hr/> | <hr/> |
| Total equity | | 5,325,323 | 5,528,059 |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES

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

1.1 Basis of preparation

The interim financial information set out below is derived from the unaudited interim financial report, which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”).

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 1.2.

1.2 Changes in accounting policies and disclosures

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these developments have had a material effect on how the Group’s results and financial position for the current period have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. OPERATING SEGMENT INFORMATION

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

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

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

| | For the six months ended 30 June 2022 | | | | |
|--|---------------------------------------|---------------------------------------|---------------------------------|-------------------|------------------|
| | Milk powder products RMB’000 | Other milk powder products RMB’000 | Dissolvable products RMB’000 | Others RMB’000 | Total RMB’000 |
| Segment revenue | | | | | |
| Sales to external customers | 1,538,305 | 235,509 | 85,158 | 27,717 | 1,886,689 |
| Intersegment sales | — | 40,621 | — | — | 40,621 |
| | 1,538,305 | 276,130 | 85,158 | 27,717 | 1,927,310 |
| Elimination of intersegment sales | — | (40,621) | — | — | (40,621) |
| Revenue | | | | | <u>1,886,689</u> |
| Segment results | (31,933) | 1,753 | 7,455 | 1,117 | (21,608) |
| Finance income | | | | | 31,704 |
| Finance costs (other than interest on lease liabilities) | | | | | (34,275) |
| Other income and gains | | | | | 44,634 |
| Unallocated other expenses | | | | | <u>(166,343)</u> |
| | | | | | <u>(145,888)</u> |

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

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | For the six months ended 30 June | |
|---|----------------------------------|------------------------|
| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
| Revenue from contracts with customers | | |
| Disaggregated by major products of service lines: | | |
| Sale of goods | 1,885,689 | 2,139,772 |
| Consigned processing services | 1,000 | 17,097 |
| | <u>1,886,689</u> | <u>2,156,869</u> |

Revenue from contracts with customers

(i) Disaggregated revenue information:

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

| | For the six months ended 30 June 2022 | | | | |
|---|---------------------------------------|---------------------------------------|---------------------------------|-------------------|------------------|
| | Milk powder products RMB'000 | Other milk powder products RMB'000 | Dissolvable products RMB'000 | Others RMB'000 | Total RMB'000 |
| Segment | | | | | |
| Types of goods or services | | | | | |
| Sale of goods | 1,538,305 | 235,509 | 84,158 | 27,717 | 1,885,689 |
| Consigned processing services | — | — | 1,000 | — | 1,000 |
| Total revenue from contracts with customers | <u>1,538,305</u> | <u>235,509</u> | <u>85,158</u> | <u>27,717</u> | <u>1,886,689</u> |
| Geographical markets | | | | | |
| — disaggregated by geographical location of customers | | | | | |
| The Chinese Mainland | 1,534,986 | 169,782 | 85,158 | 27,717 | 1,817,643 |
| Overseas | 3,319 | 65,727 | — | — | 69,046 |
| Total revenue from contracts with customers | <u>1,538,305</u> | <u>235,509</u> | <u>85,158</u> | <u>27,717</u> | <u>1,886,689</u> |
| Timing of revenue recognition | | | | | |
| Goods transferred at a point in time | 1,538,305 | 235,509 | 84,158 | 27,717 | 1,885,689 |
| Services transferred at a point of time | — | — | 1,000 | — | 1,000 |
| Total revenue from contracts with customers | <u>1,538,305</u> | <u>235,509</u> | <u>85,158</u> | <u>27,717</u> | <u>1,886,689</u> |

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

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

| | For the six months ended 30 June | |
|---|----------------------------------|---------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Other income and gains | | |
| Gross rental income from investment property operating leases | | |
| — Income relating to fixed lease payments | 5,990 | 4,649 |
| Exempted accounts payable | 732 | 7,096 |
| Government grants | | |
| — Compensation for expenses incurred | 10,621 | 213 |
| — Compensation for acquisition of assets | 522 | — |
| — Tax refunded | 969 | 776 |
| Net gain on disposal of non-current assets | 23 | — |
| Foreign exchange gains, net | 2,633 | 10,553 |
| Service income (<i>Note</i>) | 11,284 | — |
| Others | 11,860 | 6,867 |
| | <u>44,634</u> | <u>30,154</u> |

Note:

The Group entered into a service contract with a subsidiary of Mengniu Dairy to provide a series of services.

4. (LOSS)/PROFIT BEFORE TAX

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

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Cost of goods sold | 1,289,178 | 1,329,659 |
| Cost of consigned processing services | 860 | 11,943 |
| | <u>1,290,038</u> | <u>1,341,602</u> |
| Depreciation of items of property, plant and equipment | 54,720 | 63,452 |
| Depreciation of investment properties | 2,258 | 1,902 |
| Amortisation of intangible assets | 10,000 | 9,525 |
| Depreciation of right-of-use assets | 4,943 | 5,913 |
| Amortisation of other non-current assets | 894 | 946 |
| | <u>72,815</u> | <u>81,738</u> |
| Employee benefit expense (excluding directors' and chief executive's remuneration): | | |
| Wages, salaries and allowances | 240,013 | 255,080 |
| Expenses of termination benefits | 8,870 | 3,128 |
| Pension scheme contributions | 19,049 | 27,761 |
| Expenses of equity-settled share-based payment | 49 | 1,308 |
| | <u>267,981</u> | <u>287,277</u> |

5. INCOME TAX

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

| | For the six months ended 30 June | |
|---------------------|----------------------------------|--------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Current income tax | 5,869 | (1,700) |
| Deferred income tax | 7,311 | 1,351 |
| | <u>13,180</u> | <u>(349)</u> |

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “**BVI**”), the Company and the Group's subsidiaries incorporated in the BVI are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

Hong Kong profits tax for the Group's subsidiaries incorporated in Hong Kong has been provided at 16.5% for the six months ended 30 June 2022 (six months ended 30 June 2021: 16.5%) on the estimated profits arising in Hong Kong during the period.

Pursuant to the rules and regulations of New Zealand, the Group's subsidiaries incorporated in New Zealand are subject to income tax at a rate of 28% during the six months ended 30 June 2022 (six months ended 30 June 2021: 28%).

6. DIVIDENDS

The directors did not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

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 period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,745,560,296 (six months ended 30 June 2021: 4,745,560,296) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2022 (30 June 2021: nil).

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

| | For the six months ended 30 June | |
|---|---|----------------------|
| | 2022 | 2021 |
| | RMB'000 | 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>(159,068)</u> | <u>44,150</u> |

| | Number of shares | |
|--|------------------|------------------|
| | 2022 | 2021 |
| | '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

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|-----------------------|----------------------------|--------------------------------|
| Raw materials | 399,562 | 261,370 |
| Finished goods | 213,288 | 299,925 |
| Work in progress | 589,503 | 219,108 |
| Packing materials | 25,843 | 32,366 |
| Low value consumables | <u>3,239</u> | <u>3,201</u> |
| | <u>1,231,435</u> | <u>815,970</u> |

9. TRADE RECEIVABLES

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|--------------------------|----------------------------|--------------------------------|
| Trade receivables | 463,114 | 426,513 |
| Provision for impairment | <u>(9,995)</u> | <u>(11,783)</u> |
| | <u>453,119</u> | <u>414,730</u> |

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

An aging 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:

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|--------------------|----------------------------|--------------------------------|
| Within 3 months | 354,852 | 365,080 |
| 3 to 6 months | 95,536 | 46,198 |
| More than 6 months | <u>2,731</u> | <u>3,452</u> |
| | <u>453,119</u> | <u>414,730</u> |

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

All of the trade receivables, net of loss allowance are expected to be recovered within one year.

10. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Tax recoverable | 20,815 | 29,980 |
| Prepayments of expenses | 54,522 | 24,671 |
| Prepayments for purchase of raw materials | 8,759 | 23,988 |
| Advances to sales offices | 5,955 | 4,345 |
| Others | 37,748 | 27,683 |
| | <hr/> | <hr/> |
| Less: Non-current prepayments | (117) | (1,011) |
| Impairment allowance | (2,137) | (2,137) |
| | <hr/> | <hr/> |
| | 125,545 | 107,519 |
| | <hr/> <hr/> | <hr/> <hr/> |

Except the non-current portion disclosed above, prepayments, other receivables and other assets are expected to be recovered or recognised as expenses within one year.

11. CASH, BANK BALANCES AND PLEDGED DEPOSITS

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|-------------------------------------|--------------------------------|
| Cash and cash equivalents as stated in the consolidated statement of cash flows | 1,131,603 | 1,529,931 |
| Pledged deposits | 55,000 | 90,354 |
| Time deposits with original maturity of more than three months | 697,343 | 965,674 |
| | <hr/> | <hr/> |
| | 1,883,946 | 2,585,959 |
| Less: Short-term pledged deposits for banking facilities | 55,000 | 90,354 |
| Less: Long-term bank deposits | 354,343 | 370,558 |
| | <hr/> | <hr/> |
| Cash and bank balances as stated in the consolidated statement of financial position | 1,474,603 | 2,125,047 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes:

As at 30 June 2022, the short-term bank deposits of RMB55,000,000 (31 December 2021: the long-term bank deposits amounting to RMB50,000,000 and the short-term bank deposits of RMB40,354,000) were pledged for bank loans amounting to RMB140,000,000 and bank acceptance bills (31 December 2021: bank loans amounting to RMB120,556,000 and bank acceptance bills).

As at 30 June 2022, the bank deposits of RMB nil were pledged for banking facilities (31 December 2021: the long-term bank deposits amounting to RMB20,000,000 and the short-term bank deposits amounting to RMB50,000,000 were pledged for banking facilities).

12. TRADE AND BILLS PAYABLES

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

| | 30 June 2022 RMB'000 | 31 December 2021 RMB'000 |
|--------------------|-------------------------------------|--------------------------------|
| Within 3 months | 451,178 | 698,714 |
| 3 to 6 months | 6,495 | 21,143 |
| More than 6 months | 17,873 | 94,028 |
| | <u>475,546</u> | <u>813,885</u> |

Trade and bills payables are non-interest-bearing and are normally settled within one month to six months.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 30 June 2022 | | |
|----------------------|-----------------------------------|-----------|-----------------------|
| | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | |
| Bank loans — secured | 1.60–3.56 | 2022–2023 | 142,292 |
| Credit loans | 1.02–3.30 | 2022–2023 | <u>268,552</u> |
| | | | 410,844 |
| Non-current | | | |
| Credit loans | 2.90 | 2024 | <u>100,000</u> |
| | | | <u><u>510,844</u></u> |
| | 31 December 2021 | | |
| | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | |
| Bank loans — secured | 2.55 to 2.80 | 2022 | 120,556 |
| Credit loans | 3.30 | 2022 | <u>200,202</u> |
| | | | <u><u>320,758</u></u> |

As at 30 June 2022, time deposits amounting to RMB55,000,000 were pledged for bank loans amounting to RMB140,000,000 (31 December 2021: the time deposits amounting to RMB70,000,000 were pledged for bank loans amounting to RMB120,556,000).

MANAGEMENT’S DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2022, China’s milk powder industry continued to be affected by factors such as the declining birth rate, the launch of the “new national standards”, and the market’s consumption craze for domestic brands. Trends have continued to reflect that major companies are improving quality and efficiency in various aspects, seeking product differentiation, accelerating their transformation into full-life-cycle nutritional products companies, and, for domestic brands, increasing market share.

Domestic infant formula milk powder industry has entered a mature stage focused on quality improvement

After decades of development, the domestic infant formula milk powder industry has entered the stage of maturity and quality improvement, driven by factors such as the evolving newborn population trend, changes in consumption levels and parenting concepts, and the driving force of the Internet industry. On 28 February, 2022, the National Bureau of Statistics released the “Statistical Communique on the 2021 National Economic and Social Development of the People’s Republic of China (《中華人民共和國2021年國民經濟和社會發展統計公報》)”. In 2021, the national number of new births was 10.62 million, marking the fifth consecutive year of decline in the newborn population. Consequently, the competition for existing market volume in the domestic infant formula milk powder industry has become more intense. Major companies are focused on product innovation, brand marketing, supply chain optimization, and digital and intelligent solutions, as they strive to respond effectively to market competition by continuously improving quality and efficiency.

Formula re-registration accelerates industry competition as companies seek product differentiation

On 22 February 2021, the National Health Commission of the People’s Republic of China and the State Administration for Market Regulation jointly issued GB10765–2021 “Food Safety National Standard for Infant Formula (《食品安全國家標準嬰兒配方食品》)”, GB10766–2021 “Food Safety National Standard for Older Infant Formula (《食品安全國家標準較大嬰兒配方食品》)”, and GB10767–2021 “Food Safety National Standard for Young Children Formula (《食品安全國家標準幼兒配方食品》)” (collectively, the “**new national standards**”). The new national standards include stipulations and restrictions on certain nutrients. On the one hand, product standards are becoming more stringent; on the other hand, market competition dictates that enterprises must pursue product differentiation.

Milk powder companies accelerate transformation into full-life-cycle nutritional products companies

The three-year impact of the COVID-19 epidemic has made consumers more attentive to strengthening their immunity. Consumers have more demands and requirements for professional nutritional products, creating more potential for product segmentation.

The “2021 Research Report on the Status and Trends of Health Consumption among Middle-aged and Elderly Groups (《2021中老年群體健康消費現狀及趨勢調研報告》)” shows that sleep, energy, blood sugar, blood lipids, blood pressure, etc. are the main concerns of the middle-aged and the elderly. Among the middle-aged and the elderly who choose to consume health maintenance foods, the amount they spend on health maintenance food accounts for the highest proportion of their total health expenditure, reaching 41.84%.

In order to respond to changes in market demand, many domestic milk powder companies are accelerating the transformation from traditional infant formula milk powder production to diversified, whole-family, full-life-cycle professional nutrition production, which is considered to be the general trend of the milk powder industry’s future development.

The market share of domestic infant formula milk powder continues to rise

Since 2022, Chinese domestic brands have become better recognized by young consumers as a result of changes in the international environment and Chinese consumers’ ongoing consumption craze for domestic brands. In particular, domestic consumers’ confidence in Chinese domestic brands has continued to grow as domestic authorities have become more stringent in food safety regulation.

In the first half of 2022, the product quality, brand image, and consumer reputation of domestic infant formula milk powder manufacturers have significantly improved, and the overall industry is increasingly dominated by Chinese brand manufacturers. At the same time, the overseas purchasing agents that are common in the domestic infant formula industry are also dealing with the impact of foreign pandemics on the international supply chain. With the full implementation of the new national standards, domestic milk powder brands will have the opportunity to gain additional market share.

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 receives tremendous support and resources from its controlling shareholder, Mengniu Group, which serves to advance the Group's business expansion and internationalization.

Segment results

Milk powder products

For the six months ended 30 June 2022, the results of milk powder products segment were RMB1,538.3 million (the same period of 2021: RMB1,861.6 million), decreased by 17.4% as compared to the same period of last year, which was mainly due to the decrease of sales volume of adult milk powder and infant formula milk powder resulted by the impact of the pandemic.

Other milk powder products

For the six months ended 30 June 2022, the results of the milk powder products segment were RMB235.5 million (the same period of 2021: RMB149.9 million), representing an increase of 57.1% as compared to the same period of last year, which was mainly because of the increase in the sales volume of Yashili New Zealand driven by the increasing orders for whole milk powder.

Dissolvable products

For the six months ended 30 June 2022, the results of the dissolvable products segment were RMB85.2 million (the same period of 2021: RMB91.1 million), decreased by 6.5% as compared to the same period of last year, which was mainly due to the decrease in sales volume as a result of the product mix being optimized.

Others

For the six months ended 30 June 2022, the results of other segments were RMB27.7 million (the same period of 2021: RMB54.3 million), decreased by 49.0% as compared to the same period of last year, which was mainly attributable to the reduce in the revenue from consigned processing services.

Product introduction

The Group is committed to becoming the brand of choice that provides consumers with comprehensive nutrition and health solutions they can trust. Its products are divided into two major categories, namely infant formula milk powder and health and nutrition products. The milk powder brands under the Group include Yashili, Reeborne, Dumex, the strategic cooperative brands Arla Baby & Me, Doraler, M8 children's milk formula, 1.88M Children's Growth Formula Milk Powder as well as Yourui, the brand catering to the needs of the middle-aged and the elderly. The Group's brands of cow milk powder, organic milk powder, and goat milk powder cover markets at various price points — including ultra-high-end, high-end and middle-end markets. The Group also closely follows the preferences of the younger generation and recently launched the Zhengwei Mofang — “Goji” (Goji Berries) the Rising Star series, whose product formula is based on nourishing goji berry puree, as well as fruit oatmeal, which emphasizes its status as a low-calorie product.

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, an advanced manufacturing system, and a 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. Its key brands include:

Reeborne

Reeborne is a high-end infant milk formula brand under Yashili. The brand has seven product lines in three categories, namely basic milk powder, organic milk powder, and goat milk powder, to meet the nutritional needs of different infants and to provide Chinese mothers with comprehensive feeding solutions. Its product lines include the star product, Reeborne “Kieember”, which is produced, canned, and imported from Yashili's New Zealand factory; the organic milk powder “Reeborne”, which passes the WIT organic certification; and Reeborne's “TruYn” goat milk powder, which selects high-quality small molecule goat milk protein.

Reeborne responded quickly to the new national standards for infant formula milk powder released by the National Health Commission in March 2021 and has completed the registration application under the new national standards for multiple products in the first half of 2022. In the near future, several new products will be launched in succession with the new national standards upgrades, realizing the comprehensive quality improvement of the Reeborne brand series products and the upgrading of services.

Dumex

Dumex was born in Europe in 1946 with over 50 years of experience in research on breast milk and over 20 years of experience in research on the human immune and digestive systems. Dumex entered China many years ago, and over the years it has 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 the absorption of key nutrients.

Arla

Arla, a brand with more than 140 years of history, is a world-renowned organic dairy brand, and the high product quality it affords has made it an authorized purveyor of dairy products to the Danish royal family. Arla Baby & Me has three product lines, “Organic”, “Lanxi” and “Milex”. The organic milk formula of Arla Baby & Me has obtained three major organic certifications and is produced from rare and selected organic A2 β -casein protein milk, and the organic A2 β -casein protein fresh milk was powdered in one go. The organic milk formula also contains high DHA, prebiotics in the golden ratio, and 100% organic whole lactose. Arla Baby & Me Lanxi contains NutriCollab, a complementary set of nutrients with MFGM milk fat globule membrane as the core. The product contains MFGM milk fat globule membrane, DHA and GOS/FOS prebiotics in the golden ratio, and premium nutrients such as choline, taurine, and nucleotide. The formula of Arla Milex combines OPO-structured lipid, BB-12 probiotics, and prebiotics in the golden ratio to form the Pro Plus growth formula and satisfy those seeking easy absorption and natural products.

Doraler

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

Yourui

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

Children's milk powder

The Group has developed M8 children's formula milk powder, Mengniu 1.88M Children's Growth Formula Milk Powder, and other products to cater to the nutritional needs of children over three years old. M8 children's formula milk powder contains Bifidobacterium lactis Probio-M8, zinc elements, and 28 kinds of fruit and vegetable powders with dietary fiber to address parents' concerns about children's digestion and absorption, overcome picky and unbalanced eating habits and help children grow. Mengniu 1.88M Children's Growth Formula Milk Powder was designed around the concept of supporting children's height growth. It is scientifically formulated with nutrients for children's growth and development, namely high calcium and high vitamin D, CBP (colostrum basic protein powder), vitamin K, breast milk-derived probiotics (bifidobacterium lactis Probio-M8, which is a strain isolated from healthy breast milk), lactoferrin, DHA, ARA, and lutein. It aims to make the most of the golden period in children's development and promote children's healthy growth.

Brand strategies

In the first half of 2022, the Group continued to promote science-based re-branding 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 remained committed to spreading positive energy to the public through its dedication to public welfare.

Building a scientifically endorsed core brand matrix

In order to implement the Group's "world-class quality" strategy, Yashili successfully obtained quality management system certifications such as SQF and FSSC22000. Yashili is the first infant formula milk powder company in China to have its products assessed and certified under EU food standards¹, which marks a new level of quality achieved by Reeborne products.

The Reeborne brand carried out a series of promotion around its EU certifications. By setting up storefronts and holding the 315 Quality Month Campaign in channel terminals, the brand reinforced the EU certification message and built up consumers' trust in the brand and its products.

Arla Baby & Me also renewed and upgraded its products. Baby & Me Organic was upgraded with organic A2 β -casein protein, and Baby & Me Lanxi launched a complementary formula of nutrients with an MFGM milk fat globule membrane as the core. In 2022, Yashili continued to focus on the brand proposition of "Organic A2, Choose Baby & Me", to vividly communicate the outstanding selling points and advantages of organic A2 β -casein protein to the target audience. Apart from online communication, Yashili also enriched the brand's visuals and enhanced the attractiveness of dynamic marketing in online and offline terminals. The rhythm of brand marketing also closely followed the seasonal hotspots: during the festival promotion period, the Group launched online interactive games with brand content embedded, so that consumers received core brand information during the interaction, enhancing brand favorability.

Note:

¹ In compliance with: (EC)No 1881/2006, (EC)No 2073/2005, and (EU)No 2016/127 (Only for items involving pesticide residue).

On nutritional products Yourui Goat Milk Powder Rich in Selenium and Calcium and 1.88M Children's Growth Milk Powder, Yashili cooperated with professional research institutes to scientifically prove the benefits of formula milk powder for strengthening immunity and bone development, which provided scientific evidence for the product's high quality and professional credentials. While the Group helps the public improve their health and quality of life, it also leads the dairy industry in the development of scientific and nutritional research.

Online offline integrated communication efforts entering the interest e-commerce era

In the first half of 2022, Arla Baby & Me aimed to promote organic A2 β -casein protein and the launch of the upgraded children's milk powder, consolidated brand information and stepped up online promotion efforts. The communication theme of 2022 continues to revolve around the key messages "Organic A2, Choose Baby & Me" and "Brain Development, Choose Lanxi". Apart from private traffic, including the operation, maintenance, and dissemination of self-media channels, the Group attempted to win popularity for organic milk powder on TikTok and expand advertising of "Organic A2, Choose Baby & Me" in the first half of 2022.

For nutritional products, the Group conducted omnichannel marketing, including through offline channels, traditional e-commerce, interest e-commerce, social e-commerce, etc. to fully explore the new e-commerce model of "people find products" + "products find people". Yashili launched a publicity drive by sharing short-video content on various platforms such as TikTok, Kuaishou, Tmall, and Xiaohongshu and also partnered with KOLs in live streaming commerce to further boost brand awareness and sales. Meanwhile, Yashili innovated new categories to open new areas of retail competition and used interest-stimulating e-commerce to create a series of health-focused FMCG foods. Yourui also laid out its e-commerce plan to enrich consumers' understanding and guide them to enter the mini program mall to achieve sales conversion. In addition, Yourui officially launched a membership system to accumulate more loyal users for the brand and increase customer stickiness.

Taking the advantage of Mengniu Group's IP resources to increase brand awareness

During the Winter Olympics, the Reeborne brand took the advantage of Mengniu Group's IP resources such as the endorsement from Eileen Gu by featuring it in in-store terminals, conducting continuous interactions, promoting linkage with the Mengniu brand, and offering promotional Eileen Gu merchandise gifts.

Product research and development

Leveraging its strong professional research and development team, the Group has made satisfactory progress in the registration of infant milk formula and the research and development of adult nutrition products in response to market trends and consumer demands. The Group continued to enhance the competitive advantage of its products through differentiation and invest in innovative research and development on infant milk formula products, with breast milk nutritional components as the scientific standard. The Group has also innovated and developed a series of milk powders for children, women, adults, the middle-aged, and the elderly to meet the increasingly diversified nutritional needs of different consumer groups.

Innovating and upgrading infant formula milk powder

As of the end of June 2022, the Group and its partner Arla had a total of 15 product series with 45 registered infant formula recipes. To continuously enhance and consolidate the advantages of its differentiated products, the Group has continued upgrading already-launched infant formula products, actively advancing infant formula registrations under the new national standards, and advancing research projects aimed at a full upgrade of packaging structure and function for all product lines based on insights of consumers' needs, to elevate the products' profile and attract more consumers upon launch.

Innovating and developing high-end adult functional milk powder

In the first half of 2022, the Group researched and developed a variety of children's milk powders to meet various nutritional needs through the innovative application of M8 breast milk-derived probiotics (*Bifidobacterium lactis* Probio-M8, a strain isolated from healthy breast milk). The Group also expanded and diversified its children's milk powder product specifications to improve the competitiveness of the product portfolio. In the meantime, the Group utilized new functional raw materials to develop high-end adult functional milk powder to address the consumption hotspot of adult milk powder. Multiple Mengniu Yourui milk powders for the middle-aged and the elderly have been innovated and upgraded. It also developed and launched the Tihuli formula milk powder, which helps strengthen immunity. In addition, The Group has been developing a variety of innovative adult milk powders based on its insights into the needs of consumers and channel terminals.

Sales channels

The Group is focused on the stable development of the mother-and-baby store channel and conducts omnichannel operations aimed at creating synergies with supplementary channels of large-scale mother-and-baby chain stores, supermarkets, e-commerce, and new social media retail channels. On this basis, the Group developed and launched an In-Can Code service for milk powder products, providing innovative “three codes in one” multi-dimensional protection of channels’ rights and interests. At the same time, the Group has established cooperative relationships with nationally renowned mother-and-baby chain stores, through which sales have been stable and business levels have gradually improved. It also made in-depth adjustments to the e-commerce business, ensuring focused support in terms of teams and products.

Devoting great effort to channel deepening in lower-tier markets, refining channel penetration

In respect of the mother-and-baby store channel, the Group insisted on opening channels in lower-tier markets as the working direction of the entire business team. While obtaining distribution dividends from mother-and-baby store channels in third-and fourth-tier cities, the Group focused on raising the sales rate of stores in lower-tier markets and gradually entering the leading regional mother-and-baby chains to increase channel quality.

The Group’s sales platform for e-commerce, “Joyful Shopping”, was reformed to deepen its cooperation with e-commerce platforms such as Alibaba, JD.com, and Pinduoduo, and to implement a new layout in content e-commerce. The Group has acquired a certain level of operating experience from operating on new social media retail channels and cooperating with nationally renowned operators and will attempt to gradually expand the scope of this business.

Smart marketing innovations

In 2022, the Group launched a smart marketing innovations program, linking the value chain and interest chain through In-Can Code, and constructing a smart data dashboard that gives channel users smart tools to achieve easy tracking and maintenance of members. To carry out the implementation strategy for the new In-Can Code, the Group launched a full-team In-Can Code promotion field operation to motivate stakeholders toward the same vision and complete on-site can-opening during staff visits, effectively boosting the can-opening rate and actual in-store sales. Currently, the In-Can Code feature has achieved some initial results and has been well-received by channel customers and consumers.

Innovative channels such as community group purchase, content e-commerce, and social e-commerce continue to lead industry growth. The pandemic accelerated the shift of adult milk powder consumers from traditional retail to new retail. Channels are changing towards flat-top, diversification, platform, circle-based, and social-based. Sales are being diverted from traditional single-stream channels to new channels in various forms.

As the overall growth rate of traditional commercial supermarkets has further slowed, various supermarket companies have introduced digital marketing practices and online sales have grown significantly. The home delivery business has become standard. Marketing practices such as group buying live streams are being adopted more frequently to implement omnichannel sales, which is breathing new life into industry development. Through online sales, traditional commercial supermarkets can make up for the losses caused by store closures and plummeting passenger flow, taking advantage of the innovation and layout of online and offline omni channels.

Quality and safety management

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

Adhering to the fundamentals of quality and food safety

In order to strictly control the quality of the production process, the Group joined hands with bioMérieux, a world-leading biologic company, to carry out an Environmental Monitoring Plan (EMP) project with the help of its advanced microbial control and testing experience. Through comparative verification of monitoring points in key control areas of the production facility, the Group can further improve and optimize the control of environmental microorganisms and pathogenic bacteria. At present, the project's pilot site at the Shanxi factory has entered the key verification stage and will be extended to the Group's other factories in the future to improve the Group's overall ability to control environmental microorganisms and pathogenic bacteria.

Comprehensive upgrading of food safety indicators

To ensure that consumers are always provided with safe, healthy, and nutritious food, the Group complies with the EU food safety requirements, scrutinizes relevant EU food safety contaminant standards, and has instituted increased risk monitoring for modified milk powder on top of its existing risk monitoring system for infant formula milk powder. Through internal and external communication and the study of the EU standards, the Group further identified food safety items within the EU standards for infant formula milk powder and modified milk powder and further raised the standards for food safety indicators (chemical and microbiological) of key raw materials. At present, Yashili's eight series of infant formula milk powder and seven formulas of formulated milk powder have successfully obtained the certificate of EU food standard assessment issued by the authoritative international certification agency SGS. Yashili is the first domestic infant formula milk powder company to have its products assessed and certified under EU food standards, attesting to the high quality of its products.

Continuous improvement of product quality

In 2022, the Group optimized its quality control procedures and continued to promote the concept of the perfect product. The Group has considered possible quality and food safety risks right from the phase of product design to ensure successful first attempts. In process control, on the premise of ensuring product conformity, the Group pursued excellence and higher standards from content to product packaging. In line with its corporate value of “consumers first, first and first (消費者第一、第一、第一)”, the Group refined more than 30 standards from content to product packaging. At the same time, in response to previous consumer complaints, dedicated actions were taken to provide consumers with high-quality products and the perfect consumer experience that they expect, which greatly enhanced product competitiveness.

Actively identifying internal production safety risks and implementing corrective and preventive measures

The Group actively identified internal production safety risks and successfully promoted the orderly implementation of dozens of important measures. In the first half of the year, there were no grade four or above production safety accidents.

In the first half of the year, the Group continued to implement the safety responsibilities of all employees. Adhering to the principle of “horizontally to the boundary, vertically to the end, segmented for various departments, encompassing every employee (橫向到邊，縱向到底，層層分解，落實到人)”, personnel at all levels signed thousands of letters of responsibility. The group carried out a five-level search, implemented rectification and preventive measures, and assigned responsible persons to work on schedule to achieve 100% timely rectification of issues. To raise employees’ safety awareness, the Group shared simple and easy-to-understand safety knowledge every week and organized hundreds of safety training in the factory. Each factory had top leaders carry out a safety project and deliver special training on resumption of work and production, epidemic prevention, and anti-epidemic measures. They also publicized various content including new versions of the safety production law, the launch of safety month, pre-holiday deployment and inspection, etc.

Supply chain

In the first half of 2022, driven by the principle of “speeding up for victory (乘勝加速、誓贏冠軍)”, the Group’s supply chain department firmly focused on the three major objectives of high speed, high efficiency, and high quality, to achieve high-quality development of the supply chain.

Despite facing the impact of the epidemic rebound, the Group’s supply chain department continued to move upstream, overcoming many difficulties to ensure that the product supply met sales demand.

In the face of rising raw material prices, the supply chain department has been actively seeking out new sources on the premise of ensuring quality and actively developing the OEM business, relieving cost pressure, realizing cost reduction, enhancing supply chain efficiency, and maximizing revenue.

In the first half of the year, the supply chain department welcomed the on-site inspection conducted by the State Administration for Market Regulation as part of the infant formula registration process. The inspection experts fully affirmed the Group’s registration materials, production capacity, inspection capacity, and dynamic trial production of infant formula, which provided a strong guarantee for the smooth implementation of Yashili’s “two-three-years” strategy.

Management system

In the first half of 2022, the Group strengthened the application of digital marketing and management to various business fields, thereby speeding up the advancement of the digital business model.

In terms of channel marketing, by applying the “three codes in one” In-Can Code, the Group was able to reach members directly, greatly improving the cost-efficiency of its marketing activities.

In terms of consumer operations, the Group upgraded the Reeborne Member Center and launched membership-level benefits to provide a better interactive experience for infant milk powder consumers. It also gradually carried out member-targeted marketing, thereby increasing member loyalty, and launched the Member Center and Points Mall mini-apps for adult milk powder and children’s milk powder, respectively.

In terms of data application, in the first half of the year, based on self-developed computing adjustments and leveraging Alibaba Cloud, the Group completed the research and development and launch of its data center. Through building its milk powder database, the Group also efficiently collected information on competitive products to analyze and benchmark against industry trends and developments.

In terms of financial management, the Group comprehensively promoted the TRM expense management system, strengthened the management of the planning and execution of marketing expenses, conducted single product gross profit analysis and cost less markup analysis, and strengthened its analysis capability in the area of supply chain financial data. At the same time, the Group independently developed the business division management tools to provide multi-dimensional financial data analysis for the management of the business divisions.

In the field of information security, the Group has established a unified account management system to enable the unified management of accounts, roles, and authorities within enterprise management and business systems. At the same time, in order to ensure the security of the Group's information assets, it has established an anti-leakage protection system and a monitoring system.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2022, the Group's revenue amounted to RMB1,886.7 million (the same period of 2021: RMB2,156.9 million), representing a decrease of 12.5% as compared to the same period of last year.

Revenue by product category — for the six months ended 30 June

| | 2022 | 2021 | <i>Percentage</i> |
|----------------------------|-----------------------|-----------------------|-----------------------|
| | <i>RMB million</i> | <i>RMB million</i> | <i>change</i> |
| Milk powder products | 1,538.3 | 1,861.6 | (17.4%) |
| Other milk powder products | 235.5 | 149.9 | 57.1% |
| Dissolvable products | 85.2 | 91.1 | (6.5%) |
| Others | 27.7 | 54.3 | (49.0%) |
| | <hr/> | <hr/> | <hr/> |
| Total | <u>1,886.7</u> | <u>2,156.9</u> | <u>(12.5%)</u> |

For the six months ended 30 June 2022, milk powder products recorded a revenue of RMB1,538.3 million (the same period of 2021: RMB1,861.6 million), decreased by 17.4% as compared to the same period of 2021, which was mainly due to the impact of the pandemic on the sales volume of adult milk powder and infant formula milk powder. Other milk powder products recorded a revenue of RMB235.5 million (the same period of 2021: RMB149.9 million), increased by 57.1% as compared to the same period of 2021, mainly because of the increase in the sales volume of Yashili New Zealand driven by the increasing orders for whole milk powder. Dissolvable products recorded a revenue of RMB85.2 million (the same period of 2021: RMB91.1 million), decreased by 6.5% as compared to the same period of 2021. Other products recorded a revenue of RMB27.7 million (the same period of 2021: RMB54.3 million), decreased by 49.0% as compared to the same period of 2021.

The decrease in the Group's revenue was mainly attributable to a slight decrease in the revenue of adult milk powder and infant formula milk powder compared to the same period of last year due to the impact of the pandemic on spending power, fierce competition in external market and decline in birth rate.

Gross profit

For the six months ended 30 June 2022, the Group recorded a gross profit of RMB596.7 million (the same period of 2021: RMB815.3 million), representing a decrease of 26.8% from the same period of last year. The gross profit margin was 31.6%, representing a decrease of 6.2%, which was mainly due to the increased sales proportion of adult milk powder and whole milk powder, which had a lower gross profit, as a result of higher cost of main raw materials.

Selling and distribution expenses

For the six months ended 30 June 2022, the Group generated selling and distribution expenses of RMB618.3 million (the same period of 2021: RMB662.1 million), representing a decrease of 6.6% from the same period of last year. The selling and distribution expenses as a percentage of revenue was 32.8% for the first half of 2022 (the same period of 2021: 30.7%), representing an increase of 2.1%, which was mainly due to that the consumer power is affected by the pandemic, and the share of high-end products was not as expected, while sales volume declined, resulting in the rate of selling expense exceeding the standard.

Administrative expenses

For the six months ended 30 June 2022, administrative expenses amounted to RMB117.7 million (the same period of 2021: RMB120.5 million), representing a decrease of 2.3% from the same period of last year, mainly attributable to improved operating efficiency as a result of stringent cost control by functional divisions.

Finance income and finance costs

For the six months ended 30 June 2022, finance income amounted to RMB31.7 million (the same period of 2021: RMB39.1 million) and finance costs amounted to RMB34.6 million (the same period of 2021: RMB19.4 million). The increase in finance costs of 78.4% was mainly attributable to the changes in fair value of the foreign currency forward contracts.

Income tax

For the six months ended 30 June 2022, the Group provided for income tax expenses of RMB13.2 million (the same period of 2021: income tax credit of RMB0.3 million). The increase in income tax expenses was mainly attributable to reversal of deferred income tax assets recognized in previous years.

Inventories

As at 30 June 2022, the balance of inventories of the Group was RMB1,231.4 million (31 December 2021: RMB816.0 million), representing an increase of 50.9%, which was mainly due to the increase in the balance of inventories of the self-sprayed whole milk powder.

Other current financial assets

As at 30 June 2022, other current financial assets mainly included the commercial bank wealth investment products held by the Group of RMB20.0 million (31 December 2021: RMB93.9 million).

Trade receivables

As at 30 June 2022, the Group's trade receivables amounted to RMB453.1 million (31 December 2021: RMB414.7 million). During the first half of 2022, the trade receivables turnover days were 41 days (31 December 2021: 21 days), representing an increase of 20 days as compared to 2021, mainly attributable to the increase in the trade receivables from large-scale modern trade and e-commerce platforms within normal credit period as a result of higher percentage of revenue from adult milk powder during the period.

Human resources and employees' remuneration

As at 30 June 2022, the Group has a total of 2,557 full-time employees (30 June 2021: 2,858). The total staff cost for the period was approximately RMB267.9 million (the same period of 2021: RMB286.0 million). The decline in staff cost was mainly attributable to the decrease in full-time employees as compared to the same period of last year as a result of organizational structure optimization.

Contingent liabilities

In February 2022, one batch of products of a certain series of infant formula milk powder brands under a certain strategic cooperative brand of the Group was detected with excessive vanillin by market regulatory authorities in the Chinese Mainland. At 30 June 2022, the Group had recalled all relevant products and was cooperating with relevant authorities regarding relevant investigations. At the date of this announcement, the investigation has been completed and the Group has neither received penalties from authorities nor claims from either customers or distributors.

Capital commitment

As at 30 June 2022, the Group's capital commitment was RMB9.6 million (31 December 2021: RMB1.2 million), which was mainly related to the purchase of milk powder production equipments and optimisation in software systems.

Use of net proceeds from the Initial Public Offering

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

HUMAN RESOURCES

Refining the functions of the headquarters and strengthening the business divisions

The Group continues to optimize its organizational structure, accountability system, and operational capabilities. It continued to build a business management system suited to the pandemic era, refined the functions of the headquarters, strengthened the business divisions, and further empowered the functional departments on the frontline, to realize the transformation of organizational strength into business results.

Launching various talent activities and driving talent growth on all fronts

In order to effectively help business development, the Group has launched a learning project for business teams, using diverse learning methods to help colleagues strengthen their foundational knowledge and comprehensively improve their business skills. As of the first half of the year, the implementation of two training sessions has been successfully completed and the secondary empowerment and application of knowledge have been completed within the business division.

At the same time, in order to better understand the current talent situation, the Group has carried out a comprehensive talent inventory aiming to help the Group understand its talent reserve and prepare to improve the talent level within the business.

Continuing efforts to optimize and strengthen performance management throughout the entire value chain

The Group built a performance management landscape to gain a clearer understanding of the underlying logic, optimize performance management, drive the standardization and formalization of performance goal-setting, and ensure that personal and organizational performance goals were strongly correlated to guarantee effective Company performance.

Enhancing business linkages and improving employer brand image

In the first half of the year, the Group was again awarded the “2022 Outstanding Human Resources Management Award” by 51job.com, which enhanced the Group’s employer brand image. The human resource management department strengthened its cooperation with the business divisions in communicating the Group’s employer brand. The department also worked jointly to create and promote the Group’s employer image, talent concept, and values through multiple platforms such as official accounts, live streams, and online media.

SOCIAL RESPONSIBILITY

In 2022, in response to the nation’s “Healthy China 2030 Plan (《「健康中國2030」規劃綱要》)” initiative, the Group continued to carry out public welfare activities and adhered to the corporate mission of “Every drop of nutrition brings joy to every life (「點滴營養綻放每個生命」)”, to proactively perform corporate social responsibility. While working to achieve the development of itself, the Group also gathered great love drop by drop and contributes to the construction of a harmonious society.

Since the start of the year, the sudden epidemic outbreak in Inner Mongolia disrupted the peaceful lives of the local people and also touched the hearts of all employees of Yashili. Mengniu and Yashili immediately coordinated product reserves and transportation resources to support the front line in the fight against the epidemic.

In this public welfare action, a large volume of infant formula milk powder and adult milk powder from all over the country was collected for Inner Mongolia. Yashili donated a total of about RMB250,000 worth of milk powder products. Since the start of the pandemic, statistics show that Yashili has donated goods worth over RMB47 million to society.

In June of this year, as a representative enterprise founded in Chaozhou City, the Group thoroughly studied and implemented the spirit of General Secretary Xi Jinping's speech on achieving common prosperity, and responded to the country's call to consolidate the achievements of poverty alleviation and comprehensively promote rural revitalization. The Group actively participated in the "2022 Guangdong Poverty Alleviation Day" in Chao'an District, Chaozhou City to help the poor and needy and contribute to rural revitalization.

In this event, the Group donated RMB100,000 to the Chao'an District Charity Federation for the construction of the Fuxing Community Service Center in Anbu Town to promote urban and rural regional party building in Chao'an District and contribute to better services for the convenience and benefit of the people.

Going forward, the Group will actively fulfill its social responsibilities as always. It will also continue to explore and extend new paths for public welfare and strengthen cooperation with non-profit organizations to help build a harmonious society and better life for the people.

PUBLIC RELATIONS AND CRISIS MANAGEMENT

In the era of omni-media, faster communication and richer forms of communication have led to a fast-changing public opinion environment. Every move of the Group will attract widespread attention from the public. In face of these new challenges, Yashili is advancing with the times and is familiar with the communication methods of print media, online media, and new media. It has built a crisis prevention system in advance and continuously improved its level of public relations management and brand building.

In the first half of the year, through targeted and focused public relations activities and public welfare investment, Yashili actively assumed more social responsibilities and communicated the Group's strategic decisions, values, and other relevant information to the public promptly to obtain public recognition and support, effectively reinforcing the Group's image. The Group also promptly answered consumers' questions, quickly responded to and handled consumer demands, effectively preventing the occurrence of crisis events. By keeping abreast of industry trends and current events, it has responded to industry events promptly and communicated effectively with the public and the media.

The Group maintains good relations with the media, implements effective communication, and cooperates with mainstream media and industry opinion leaders to effectively deliver product information and company dynamics, to create a good brand effect and a favorable business environment for the development of the Group.

INVESTOR RELATIONS

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

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

EVENTS AFTER THE REPORTING PERIOD

Proposed privatisation of the Company

Reference is made to (1) the announcement dated 6 May 2022 (the “**Joint Announcement**”) jointly issued by the Company, Star Future Investment Company Limited (the “**Offeror**”) and Mengniu Dairy (as defined below), (2) the circular of the Company dated 29 July 2022 (the “**Circular**”), and (3) the announcement dated 16 August 2022 (the “**Special Deals EGM Results Announcement**”) jointly issued by the Company, the Offeror and Mengniu Dairy in relation to, among others, the proposal for the privatisation of the Company by the Offeror by way of a scheme of arrangement under section 86 of the Companies Act of the Cayman Islands, on the terms and subject to the pre-conditions and conditions as described in the Joint Announcement and as amended in the Special Deals EGM Results Announcement (the “**Privatisation Proposal**”), and the disposal of 100% entire equity interest in Dumex Baby Food Co., Ltd. (“**Dumex China**”) by Yashili International Group Co. Ltd. (“**Yashili Guangdong**”) to Danone Asia Pacific Holdings Pte. Ltd. (“**Danone APAC**”) (the “**Dumex China Disposal**”).

As disclosed in the Joint Announcement, notwithstanding that the proposed acquisition by Mengniu Dairy from Danone Asia (as defined below) of all of Danone Asia's interests in the Company ("**25% Yashili Acquisition**") did not trigger a mandatory offer obligation on the part of Mengniu Dairy under the Code on Takeovers and Mergers of Hong Kong, having considered the factors, including but not limited to the unsatisfactory share performance of the Company, the low trading volume of the shares of the Company and the competitive domestic infant milk powder market, Mengniu Dairy has proposed that upon completion of the 25% Yashili Acquisition, it will, through the Offeror, a wholly-owned subsidiary of Mengniu Dairy, initiate the Privatisation Proposal and provide an opportunity for the Scheme Shareholders (as defined therein) to monetize their investments in the Company at the same price that is offered to Danone Asia under the 25% Yashili Acquisition.

Accordingly, subject to the satisfaction of the Scheme Pre-Conditions (as defined therein), on or prior to the Pre-Conditions Long Stop Date (as defined therein), the Offeror will implement the Privatisation Proposal under which the Scheme Shares (as defined therein) will be cancelled and in consideration therefor, each Scheme Shareholder will be entitled to receive the cancellation price of HK\$1.20 for each Scheme Share. The Company will apply to the Stock Exchange (as defined below) for withdrawal of the listing of the Company's shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules immediately following the Scheme (as defined therein) becoming effective.

As disclosed in the Special Deals EGM Results Announcement, the Scheme Pre-Conditions (a) and (c) (as defined therein) have been fulfilled. As of 16 August 2022, the remaining Scheme Pre-Condition (b) (as defined therein) of completion of the 25% Yashili Acquisition has not been fulfilled. Further announcement(s) in relation to the status of the Privatisation Proposal will be made in accordance with the Listing Rules and the Code on Takeovers and Mergers of Hong Kong.

For further details of the Privatisation Proposal, please refer to the Joint Announcement, the Circular and the Special Deals EGM Results Announcement.

Dumex China Disposal

As disclosed in the Joint Announcement and the Circular, on 6 May 2022, Yashili Guangdong and Danone APAC entered into the Dumex China SPA whereby Yashili Guangdong agrees to sell, and Danone APAC agrees to purchase, 100% of the equity interest in Dumex China, subject to the terms and conditions therein. The Dumex China Disposal constitutes a major and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. On 16 August 2022, the shareholders of the Company approved, among others, the Dumex China Disposal.

For further details of the Dumex China Disposal, please refer to the Joint Announcement, the Circular and the Special Deals EGM Results Announcement.

FUTURE PROSPECTS

Policy implications

Since the National Health Commission's issuance of the new national standards early last year and through the first half of 2022, a vast majority of leading domestic and foreign milk powder brands have been actively preparing for the registration of formulas under the new national standards.

As the policies, regulations, and standards continue to be updated and issued, it is expected that the quality of infant formula will be further improved. The structure of the industry will constantly be optimized, and only outstanding participants will survive in the market. As consumers become increasingly informed about infant formula milk powder, the implementation of the new national standards is expected to become the starting point for high-quality competition in the milk powder industry of the future. Intensified market competition in the infant formula industry is only beginning, and breast milk research, formula upgrades, process standards, and differentiated products will be the keys to the future success of enterprises.

The decline in births has attracted great attention at the national level, and several policies to encourage childbirth have been introduced in succession. For example, on 31 May 2021, the Political Bureau of the CPC Central Committee considered and approved the "Decision on Optimizing the Maternity Policy to Promote the Long-term Balanced Development of Population (《關於優化生育政策促進人口長期均衡發展的決定》)". On 20 August 2021, the decision to revise the "Law of the People's Republic of China on Population and Family Planning (《人口與計劃生育法》)" was passed in the Thirtieth Meeting of the Thirteenth NPC Standing Committee. According to statistics, nearly 20 provinces, cities, and counties have announced amendments to their population planning regulations. With the pandemic's impact on the birth rate gradually weakening, official policies encouraging childbirth will gradually play a greater role. In the long run, this will benefit the infant formula industry.

As residents' income level and health awareness increase, consumption has been further upgraded, and consumer demand for dairy products has increased significantly while evolving toward healthy and diversified options. Subdivided categories such as children's milk powder and adult milk powder are gradually becoming valued and selected more by consumers, which will boost the development of the milk powder market to a certain extent.

Industry trends

Consumption upgrade in the mother-and-baby market drives the enrichment and differentiation of infant formula products

Despite the national birth rate has declined for five consecutive years up to 2021, the mother-and-baby market in China has continued to grow against the trend in recent years. The data consolidated from a number of studies showed that the diversification and upgrading of consumption have led to an increase in total customer spending, enabling the mother-and-baby market to grow against the trend.

In the recent two years, despite the backdrop of an overall market growth slowdown in the domestic infant formula market, high-end products and segmenting products achieved outstanding development. Representative products in these categories include organic products and goat milk powder products with differentiated features such as enhanced nutritional elements, specific milk sources (organic, A2 β -casein protein, etc.), and raw milk process.

Amidst the intensified competition in the overall infant formula market, major manufacturers will pay more attention to the development of product segments and explore the breakthrough and development of segmenting products.

Capturing opportunities in third-and fourth-tier and lower-tier markets

According to data from the National Bureau of Statistics, in 2020, the number of infants and children in county-level cities and below accounted for 82% of the national number. The willingness to give birth in third-and fourth-tier cities and lower-tier cities continued to rise in general, and the birth rate of newborn babies increased significantly. As the consumption power of families in these places increases, the market potential is huge.

The deepening of research and business development in the lower-tier markets will help brands gain advantages in the competition for existing market volumes.

Intensive development and digitalization of channels

In the recent two years, large and medium-sized mother-and-baby chain stores in China have been innovating to become more quality-oriented, digital, and platform-based. Digital transformation in the mother-and-baby retail sector has spurred new developments in customer collaboration, physical store operations, and capital input models. Marketing approaches such as live streaming, community marketing, content e-commerce, and interest-based e-commerce are set to demonstrate more rapid growth in 2022.

Aging population drives dairy companies to accelerate the development of the adult milk powder market

It is anticipated that the population of people aged 60 or above will see a significant increase by 2030, and the middle-aged and the elderly will account for a greater percentage of the overall demographic structure. Further exploring the needs of the “silver hair” market will be a focus of the milk powder industry going forward.

Company strategies

Brand strategies

Brand renovation in response to consumption trends continues to drive upgrades in brand assets

In the second half of 2022, the Reeborne brand will emphasize the launch of strategic new products and continue to focus on innovation within infant milk powder products. Meanwhile, changes in consumption trends have motivated a renovation of the brand image focused on showcasing the strength of the Reeborne brand in social responsibility and scientific research on breast milk.

As for Arla Baby & Me, it will adhere to the positioning of “Organic A2, Choose Baby & Me” and explore the story of organic A2 β -casein protein milk sources in greater depth to demonstrate the brand’s positioning and core values. Centering on the rationale for choosing “Baby & Me”, the Group will create a high-end brand image by promoting the differentiated advantages of organic A2 β -casein protein fresh milk to enhance brand awareness and consumer recognition.

Mengniu Yourui milk powder for the middle-aged and the elderly will cover more feature functions to comprehensively satisfy the need for nutritional supplements among the middle-aged and elderly population, thus driving a further upgrade of the brand. In addition, the nutrition products business division will vigorously expand the category of milk powder products for children. The M8 children’s milk powder series will explore organic milk sources on top of its core component — the patented² breast milk-derived probiotics (bifidobacterium lactis Probio-M8, which is a strain isolated from healthy breast milk). The 1.88M Children’s milk powder will continue the application of the CBP component, which aids in bone development and expand the milk sources for the rare A2 β -casein protein.

Leveraging digital media to strengthen content marketing and deepen the brands` connection with consumers

In the second half of 2022, Reeborne will continue to build its brand connection with consumers through content marketing and step up its efforts in digital media to empower front-end sales. Sharing of scientific knowledge by research and development experts, endorsement from reputable KOLs and word-of-mouth from consumers will enable the Group to strengthen the positive image of its brand in terms of scientific expertise and products, and in turn, boost the overall sales capabilities of its brand both online and offline.

Regarding communication channels, Arla Baby & Me will make use of the self-media platform as the core and connect it with its membership club to create a complete closed chain of “appealing-purchasing-sharing (種草-購買-分享)”. The Group will also tap into public media such as Xiaohongshu and TikTok to generate word-of-mouth marketing from consumers to attract more users. Online marketing will also be linked with roadshows and mother classes in major cities to track the results of dynamic marketing efforts and achieve quality and efficiency.

Brand building for nutrition products will fully leverage the advantages of resources and media. The Group will continue to make diversified efforts in media marketing among core and potential markets and roll out short videos of the Yourui product series to actively support building connections with consumers across different channels, promote multi-brand building, and enhance brand awareness and reputation.

Note:

² Patent category: invention patent; patent number: ZL201910495537.2.

Product research and development

In the second half of 2022, the Group will continue to strengthen research efforts on breast milk nutritional components, including by cooperating with industry-leading food and nutrition science experts in industry and research institutes to carry out research on infant formula products. At the same time, the Group strengthens the acquisition of nutrition research talents into its team to improve its nutrition science innovation capability and carries out research on nutrition and health evaluation standards of adult milk powder to facilitate further product upgrades.

The Group will continue to enhance its differentiated product advantages and continuously upgrade the entire product line of the infant formula milk products already on the market. By assimilating the latest research findings in breast milk nutrition composition, the Group will continue to develop an innovative formula for infant milk powder products, will promote the registration of infant formulas under the new national standards and will also upgrade the packaging of the product series under the brand to attract more consumers and raise the consumption level of the products.

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

Sales channels

Gradually enhancing channels and continuously deepening store development

In the second half of 2022, the Group will continue to develop its customer base, and enhance regional product coverage by focusing on major provinces. The In-Can Code model used in physical stores can protect the rights and interests of sales channels and empower stores, achieving balanced development in second-and third-tier, or fourth-and fifth-tier cities. In the online market, the Group plans to make use of customized products to establish a solid cooperative relationship with large mother-and-baby chain stores to continuously enlarge the market share of certain brands. At the same time, the Group is promoting the “Store Blasting” campaign (「門店爆破」計劃) nationwide. The campaign focuses resources on stores to promote the in-depth development of channels. For the lower-tier market, the Group will continue to strengthen its development effort in district-level and county-level mother-and-baby chain stores, as well as further expand market coverage in lower-tier counties, towns, and villages. The Group will also further improve the output per store through the “Store Blasting” campaign to enhance the overall level of channel operation.

Expediting e-commerce and continuing the pilot trial in social retail

The Group will seize new opportunities brought on by the new e-commerce and social retail models. In terms of the planning for the e-commerce business, the Group launches exclusive organic milk powder products for children and strengthens its comprehensive cooperation with the Alibaba Group in Tmall direct sales, Alimama digital media, and Tmall new retail, as well as Alibaba Cloud Smart. The Group has also developed plans to strengthen online sales and services of infant formula milk powder and enhance both online and offline customer flow by leveraging e-commerce sales platforms, digital media, business model exploration, and big data mining and utilization. At the same time, the Group is gradually exploring innovative business models in the arena of social retail such as WeChat community operations, short video social networking, and live streaming to bring in new channel growth points.

Continuous innovation in digital marketing and enhanced membership system

The Group will continue to implement the “In-Can Code” strategy and improve its membership system to enhance customer loyalty. By building connections with members along the life-cycle and interacting with members at crucial points, the Group can track members’ growth trajectory and prolong the entire membership life-cycle.

Supply chain

In the second half of 2022, the Group will continue to carry out resource integration and sharing by fully leveraging information technology to form efficient and unified digital factories that achieve effective resource utilization and thus realize the value of the supply chain.

The Group will continue to implement online and offline linkage. Driven by the momentum of being recognized as a WCO world-class factory, the Group will strive to increase its output and effectiveness, reduce costs and create revenue. Through efficient manufacturing and optimized procedures, supply chain operations will be enhanced, serving as a foundation for continuing corporate development and maintaining competitive advantages.

The Group will also continue to pursue technological innovation to achieve greater supply chain visibility, management digitalization, benefit maximization, and cost minimization, in turn achieving overall optimization.

As for manpower, the Group has worked hard to recruit potential talent and establish a supply chain management talent training mechanism. The Group has also implemented incentive schemes to promote sustainable talent development and help the Group achieve its strategic goals.

Human resources

Re-assessing job value to maximize efficiency

The Group has re-assessed the value of all job positions within the organization to optimize the allocation of manpower, through which the Group will achieve revenue optimization and provide a clear path of progression for its staff.

Focusing on talent training and broadening the talent ladder

The Group will continue to provide talents with training and learning opportunities for key positions to cultivate a business management team that can “win in battle and lead the legion”. The Group will make comprehensive succession plans for key positions, cultivate staff members with high potential and provide training to successors for key positions to further improve its talent ladder.

Strengthening the remuneration system to motivate performance

Under the existing remuneration policy, the Group will focus on remuneration as the mechanism to retain key personnel. In addition, the Group will also formulate a targeted remuneration policy to attract and incentivize new joiners and to establish the necessary talent pool for the Group’s continued development. At the same time, the Group will achieve online visibility of remuneration and benefits through manpower digitization.

Assuming social responsibility and enhancing employer brand

The Group will assume more social responsibility in the second half of the year, stepping up its efforts in campus recruitment and opening more positions in order to relieve the difficulty faced by graduates in job hunting. The Group will make full use of the resources and reach of recruitment portals and leverage the Group’s advantages as an employer to showcase content about the Group through videos, articles, and posters, promoting the Group’s image as a premium employer.

INTERIM DIVIDENDS

The Board does not recommend an interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: nil).

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

As at 30 June 2022, the Directors and the chief executives of the Company and their respective associates had or were deemed to have the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”), which have been notified to the Company and the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities (the “**Listing Rules**”):

Directors' interests in the shares of the Company (the “Shares”):

| Name of Director | Capacity/Nature of interest | Number of ordinary shares | Approximate percentage of the issued share capital² |
|-------------------------|------------------------------------|----------------------------------|---|
| Mr. Yan Zhiyuan | Beneficial owner | 15,657,370 ^(L) | 0.33% |

Notes:

- Grant of 18,342,100 phantom shares (the “**Phantom Shares**”) by the Company to Mr. Yan Zhiyuan, in which 2,684,730 Phantom Shares were realized, pursuant to the phantom share incentive scheme (the “**Phantom Share Incentive Scheme**”) adopted by the Company on 15 July 2020. The Phantom Share Incentive Scheme does not involve the grant of options over new shares or other new securities that may be issued by the Company (or any of its subsidiaries). The recipients of the Phantom Shares do not own any shares, nor enjoy voting rights or allotment rights of the shares.
- The total number of issued Shares as at 30 June 2022 was 4,745,560,296.

(L) The interest is held in long position.

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

| Name of Director | Capacity/Nature of interest | Number of ordinary shares | Approximate percentage of the issued share capital of Mengniu Dairy¹ |
|-------------------------|------------------------------------|----------------------------------|--|
| Mr. Jeffrey, Minfang Lu | Beneficial owner | 21,186,046 ^(L) | 0.54% |
| Mr. Zhang Ping | Beneficial owner | 3,090,357 ^(L) | 0.08% |
| Mr. Yan Zhiyuan | Beneficial owner | 82,255 ^(L) | 0.00% |

Notes:

- The calculation is based on the number of shares as a percentage of the total number of issued shares of Mengniu Dairy (i.e. 3,954,693,020 shares) as at 30 June 2022.

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

Save as disclosed above, as at 30 June 2022, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

To the best knowledge of the Directors and chief executives of the Company, as at 30 June 2022, the persons or corporations (other than Directors or chief executives of the Company) who had interest or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept under section 336 of the SFO were as follows:

| Name of substantial shareholder | Capacity/Nature of interest | Number of ordinary shares⁽⁵⁾ | Approximate percentage of the issued share capital⁽⁶⁾ |
|---|---------------------------------------|--|---|
| Mengniu Dairy ⁽¹⁾ | Interests in a controlled corporation | 2,422,117,713 | 51.04% |
| | Beneficial Owner ⁽²⁾ | 1,186,390,074 | 25.00% |
| Mengniu International ⁽¹⁾ | Beneficial owner | 2,422,117,713 | 51.04% |
| Danone SA ⁽³⁾ | Interests in a controlled corporation | 1,186,390,074 | 25.00% |
| Danone Baby and Medical Nutrition BV ⁽³⁾ | Interests in a controlled corporation | 1,186,390,074 | 25.00% |
| Nutricia International BV ⁽³⁾ | Interests in a controlled corporation | 1,186,390,074 | 25.00% |
| Danone Asia ⁽³⁾ | Beneficial owner ⁽²⁾ | 1,186,390,074 | 25.00% |
| Vanguard International Investment Co., Ltd ⁽⁴⁾ | Interests in a controlled corporation | 303,462,119 | 6.39% |

| Name of substantial shareholder | Capacity/Nature of interest | Number of ordinary shares ⁽⁵⁾ | Approximate percentage of the issued share capital ⁽⁶⁾ |
|--|---------------------------------------|--|---|
| Zhang Yangui ⁽⁴⁾ | Interests in a controlled corporation | 303,462,119 | 6.39% |
| Zhang International Investment Ltd. ⁽⁴⁾ | Beneficial owner | 303,462,119 | 6.39% |

Notes:

- (1) As at 30 June 2022, Mengniu Dairy held 99.95% interest in China Mengniu International Company Limited (“**Mengniu International**”), which directly held the relevant 2,422,117,713 Shares.
- (2) On 6 May 2022, Mengniu Dairy and Danone Asia Baby Nutrition Pte. Ltd. (“**Danone Asia**”) entered into a sale and purchase agreement, pursuant to which Danone Asia conditionally agreed to sell, and Mengniu Dairy conditionally agreed to acquire (or procure the acquisition of), 1,186,390,074 Shares, subject to the terms and conditions therein.
- (3) As at 30 June 2022, Danone SA held 100% interest in Danone Baby and Medical Nutrition BV. Danone Baby and Medical Nutrition BV held 100% interest in Nutricia International BV. Nutricia International BV held 100% interest in Danone Asia and Danone Asia directly held the relevant 1,186,390,074 Shares.
- (4) As at 30 June 2022, Zhang International Investment Limited was held as to 35.06% by Vanguard International Investment Co., Ltd, which was in turn wholly owned by Mr. Zhang Yangui.
- (5) All the above Shares were held in long position (as defined under Part XV of the SFO).
- (6) The total number of issued Shares as at 30 June 2022 was 4,745,560,296.

Save as disclosed above, as at 30 June 2022, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

The Share Option Scheme expired on 1 November 2020, after which no further option was granted or offered. As at 1 January 2022 and 30 June 2022, there was no outstanding option granted by the Company.

PHANTOM SHARE INCENTIVE SCHEME

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

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

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

On 15 July 2020, the Board approved the initial grant of 59,660,700 Phantom Shares under the Scheme. On 15 July 2021 and 15 July 2022, the Board approved the grant of 62,619,900 and 47,232,800 Phantom Shares under the Phantom Share Incentive Scheme, respectively.

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

FOREIGN CURRENCY RISK

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

PLEGGED ASSETS

As at 30 June 2022, the Group has pledged bank deposits and other current assets in aggregate of approximately RMB57.3 million.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2022, the liquidity of the Group was comprised of cash and cash equivalents, pledged deposits to be released within one year and other current financial assets and amounted to RMB1,903.9 million in aggregate (31 December 2021: RMB2,679.9 million), representing a decrease of 29%. The decrease was mainly due to the Group's strategical stocking occupying part of the operating capital.

OPERATING ACTIVITIES

For the six months ended 30 June 2022, the Group's net cash outflows from operating activities amounted to RMB822.5 million (six months ended 30 June 2021: net outflows of RMB504.8 million). Net cash outflows from operating activities increased from that of the same period of last year, which was mainly due to the working capital used for strategical stocking in order to cope with the risk of material price increases.

INVESTING ACTIVITIES

For the six months ended 30 June 2022, the net cash inflow used in investing activities amounted to RMB229.3 million (six months ended 30 June 2021: net outflows of RMB516.4 million). The decrease in net cash outflows from investing activities as compared to the same period of last year was mainly due to the increased project expense from the investment in Yashili New Zealand incurred during the same period of last year.

FINANCING ACTIVITIES

For the six months ended 30 June 2022, the net cash inflows generated from financing activities amounted to RMB195.4 million (six months ended 30 June 2021: net cash inflows of RMB530.6 million). The decrease in net cash inflows from financing activities as compared to the same period of last year was mainly attributable to the repayment of interest-bearing loans when they fell due.

INTEREST-BEARING BANK AND OTHER BORROWINGS

As at 30 June 2022, the Group's interest-bearing bank and other borrowings amounted to RMB510.8 million (31 December 2021: RMB320.8 million). As at 30 June 2022, the total equity of the Group amounted to RMB5,325.3 million (31 December 2021: RMB5,528.1 million), and debt to assets ratio (total interest-bearing bank and other borrowings at period end divided by total assets) was 7.4% (31 December 2021: 4.4%). The capital structure of the Group is reviewed by the Board annually, including the dividend policy and share repurchase activities of the Group.

CORPORATE GOVERNANCE

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

During the period from 1 January 2022 to 30 June 2022, the Company has complied with all code provisions (“**Code Provisions**”) set out in Part 2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for the deviation from Code Provision C.2.1 as explained below.

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

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

BOARD OF DIRECTORS

During the period from 1 January 2022 to 30 June 2022, the Board was comprised of four non-executive Directors, one executive Director, and three independent non-executive Directors. The non-executive Directors were Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Gu Peiji (alias Philip Gu); the executive Director was Mr. Yan Zhiyuan; and the independent non-executive Directors were Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.10A of the Listing Rules, independent non-executive Directors shall represent at least one-third of the board. During the period from 1 January 2022 to 30 June 2022, the Board of the Company comprises eight members, three of whom are independent non-executive Directors. Therefore, Rule 3.10A has been duly complied with by the Company during the said period.

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

Save that Mr. Lee Kong Wai Conway, an independent non-executive Director of the Company, has retired as an independent non-executive director of WH Group Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 288) with effect from 1 June 2022, there are no changes in the directors’ biographical details since the date of the 2021 annual report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules.

SECURITIES TRANSACTIONS OF DIRECTORS

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

The Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2022.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2022.

COMPANY SECRETARY

Mr. Kwok Wai Cheong, Chris is the company secretary of the Company. Mr. Kwok is the financial controller and company secretary of Mengniu Dairy (the holding company of the Company), and is not an employee of the Company. Mr. Kwok contacts the management of the Company and reports to the chairman of the Board and/or the chief executive officer of the Company through Mr. Eric Fang of CEO's Office, when necessary in accordance with the Code Provisions.

AUDIT COMMITTEE

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

The Audit Committee has reviewed together with the management, the accounting principles and policies adopted by the Group and the Group's unaudited interim results for the six months ended 30 June 2022, and was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

In addition, the independent auditors of the Company, KPMG, have reviewed unaudited interim results for the six months ended 30 June 2022 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

SCOPE OF WORK OF KPMG

The interim financial report for the six months ended 30 June 2022 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”, issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2022 containing all the applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the websites of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.yashili.hk) in due course.

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

Hong Kong, 24 August 2022

As at the date of this announcement, the Board 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.