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AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% of Change
	2023 RMB'M	2022 RMB'M (Restated)*	
Revenue	3,511.9	3,645.6	(3.7)
Gross profit	1,473.4	1,734.1	(15.0)
Gross profit margin (%)	42.0	47.6	(5.6)pps
EBITDA	363.7	344.6	5.5
Profit attributable to equity holders of the Company	184.6	205.7	(10.3)

For the six months ended 30 June 2023 (the “2023 Interim Period” or “1H 2023”), Ausnutria Dairy Corporation Ltd (“Ausnutria” or the “Company”) and its subsidiaries (collectively, the “Group”) recorded the followings:

- Revenue decreased by RMB133.7 million or 3.7%.
- Gross profit decreased by RMB260.7 million or 15.0%.
- EBITDA increased by RMB19.1 million or 5.5%.
- Profit attributable to equity holders of the Company decreased by RMB21.1 million or 10.3%.

* Refer to note 13 to the condensed consolidated interim financial statements for details of the restatements.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company hereby announces the unaudited consolidated financial results of the Group for the 2023 Interim Period together with the comparative figures for the six months ended 30 June 2022 (the “**2022 Interim Period**”). The Group’s interim results for the 2023 Interim Period are unaudited but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

(All amount in RMB unless otherwise stated)

	Notes	2023 Unaudited RMB’000	2022 Unaudited RMB’000 (Restated)
Revenue	3, 4	3,511,917	3,645,604
Cost of sales	5	<u>(2,038,471)</u>	<u>(1,911,533)</u>
Gross profit		1,473,446	1,734,071
Selling and distribution expenses	5	(963,533)	(1,142,369)
Administrative expenses	5	(275,701)	(294,860)
Research and development expenses	5	(56,178)	(86,505)
Net impairment gains/(losses) on financial assets		1,871	(4,585)
Other income, other gains – net	6	<u>61,221</u>	<u>23,847</u>
Operating profit		241,126	229,599
Finance costs – net		(19,426)	(11,227)
Share of profits of investments accounted for using the equity method		9,234	25,164
Impairment of investments accounted for using the equity method		<u>–</u>	<u>(19,972)</u>
Profit before income tax		230,934	223,564
Income tax expense	7	<u>(54,807)</u>	<u>(32,337)</u>
Profit for the period		<u>176,127</u>	<u>191,227</u>
Attributable to:			
The equity holders of the Company		184,600	205,709
Non-controlling interests		<u>(8,473)</u>	<u>(14,482)</u>
		<u>176,127</u>	<u>191,227</u>
Earnings per share attributable to the equity holders of the Company			
Basic earnings per share (<i>RMB cents</i>)	9	<u>10.25</u>	<u>11.46</u>
Diluted earnings per share (<i>RMB cents</i>)	9	<u>10.25</u>	<u>11.46</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

(All amount in RMB unless otherwise stated)

	2023 Unaudited RMB'000	2022 Unaudited RMB'000 (Restated)
Profit for the period	<u>176,127</u>	<u>191,227</u>
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>170,245</u>	<u>(17,097)</u>
Total other comprehensive income/(loss) for the period	<u>170,245</u>	<u>(17,097)</u>
Total comprehensive income for the period	<u>346,372</u>	<u>174,130</u>
Attributable to:		
The equity holders of the Company	354,315	186,909
Non-controlling interests	<u>(7,943)</u>	<u>(12,779)</u>
	<u>346,372</u>	<u>174,130</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION*As at 30 June 2023**(All amount in RMB unless otherwise stated)*

		As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		2,942,690	2,521,841
Investment property		135,185	116,925
Right-of-use assets		138,851	271,937
Goodwill		192,164	102,323
Other intangible assets		502,822	472,046
Investments accounted for using the equity method		318,309	364,368
Financial assets at fair value through profit or loss		28,310	28,009
Prepayments, deposits and other assets		157,229	113,337
Deferred tax assets		400,224	442,857
		<hr/>	<hr/>
Total non-current assets		4,815,784	4,433,643
		<hr/>	<hr/>
Current assets			
Inventories		2,466,433	2,226,735
Trade and bills receivables	<i>10</i>	635,731	661,903
Prepayments, other receivables and other assets		444,387	442,685
Income tax recoverable		49,459	37,213
Derivative financial instruments		3,346	6,808
Financial assets at fair value through profit or loss		10,041	–
Restricted cash		124,428	125,248
Cash and cash equivalents		2,053,510	1,861,860
		<hr/>	<hr/>
Total current assets		5,787,335	5,362,452
		<hr/>	<hr/>
Total assets		10,603,119	9,796,095
		<hr/> <hr/>	<hr/> <hr/>

		As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
	<i>Notes</i>		
LIABILITIES			
Non-current liabilities			
Interest-bearing bank loans and other borrowings		–	443,982
Lease liabilities		21,293	24,407
Defined benefit plan		2,072	1,952
Deferred revenue		81,587	82,064
Deferred tax liabilities		79,560	74,987
Other liabilities		3,626	3,033
		<hr/>	<hr/>
Total non-current liabilities		188,138	630,425
Current liabilities			
Trade and bills payables	11	615,531	559,808
Other payables and accruals		656,512	822,555
Contract liabilities		609,275	1,036,288
Interest-bearing bank loans and other borrowings		2,577,440	1,021,632
Lease liabilities		15,625	70,415
Income tax payable		51,328	89,916
		<hr/>	<hr/>
Total current liabilities		4,525,711	3,600,614
		<hr/>	<hr/>
Total liabilities		4,713,849	4,231,039
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	12	156,061	156,061
Reserves		5,649,760	5,490,510
		<hr/>	<hr/>
		5,805,821	5,646,571
		<hr/>	<hr/>
Non-controlling interests		83,449	(81,515)
		<hr/>	<hr/>
Total equity		5,889,270	5,565,056
		<hr/>	<hr/>
Total equity and liabilities		10,603,119	9,796,095
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2023

(All amount in RMB unless otherwise stated)

1 CORPORATE INFORMATION

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

The Company acts as an investment holding company of the Group. During the six months ended 30 June 2023, the Group is principally engaged in the research and development, production, marketing and distribution of dairy and related products and nutrition products to its worldwide customers, particularly in the PRC.

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

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB"). The interim condensed consolidated financial statements does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022. The interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to nearest thousand (RMB'000), except when otherwise indicated.

2.2 New and amended standards adopted by the Group

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

		Effective for accounting periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IAS 12 (Amendments)	International tax reform – pillar two transaction	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023

The Group has adopted International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12 upon their release on 23 May 2023. The amendments provide a temporary mandatory exception applying retrospectively from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure from 31 December 2023.

As an exception to requirements in the amendments to IAS 12, the Group neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes because no new legislation to implement the top-up tax was enacted or substantively enacted at 30 June 2023 in any jurisdiction in which the Group operates.

2.3 New and amended standards not yet adopted by the Group

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

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

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units (“BU”) based on their products and services and had two reportable operating segments in the six months ended 30 June 2023 as follows:

- (a) the dairy and related products segment comprises the manufacturing and sale of dairy and related products, particularly on formula milk powder products, to its worldwide customers; and
- (b) the nutrition products segment comprises the manufacturing and sale of nutrition products (mainly including probiotic related products and gut relief products) to its customers principally in Mainland China and Australia.

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

Segment assets exclude cash and cash equivalents and other bank deposits and restricted cash as these assets are managed on a group basis.

Six months ended 30 June 2022 (unaudited) (restated)

	Dairy and related products <i>RMB'000</i>	Nutrition products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue (Note 4)			
Sales to external customers	3,566,839	78,765	<u>3,645,604</u>
Revenue from operations			<u><u>3,645,604</u></u>
Rental income (Note 6)	1,620	–	1,620
Segment results	267,393	(34,522)	232,871
Reconciliation:			
Interest income (Note 6)			19,613
Finance costs (other than interest on lease liabilities)			(9,529)
Corporate and other unallocated expenses			<u>(21,011)</u>
Profit before income tax			<u><u>223,564</u></u>
Other segment information			
Impairment losses recognised in profit and loss	46,350	1,426	47,776
Share of profit and losses of investments accounted for using the equity method	25,131	33	25,164
Depreciation and amortisation	122,161	7,237	129,398
Capital expenditure*	<u>316,952</u>	<u>1,370</u>	<u>318,322</u>

As at 31 December 2022 (audited)

	Dairy and related products <i>RMB'000</i>	Nutrition products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	7,821,974	331,254	8,153,228
Reconciliation:			
Elimination of intersegment receivables			(344,241)
Corporate and other unallocated assets			<u>1,987,108</u>
Total assets			<u><u>9,796,095</u></u>
Segment liabilities	2,733,391	376,275	3,109,666
Reconciliation:			
Elimination of intersegment payables			(344,241)
Corporate and other unallocated liabilities			<u>1,465,614</u>
Total liabilities			<u><u>4,231,039</u></u>
Other segment information			
Investments accounted for using the equity method	<u>176,089</u>	<u>188,279</u>	<u>364,368</u>

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

(a) **Non-current assets**

	30 June 2023 Unaudited RMB'000	31 December 2022 Audited RMB'000
The PRC	1,125,544	1,197,189
The Netherlands	3,037,175	2,555,553
Australia and New Zealand	252,841	238,044
	<u>4,415,560</u>	<u>3,990,786</u>

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

(b) **Information about major customers**

During the six months ended 30 June 2023, there was no revenue from a single external customer accounting for 10% or more of the Group's total revenue (six months ended 30 June 2022: Nil).

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000 (Restated)
Revenue from contracts with customers	<u>3,511,917</u>	<u>3,645,604</u>

Disaggregated revenue information

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

Segments	Six months ended 30 June 2023 (unaudited)		
	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	3,361,774	148,819	3,510,593
Rendering services	1,324	–	1,324
Total revenue from contracts with customers	<u>3,363,098</u>	<u>148,819</u>	<u>3,511,917</u>
Geographical markets			
The PRC	2,664,239	144,522	2,808,761
European Union	387,720	–	387,720
Middle East	151,874	–	151,874
North and South America	82,383	–	82,383
Southeast Asia	53,274	–	53,274
Australia	15,560	4,297	19,857
New Zealand	1,369	–	1,369
Others	6,679	–	6,679
Total revenue from contracts with customers	<u>3,363,098</u>	<u>148,819</u>	<u>3,511,917</u>
Timing of revenue recognition			
At a point in time	3,361,774	148,819	3,510,593
Over time	1,324	–	1,324
Total revenue from contracts with customers	<u>3,363,098</u>	<u>148,819</u>	<u>3,511,917</u>

Segments	Six months ended 30 June 2022 (unaudited) (restated)		
	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	3,566,839	78,765	3,645,604
Total revenue from contracts with customers	<u>3,566,839</u>	<u>78,765</u>	<u>3,645,604</u>
Geographical markets			
The PRC	3,001,083	77,287	3,078,370
European Union	334,711	–	334,711
Middle East	83,333	–	83,333
North and South America	86,334	–	86,334
Southeast Asia	43,277	–	43,277
Australia	11,748	1,478	13,226
Others	6,353	–	6,353
Total revenue from contracts with customers	<u>3,566,839</u>	<u>78,765</u>	<u>3,645,604</u>
Timing of revenue recognition			
At a point in time	3,566,839	78,765	3,645,604
Total revenue from contracts with customers	<u>3,566,839</u>	<u>78,765</u>	<u>3,645,604</u>

5 EXPENSES BY NATURE

	Six months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000 (Restated)
Raw materials, packaging materials, consumables and purchased commodity used	1,627,933	1,405,322
Changes in inventories of finished goods	(33,373)	58,564
Employee benefit expenses, including directors' emoluments	(i) 714,737	729,537
Promotion and advertising expenses	521,569	627,619
Depreciation of property, plant and equipment	76,570	73,009
Transportation expenses	62,671	80,425
Travel and entertainment expenses	51,394	61,815
Office expenses	41,153	41,088
Laboratory expenses	40,031	53,339
Consulting expenses	31,846	43,200
Amortisation of other intangible assets	31,321	32,655
Short-term rental expenses	30,592	33,146
Repair and maintenance expenses	30,266	26,062
Write down of inventories to net realisable value	21,235	43,191
Sampling expenses	20,811	41,430
Depreciation of right-of-use assets	19,857	21,738
Depreciation of investment property	2,450	1,996
Others	42,820	61,131
	<u>3,333,883</u>	<u>3,435,267</u>

Note:

(i) **Employee benefit expenses (including directors' remuneration)**

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
Wages, salaries and staff expenses	542,958	473,930
Temporary staff costs	95,613	133,962
Other employee related expenses	47,562	79,558
Cancellation of equity-settled share option scheme	–	4,908
Pension scheme contributions*	28,604	37,179
	<u>714,737</u>	<u>729,537</u>
Total employee benefit expenses	<u>714,737</u>	<u>729,537</u>

* As at 30 June 2023, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2022: Nil).

6 OTHER INCOME, OTHER GAINS – NET

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
Other income		
Government grants	47,580	24,116
Interest income	16,832	19,613
Rental income	1,998	1,620
	<u>66,410</u>	<u>45,349</u>
Other gains/(losses) – net		
Charitable donations	(4,465)	(9,880)
Foreign exchange losses, net	(4,588)	(2,824)
Others	3,864	(8,798)
	<u>(5,189)</u>	<u>(21,502)</u>
Total other income, other gains – net	<u>61,221</u>	<u>23,847</u>

7 INCOME TAX

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

Under Mainland China income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25%. Ausnutria Dairy (China) Co., Ltd. was designated as High-tech Enterprises and was granted a preferential CIT rate of 15% up to the year ending 31 December 2025.

Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 19% (six months ended 30 June 2022: 15%) for the first EUR200,000 (six months ended 30 June 2022: EUR395,000) taxable profits and 25.8% (six months ended 30 June 2022: 25.8%) for taxable profits exceeding EUR200,000 (six months ended 30 June 2022: EUR395,000). Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") has been granted a preferential tax benefit in April 2021 for the assessable profits generated in the Netherlands which covers the period from 2018 to 2024 for the recognition of Ausnutria B.V. Group's contribution on research and development in the past years. The preferential tax rates are 7% and 9% for the periods from 2018 to 2020 and from 2021 to 2024, respectively, on earnings that were or are to be generated by qualifying intellectual property.

Under Hong Kong tax laws, profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the six months ended 30 June 2023, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (six months ended 30 June 2022: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
		(Restated)
Current tax		
Mainland China current CIT	5,407	68,500
Overseas current CIT	758	28,870
	<hr/> 6,165 <hr/>	<hr/> 97,370 <hr/>
Deferred tax	<hr/> 48,642 <hr/>	<hr/> (65,033) <hr/>
Total tax charge for the period	<hr/> 54,807 <hr/>	<hr/> 32,337 <hr/>

8 INTERIM DIVIDEND

The board of directors did not recommend the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 1,800,111,841 (six months ended 30 June 2022: 1,795,545,838) in issue during the period.

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Earnings

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculations	<u>184,600</u>	<u>205,709</u>

Shares

	Six months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	<i>number of</i>	<i>number of</i>
	<i>shares</i>	<i>shares</i>
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	<u>1,800,111,841</u>	<u>1,795,545,838</u>

Diluted earnings per share are the same as basic earnings per share as there are no potential dilutive ordinary shares.

10 TRADE AND BILLS RECEIVABLES

	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
Trade receivables from third parties	481,475	470,931
Trade receivables from related parties	<u>169,082</u>	<u>172,083</u>
	650,557	643,014
Bills receivables	4,938	40,839
Less: Provision for impairment of trade receivables	<u>(19,764)</u>	<u>(21,950)</u>
	<u>635,731</u>	<u>661,903</u>

The Group normally allows a credit period from 1 to 6 months (six months ended 30 June 2022: from 1 to 6 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
Within 3 months	530,760	529,118
3 to 6 months	59,269	52,222
6 months to 1 year	25,444	20,798
Over 1 year	<u>35,084</u>	<u>40,876</u>
	<u>650,557</u>	<u>643,014</u>

The Group applies the simplified approach to provide for expected credit loss which was a lifetime expected loss allowance for all trade receivables as prescribed by IFRS 9.

As at 31 December 2022, the Group pledged trade receivables with a net carrying amount of EUR12,022,000 (equivalent to approximately RMB89,237,000) for the banking facilities granted to the Group to finance the Group's daily working capital and capital expenditure plans. All these pledges have been released following the repayments of the corresponding bank loans during the period.

11 TRADE AND BILLS PAYABLES

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

	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
Within 12 months	615,473	556,458
Over 12 months	<u>58</u>	<u>3,350</u>
	<u>615,531</u>	<u>559,808</u>

Included in the trade and bills payables are amounts due to associates and joint ventures of a total of EUR9,391,000 (equivalent to approximately RMB73,972,000) (31 December 2022: EUR2,841,000, equivalent to approximately RMB25,615,000), which are repayable within 60 days.

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

12 SHARE CAPITAL

	As at 30 June 2023 Unaudited HK\$'000	As at 31 December 2022 Audited HK\$'000
Issued and fully paid: 1,800,111,841 (2022: 1,800,111,841) ordinary shares of HK\$0.10 each	<u>180,011</u>	<u>180,011</u>

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

	Number of shares in issue '000	Share capital RMB'000
As at 1 January 2023 (audited) and 30 June 2023 (unaudited)	<u>1,800,112</u>	<u>156,061</u>

13 RESTATEMENTS

As disclosed in the annual report of the Company for the year ended 31 December 2022 (“**2022 Annual Report**”) and the supplemental announcement in relation to the annual results and the annual report for the year ended 31 December 2022 dated on 7 July 2023 (the “**Supplemental Announcement**”), the Company restated its comparative figures as at 31 December 2021 and for the year then ended to correct certain prior year misstatements identified. The comparative figures as at 30 June 2022 and for the six months period then ended have been restated and disclosed in this interim report of the Group for the six months ended 30 June 2023. The restatements shall be read in conjunction with 2022 Annual Report and the Supplemental Announcement.

The effects of the restatements on the Group’s condensed consolidated interim statement of profit or loss for the six months ended 30 June 2022 are summarised as follows:

	Adjustments								Total
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Revenue	15,356	-	-	-	-	-	-	-	15,356
Cost of sales	-	-	-	9,747	-	-	-	-	9,747
Selling and distribution expenses	(42,466)	-	-	-	-	-	-	-	(42,466)
Share of profits and losses of investments accounted for using the equity method	-	-	4,927	-	-	-	-	-	4,927
Income tax expense	8,829	-	-	(1,462)	-	-	-	(12,161)	(4,794)
Profit for the period	<u>(18,281)</u>	<u>-</u>	<u>4,927</u>	<u>8,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,161)</u>	<u>(17,230)</u>
Attributable to:									
The equity holders of the Company	(17,915)	-	4,927	8,285	-	-	-	(11,576)	(16,279)
Non-controlling interests	(366)	-	-	-	-	-	-	(585)	(951)
	<u>(18,281)</u>	<u>-</u>	<u>4,927</u>	<u>8,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,161)</u>	<u>(17,230)</u>
Earnings per share attributable to the equity holders of the Company									
Basic earnings per share (<i>RMB cents</i>)	<u>(1.00)</u>	<u>-</u>	<u>0.27</u>	<u>0.46</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.64)</u>	<u>(0.91)</u>
Diluted earnings per share (<i>RMB cents</i>)	<u>(1.00)</u>	<u>-</u>	<u>0.27</u>	<u>0.46</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.64)</u>	<u>(0.91)</u>

The profit for the six months ended 30 June 2022 was decreased by RMB17,230,000 due to the total effect of the above restatements.

The effects of the restatements on the Group's condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2022 are summarised as follows:

	Adjustments								Total
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Profit for the period	(18,281)	-	4,927	8,285	-	-	-	(12,161)	(17,230)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	<u>(18,281)</u>	<u>-</u>	<u>4,927</u>	<u>8,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,161)</u>	<u>(17,230)</u>
Total comprehensive income attributable to:									
The equity holders of the Company	(17,915)	-	4,927	8,285	-	-	-	(11,576)	(16,279)
Non-controlling interests	(366)	-	-	-	-	-	-	(585)	(951)
	<u>(18,281)</u>	<u>-</u>	<u>4,927</u>	<u>8,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,161)</u>	<u>(17,230)</u>

The effects of the restatements on the Group's condensed consolidated interim statements of financial position as at 1 January 2022 are disclosed in 2022 Annual Report.

The effects of the restatements on the Group's total equity as at 30 June 2022 are summarised as follows:

	Adjustments								Total
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Equity									
Reserves	(458,559)	(14,100)	-	-	(2,491)	(7,046)	(4,712)	(55,533)	(542,441)
Non-controlling interests	(3,259)	-	-	-	-	-	-	275	(2,984)
	<u>(461,818)</u>	<u>(14,100)</u>	<u>-</u>	<u>-</u>	<u>(2,491)</u>	<u>(7,046)</u>	<u>(4,712)</u>	<u>(55,258)</u>	<u>(545,425)</u>

The total equity as at 30 June 2022 was decreased by RMB545,425,000 due to the total effect of the above restatements.

14 COMPARATIVE INFORMATION

Certain comparative amounts in the condensed consolidated interim financial statements have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 1H 2023, due to the falling birth rate in the PRC (the Group's principal market) for the last three years, the infant milk formula (“**IMF**”) industry entered into a new phase of competitive rivalry with accelerating brand consolidation and an intensifying competition. According to NielsenIQ, sales realised by the PRC IMF industry continued to fall in 1H 2023. Both cow and goat IMF witnessed a year-on-year (“**YoY**”) drop in sales by 14.0% and 14.7%, respectively.

Notwithstanding the challenging environment, the Group recorded a slight YoY decrease in revenue of RMB133.7 million or 3.7% to RMB3,511.9 million (2022 Interim Period: RMB3,645.6 million (restated)). Among which, revenue from the own-branded cow milk formulas increased YoY by 2.4% and amounted to RMB1,261.6 million, thanks to the business adjustments implemented last year which began to yield results in 1H 2023. Further, driven by the economic recovery after COVID-19 and the Group's years of overseas penetration and development, the own-branded goat milk formulas (Kabrita) continued their growth momentum in the overseas markets since 2022 and recorded a 117.5% YoY increase in revenue for the 2023 Interim Period. The aforementioned increase was offset by the decrease in sales of Kabrita in the PRC, which was mainly due to the intensive market competition caused by the declining birth rate in the PRC and the increase in discounts for the clearance of old label Youzhuang (悠裝) in 1H 2023.

Regardless of the above, the United States Food and Drug Administration (the “**US FDA**”), one of the most internationally recognised authorities in the field, has approved the registration of the infant goat milk formula (0-12 months) of Kabrita (“**Kabrita IMF**”) in June 2023. Being the first IMF produced in Europe that has fulfilled the US FDA's nutrition and safety requirements, Kabrita IMF has been granted access to the market of the United States of America (the “**US**”), thereby starting a new chapter in the globalisation of Ausnutria in the future.

For the nutrition business, sales revenue increased YoY by 88.8% to RMB148.8 million (2022 Interim Period: RMB78.8 million). The increase was attributable to the (i) consolidation of Bioflag Nutrition Corporation Ltd. (“**Bioflag**”, together with its subsidiaries, the “**Bioflag Group**”) through acquiring additional interest in Bioflag (from 27.5% to approximately 61.1%) (the “**Bioflag Acquisition**”) at the beginning of 2023; and (ii) growth in sales of Aunulife (the Group's probiotic product) with a YoY growth of 36.3% for the 2023 Interim Period.

In 1H 2023, Ausnutria has not only fought for sales growth, but also rigorously streamlined its operations and taken various measures in implementing its cost controls. Selling and distribution expenses as a percentage of revenue decreased to 27.4% (2022 Interim Period: 31.3% (restated)), while the total administrative expenses (including research and development (“**R&D**”) cost) as a percentage of revenue decreased to 9.5% (2022 Interim Period: 10.5% (restated)). These successful cost controls partially relieved the pressure of relatively high raw milk price in the Netherlands, the appreciation of the Euro and the temporary adverse impact on Kabrita caused by the PRC market as well as the aforementioned clearance of old label Youzhuang had on the Group's gross profit margin. Attributable to the above efforts, the Group recorded a YoY growth in profit before tax of 3.3% to RMB230.9 million (2022 Interim Period: RMB223.6 million (restated)). The profit attributable to the equity holders of the Company decreased YoY by 10.3% to RMB184.6 million (2022 Interim Period: RMB205.7 million (restated)), which signalled a significant recovery when compared with the second half of 2022 of RMB10.8 million.

Formula Business

The own-branded formula business (the core business of the Group) recorded overall sales of RMB2,765.8 million (2022 Interim Period: RMB2,966.6 million (restated)), representing a YoY decrease of RMB200.8 million or 6.8%, and accounted for 78.8% (2022 Interim Period: 81.4% (restated)) of the Group's total revenue.

a) *Own-branded Cow Milk Formulas*

The Group's own-branded cow milk formulas recorded sales of RMB1,261.6 million (2022 Interim Period: RMB1,231.7 million (restated)), representing a YoY increase of RMB29.9 million or 2.4%, and accounted for 36.0% (2022 Interim Period: 33.8% (restated)) of the Group's total revenue.

To boost its competitive strength and optimise its resource allocation, the Group further consolidated its two major cow milk formula BUs, namely Hyproca Bio-Science and Allnutria, in the second quarter of 2023. The Group believes that after such consolidation, its cow and goat milk dual business model will better serve consumers with diverse needs. Such consolidation achieved initial success in terms of both sales and cost control.

In respect of channels, Hyproca 1897 (one of Ausnutria's core brands) turned over a new leaf in its channel empowerment strategy in 1H 2023 and officially launched the "Love for the Netherlands Mother and Baby Alliance (荷天下母嬰聯盟)" that targets the latest market trends, channel profitability and new customers. With respect to brand development, the Group continued to maximise the impact of its brand-building efforts by accurately engaging target customers through trending dramas on a number of video and television platforms. In the offline sector, the Group collaborated with its ambassadors to capitalise on the most suitable upmarket promotional activities. On 30 June, the first live global source tracking programme jointly produced by Hyproca 1897 and the news channel of China Central Television premiered. This programme showcased century-old farms and the Group's production lines in the Netherlands to 20 million new mothers. It also demonstrated the Group's premium milk source, top quality dairy cattle and sophisticated dairy production technologies in the Netherlands to the Chinese consumers, as well as helped build the consumers' trust in the quality and strength of the Group's brands.

b) *Own-branded Goat Milk Formulas (Kabrita)*

The Group's own-branded goat milk formulas recorded sales of RMB1,504.2 million (2022 Interim Period: RMB1,734.9 million (restated)), representing a YoY decrease of RMB230.7 million or 13.3%, and accounted for 42.8% (2022 Interim Period: 47.6% (restated)) of the Group's total revenue. Sales in the PRC and overseas markets amounted to RMB1,310.6 million and RMB193.6 million (2022 Interim Period: RMB1,645.9 million (restated) and RMB89.0 million), respectively. With the aims of providing consumers with fresher and good quality products, reducing inventory pressure of the distribution channels and ensuring long-term healthy development and competitiveness of Kabrita, the Group has made a series of adjustments to the sales strategies of Kabrita since 2023. As a part of these adjustments, the Group further streamlined its channels and tightened its control over the overall inventory level in the distribution channels. Coupled with macro economic factors and the clearance of old label Youzhuang mentioned above, sales of Kabrita in the PRC decreased by 20.4% for the 2023 Interim Period.

Kabrita continued to uphold its leadership position in the goat IMF market despite of the above. According to the data on the retail sales of imported goat IMF released by NielsenIQ, Kabrita has accounted for over 60% of the sales of imported infant and toddler goat milk formula in the PRC for 5 consecutive years from 2018 to 2022. In terms of growth in sales volume at retail channels in the PRC, Kabrita realised a YoY growth of 2.4% against the market trend in 1H 2023. In terms of growth in sales amount at retail channels, the market share of Kabrita expanded further from 26.6% to 27.2% in 1H 2023.

With years of efforts made and scientific proof obtained by Kabrita's US and Dutch teams through co-operating closely under Ausnutria's "1+6+N" global proprietary R&D system, Kabrita IMF was recently registered and approved by the US FDA to be sold in the US as the first IMF produced in Europe that has fulfilled the US FDA's nutrition and safety requirements. Such approval has not only opened its door to the US market, but also turned the page of Ausnutria's globalisation in the future.

Other Businesses

a) *Private Label and Others*

The Group's sales of formula milk powder products on an original equipment manufacturing basis (the "**Private Label**") and other businesses amounted to RMB597.3 million (2022 Interim Period: RMB600.2 million), representing a YoY decrease of 0.5% and accounted for 17.0% (2022 Interim Period: 16.4% (restated)) of the total revenue of the Group. The slight decrease in the sales of the relevant products for the 2023 Interim Period was mainly due to the relatively high raw milk price in the Netherlands and the strong Euro which temporarily affected the demand for the concerned products.

b) *Nutrition Business*

The Group's nutrition business recorded a revenue of RMB148.8 million (2022 Interim Period: RMB78.8 million), representing a YoY increase of RMB70.0 million or 88.8%. During the 2023 Interim Period, with an anticipation of the continuous growth in the probiotic segment, the Group increased its investment in Bioflag (from 27.5% to approximately 61.1%) and Bioflag became an indirect subsidiary of the Company thereafter. The increase in revenue in the nutrition business was partly contributed by the consolidation of Bioflag and partly attributable to the growth in the performance of Aunulife (the core probiotic product of the Group) which has recorded a YoY growth of 36.3%. In respect of marketing, Aunulife was identified by NielsenIQ as one of the top three children probiotic products in the industry as well as the number one children probiotic products in terms of reputation on Tmall. With respect to channel strategy, Aunulife focused on nurturing model clients and successfully established footholds and became the top probiotic product in a number of major retail chains, local chain stores as well as international supermarkets that are influential across the country and in the industry, thereby building up strong marketing power to spread its brand influence.

Diversified Product Mix with New Items

In February, Hyproca 1897's Hollarly A2 β -casein (荷致白金版) was officially launched at the establishment ceremony of the "Love for the Netherlands Mother and Baby Alliance". Not only featuring two kinds of small molecules, Hollarly A2 β -casein also carefully selected A2 protein* milk source and incorporated 13 key nutrients to meet the demand for specialised and quality meals for babies by delivering the benefits of both comprehensive nutrition and easier absorption. In June, Kabrita organised a product launch event "Better Nutrition, Better Future (更好營養, 悅護未來)" in Hainan, the PRC. Together with its ambassador Ms. Tang Yan (唐嫣), Kabrita unveiled a new product: Kabrita Yue Hu (悅護) goat IMF which spotlights immune system boosters to capture the post-pandemic immune-health market. In the same month, Hyproca 1897's Hollarly (荷致) stage-4 formula for three to six year-old kindergarten kids was repackaged and upgraded with comprehensive nutrients. The first batch of two Ausnutria's products of food for special medical purposes ("FSMP") under Care Suit (康素得) brand was also successfully rolled out for consumption by end users.

Continued to Strengthen Scientific Research Ability

Ausnutria attaches great importance to scientific research, especially nutritional health studies. The Group attained impressive results from several scientific research projects in 1H 2023. In January, the establishment of a project to develop an association standard, namely "Capillary gel electrophoresis – a method to measure the amount of whey protein in goat IMF (羊乳基嬰兒配方食品乳清蛋白含量檢測方法—毛細管凝膠電泳法)" prepared jointly by Kabrita and the Chinese Academy of Inspection And Quarantine, was approved. This project, once completed and issued, aims to fill the gap in the market with the first specialised method to test goat IMF. In February, Care Suit Zhen Shan (康素得臻膳) and Care Suit Shu Shan (康素得舒膳) comprehensive nutritional formula FSMP obtained official registration certificates issued by the State Administration for Market Regulation in the PRC (the "SAMR"). These two products can either be the sole nutrition source or dietary supplement for people over 10 years old with restrictive food intake, malabsorption and metabolic disorder.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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

In 1H 2023, with its achievements in the fields of nutrition and health innovation and development, Ausnutria was awarded The National May Day Labour Award in April, which is an integrated award with all-rounded consideration of the performance of a corporation. As at the date of this announcement, Ausnutria is the only food and nutrition enterprise in Hunan Province, the PRC that has received such an award. In May, Bioflag received the Year 2023 Innovation Award on iSEEAWARD held in Shanghai, the PRC, with its innovation and being the first Chinese corporation which has independently developed the first strain of lactobacillus rhamnosus MP108 (a strain of new food raw materials that can help prevent different types of inflammation in children) in the PRC. The recognition of the critical importance and the technological and innovative quality of this strain by such an authority in the industry demonstrated Ausnutria's powerful R&D ability as well as bold courage and creativity, which will also facilitate the Group's future development of its probiotic business. Furthermore, in June, a leading global provider of indexes, Morgan Stanley Capital International ("MSCI"), upgraded the rating of Ausnutria in the MSCI ESG Ratings assessment from A to AA. Ausnutria became the only company in the food industry in the PRC to receive a rating of AA as at the rating date and brought the highest honour in the history of MSCI ESG Ratings to the whole PRC food industry. In the same month, the Group also fulfilled all requirements laid down by the US FDA for the Group's own-branded infant goat milk formula (Kabrita). Accordingly, the Group has been granted access to the market of the US for the marketing and distribution of Kabrita IMF, which is the first IMF produced in Europe that has fulfilled the US FDA's requirements.

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

OUTLOOK

Despite the challenges ahead caused by the declining birth rates and the global instability, Ausnutria's confidence in the future of the market and the Group, as well as its commitment to the whole society, remain unchanged. Ausnutria will uphold its strategies of being consumer-oriented, striving for the first-tier status, focusing on performance, abiding by the rules and aiming at win-win to realise Ausnutria's four goals in high-quality development: business growth, higher capacity, better efficiency and bigger contributions, as well as the Group's sustainability targets of "better nutrition", "better life" and "better environment".

2023 will be a year of management reform and efficiency advancement for Ausnutria. The Group is devoted to the following key strategic tasks:

1. allocate energy and resources to focus on the goat milk powder and premium cow milk powder businesses with the aims of improving user experience and increasing sales in the PRC and across the globe;
2. enhance the quality control, operational efficiency, cost competitiveness and reaction speed of global supply chains;
3. continue to promote business standardisation and digitalisation and enhance operational efficiency, customer service and corporate management;
4. speed up promising R&D projects to support existing business and pave the way for future success;
5. continue to strengthen corporate governance and internal controls;
6. expedite development in the overseas goat milk powder market; and
7. implement Ausnutria's "Golden Decade" strategy in a steady manner to deliver an overall turnaround of the nutrition business and establish the "Ausnutria Health Sciences (澳優健康科學)" segment.

FINANCIAL REVIEW

Analysis on Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

Revenue

	Notes	Six months ended 30 June		Change %	Proportion to total revenue Six months ended 30 June	
		2023 RMB'M (Unaudited)	2022 RMB'M (Unaudited) (Restated)		2023 %	2022 %
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	<u>1,261.6</u>	<u>1,231.7</u>	2.4	<u>36.0</u>	<u>33.8</u>
Goat milk (in the PRC)	(i)	<u>1,310.6</u>	<u>1,645.9</u>	(20.4)	<u>37.3</u>	<u>45.2</u>
Goat milk (elsewhere)	(i)	<u>193.6</u>	<u>89.0</u>	117.5	<u>5.5</u>	<u>2.4</u>
		<u>1,504.2</u>	<u>1,734.9</u>	(13.3)	<u>42.8</u>	<u>47.6</u>
		<u>2,765.8</u>	<u>2,966.6</u>	(6.8)	<u>78.8</u>	<u>81.4</u>
Private Label and others:						
Private Label	(ii)	<u>103.2</u>	<u>113.1</u>	(8.8)	<u>2.9</u>	<u>3.1</u>
Others	(iii)	<u>494.1</u>	<u>487.1</u>	1.4	<u>14.1</u>	<u>13.3</u>
		<u>597.3</u>	<u>600.2</u>	(0.5)	<u>17.0</u>	<u>16.4</u>
Dairy and related products		<u>3,363.1</u>	<u>3,566.8</u>	(5.7)	<u>95.8</u>	<u>97.8</u>
Nutrition products	(iv)	<u>148.8</u>	<u>78.8</u>	88.8	<u>4.2</u>	<u>2.2</u>
Total		<u><u>3,511.9</u></u>	<u><u>3,645.6</u></u>	(3.7)	<u><u>100.0</u></u>	<u><u>100.0</u></u>

Notes:

- (i) Representing the sales of own-branded cow milk formula products in the PRC and Kabrita in the PRC, Europe, the Commonwealth of Independent States, the USA, Canada, the Middle East countries, South Korea, South Africa, Mexico, etc.
- (ii) Representing the sales of formula milk powder products (including IMF) under the customers' own brands.
- (iii) Representing mainly the sales of milk, milk powder, cream and other milk derived ingredients such as whey protein powder, etc.
- (iv) Representing the sales of nutrition products in the PRC and Australia.

The Group recorded revenue of RMB3,511.9 million for the 2023 Interim Period, representing a decrease of RMB133.7 million, or 3.7%, from RMB3,645.6 million (restated) for the 2022 Interim Period. The decrease in revenue was mainly attributable to the decrease in revenue from the Group's own-branded goat milk formulas (Kabrita) in the PRC, which dropped by RMB335.3 million or 20.4% when compared with the prior period. The slowdown in the sales performance of Kabrita in the PRC was mainly due to: (i) the overall slowdown of the market caused by the declining birth rate in the PRC; (ii) the increase in discounts for the clearance of the old label Youzhuang; and (iii) the streamline of the distribution channels and enforcement of stricter control over the dispatch of goods in order to stabilize the selling price and inventory level at retail end by proactively slowing down the delivery of Yuebai (悦白)(the core brand in Kabrita) to distributors during the period.

The decrease was partly compensated by (i) the recovery of the cow IMF following a series of adjustments to the sales strategies of Hyproca Bio-Science BU made in 2022, with the aims of providing consumers with fresher and better quality products, reduce inventory pressure in the distribution channels and ensure long-term healthy development and competitiveness of its core products; (ii) the significant surge in performance in Kabrita overseas; and (iii) the growth in the nutrition segment contributed by the consolidation of the probiotic business as a result of the acquisition of the additional interest in Bioflag on 3 January 2023.

Apart from the above, the Group has Private Label and other businesses, including sales of dairy related products such as milk, milk powder, cream and other milk derived ingredients such as whey protein powder. The revenue contributed by these businesses remained comparable with the prior period.

Gross profit and gross profit margin

	Six months ended 30 June		Six months ended 30 June	
	2023 <i>RMB'M</i> (Unaudited)	2022 <i>RMB'M</i> (Unaudited) (Restated)	2023 %	2022 %
Own-branded formula milk powder products:				
Cow milk	673.0	681.8	53.3	55.4
Goat milk	730.7	1,022.3	48.6	58.9
	1,403.7	1,704.1	50.8	57.4
Private Label and others	25.4	21.3	4.3	3.5
Dairy and related products	1,429.1	1,725.4	42.5	48.4
Nutrition products	65.5	51.9	44.0	65.9
	1,494.6	1,777.3	42.6	48.8
Less: provision for inventories	(21.2)	(43.2)		
Total	1,473.4	1,734.1	42.0	47.6

The Group's gross profit for the 2023 Interim Period was RMB1,473.4 million, representing a decrease of RMB260.7 million, or 15.0%, when compared with the 2022 Interim Period. The decrease in the gross profit margin of the Group from 47.6% (restated) for the 2022 Interim Period to 42.0% for the 2023 Interim Period was primarily due to the following factors:

- (i) The increase in discounts granted to distributors for the Group's own-branded formula milk powder products due to the intense market competition and the clearance of the old label Youzhuang.
- (ii) The increase in average raw milk price comparing with the 2022 Interim Period.
- (iii) The continuous appreciation of EUR against RMB.

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expenses, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, represented 27.4% (2022 Interim Period: 31.3% (restated)) of the revenue for the 2023 Interim Period. In view of the continuous increase in market competition and the decline in birth rate, the Group has undertaken a number of cost-saving measures, particularly on the integration of the two cow BUs (the "**BU Integration**"), namely the Hyproca Bio-Science BU and Allnutria BU, in order to increase its competitiveness. Selling and distribution expenses decreased accordingly for the 2023 Interim Period.

Administrative expenses

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

Other income, other gains – net

The amount mainly represented (i) subsidies from the PRC government of RMB47.6 million (2022 Interim Period: RMB24.1 million); and (ii) the interest income derived from the bank deposits of RMB16.8 million (2022 Interim Period: RMB19.6 million).

Finance costs – net

The finance costs of the Group for the 2023 Interim Period amounted to RMB19.4 million (2022 Interim Period: RMB11.2 million), representing mainly the interest on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands.

The increase in finance costs was mainly due to (i) the increase in bank loans for the financing of the building of a new IMF base powder facility (the "**New IFBP Facility**") in the Netherlands; and (ii) the increase in average interest rate as a result of the change in monetary policy in the European countries. As at 30 June 2023, approximately 86.7% (31 December 2022: 87.8%) of the Group's bank loans and borrowings are denominated in EUR.

Share of profits of investments accounted for using the equity method

The amount mainly represented share of profits of Farmel Holding B.V. and its subsidiaries (the “**Farmel Group**”) of RMB13.7 million (2022 Interim Period: RMB26.3 million (restated)) and Amalthea Group B.V. and its subsidiaries (the “**Amalthea Group**”) (which was invested on 9 February 2023) of RMB2.3 million for the 2023 Interim Period. The Farmel Group is principally engaged in the collection and trading of milk and dairy related commodities in Europe. The purpose for the investment in the Farmel Group is to secure the long-term milk supply for the Group’s operations in the Netherlands. The Amalthea Group is principally engaged in the exploitation of cheese factory and the trading of goat cheese and related products.

Income tax expenses

The Group’s effective tax rate of 23.7% for the 2023 Interim Period increased by 9.2 percentage points as compared with the 2022 Interim Period of 14.5% (restated). The increase in the effective tax rate was mainly due to the change in the applicable CIT rate of Hyproca Nutrition Company Limited, one of the most profit-making companies of the Group, from 15% to 25% following the expiry of its High-tech Enterprises preferential CIT rate in 2022.

Profit attributable to equity holders of the Company

The Group’s profit attributable to equity holders of the Company for the 2023 Interim Period amounted to RMB184.6 million, representing a decrease of RMB21.1 million, or 10.3% when compared with the 2022 Interim Period.

The decrease was mainly attributable to the continuous intensive competition of the formula milk market in the PRC which resulted in a decrease in gross profit margin of the Group’s own-branded formula milk powder products by 6.6 percentage points. Such decrease was partly compensated by the cost-saving plan implemented by the Group during the period.

Analysis on Condensed Consolidated Statement of Financial Position

As at 30 June 2023, the total assets and net asset value of the Group amounted to RMB10,603.1 million (31 December 2022: RMB9,796.1 million) and RMB5,889.3 million (31 December 2022: RMB5,565.1 million), respectively.

The increase in total assets of the Group as at 30 June 2023 was mainly attributable to the effects of:

- (i) the addition in property, plant and equipment of RMB320.6 million mainly arising as a result of the additions of construction in progress of RMB300.7 million for the building of the New IFBP Facility in the Netherlands; and
- (ii) the effect of the consolidation of Bioflag.

The increase in net assets of the Group as at 30 June 2023 by RMB324.2 million was mainly a result of the net effects of (i) the net profit attributable to equity holders of the Company generated for the 2023 Interim Period of RMB184.6 million (2022 Interim Period: RMB205.7 million (restated)); (ii) the appreciation of the EUR against RMB which contributed to an increase in exchange fluctuation reserve of RMB170.2 million; (iii) the increase in equity of RMB67.2 million arising from the acquisition of the additional interest in Bioflag; and (iv) the payment of final dividend of RMB98.5 million during the period.

Working Capital Cycle

As at 30 June 2023, the current assets to current liabilities ratio of the Group was 1.28 times (31 December 2022: 1.49 times). The decrease in current ratio was mainly due to the refinancing exercise conducted by the Group during the period which has temporarily increased the portion of bank loans due within one year. Details regarding the refinancing exercise resulting in more favourable terms and conditions are set out in the section headed “Financial Resources, Liquidity and Pledge of Assets” below.

An analysis of key working capital cycle is as follows:

	Six months ended 30 June		Change Number of days
	2023 Number of days	2022 Number of days (Restated)	
Inventories turnover days	208	210	(2)
Debtors’ turnover days	33	25	8
Creditors’ turnover days	52	39	13

The Group’s inventories turnover days remained stable when compared with the prior period.

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

The increase in turnover days of the Group’s trade payables was mainly due to general increase in credit terms granted by the suppliers following the change in ultimate shareholder with sound credibility and reputation in the industry.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

On 9 February 2023, Ausnutria B.V., a wholly-owned subsidiary of the Company, completed the acquisition of the 50% of the Amalthea Group at a cash consideration of approximately EUR18.4 million (equivalent to approximately RMB139.2 million). The Amalthea Group is principally engaged in the exploitation of cheese factory and the trading of goat cheese and related products. The Amalthea Group become a joint venture of the Company thereafter. Further details regarding the acquisition are set out in the announcement of the Company dated 21 October 2022.

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

Save as disclosed above and elsewhere in this announcement, there were no other material investments, acquisitions or disposals of subsidiaries, joint ventures or associated companies during the 2023 Interim Period.

TREASURY POLICY

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

The Group adopts conservative financial management policies. A summary of liquidity and financial resources is set out below:

	<i>Notes</i>	30 June 2023 RMB'M (Unaudited)	31 December 2022 RMB'M (Audited)
Interest-bearing bank loans and other borrowings		(2,577.4)	(1,465.6)
Lease liabilities		(36.9)	(94.8)
Less: Restricted cash		124.4	125.2
Cash and cash equivalents		2,053.5	1,861.9
		(436.4)	426.7
Total assets		10,603.1	9,796.1
Shareholders' equity		5,805.8	5,646.6
Gearing ratio	<i>(i)</i>	4.1%	N/A
Solvency ratio	<i>(ii)</i>	54.8%	57.6%

Notes:

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

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

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

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

As at 30 June 2023, the Group had outstanding borrowings of RMB2,577.4 million (31 December 2022: RMB1,465.6 million), all of which was due within one year (31 December 2022: RMB1,021.6 million). As at 31 December 2022, the Group also had outstanding borrowings that was due over one year amounted to RMB444.0 million. In view of the change in the global monetary policy, the Company will continue to refine its financing structure.

As at 30 June 2023, there were also time deposits that were mainly placed in the PRC of RMB103.0 million (31 December 2022: RMB123.6 million) pledged for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

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

The Group adopts a hedging policy to actively manage its currency risk exposure concerning non-RMB denominated indebtedness. Depending on the market circumstances, trend of currency rates and the cost of hedging, the Group will consider and enter into a hedging arrangement to mitigate the impact of RMB fluctuation against other operating currencies.

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

INTEREST RATE RISK

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

CREDIT RISK

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

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

COMMITMENTS

As at 30 June 2023, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of land and buildings, plant and machineries of a total of RMB257.4 million (31 December 2022: RMB597.9 million).

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: Nil).

PRIOR PERIOD ADJUSTMENTS

As set out in the 2022 Annual Report and the Supplemental Announcement published on 7 July 2023, the Company restated its comparative figures for the year ended 31 December 2021 in order to correct certain prior period errors identified. The corresponding impact of the errors to the condensed consolidated interim financial statements for the six months ended 30 June 2022 are set out in note 13.

The Company confirms that the aforementioned prior period adjustments have no enduring impact to the Group's consolidated financial statements going forward. As set out in the announcement of the Company dated 7 July 2023, the Company has engaged an external internal control consultant for an internal control review (the "**Internal Control Review**") for the purpose of improving its internal control and financial reporting system.

The Company will make further announcement(s) to update its shareholders (the "**Shareholders**") and potential investors on the results of the Internal Control Review as and when appropriate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the 2023 Interim Period.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance within the Group at all times and believes that such practices help safeguard the interests of the Shareholders, enhance corporate value and accountability as well as improve its performance.

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code of corporate governance practices. The Board also strives to implement the best practices embodied in the CG Code whenever feasible and as far as practicable.

On 27 January 2023, Mr. Yan Weibin, who has been the chairman of the Board, was also appointed as the chief executive officer of the Group. Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Board believes that the new structure ensures that the Group has consistent leadership and could make and implement the overall strategy of the Group more effectively and this structure does not compromise the balance of power and authority. The Board will regularly review the effectiveness of this structure to ensure that it is appropriate to the Group’s circumstances.

Save as disclosed above, in the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the 2023 Interim Period and up to the date of this announcement. The Company will continue to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as contained in Appendix 10 to the Listing Rules as the standards for the Directors’ dealings in the securities of the Company. Having made specific enquiries with all Directors by the Company, the Directors confirmed that they have complied with the required standard set out in the Model Code during the 2023 Interim Period.

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

AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive Directors, and was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the Audit Committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, oversee the audit process and perform other duties and responsibilities stated in the written terms of reference.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim report of the Company for the 2023 Interim Period, which contains the detailed results and other information of the Company for the 2023 Interim Period required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

The PRC, 25 August 2023

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman and Chief Executive Officer), Mr. Bartle van der Meer and Ms. Ng Siu Hung; three non-executive Directors, namely Mr. Sun Donghong (Vice-Chairman), Mr. Zhang Zhanqiang and Mr. Zhang Lingqi; and three independent non-executive Directors, namely Mr. Ma Ji, Mr. Song Kungang and Mr. Aidan Maurice Coleman.