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 2022

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2022	2021	% of
	RMB'M	*RMB'M*	Change
		(Restated)*	
Revenue	**3,630.2**	4,276.0	(15.1)
Gross profit	**1,709.0**	2,141.9	(20.2)
Gross profit margin *(%)*	**47.1**	50.1	(3.0)pps
EBITDA	**357.0**	826.3	(56.8)
Profit attributable to equity holders of the Company	**222.0**	598.9	(62.9)

For the six months ended 30 June 2022 (the "**2022 Interim Period**" or "**1H 2022**"), Ausnutria Dairy Corporation Ltd ("**Ausnutria**" or the "**Company**") and its subsidiaries (collectively, the "**Group**") recorded the followings:

- Revenue decreased by RMB645.8 million or 15.1%.
- Gross profit decreased by RMB432.9 million or 20.2%.
- EBITDA decreased by RMB469.3 million or 56.8%.
- Profit attributable to equity holders of the Company decreased by RMB376.9 million or 62.9%.

* *Refer to note 3 to the condensed consolidated financial statements for the details of adjustments.*

The board (the "**Board**") of directors (the "**Directors**") of the Company hereby announces the unaudited consolidated financial results of the Group for the 2022 Interim Period together with the comparative figures for the six months ended 30 June 2021 (the "**2021 Interim Period**"). The Group's interim results for the 2022 Interim Period are unaudited but have been reviewed by the audit committee of the Company (the "**Audit Committee**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	**2022 Unaudited** ***RMB'000***	2021 Unaudited *RMB'000* (Restated)
REVENUE	*5*	**3,630,248**	4,276,031
Cost of sales		**(1,921,280)**	(2,134,141)
Gross profit		**1,708,968**	2,141,890
Other income and gains		**53,515**	51,660
Selling and distribution expenses		**(1,099,903)**	(1,117,430)
Administrative expenses		**(381,365)**	(334,987)
Other expenses		**(34,253)**	(26,426)
Finance costs		**(11,227)**	(11,631)
Share of profits and losses of associates		**265**	619
Profit before income tax	*6*	**236,000**	703,695
Income tax expense	*7*	**(27,543)**	(126,976)
PROFIT FOR THE PERIOD		**208,457**	576,719
Attributable to:			
Owners of the parent		**221,988**	598,915
Non-controlling interests		**(13,531)**	(22,196)
		208,457	576,719
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
– For profit for the period *(RMB cents)*		**12.36**	34.89
Diluted			
– For profit for the period *(RMB cents)*		**12.36**	34.79

	Notes	**2022** **Unaudited** ***RMB'000***	2021 Unaudited *RMB'000* (Restated)
PROFIT FOR THE PERIOD		**208,457**	576,719
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(17,097)**	(162,969)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(17,097)**	(162,969)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(17,097)**	(162,969)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**191,360**	413,750
Attributable to:			
Owners of the parent		**203,188**	435,806
Non-controlling interests		**(11,828)**	(22,056)
		191,360	413,750

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	**30 June 2022 Unaudited** ***RMB'000***	31 December 2021 Audited *RMB'000* (Restated)	1 January 2021 Audited *RMB'000* (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment		**1,930,299**	1,836,332	1,840,357
Investment property		**112,234**	115,821	–
Right-of-use assets		**260,977**	283,812	359,731
Goodwill		**281,548**	258,688	297,541
Other intangible assets		**459,089**	420,979	411,642
Investments in associates		**595,338**	565,920	581,188
Prepayments, deposits and other assets		**136,714**	145,293	136,992
Deferred tax assets		**316,054**	266,023	270,663
Total non-current assets		**4,092,253**	3,892,868	3,898,114
CURRENT ASSETS				
Inventories		**2,272,272**	2,198,471	2,400,946
Trade and bills receivables	*10*	**565,314**	459,327	456,425
Prepayments, other receivables and other assets		**481,152**	457,104	435,576
Financial assets at fair value through profit and loss		**80,747**	–	–
Pledged deposits		**121,316**	255,237	212,062
Cash and cash equivalents		**1,764,329**	2,262,188	1,857,516
Total current assets		**5,285,130**	5,632,327	5,362,525
CURRENT LIABILITIES				
Trade and bills payables	*11*	**425,470**	405,978	409,247
Other payables and accruals		**1,485,904**	2,037,151	2,326,103
Interest-bearing bank loans and other borrowings		**606,683**	739,942	558,973
Derivative financial liabilities		**4,484**	3	109
Tax payable		**77,909**	178,565	156,666
Total current liabilities		**2,600,450**	3,361,639	3,451,098
NET CURRENT ASSETS		**2,684,680**	2,270,688	1,911,427
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,776,933**	6,163,556	5,809,541

	Notes	**30 June 2022** **Unaudited** ***RMB'000***	31 December 2021 Audited *RMB'000* (Restated)	1 January 2021 Audited *RMB'000* (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,776,933**	6,163,556	5,809,541
NON-CURRENT LIABILITIES				
Interest-bearing bank loans and other borrowings		**665,247**	563,079	527,299
Deferred revenue		**62,610**	62,610	65,121
Defined benefit plan		**2,950**	3,039	8,932
Other liabilities		**2,835**	2,743	7,477
Deferred tax liabilities		**79,774**	72,779	94,520
Total non-current liabilities		**813,416**	704,250	703,349
Net assets		**5,963,517**	5,459,306	5,106,192
EQUITY				
Equity attributable to owners of the parent				
Share capital	*12*	**156,831**	149,485	149,267
Reserves		**5,864,377**	5,354,763	4,976,357
		6,021,208	5,504,248	5,125,624
Non-controlling interests		**(57,691)**	(44,942)	(19,432)
Total equity		**5,963,517**	5,459,306	5,106,192

1. CORPORATE AND GROUP INFORMATION

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

The Company acts as an investment holding company of the Group. During the six months ended 30 June 2022, the Group is principally engaged in research and development, production, marketing and distribution of dairy and related products and nutrition products to its worldwide customers, particularly in the PRC.

In the opinion of the Directors, upon final closing of the mandatory conditional cash offer on 17 March 2022, 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. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2022 have 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 do 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 2021. The interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended standards adopted by the Group

A number of new or amended standards and interpretations became effective for the financial period beginning on or after 1 January 2022. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

		Effective for annual periods beginning on or after
IAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
IAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
IFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to IFRS Standards 2018 – 2020		1 January 2022

(b) ***Issued but not yet effective standards***

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2022 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	1 January 2023
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
IAS 1 and IFRS Practise Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
IAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
IAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3. RESTATEMENTS

In preparation for the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022, the Group has identified the below adjustments in the comparative financial statements presented. A detailed description of nature of the prior year adjustments is further discussed below.

Customer loyalty program and the distributor incentive program

During the six months ended 30 June 2022, an adjustment in the accounting for the customer loyalty program and the distributor incentive program was identified. The adjustment resulted in an understatement of revenue and income tax expense for the six months ended 30 June 2021, understatement of deferred tax assets and other payables and accruals as at 31 December 2021 and 1 January 2021, and overstatement of retained profits and non-controlling interests as at 31 December 2021 and 1 January 2021.

The adjustments have been made by restating each of the affected financial statements line items for the prior periods as follows:

Condensed consolidated statement of profit or loss and other comprehensive income

	Six months ended 30 June 2021 *RMB'000*
Increase in revenue	5,485
Increase in income tax expense	(362)

Condensed consolidated statement of financial position

	31 December 2021 *RMB'000*	1 January 2021 *RMB'000*
Increase in deferred tax assets	10,989	12,682
Increase in other payables and accruals	45,330	58,430
Decrease in reserves – retained profits	(34,293)	(45,748)
Decrease in non-controlling interests	(48)	–

Financial impacts of the adjustments identified

The effects of the restatements on the Group's condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2021 are summarised as follows:

Condensed consolidated statement of profit or loss and other comprehensive income (extract)	Six months ended 30 June 2021 *RMB'000* (Previously reported)	Restatements *RMB'000*	Six months ended 30 June 2021 *RMB'000* (Restated)
Revenue	4,270,546	5,485	4,276,031
Income tax expense	(126,614)	(362)	(126,976)
Profit for the period	571,596	5,123	576,719
Attributable to:			
Owners of the Company	593,990	4,925	598,915
Non-controlling interests	(22,394)	198	(22,196)
	571,596	5,123	576,719
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
– for profit for the period *(RMB cents)*	34.60	0.29	34.89
Diluted			
– for profit for the period *(RMB cents)*	34.50	0.29	34.79
Total comprehensive income for the period	408,627	5,123	413,750
Total comprehensive income attributable to:			
Owners of the Company	430,881	4,925	435,806
Non-controlling interests	(22,254)	198	(22,056)
	408,627	5,123	413,750

The effects of the restatements on the Group's condensed consolidated statement of financial position as at 31 December 2021 and 1 January 2021 are summarised as follows:

Condensed consolidated statement of financial position (extract)	31 December 2021 *RMB'000* (Previously reported)	Restatements *RMB'000*	31 December 2021 *RMB'000* (Restated)
Deferred tax assets	255,034	10,989	266,023
Other payables and accruals	1,991,821	45,330	2,037,151
Total net assets	5,493,647	(34,341)	5,459,306
Reserves – retained profits	4,543,262	(34,293)	4,508,969
Non-controlling interests	(44,894)	(48)	(44,942)
Total equity	5,493,647	(34,341)	5,459,306

	1 January 2021 *RMB'000* (Previously reported)	Restatements *RMB'000*	1 January 2021 *RMB'000* (Restated)
Deferred tax assets	257,981	12,682	270,663
Other payables and accruals	2,267,673	58,430	2,326,103
Total net assets	5,151,940	(45,748)	5,106,192
Reserves – retained profits	3,543,386	(45,748)	3,497,638
Non-controlling interests	(19,432)	–	(19,432)
Total equity	5,151,940	(45,748)	5,106,192

4. OPERATING SEGMENT INFORMATION

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

(a) the dairy and related products segment comprises the manufacturing and sale of dairy and related products, particularly the formula milk powder products, to its worldwide customers; and

(b) the nutrition products segment comprises the manufacturing and sale of nutrition products (other than dairy related) to its customers principally in the PRC and Australia.

The 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 a measure of adjusted profit before income tax. The adjusted profit before income tax is measured consistently with the Group's profit before income tax except that interest income, non-lease related finance costs as well as unallocated head office and corporate results are excluded from such measurement.

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

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

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Six months ended 30 June 2022 (unaudited)			
Segment revenue			
Sales to external customers	**3,551,483**	**78,765**	**3,630,248**
Revenue from operations			**3,630,248**
Segment results	**281,464**	**(34,522)**	**246,942**
Reconciliation:			
Interest income			**19,613**
Finance costs (other than interest on lease liabilities)			**(9,529)**
Corporate and other unallocated expenses			**(21,026)**
Profit before income tax			**236,000**
Other segment information			
Impairment losses recognised in profit or loss	**56,097**	**1,426**	**57,523**
Share of profits and losses of associates	**232**	**33**	**265**
Depreciation and amortisation	**122,161**	**7,237**	**129,398**
Capital expenditures*	**316,952**	**1,370**	**318,322**
As at 30 June 2022 (unaudited)			
Segment assets	**7,416,842**	**415,082**	**7,831,924**
Reconciliation:			
Elimination of intersegment receivables			**(340,186)**
Corporate and other unallocated assets			**1,885,645**
Total assets			**9,377,383**
Segment liabilities	**2,195,416**	**384,023**	**2,579,439**
Reconciliation:			
Elimination of intersegment payables			**(340,186)**
Corporate and other unallocated liabilities			**1,174,613**
Total liabilities			**3,413,866**
Other segment information			
Investments in associates	**398,687**	**196,651**	**595,338**

	Dairy and related products *RMB'000*	Nutrition products *RMB'000*	Total *RMB'000*
Six months ended 30 June 2021 (unaudited) (restated)			
Segment revenue			
Sales to external customers	4,207,743	68,288	4,276,031
Revenue from operations			4,276,031
Segment results	725,350	(11,707)	713,643
Reconciliation:			
Interest income			14,058
Finance costs (other than interest on lease liabilities)			(8,660)
Corporate and other unallocated expenses			(15,346)
Profit before income tax			703,695
Other segment information			
Impairment losses recognised in profit or loss	178,970	342	179,312
Share of profits and losses of associates	2,249	(1,630)	619
Depreciation and amortisation	118,107	6,963	125,070
Capital expenditures*	235,206	229	235,435
As at 31 December 2021 (audited) (restated)			
Segment assets	6,907,123	426,068	7,333,191
Reconciliation:			
Elimination of intersegment receivables			(325,421)
Corporate and other unallocated assets			2,517,425
Total assets			9,525,195
Segment liabilities	2,831,207	382,533	3,213,740
Reconciliation:			
Elimination of intersegment payables			(325,421)
Corporate and other unallocated liabilities			1,177,570
Total liabilities			4,065,889
Other segment information			
Investments in associates	369,301	196,619	565,920

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	*RMB'000*
		(Restated)
The PRC	**3,063,014**	3,775,940
European Union	**334,711**	308,223
Middle East	**83,333**	43,668
North and South America	**86,334**	76,953
Australia	**13,226**	16,605
Others	**49,630**	54,642
	3,630,248	4,276,031

The revenue information is based on the locations of the customers.

(b) Non-current assets

	30 June	31 December
	2022	2021
	Unaudited	Audited
	RMB'000	*RMB'000*
The PRC	**1,195,775**	1,144,793
The Netherlands	**2,182,407**	2,039,005
Australia	**281,132**	306,704
New Zealand	**116,885**	136,343
	3,776,199	3,626,845

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

Information about a major customer

During the six months ended 30 June 2022, there was no revenue from a single external customer which accounted for 10% or more of the Group's total revenue (six months ended 30 June 2021: Nil).

5. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	*RMB'000*
		(Restated)
Revenue from contracts with customers	**3,630,248**	4,276,031

6. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Cost of inventories sold	**1,868,342**	1,954,829
Write-down of inventories to net realisable value	**52,938**	179,312
Cost of sales	**1,921,280**	2,134,141
Depreciation of property, plant and equipment	**75,005**	71,907
Depreciation of right-of-use assets	**21,738**	23,619
Amortisation of other intangible assets	**32,655**	29,544
Research and development costs	**86,505**	73,931
Foreign exchange differences, net	**2,824**	10,895
Auditor's remuneration	**4,240**	3,266
Advertising and promotion expenses	**693,183**	607,725
Interest income	**(19,613)**	(14,058)
Government grants	**(24,116)**	(33,439)
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**473,930**	505,800
Cancellation of equity-settled share option arrangements	**4,908**	–
Equity-settled share option expense	**–**	5,555
Temporary staff costs	**133,962**	121,814
Other expenses	**79,558**	67,303
Pension scheme contributions*	**37,179**	35,792
	729,537	736,264

* *As at 30 June 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2021: Nil).*

7. INCOME TAX

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	*RMB'000*
		(Restated)
Current – Mainland China		
Charge for the period	**41,758**	142,699
Current – The Netherlands		
Charge for the period	**25,791**	6,057
Overprovision in prior periods	**–**	(24,094)
Current – Hong Kong		
Charge for the period	**1,371**	2,956
Current – Australia		
Charge for the period	**831**	–
Current – Taiwan		
Charge for the period	**877**	993
Deferred	**(43,085)**	(1,635)
Total	**27,543**	126,976

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

Under the PRC income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 15% (six months ended 30 June 2021: 15%) for the first EUR395,000 (six months ended 30 June 2021: EUR245,000) taxable profits and 25.8% (six months ended 30 June 2021: 25%) for taxable profits exceeding the threshold. 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 period, except for one subsidiary of the Company which is a qualifying entity under the two-tiered profits tax rates regime. The first 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%. Under the United States tax laws, enterprises are subject to the United States CIT rate of 21%. Under the Canada tax laws, enterprises are subject to the Canada CIT rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia CIT rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand CIT rate of 28%. Under the Taiwan tax laws, enterprises are subject to the Taiwan CIT rate of 20%.

Ausnutria Dairy (China) Co. Ltd. ("**Ausnutria China**") and Hyproca Nutrition Co. Ltd. ("**HNC**") were designated as High-tech Enterprises in the PRC and have been granted the preferential CIT rate of 15% up to the year ending 31 December 2022.

Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") in the Netherlands have been granted a preferential tax benefit in April 2021 which covers the period from 2018 to 2024 for the recognition of the Ausnutria B.V. Group's contribution in the 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 properties.

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,795,545,838 (six months ended 30 June 2021: 1,716,525,906) in issue during the period.

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

Earnings

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	*RMB'000*
		(Restated)
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**221,988**	598,915

Shares

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	Number of shares	*Number of shares*
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,795,545,838**	1,716,525,906
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	5,148,110
	1,795,545,838	1,721,674,016

10. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2022	2021
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade receivables	**540,021**	431,510
Bills receivable	**25,293**	27,817
Total	**565,314**	459,327

The Group normally allows a credit period from 1 to 12 months (31 December 2021: from 1 to 12 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 ageing analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2022 Unaudited ***RMB'000***	31 December 2021 Audited *RMB'000*
Within 3 months	**457,654**	342,357
3 to 6 months	**42,470**	34,853
6 months to 1 year	**10,570**	14,040
Over 1 year	**29,327**	40,260
Total	**540,021**	431,510

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

There was provision for impairment of RMB4,585,000 recognised for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

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:

	30 June 2022 Unaudited ***RMB'000***	31 December 2021 Audited *RMB'000*
Within 12 months	**412,314**	403,898
Over 12 months	**13,156**	2,080
	425,470	405,978

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

12. SHARE CAPITAL

Shares

	30 June 2022 Unaudited *HK$'000*	31 December 2021 Audited *HK$'000*
Issued and fully paid:		
1,808,545,841 (2021: 1,718,545,841) ordinary shares of HK$0.10 each	**180,855**	171,855

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

	Number of shares in issue *'000*	**Share capital *RMB'000***
At 1 January 2022 (audited)	**1,718,546**	**149,485**
Issue of shares	**90,000**	**7,346**
At 30 June 2022 (unaudited)	**1,808,546**	**156,831**

Note:

On 28 January 2022, 90,000,000 Shares were allotted and issued to satisfy the subscription agreement entered into between the Company and Hongkong Jingang Trade Holding Co., Limited, at a subscription price of HK$10.06 per Share, amounting to HK$905.4 million (equivalent to approximately RMB739.0 million) of which RMB7.3 million was credited to share capital and RMB731.7 million was credited to share premium account of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 1H 2022, the unceasing COVID-19 pandemic, the drop in birth rate in the PRC and the stringent anti-epidemic measures in some regions all brought unprecedented challenges to the infant formula industry. According to AC Nielsen, sales level of the industry in the PRC for 1H 2022 decreased by 4.0% year-on-year ("**YoY**"), showing an overall downward trend in market demand.

In 1H 2022, the Group recorded a revenue of RMB3,630.2 million, representing a YoY decrease of RMB645.8 million or 15.1% (2021 Interim Period: RMB4,276.0 million (restated)); gross profit of RMB1,709.0 million, representing a YoY decrease of RMB432.9 million or 20.2% (2021 Interim Period: RMB2,141.9 million (restated)); profit attributable to the equity holders of the Company of RMB222.0 million, representing a YoY decrease of RMB376.9 million or 62.9% (2021 Interim Period: RMB598.9 million (restated)). The decrease in operating performance was mainly due to (i) the short-term impact of a series of proactive adjustments implemented by the Group to the sales strategy of its own-branded cow milk formula products (the "**Own-branded Cow Milk Formulas**"), Hyproca 1897; and (ii) increased support from the Group to its distributors to sustain their continuous growth during this critical moment. Notwithstanding such challenges, the Group kept the adverse impacts at a manageable level and continued to lay a solid foundation for its long-term sustainable development by further fortifying and stabilising its global supply chain, thus enhancing the competitiveness of its brands and strengthening its scientific research ability.

Formula Milk Powder Business

The own-branded formula milk powder business (core business of the Group) recorded overall sales of RMB2,951.2 million (2021 Interim Period: RMB3,746.5 million (restated)), representing a YoY decrease of RMB795.3 million or 21.2%, and accounted for 81.3% (2021 Interim Period: 87.6%) of the total revenue of the Group.

a) Own-branded Cow Milk Formulas

The Own-branded Cow Milk Formulas recorded a YoY decrease in sales of RMB770.7 million, or 37.6%, to RMB1,279.3 million (2021 Interim Period: RMB2,050.0 million (restated)). Since the end of 2021, the Group proactively made a series of adjustments to the sales strategies of Hyproca 1897 (the Own-branded Cow Milk Formulas core brand), with the aims of providing products with better shelf life and of higher quality to customers and reducing the inventory and liquidity pressure of its distributors and channel partners. As a part of these adjustments, Hyproca 1897 business unit ("**BU(s)**") streamlined its channels and enforced more stringent control over the total inventory level of its distribution channels by slowing down the delivery of the Own-branded Cow Milk Formulas to distributors. These measures actively taken by the Group, together with the macro-economic factors, led to the decrease in the Group's sales for the 1H 2022.

It was not the first time Ausnutria proactively adjusted its channel strategies. Looking back, the Group's own-branded goat milk powder products (the "**Own-branded Goat Milk Formulas**") in the PRC also experienced a similar short-term and one-off proactive adjustments in its distribution channel in the second half of 2020. Following such adjustments, the Own-branded Goat Milk Formulas BU has strengthened and has become more resilient in terms of channel management, distributor co-operation and brand. The Own-branded Goat Milk Formulas in the PRC resumed a double digit YoY growth in 2021. Therefore, the Group is confident that the adjustments to the channel strategies of Hyproca 1897 BU will also be successful in the long run notwithstanding the short-term setbacks in terms of performance.

The Own-branded Cow Milk Formulas has experienced an exponential growth since its establishment with a compound annual growth rate ("**CAGR**") of 34.1% for the last five years, among which the Hyproca 1897 BU recorded an even sharper five-year CAGR of 61.7%. Throughout these years, Ausnutria has always formulated its strategies and plans based on the needs of the consumers, channels, stores, investment partners, team and market. Despite the decline in sales figures recorded in the financial statements, Hyproca 1897 actually maintained healthy growth in retail sales and continuous increase in market share. Attributed to its outstanding product quality and successful brand-building efforts over the years, according to AC Nielsen, the offline sales market share of Hyproca 1897 for the period ended 30 June 2022 increased YoY by 0.5 percentage points.

b) Own-branded Goat Milk Formulas (Kabrita)

Sales of Kabrita in the PRC decreased YoY by RMB23.7 million or 1.5%, mainly due to the undersupply of infant and maternity formulas which led to the underperforming sales as well as the slower-than-expected customer development due to short supplies of mini-sized products which is normally used for promotion purpose. Despite that, according to AC Nielsen, retail demand for Kabrita recorded a comparatively higher growth with double-digit between January and June 2022. As the aforementioned problems were gradually solved and overall product shipment maintained positive growth during the reporting period, the Group believes that the growth momentum of Kabrita's sales in the PRC will continue. According to the data on the retail sales of imported infant goat milk formula released by AC Nielsen, Kabrita accounted for over 60% of the sales of imported infant goat milk powder in the PRC for 4 consecutive years since 2018.

With decade-long focus on goat milk, Kabrita, together with its peers, successfully transformed goat milk products from a peripheral category that was being experimented by a handful of distributors into one of the mainstream products with a market size of over RMB10 billion. Based on Ausnutria's forward-looking strategy, Kabrita built up its core competitive strength in terms of upstream supply, products, brands, channels and team. Upstream supply always has a direct impact on the market competitiveness of milk powder enterprises, and, therefore, Kabrita is boosting its advantage in upstream supply while tapping into major global goat whey sources by building on Ausnutria's well-established international supply chain. The Company is currently setting up a new infant formula base powder facility (with an annual capacity of 35,000 metric tonnes) in the Netherlands. This facility will further strengthen Kabrita's solid supply chain and the brand's market competitiveness upon completion. To remain as a brand with strong services and profitability, Kabrita will adhere to its existing "Brand + Channel" dual development strategy, which incorporates the channels and focuses on growing its business and improving its services.

Sales of Kabrita overseas decreased slightly to RMB89.0 million (2021 Interim Period: RMB89.9 million). This was mainly caused by temporary logistical challenges due to the Russo-Ukrainian War. Sales in retail end on most of the key markets maintained positive growth, particularly for markets in the United States and the Middle East.

c) Private Label and Others

During the 2022 Interim Period, sales of formula milk powder products on an original equipment manufacturing basis (the "**Private Label**") and other businesses amounted to RMB600.2 million (2021 Interim Period: RMB461.2 million), representing a YoY increase of 30.1% and accounted for 16.5% (2021 Interim Period: 10.8%) of the total revenue of the Group. The significant increase in sales during the reporting period was mainly attributable to the increase in orders from the Middle East and Asia markets as well as the rebound in prices of and demand for dairy commodities products as the pandemic subsided overseas.

Nutrition Business

During the reporting period, the nutrition business recorded a revenue of RMB78.8 million (2021 Interim Period: RMB68.3 million), representing a YoY increase of RMB10.5 million or 15.4%, mainly attributable to the sales of a series of new probiotic products launched by the Group last year. Total sales of these probiotic products for the reporting period amounted to RMB54.0 million, representing an increase of 82.4% as compared with the corresponding period in 2021. Backed by the Group's mature sales network, the core product, namely Aunulife's First Guard (previously called "Little Orange Box", a lactobacillus rhamnosus MP108 product), rapidly penetrated 27 provinces by co-operating with over 2,600 offline stores in addition to several major e-commerce and new retail platforms.

Diversified Product Mix

An outstanding product portfolio is crucial to the survival of formula brands amid severe competition. During 1H 2022, the Group further expanded its product portfolio by rolling out several new products.

For Own-branded Cow Milk Formulas, Hyproca 1897 Formula for the Future (未來版), the first of its human milk oligosaccharides ("**HMO**")-blended formula, was launched in April. With the unique and scarce combination of HMO, lactoferrin and milk fat globule membrane, this product has created a unique and superb nutritional profile to effectively strengthen the immune systems of infants. In June, Allnutria proudly rolled out three new infant formula products, namely Ausnutria Aiyou (澳優愛優), Allnutria Ruiyou (能立多睿優) and Ruihuo (睿活). Each of these features a unique and innovative formula with comprehensive, professional and precise nutritional support to meet the diversified nutritional needs of different customers and the sophisticated feeding demand of the new generation parents. Furthermore, a new lactose-free infant formula for special medical purposes developed by the Group obtained the first permit to produce food for special medical purposes ("**FSMP**") in Hunan Province, the PRC, in 1H 2022. As a result, in March, Hyproca 1897 officially launched Zhishu (稚舒), its first lactose-free infant formula for special medical purposes, a ground-breaking milestone in FSMP in Hunan Province, the PRC. The rollout of this new FSMP has not only seized the market development trend in the new consumption era, but also manifested a major brand and product mix upgrade of Hyproca 1897, as well as its entrance into the promising FSMP market.

As for Own-branded Goat Milk Formulas, in February, Kabrita Yuebai (悅白) was upgraded in four major aspects, namely milk sources, nutrition, processes and packaging, to provide better nutrition for infants with the support of international research, development and clinical studies. In March, Kabrita launched a toddler growing-up nutrition goat milk formula Xiangyang (向揚), which is a growing-up formula with five superb nutrients for 3-year-old and above toddlers. It became one of the Group's key products in the blue ocean market for toddler milk powders and also a showcase of the Group's competitive advantage in the areas of formula and milk source. In June, in view of the market demand for organic goat milk formula, Kabrita introduced the organic version of Yuebai by capitalising on the strength of its comprehensive industry chain and selecting organic milk sources with both Chinese and European organic certifications in the Netherlands.

Constant Improvement in Research and Development Ability

Ausnutria has been focusing on its research and development ("**R&D**") and also on nutritional health studies. The Group attained impressive results from several scientific research projects in 1H 2022. In March, the "Southern China Milk-derived Probiotic Strains Selection and Resources Base Building (南方乳源益生菌菌種篩選及資源庫建設)" project jointly completed by the Group and Hunan Agricultural University, the PRC, was recognised as a new breakthrough in research gap. It laid a sound research foundation for the discovery and use of the diversified lactic acid bacteria in cow and goat milk of the PRC. The recognition marked another official endorsement of Ausnutria's scientific research ability and an acknowledgement of its efforts. Ausnutria is committed to thoroughly implementing the strategic plans and missions in respect of "three high and four new technologies" promulgated by Hunan Province, supporting the development of capital, establishing innovation bases for functional health ingredients as well as strengthening the co-operation among the government, industry and researchers. In April, Professor Shan Yang (單楊), an academician of the Chinese Academy of Engineering, set up his first innovation team workstation in Ausnutria and targeted to build a technological innovation base for functional health ingredients together with Ausnutria.

Leveraging on Ausnutria's "1 + 6 + N" global R&D network, Hyproca 1897 has not only solved the technical difficulty of reconstructing HMO, but also innovated the ingredient mix and proportion of its formulas in collaboration with over 200 research doctors and experts in the field of breastmilk nutrition research. In addition, Hyproca 1897 joined hands with the Chinese Nutrition Society ("**CNS**") again to establish the "CNS – Hyproca Maternal and Infant Nutrition Scientific Research Foundation" (中國營養學會—海普諾凱母嬰營養科研基金), to once again explore the areas of infant feeding together such as breastmilk nutrition and infant development, focus on the development of health sciences in respect of maternal and infant nutrition and supporting the comprehensive growth of infants.

Furthermore, it was the first time for the goat milk industry in receiving the China Patent Award (中國專利獎). The "Goat Milk Whey Protein Peptide with DPP-V Inhibition Function, its Preparation Method and Applications" (《具有DPP-V抑制功能的羊乳清蛋白肽、其製備方法及其應用》), an invention patent submitted by Kabrita, received the China Patent Award – Excellence (中國專利獎優秀獎). This award-winning invention patent was submitted jointly by the Group's Kabrita Chinese and Dutch R&D teams. Based on this proprietary technology, Kabrita can research and develop more goat milk powder products that cater for the nutritional needs of different age groups, thereby giving the consumers more diversified choices. Based on the certifications issued by the U.S. Food and Drug Administration (FDA), Kabrita's goat milk whey also obtained Generally Recognized as Safe (GRAS) certification. The Group currently has over 70 and 50 projects in the PRC and overseas. Goat milk formula invention patents accounted for 50% of China's goat milk powder patents, among which, Kabrita ranked first amongst the number of theses published by goat milk powder brands. All in all, the Group has utilised its scientific and technological innovation ability to achieve the strategic goal of making Kabrita the household name of goat milk powder.

Continuous efforts in brand building contributing to wider recognition and higher reputation

During 1H 2022, Kabrita proudly engaged Ms. Tang Yan (唐嫣) as the "Kabrita Nutritional Advisor" for its major marketing campaigns. Ms. Tang Yan and Mr. Huang Lei (黃磊), the "Smart Daddy", joined hands to promote better infant feeding choices for the new generation parents and introduce a new era of goat milk feeding. Hyproca 1897 also announced the appointment of the renowned pianist couple, Mr. Lang Lang (朗朗) and Ms. Gina Alice (吉娜), as its new global ambassadors to establish a brand value that caters to, and at the same time promotes new ways of parenting amongst, the new generation of women by building a close connection with working mothers and supporting them. Allnutria and the Dairy Association of China jointly promoted the Love Babies' Day (328世界愛寶日) to advocate the parenting concept of supporting comprehensive child development. In the meantime, the BUs took an active role in understanding and meeting consumer demands and preferences by interacting on social media platforms that are popular amongst mothers including Xiaohongshu, TikTok and other vertical social networks for mothers. The BUs also invited experts to introduce their products and key opinion leaders and influencers to try them out in order to raise product awareness. For the purpose of boosting brand exposure, the Group attracted tens of billions of views through extensive product placement in popular television series and variety shows on Mango TV, Tencent Video, iQIYI, Zhejiang STV, DragonTV and other major channels. It also engaged in multi-dimensional interaction with target consumers in key PRC cities through a combination of media such as large digital advertising screens in business districts and billboards at bus stations, airports and escalators. On the offline front, the Group actively increased its channel building efforts and vitalised its points of sale by fully capitalising on its retail stores. Innovative consumer engagement campaigns and science popularisation activities for mothers and children, such as the National Nutritional Week (全民營養周) and the Walk for Health (健康萬里行), were launched to promote the nutritional value of goat milk. For closer interactions with its customers, the Group also organised activities such as Let's Go Mum (出發吧，媽媽), Let's Shine Mum (閃耀吧，媽媽) and Fairy Tale Festival (童話節) that featured its brand image.

CHANGE OF SINGLE LARGEST SHAREHOLDER

On 28 January 2022, Yili Industrial, through its wholly and beneficially owned company, Hongkong Jingang Trade Holding Co., Limited (the "**Offeror**"), (i) purchased an aggregate of 530,824,763 Shares at a total consideration of HK$5,340,097,116 (i.e. HK$10.06 per Share) from Citagri Easter Limited, BioEngine Capital Inc., Center Laboratories, Inc. and Dutch Dairy Investments HK Limited (all being substantial shareholders of the Company); and (ii) subscribed for an aggregate of 90,000,000 new shares of the Company of HK$0.10 each at the subscription price of HK$10.06 per subscription share (the "**Yili Subscription**").

By virtue of Rules 14A.19 and 14A.20 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange, the Offeror was deemed to be a connected person to the Company, hence the above transactions constituted a connected transaction of the Company and accordingly was subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The above transactions and the transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company on 31 December 2021. Further details regarding the above transactions are set out in the announcement and circular of the Company dated 27 October 2021 and 15 December 2021, respectively.

Upon completion of the above transactions, the Offeror owned an aggregate of 620,824,763 Shares, representing approximately 34.33% of the then entire issued Shares. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an offer for all issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and/or the parties acting in concert with it) (the "**Offer**"). On 17 March 2022, being the final closing date of the Offer, together with the 332,338,860 Shares received on the first closing date, the Offeror received valid acceptances of an aggregate of 449,288,386 Shares, representing approximately 24.84% of the then issued Shares. Accordingly, the Offeror is interested in 1,070,113,149 Shares, representing approximately 59.17% of the issued Shares since then.

Yili Industrial is a leading player in the dairy industry in the PRC which is principally engaged in the processing, manufacturing and sales of various dairy products and healthy beverages. The Company believes the above transactions would enlarge its shareholder base and significantly strengthen the shareholder profile of the Company by introducing a major industry player in the PRC. The Company also considers the Yili Subscription offered a good opportunity to raise additional funds to strengthen the financial position and broaden the capital base of the Group to facilitate its future development. Meanwhile, by cooperating with Yili Industrial, the Group will effectively achieve the objectives of the collaborative projects between the parties and improve the profitability of the Company through economies of scale and efficiency.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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

During the 2022 Interim Period, the Group continued to uphold its sustainability vision through different events. Changsha Ausnutria Charity Foundation（長沙市澳優公益慈善基金會）(formerly Ausnutria U-Foundation) continued to support different local communities by donating materials worth up to RMB17.6 million. It also sponsored LOOP Leeuwarden, the biggest running event in Friesland, the Netherlands, to support extracurricular activities for local grassroots children. At the Philanthropy Festival held in the PRC, Ausnutria obtained the Grand Award for four consecutive years as well as the 2021 Corporate Social Responsibility Role Model for the Industry（2021企業社會責任行業典範獎）. At the 15th Global Dairy Congress, Kabrita YouZhuangPro Goat Milk Formula was named the Best Infant Nutrition in the 2022 World Dairy Innovation Awards and is the only infant milk formula brand in the world to receive this prestigious award.

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

OUTLOOK

The decreasing number of new borns and the launch of new national standards in Mainland China will continuously increase the brand concentration, leading to a competition in customer retention in the milk powder industry, where brand and channel power are critical determining factors. At the same time, the Russo-Ukrainian War has aggravated uncertainty of global resources and supply chains. Nevertheless, the Group remains prudently optimistic about the outlook of the industry and will continue to strengthen its core businesses and brands by "responding to market uncertainty with firm strategies". The Group will enhance its resource protection, production efficiency and planned operating level of its global supply chain and will further improve product quality and optimise cost to develop a stable and versatile supply protection system. Greater efforts will be made in developing the nutritional products and probiotics businesses, and the organisational development and supporting system will be improved in order to raise overall operating and management standards. By enhancing the co-operation with Yili Industrial, a major shareholder, the Group expects to see a rise in its profitability brought by the advantages in scale and efficiency.

Guided by the Group's mission of "Nourishing Life & Growth", Ausnutria will hold steadfast to its core "Golden Decade" strategy, and continue to strive, innovate and improve. It will elaborate the vigour with passion, gain market share with innovation, reward its customers with great value, seize the moment with enthusiasm and fight for the future with excellence.

FINANCIAL REVIEW

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

Revenue

		Six months ended 30 June			Proportion to total revenue Six months ended 30 June	
	Notes	**2022** **RMB'M** **(Unaudited)**	2021 *RMB'M* (Unaudited) (Restated)	Change %	**2022** **%** **(Unaudited)**	2021 % (Unaudited) (Restated)
Own-branded formula milk powder products:						
Cow milk (in the PRC)	*(i)*	**1,279.3**	2,050.0	(37.6)	**35.2**	47.9
Goat milk (in the PRC)	*(i)*	**1,582.9**	1,606.6	(1.5)	**43.6**	37.6
Goat milk (elsewhere)	*(i)*	**89.0**	89.9	(1.0)	**2.5**	2.1
		1,671.9	1,696.5	(1.5)	**46.1**	39.7
		2,951.2	3,746.5	(21.2)	**81.3**	87.6
Private Label and others:						
Private Label	*(ii)*	**113.1**	90.4	25.1	**3.1**	2.1
Others	*(iii)*	**487.1**	370.8	31.4	**13.4**	8.7
		600.2	461.2	30.1	**16.5**	10.8
Dairy and related products		**3,551.4**	4,207.7	(15.6)	**97.8**	98.4
Nutrition products	*(iv)*	**78.8**	68.3	15.4	**2.2**	1.6
Total		**3,630.2**	4,276.0	(15.1)	**100.0**	100.0

Notes:

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

(ii) Representing the sales of formula milk powder products (including infant formula) 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 RMB3,630.2 million for the 2022 Interim Period, representing a decrease of RMB645.8 million, or 15.1%, from RMB4,276.0 million (restated) for the 2021 Interim Period. The decrease in revenue was mainly attributable to the decrease in revenue from own-branded formula milk powder products which resulted from (i) the short-term impact of a series of proactive adjustments implemented by the Group to the sales strategy of the Own-branded Cow Milk Formulas; and (ii) the increased support from the Group to its distributors to sustain their continuous growth during this critical moment.

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 increase in revenue from these businesses during the reporting period was mainly attributable to the increase in orders from the Middle East and Asia markets as well as the rebound in prices of and demand for dairy commodities products as the pandemic subsided overseas.

Gross profit and gross profit margin

	Six months ended 30 June		**Six months ended 30 June**	
	2022	2021	**2022**	2021
	RMB'M	*RMB'M*	***%***	*%*
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)
Own-branded formula milk powder products:				
Cow milk	**729.4**	1,220.0	**57.0**	59.5
Goat milk	**959.3**	1,056.5	**57.4**	62.3
	1,688.7	2,276.5	**57.2**	60.8
Private Label and others	**21.3**	1.5	**3.5**	0.3
Dairy and related products	**1,710.0**	2,278.0	**48.2**	54.1
Nutrition products	**51.9**	43.2	**65.9**	63.3
	1,761.9	2,321.2	**48.5**	54.3
Less: provision for inventories	**(52.9)**	(179.3)		
Total	**1,709.0**	2,141.9	**47.1**	50.1

The Group's gross profit for the 2022 Interim Period was RMB1,709.0 million, representing a decrease of RMB432.9 million, or 20.2%, when compared with the 2021 Interim Period. The decrease in the gross profit margin of the Group from 50.1% for the 2021 Interim Period to 47.1% for the 2022 Interim Period was primarily due to the increase in discount granted to distributors for the Group's own-branded formula milk powder products as a result of the intense market competition. Such decrease was partly compensated by the decrease in inventories provision of RMB126.4 million due to the fact that the Group has implemented a more effective and stringent policy in controlling the freshness and hence shelf life of its products since the prior year. Provision for inventories arising from shelf life issue decreased accordingly.

Other income and gains

Other income and gains mainly represented (i) subsidies from the PRC government of RMB24.1 million (2021 Interim Period: RMB33.4 million); and (ii) interest income from the Group's deposits with banks of RMB19.6 million (2021 Interim Period: RMB14.1 million). The increase in interest income was mainly due to increase in average bank balances contributed by the funding from the placement of new shares in January 2022.

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 30.3% (2021 Interim Period: 26.1% (restated)) of the revenue for the 2022 Interim Period. The increase in the selling and distribution expenses to revenue ratio was mainly because more promotion activities in proportion to revenue were carried out for the period under review to support the distributors and channels in advertising and promoting the products of the Group as a result of the intense market competition.

Administrative expenses

Administrative expenses mainly comprised staff costs, travelling expenses, office expenses, auditor's remuneration, professional fees, depreciation and R&D costs. The increase in administrative expenses was primarily attributed to the continuous increase in R&D costs by RMB12.6 million, from RMB73.9 million for the 2021 Interim Period to RMB86.5 million for the 2022 Interim Period for new products development and the increase in professional fees mainly for the Group's special projects, such as general offers and the placement of new shares.

Other expenses

Other expenses for the 2022 Interim Period mainly comprised (i) charitable donations of RMB9.9 million (2021 Interim Period: RMB11.1 million); (ii) impairment of trade receivable from a customer of RMB4.6 million which the balance was overdue for more than one year and considered not recoverable. The Group has already taken appropriate legal action for the recovery of such amount; and (iii) net foreign currency exchange losses of RMB2.8 million (2021 Interim Period: RMB10.9 million) arising from the foreign currency transactions, mainly between EUR and RMB, and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency rates of exchange ruling at the end of the reporting period.

Finance costs

The finance costs of the Group for the 2022 Interim Period amounted to RMB11.2 million (2021 Interim Period: RMB11.6 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 decrease in finance costs was mainly attributable to the decrease in average interest-bearing bank loans as a result of the repayments of certain bank loans following the placement of new shares to the Offeror in January 2022. Among the proceeds from the Yili Subscription, HK$45.2 million (equivalent to approximately RMB37.5 million) has been utilised for the settlement of bank loans during the period.

Share of profits and losses of associates

The amount mainly included (i) share of profits of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**"), the Group's 50%-owned associate, of RMB21.4 million (2021 Interim Period: share of losses of RMB2.5 million). 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; and (ii) share of losses of AJM B.V. and its subsidiaries (the "**AJM Group**"), the Group's 50%-owned associate, of RMB20.2 million (2021 Interim Period: share of losses of RMB1.1 million). The AJM Group is principally engaged in the sale and marketing of nutrition products, particularly formula milk powder products and cereals under its own brand names.

The turnaround of the performance of the Farmel Group was mainly due to the recognition of unrealised mark-to-market gains on commodities trading during the period. In the second half of 2021, the Farmel Group entered into certain short positions relating to dairy commodities (mainly butter) in order to hedge against the anticipated price fluctuation of those products. In respect of these short positions, the Farmel Group recognised unrealised mark-to-market gains of EUR6.5 million (equivalent to RMB46.0 million) (2021 Interim Period: Nil) for the reporting period and accordingly the Group recognised its share of these gains amounted to RMB23.0 million for the period under review.

The increase in the share of losses of the AJM Group was mainly due to the recognition of impairment of goodwill of RMB20.0 million during the period as a result of its continuous loss-making position.

Income tax expenses

The profits generated by the Group for the 2022 Interim Period were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the CIT at a rate of 25%. Ausnutria China and HNC , both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises in the PRC and were granted a preferential CIT rate of 15% for the 2022 Interim Period. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 15% (2021 Interim Period: 15%) for the first EUR395,000 (2021 Interim Period: EUR245,000) taxable profits and 25.8% (2021 Interim Period: 25%) for the taxable profits exceeding the threshold. The standard CIT rates in Australia, New Zealand, the USA, Canada and Taiwan are 30%, 28%, 21%, 26.5% and 20%, respectively.

The Group's effective tax rate of 11.7% for the 2022 Interim Period decreased by 6.3 percentage points as compared with the 2021 Interim Period of 18.0% (restated). The decrease in the effective tax rate was mainly due to the proportionate increase in the profit contributed by Ausnutria China and HNC which are subject to CIT rate of 15% and the increase in the R&D expenses in the PRC, which such expenses enjoyed a higher (2 times) deductible rate when compared with other expenses.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the 2022 Interim Period amounted to RMB222.0 million, representing a decrease of RMB376.9 million, or 62.9% when compared with the 2021 Interim Period.

Such decrease is mainly attributable to the decrease in gross profit margin of the Group's own-branded formula milk powder products which has decreased by 3.6 percentage points as a result of more discounts being granted to distributors and the decrease in revenue of the Group's Own-branded Cow Milk Formulas for the reasons as set out in the above.

Analysis on Condensed Consolidated Statement of Financial Position

As at 30 June 2022, the total assets and net asset value of the Group amounted to RMB9,377.4 million (31 December 2021: RMB9,525.2 million (restated)) and RMB5,963.5 million (31 December 2021: RMB5,459.3 million (restated)), respectively.

The decrease in total assets of the Group as at 30 June 2022 by RMB147.8 million was mainly due to the decrease in cash and cash equivalent and pledged deposits of a total of RMB631.8 million as a result of the net effect of (i) proceeds from placement of new shares to the Offeror of RMB739.0 million; (ii) payment of final dividend of RMB430.1 million; and (iii) the decrease in cashflows generated from operating activities.

The increase in net assets of the Group as at 30 June 2022 by RMB504.2 million was mainly a result of the net effect of (i) the increase in the share capital and share premium of the Company from the placement of new shares to the Offeror of RMB739.0 million; (ii) the net profit generated for the 2022 Interim Period of RMB222.0 million (2021 Interim Period: RMB598.9 million (restated)); and (iii) the payment of final dividend of RMB430.1 million.

Working Capital Cycle

As at 30 June 2022, the current assets to current liabilities ratio of the Group was 2.03 times (31 December 2021: 1.68 times (restated)). The improvement of this ratio was mainly due to the placement of new shares to the Offeror during the period.

An analysis of key working capital cycle is as follows:

	Six months ended 30 June		
	2022	2021	Change
	Number of days	*Number of days*	*Number of days*
Inventories turnover days	**211**	206	5
Debtors' turnover days	**26**	20	6
Creditors' turnover days	**39**	38	1

The Group's inventories turnover days increased slightly for the period which was mainly attributable to the enforcement of more stringent control over the overall inventory level of its distribution channel by slowing down the delivery of the Own-branded Cow Milk Formulas to the distributors as mentioned above.

The turnover days of the Group's trade and bills receivables and payables were in line with the credit periods granted to the customers/by the suppliers.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Interim Period 2022.

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:

	Notes	**30 June 2022** *RMB'M* **(Unaudited)**	31 December 2021 *RMB'M* (Audited)
Interest-bearing bank loans and other borrowings		**(1,271.9)**	(1,303.0)
Less: Pledged deposits	*(i)*	**121.3**	255.2
Cash and cash equivalents	*(ii)*	**1,764.3**	2,262.2
		613.7	1,214.4
Total assets		**9,377.4**	9,525.2*
Shareholders' equity		**6,021.2**	5,504.2*
Gearing ratio	*(iii)*	**N/A**	N/A
Solvency ratio	*(iv)*	**64.2%**	57.8%*

* *Restated*

Notes:

(i) An analysis of pledged deposits by currency is set out below:

	30 June 2022		31 December 2021	
Currency	***RMB'M***	***%***	*RMB'M*	*%*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
RMB	**119.4**	**98.4**	253.2	99.2
Others	**1.9**	**1.6**	2.0	0.8
Total	**121.3**	**100.0**	255.2	100.0

(ii) An analysis of cash and cash equivalents by currency is set out below:

	30 June 2022		31 December 2021	
Currency	***RMB'M***	***%***	*RMB'M*	*%*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
RMB	**1,255.1**	**71.1**	1,926.2	85.1
EUR	**160.9**	**9.1**	118.6	5.2
AUD	**87.0**	**4.9**	116.0	5.1
HK$	**152.5**	**8.6**	31.8	1.4
US$	**59.1**	**3.3**	31.2	1.4
Others	**49.7**	**3.0**	38.4	1.8
Total	**1,764.3**	**100.0**	2,262.2	100.0

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

(iv) 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 a new infant formula base powder facility and other related facilities in the Netherlands, principally for the processing of goat milk and goat whey, and the extension into the nutrition business segment.

As at 30 June 2022, the Group had outstanding borrowings of RMB1,271.9 million (31 December 2021: RMB1,303.0 million), of which RMB606.7 million (31 December 2021: RMB739.9 million) was due within one year and the remaining RMB665.2 million (31 December 2021: RMB563.1 million) was due over one year. As at 30 June 2022, the Group's bank overdrafts and revolving facilities that were attributed to the Ausnutria B.V. group amounting to EUR150.0 million (equivalent to approximately RMB1,051.0 million) (31 December 2021: EUR100.0 million, equivalent to approximately RMB722.0 million), of which EUR68.4 million (equivalent to approximately RMB479.3 million) (31 December 2021: EUR60.0 million, equivalent to approximately RMB433.2 million) had been utilised as at 30 June 2022.

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

	30 June 2022		31 December 2021	
Currency	***RMB'M***	***%***	*RMB'M*	*%*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
EUR	**1,119.8**	**88.0**	1,256.5	96.4
RMB	**122.8**	**9.7**	12.5	1.0
Others	**29.3**	**2.3**	34.0	2.6
Total	**1,271.9**	**100.0**	1,303.0	100.0

As at 30 June 2022, the Group had pledged (i) the property, plant and equipment, investment property, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR297.4 million, equivalent to approximately RMB2,083.5 million (31 December 2021: EUR314.1 million, equivalent to approximately RMB2,267.5 million); and (ii) the time deposits that were mainly placed in the PRC of a total of RMB121.3 million (31 December 2021: RMB255.2 million) 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 2022 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.

As at 30 June 2022, the Group had a EUR against RMB capped forward contract of EUR40.0 million (31 December 2021: Nil) to hedge certain of its EUR denominated transactions. 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 an interest rate cap contract with a bank of a notional amount of EUR36.0 million with 3-month floating Euro Interbank Offered Rate being capped at an interest rate of zero per annum. The interest rate cap contract will expire in 2023.

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 2022, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of plant and machineries of a total of RMB547.7 million (31 December 2021: RMB634.7 million).

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities (31 December 2021: Nil).

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 2022 Interim Period (2021 Interim Period: Nil). Subsequent to the reporting period, the Company repurchased 1,177,000 Shares on the Stock Exchange at a total consideration of HK$8,477,000. Details of the Shares repurchased by the Company subsequent to the reporting period are disclosed as below:

Month of Repurchase	**Aggregate number of Shares repurchased***	**Repurchase Price**		**Total consideration paid**
		Highest	**Lowest**	
		HK$'000	*HK$*	*HK$'000*
July	1,177,000	7.55	6.78	8,477

Note:

* *Repurchased and not yet cancelled.*

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance within the Group at all times and believes that such practices help safeguard the interests of the shareholders of the Company, 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 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.

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the 2022 Interim Period and up to the date of this report. 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 2022 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. The aforementioned guideline provides a general guide and standards for the Company's senior management, officers and relevant employees in dealing in the securities of the Company.

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 2022 Interim Period, which contains the detailed results and other information of the Company for the 2022 Interim Period required pursuant to Appendix 16 to the Listing Rules, will be despatched to the shareholders of the Company 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, 29 August 2022

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) 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. Ren Fazheng and Mr. Aidan Maurice Coleman.