NOURISHING LIFE & GROWTH

ANNUAL REPORT 2021

澳优 Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

Nourishing Life & Growth

AUSNUTRIA DAIRY CORPORATION LTD
ANNUAL REPORT 2021

Contents

Mission

Nourishing Life & Growth.

Vision

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

Sustainability Vision

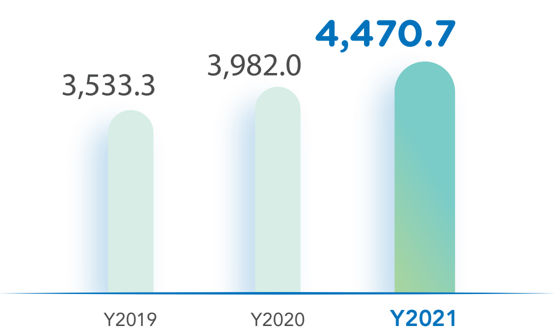
We strive to nourish life and growth by providing quality nutritional options to all on a global level. We are committed to creating value in a sustainable manner, and helping build a world in which everyone is empowered to live a healthy and prosperous life.

Revenue Contribution

	Y2021	Y2020	
Own-branded Cow milk formula	RMB 4,414.1M	RMB 3,820.2 M	↑ 15.5%
Own-branded Goat milk formula	RMB 3,348.2M	RMB 3,106.2 M	↑ 7.8%
Private Label and others	RMB 933.9M	RMB 917.1 M	↑ 1.8%
Nutrition products	RMB 177.1M	RMB 142.3 M	↑ 24.5%

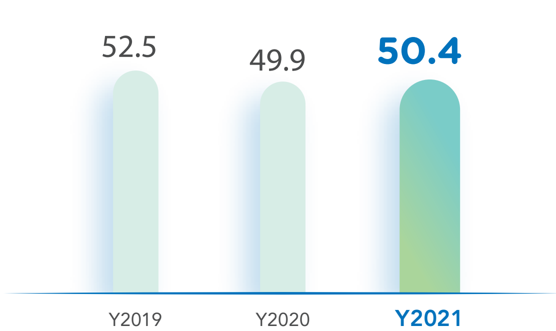
Gross profit
(RMB'M)

VS Y2020 12.3%



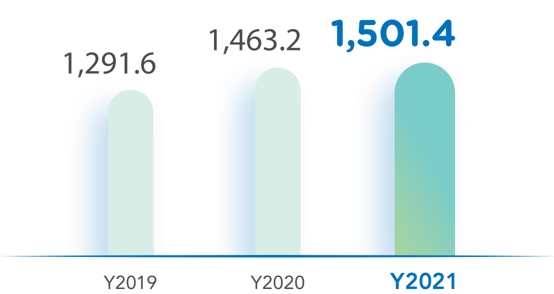
Gross profit
(in %)

VS Y2020 0.5pps



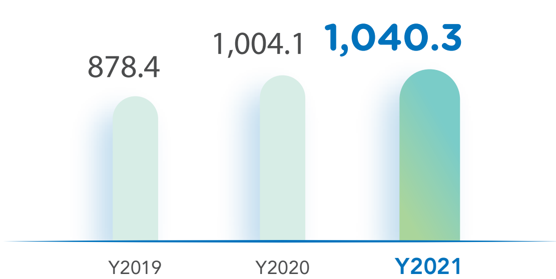
EBITDA
(RMB'M)

VS Y2020 2.6%



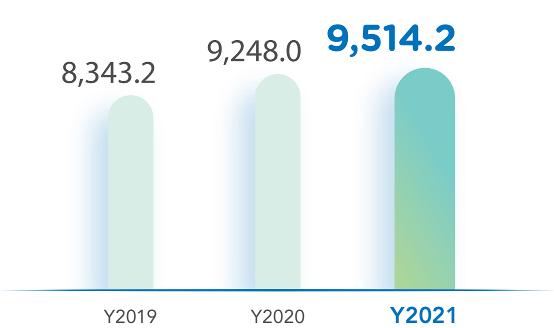
Profit attributable to Shareholders
(RMB'M)

VS Y2020 3.6%



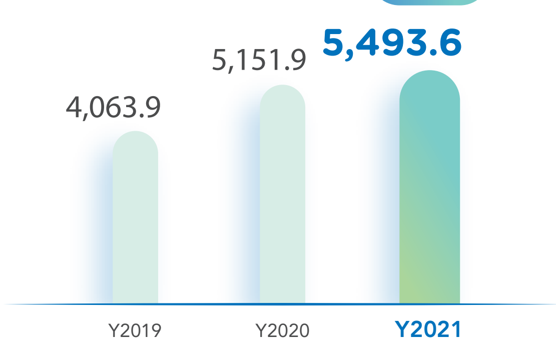
Total assets
(RMB'M)

VS Y2020 2.9%



Net assets
(RMB'M)

VS Y2020 6.6%



(RMB'M, unless otherwise stated)	2017	2018	2019	2020	2021
Revenue	3,926.5	5,389.6	6,736.2	7,985.8	8,873.3
Gross profit	1,690.2	2,660.6	3,533.3	3,982.0	4,470.7
Gross profit (in %)	43.0	49.4	52.5	49.9	50.4
EBITDA	503.3	948.7	1,291.6	1,463.2	1,501.4
Profit before tax	438.5	792.0	1,107.2	1,220.8	1,233.7
Profit attributable to Shareholders	308.1	635.1	878.4	1,004.1	1,040.3
EPS (in RMB cent)	24.6	47.2	54.9	60.9	60.6
Cash inflows from operating activities	512.5	531.8	970.8	1,130.2	1,071.3
Net assets	1,947.0	3,394.5	4,063.9	5,151.9	5,493.6
Total assets	5,621.1	6,829.0	8,343.2	9,248.0	9,514.2
Net cash	(367.8)	802.3	866.9	983.3	1,214.4

BOARD OF DIRECTORS

Executive Directors

Mr. Yan Weibin *(Chairman)*
Mr. Bartle van der Meer *(CEO)*
Ms. Ng Siu Hung

Non-executive Directors

Mr. Sun Donghong *(Vice-Chairman)*
Mr. Zhang Zhanqiang
Mr. Qiao Baijun

Independent Non-executive Directors

Mr. Lau Chun Fai Douglas
Mr. Jason Wan
Mr. Aidan Maurice Coleman

COMPANY SECRETARY

Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

Mr. Lau Chun Fai Douglas *(Chairman)*
Mr. Jason Wan
Mr. Aidan Maurice Coleman

NOMINATION COMMITTEE

Mr. Yan Weibin *(Chairman)*
Mr. Sun Donghong
Mr. Lau Chun Fai Douglas
Mr. Jason Wan
Mr. Aidan Maurice Coleman

REMUNERATION COMMITTEE

Mr. Lau Chun Fai Douglas *(Chairman)*
Mr. Yan Weibin
Mr. Zhang Zhanqiang
Mr. Jason Wan
Mr. Aidan Maurice Coleman

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISER

DEACONS

FINANCIAL ADVISER ON RETAINER BASIS

Asian Capital Limited

REGISTERED OFFICE

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

PRINCIPAL PLACES OF BUSINESS

In Hong Kong

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

In Mainland China

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

In the Netherlands

Dokter van Deenweg 150
8025 BM Zwolle
The Netherlands

In Australia

25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Rabobank
China Construction Bank
Bank of China

STOCK CODE

1717

INVESTORS' CONTACT

Ms. Tracy Sun
Email: tracy_sun@ausnutria.com

COMPANY'S WEBSITE

www.ausnutria.com.hk

DEAR SHAREHOLDERS,

Celebrate the Vigour with Passion;
Seize the Moment with Enthusiasm
and Fight for the Future with **Excellence**

On behalf of the board of directors (the "**Board**") of Ausnutria Dairy Corporation Ltd ("**Ausnutria**" or the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2021 (the "**Year 2021**").

2021 was not only the 18th anniversary of Ausnutria, but also a momentous year in the Company's development. It was a year of drastic change for many industries across the globe, including the infant formula industry in the PRC. Apart from the impacts of the prolonged COVID-19 pandemic and a changing competitive landscape caused by technologies and new forms of consumption, the industry is facing challenges posed by the lowering birth rate in the PRC. The rapidly changing industry witnessed unprecedentedly intense mergers and consolidation of dairy enterprises and severe competition in all product categories. Top-tier enterprises further fortified their presence and consolidated the market. At such a crossroads, we have to test our competitiveness against peers and unlock our internal development capacity. Working in unity for these common targets, all our employees around the world kept abreast with the times, seized every opportunity with enthusiasm, delivered stable growth, enhanced the management standard and unleashed the development potential of the Company's core business, with all their extraordinary efforts, endeavours and execution skills.

I. STABLE GROWTH OF CORE BUSINESSES

In the Year 2021, our revenue increased from RMB7,985.8 million to RMB8,873.3 million, with a year-on-year ("**YoY**") growth rate of 11.1%. Mainland China remained the Group's largest market for our own-branded formula milk powder products, accounting for 85.0% of our total revenue. Our gross profit increased from RMB3,982.0 million to RMB4,470.7 million, with a YoY growth rate of 12.3%. Our net profit attributable to the owners of the parent increased from RMB1,004.1 million to RMB1,040.3 million, with a YoY growth rate of 3.6%. All our three core own-branded infant formula, namely Kabrita (in the PRC), Hyproca and Allnutria, out-performed the industry and delivered encouraging double-digit growth. According to relevant industry data, our off-line sales market share increased further to approximately 6.9% and was ranked 5th in the infant formula industry in Mainland China. Particularly, our infant goat milk powder successfully maintained its leadership position. According to a market research report from 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. As for our nutrition business, revenue also surged by over 20% when compared with the previous year.

II. CONTINUOUS ENHANCEMENT IN SUPPLY CHAIN TO ENSURE QUALITY OF PRODUCTS

In Year 2021, we have strengthened our global supply chain as the production licenses of our two green plants in the Netherlands have been renewed, and two plants in Australia were granted approval by the General Administration of Customs of the PRC for its Registration of Overseas Manufacturers of Imported Food. The construction of our goat whey concentrate production facility in the Netherlands has been completed during the year and the new infant formula base powder facility is expected to be completed in 2023 as scheduled. Moreover, we successfully applied the World Class Manufacturing management concept to strengthen the coordination between our domestic and overseas supply chains, which greatly enhances efficiency and speeds up the supply of imported products. At the 8th Meeting of the 6th Committee of the China Dairy Industry Association held on 25 March 2021, Ausnutria was awarded the "Gold Quality Award (品質金獎)" for the 4th consecutive year, demonstrating the high level of consumer, market and industry recognition of our product quality and innovative research and development ("**R&D**"). Several market studies have shown that the quality of our products has been increasingly appreciated by the consumers.

III. SIGNIFICANT IMPROVEMENT IN SCIENTIFIC RESEARCH CAPABILITY WITH GROUNDBREAKING RESEARCH FINDINGS

In 2021, we continued to step up our investment in R&D by utilising ongoing partnerships with first class tertiary institutions around the world to enhance our scientific research and innovation capability, apply our research findings to technology upgrades and product development, and lead the development of the industry.

During the year, the Ausnutria Basic Life & Nutrition Science Research Center (澳優生命營養基礎科研中心) in Changsha, the PRC commenced operation. Over 40 scientific research projects were being conducted at full steam, 45 and 33 patents were being applied for and granted, respectively, and 30 research papers were published (including 7 in the Science Citation Index). We also had 12 research publications in the Netherlands. Our Ausnutria Nutrition Institute (ANI) website was launched in 2021 as means of information and communication directly with global health care professionals. ANI was launched in 2020 where we bring together global dairy-based nutrition experts, knowledge and the latest scientific insights. As such, the Group has cemented its R&D foundation and carried out innovative fundamental scientific research projects in a steady manner. Furthermore, to achieve the goals of our "Golden Decade" development strategy, Ausnutria is currently working at researching maternal milk and functional probiotics in close collaboration with Professor Chen Wei's Academician R&D Station (陳衛院士專家工作站) of Jiangnan University in the PRC.

Since Ausnutria was founded, our global R&D team has been researching into breast milk for 18 years and has 10 key breast milk research projects across the globe as of today. Through further analysing the nutritional composition of breast milk by different race and health conditions, these projects aim at refining the "Chinese breast milk bank" and laying a solid foundation for the development of formulas that are nutritionally closer to breast milk. In June 2021, our Kabrita business unit ("**BU**") convened the first "GOAT-MRH" expert conference, at which we presented our "2021 Research White Paper on Breast Milk" jointly with the Chinese Center for Disease Control and Prevention and several other institutions to unveil the secrets of breast milk in various aspects such as the current breast-feeding status, proteins, fats, probiotics, human milk oligosaccharides (HMOs), active ingredients as well as other characteristics of breast milk. Furthermore, our well-established R&D partnership has a series of publications describing different aspects of goat milk oligosaccharides analogue to HMOs and are beneficial for infants' gut and gastro-intestinal health. These act as reference points for future breastmilk research, development and technological innovation.

During the year, we made every effort to apply the results of our scientific research to our products and our effort was well recognised. In particular, Neolac Organic Mama Formula (悠藍有機媽媽配方奶粉) received low glycemic index (GI) certification from Global Green Union (Beijing) Food Safety Certification Center (全球綠色聯盟(北京)食品安全認證中心). Based on the research findings of the "Research and Industrial Application of Low-GI Modified Milk Powder (低GI系列調製乳粉的研究及產業化應用)", Ausnutria has developed modified milk powders with low GI for pregnant women and middle-aged and elderly people, and obtained the "First Prize of Science and Technology Progress Award (科技進步一等獎)" from the China National Food Industry Association.

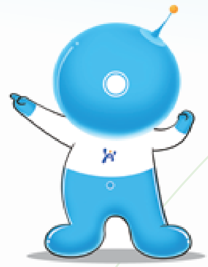
In addition, the Group strives to expand its portfolio from infant to child and adult nutrition products. In 2021, the State Administration for Market Regulation in the PRC approved the registration for our lactose-free infant formula for special medical purposes (which helps lactose intolerant infants). The National Health Commission of the PRC also approved the application made by Bioflag International Corporation (one of our associates) on the use of lactobacillus rhamnosus MP108 (a strain of new food raw materials that can help prevent different inflammations in children) in the PRC. This lactobacillus rhamnosus is the first strain developed by a Chinese company that has been approved for use in infant and children food in the PRC. It represented a breakthrough in the Chinese probiotics market. In January and June 2021, the Group received approval from Taiwan Food and Drug Administration for two of its food products for special medical purposes.

IV. ENRICHING FAMILY-WIDE NUTRITION PRODUCT PORTFOLIO

In 2021, we further enriched our product portfolio by rolling out several new products. New formula milk powders included the toddler growth formula of Hyproca 1897, Hyproca 1897 Formula for the Future (海普諾凱1897未來版) (an innovative HMO-blended formula) and Aoyouyou+ (澳優優+) series (a Made-in-China formula milk powder of Allnutria), including the Aoyouyou+ toddler growth formula and the first Aoyouyou+ formula with folic acid for pregnant and postpartum women. Also, we introduced new products including camel milk modified milk powder so as to broaden consumers' choices of nutritional products. On the other hand, we launched the new Kabrita Youzhuang Pro (佳貝艾特悠裝 Pro) premium goat milk formula series. Together with the existing popular super-premium series, Yuebai (悅白), they can cater to the needs of different consumer groups. We have also launched a number of novel items. One of the most impressive products officially rolled out during the year was Aunulife's Little Orange Box, our first probiotics products for infants (which has the exclusive use of lactobacillus rhamnosus MP108), to safeguard the gut health of Chinese babies. Furthermore, we also rolled out an upgraded version of Gut Relief, namely NC Soforwe Gut Relief Plus (NC 蘇芙衛養胃粉加強版), and Nutrition Care introduced new healthcare products including the NC Soforwe Qidan panax pseudo-ginseng and bletilla striata capsule (NC蘇芙衛七丹牌三七白及膠囊).

V. BOOSTING RECOGNITION AND REPUTATION

In 2021, all our brands and BUs targeted tens of billions of views through in TV brand promotion in popular TV series and most acclaimed variety shows. We also engaged in multi-dimensional interaction with target consumers in key PRC cities through a combination of mediums such as large digital advertising screens in business districts, billboards at bus stations, airport and escalators, and expanded the vertical maternity store platform. These aimed at promoting the recognition of our brands through education for target groups. In November, we joined the China International Import Expo with the theme of "Better Nutrition, Better Life (更優營養，更優生活)" and showcased our globalised development ability with new products as well as a new intellectual properties image, namely Little Ausnutria (澳小優).



VI. RECOVERING SALES IN OTHER TERRITORIES

In 2021, lockdowns, logistics challenges and travel restrictions continued to impact our development on Kabrita and private label businesses in the overseas market, which accounted for 2.5% and 2.4%, respectively of the Group's total revenue. Despite the headwinds, we saw some encouraging rebounce in these sectors in the second half when compared with the first half of 2021 particularly in the United States markets. South Africa, Cambodia and Mexico markets also contributed meaningful revenue despite our brands only entering these markets in recent years. We continue to see tremendous potential to expand our business into other parts of the world, particularly Kabrita given its unique market position and our solid supply chain.

VII. INTRODUCING A RENOWNED SHAREHOLDER IN THE INDUSTRY TO START A NEW CHAPTER FOR THE GROUP'S STRATEGIC DEVELOPMENT

On 27 October 2021, Inner Mongolia Yili Industrial Group Co., Ltd ("**Yili Industrial**") was brought onboard as the single largest shareholder of the Company. Being the largest standalone merger and acquisition between PRC dairy enterprises for the year, Yili Industrial's strategic investment in Ausnutria captured the market's attention. Yili Industrial and the Company will co-operate to realise 1+1>2 strategic synergies in the global market and promote the development of the PRC dairy industry and the global health food sector. Such transaction was completed on 28 January 2022. On 17 March 2022, Yili Industrial became the controlling shareholder of the Company upon final closing of the general offer.

VIII. CONSTANT PROVISION OF QUALITY HUMAN RESOURCES BY AUSNUTRIA ACADEMY TO SUPPORT CORPORATE EXPANSION

To constantly improve the Group's capability, our Ausnutria Academy has formulated a six-level talent development system with Ausnutria's character according to four major concepts: teaching the essence, improving skills, sharing culture, and developing and retaining the best. The principles, concepts, name and operation of the design of this human resource development scheme of Ausnutria Academy were much praised and awarded as the "Chinese Model Corporate Education Platform (中國企業標杆學習平台)" in 2021 on the 10th Chinese Model Corporate Education Platform Forum (第十屆中國企業標杆學習平台論壇活動).

IX. PROUDLY TAKING UP SOCIAL RESPONSIBILITY TO ACHIEVE TRUE SUSTAINABLE DEVELOPMENT

In 2021, we continued to uphold our sustainability vision through different actions. We actively participated in charitable and anti-pandemic activities, donated over RMB47 millions worth of materials jointly with our Changsha Ausnutria Charity Foundation (長沙市澳優公益慈善基金會) ("**Ausnutria U-Foundation**"), and received an "Extraordinary Contribution Award (特殊貢獻獎)" from the Red Cross Society of China for COVID-19 prevention and control efforts during the year. Entering the 5th consecutive year in operation, Ausnutria U-Foundation Hyproca's Tundra Rose project continued to explore ways to improve the living standards of mothers and babies and promote the health and development of children in Tibet by improving the dissemination of scientific maternity knowledge, enhancing the medical expertise of rural medical practitioners, donating materials, granting special support funds and carrying out other actions in the region. Moreover, the construction of our new headquarters in the PRC was completed in 2021. The new headquarters can accommodate our long-term development and provide a spacious, refreshing and productive working environment for our employees. In addition, together with our corporate partners, we continued to proactively follow the PRC's national goal of achieving carbon neutrality by 2060, build a sustainable green supply chain and support environmental protection by jointly promoting green manufacturing as the new engine of economic growth and new edge against international competitors. We will keep upholding our commitment to corporate social responsibilities and support different communities from time to time.

X. STARTING A NEW CHAPTER OF DEVELOPMENT BY MOVING INTO HEADQUARTERS COMPLEX

Celebrating the 18th anniversary of the Company, in 2021, the Group officially opened our new headquarters complex in Yueliangdao, Changsha, the PRC with a gross floor area of over 40,000 square metres. All BUs have moved into the new headquarters complex to improve team spirit across the Group and lay the solid foundation for our exponential growth.

XI. OUTLOOK

As of 31 December 2021, our net cash balance amounted to RMB1,214.4 million, and we continue to maintain a healthy level of cash conversion and liquidity position.

Despite the challenges that the industry is currently facing, we remain optimistic about its future. With the high vaccination rate, a global economic recovery is in sight. Further, the PRC Government has implemented a series of favourable policies to encourage births, including cancelling the restrictive laws and adopting supportive measures to reduce the burden of childbearing, parenting and education.

Looking forward to 2022, we will continue to fight with dogged determination, seize new development opportunities, deliver steady growth of our core business and brands, complete the second registration of existing formulas, and secure the approval of all key products. At the same time, we will also diversify our mix of nutrition products and products for special medical purposes, expand the international reach of our probiotics business, procure timely completion of R&D, production testing and clinical trials, and obtain respective registrations and approvals.

To fully unleash our brand influence and marketing synergies, the Group will further strengthen internal collaboration and teamwork. We will accelerate the digitalisation of our financial, human resource sharing and marketing systems in order to comprehensively optimise our organisational development, supportive systems and operational and management standard. Meanwhile, by cooperating with Yili Industrial, we 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.

Furthermore, we will make every effort to enhance the efficiency and performance of our global supply chain, improve quality and control costs with the aim of establishing a stable and responsive supply chain security system. We will also carry on our market globalisation strategy by developing the Southeast Asian market while reinforcing the existing markets in North America, Europe, Middle East and South America with a view to realise profits from all of our brands across the world.

2022 marks the final year of the second phase of our Golden Decade development plan. Under the guidance of the nation's focus on high-quality development, the Group will continue to concentrate on the health business by striving for further enhancement in innovation, production, supply, quality control, marketing, customer service, partner support, digitalisation, smart development, organisation, team-building, brand-building, social responsibility and corporate development. With stronger confidence in our culture and broader vision into the future, Ausnutria will spare no effort to promote our reputation across the globe, attain high-quality corporate development, deliver better results and contribute more to the nation, the society and the people.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to sincerely thank the customers, consumers, partners, shareholders and governments for their continued support, trust and help. Meanwhile, my heartfelt appreciation goes to our Board members and senior management, as well as all our staff, for their contributions and dedication throughout the year.

In 2022, let us celebrate our vigour with passion; seize the moment with enthusiasm; and fight for the future with excellence in a sincere and prudent manner.

Yan Weibin
Chairman

The PRC
28 March 2022

The Group's Own Brands

澳优 Ausnutria

On 27 October 2021, the Company was notified by Citagri Easter Limited, BioEngine Capital Inc., Center Laboratories, Inc. ("**Center Lab**") and Dutch Dairy Investments HK Limited ("**DDIHK**") (all being substantial shareholders of the Company (collectively, the "**Vendors**")) that, Yili Industrial, through its wholly and beneficially owned company, Hongkong Jingang Trade Co., Limited (the "**Offeror**"), entered into a sale and purchase agreement (the "**Yili SPA**") with the Vendors to purchase an aggregate of 530,824,763 shares of the Company (the "**SPA Shares**") at a total consideration of HK$5,340,097,116 (i.e. HK$10.06 per share of the Company) (the "**Yili Transfer**").

Furthermore, on the same day, the Offeror entered into a subscription agreement (the "**Subscription Agreement**") with the Company to subscribe for an aggregate of 90,000,000 new shares of the Company of HK$0.10 each (the "**Subscription Shares**") at the subscription price of HK$10.06 per Subscription Share (the "**Yili Subscription**"). The then market price of the shares of the Company (the "**Shares**") was HK$8.85 per Share, being the closing price of the Shares on 11 October 2021 which was the last trading day prior to the date of the Subscription Agreement. The gross proceeds of the Yili Subscription were HK$905,400,000 and the net proceeds of the Yili Subscription, after deduction of the related expenses, were HK$904,900,000, representing a net price of HK$10.05 per Subscription Share. The Company intends to apply the net proceeds to (i) partially finance the expansion of its upstream production facilities; (ii) reserve for future acquisition of nutrition-related business; (iii) enhance the Group's processing and logistics capabilities in the PRC; (iv) invest in the Group's brand building related actives; and (v) be the Group's general working capital. Pursuant to the Subscription Agreement, completion of the Yili Subscription was conditional upon completion of the Yili Transfer.

By virtue of Rule 14A.19 and 14A.20 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Offeror was deemed to be a connected person to the Company, hence the Yili Subscription 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 Yili SPA, the Yili Subscription 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 and were completed on 28 January 2022. Further details regarding the aforementioned transactions are set out in the announcement and circular of the Company dated 27 October 2021 and 15 December 2021, respectively.

Completion of the Yili Transfer and the Yili Subscription (the "**Completion**") took place on 28 January 2022. Immediately prior to the Completion, the Offeror was not interested in any Shares. Upon Completion, 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 3 March 2022, being the first closing date of the Offer, the Offeror received valid acceptance in respect of an aggregate of 332,338,860 Shares (the "**First Closing Acceptance Shares**"). The SPA Shares, the Subscription Shares and the First Closing Acceptance Shares amounted to an aggregate of 953,163,623 Shares, representing approximately 52.70% of the then entire issued Shares. Accordingly, the Offer has become unconditional in all respects. On 17 March 2022, being the final closing date of the Offer, together with the First Closing Acceptance Shares, 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 business of processing and manufacturing dairy products in the PRC. The Company believes the Yili Subscription would enlarge its shareholder base and significantly strengthen the shareholder profile of the Company by introducing a major industry player in the PRC. It is expected that the Company will benefit from the synergies with Yili Industrial. 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 so as to facilitate its future development.

INDUSTRY OVERVIEW

Due to the combined impacts of changing demographics and the COVID-19 pandemic, the number of newborns in the PRC declined further in 2021. On 17 January 2022, the National Bureau of Statistics of China reported that the total number of births in the PRC in 2021 was 10.62 million, representing a decrease of 1.40 million or 11.6% as compared with 2020. As the number of newborn babies dwindles, the growth of the infant formula industry, which depends on infants as its key target consumers, continued to slow down. According to relevant industry data, total retail sales of the PRC infant formula industry in 2021 increased by 2.2%, which was mainly driven by a shift towards premium products.

Although competition in the industry has been intensifying due to the decrease in newborns, top-tier enterprises were able to gain additional share and consolidate the industry in the competition for the existing market thanks to their well-established supply chains, strong brand power and flexible and fast channel servicing ability. According to relevant industry data, top three and top ten PRC infant formulas accounted for 43.7% and 82.1%, respectively, of the market in 2021, representing increases of 4.1 and 4.8 percentage points, respectively, as compared with 2020. In fact, domestic brands were cementing their positions in the market of top-tier brands with their advantageous distribution networks and efficient channel operations. According to relevant industry data, half of the top ten infant formula brands in the PRC in 2021 were domestic brands (including the Company) with a total market share of 45.3%. In 2021, sales of the Group's own-branded formulas in the PRC increased by 13.6% to RMB7,544.1 million and accounted for off-line sales of approximately 6.9% of the market, representing a YoY increase of 0.5 percentage points.

Affected by the dipping birth rate, the competitive landscape facing by the infant formula industry will remain unchanged in 2022. However, we believe that enterprises with top-notch brands will continue to benefit from the aforementioned advantages so as to obtain more market share and further consolidate the industry. Furthermore, we expect the birth rate to gradually recover in the next 2 to 3 years from the delay in childbearing due to vaccination. Add to that the preliminary success of the three-child policy promoted by the PRC government, we can postulate that the industry have bottomed out.

FINANCIAL REVIEW

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

Revenue

	Notes	2021 RMB'M	2020 RMB'M	Change %	Proportion to total revenue 2021 %	Proportion to total revenue 2020 %
Own-branded formula milk powder products:						
Cow milk (in the PRC)	(i)	4,414.1	3,820.2	15.5	49.7	47.8
Goat milk (in the PRC)	(i)	3,130.0	2,818.4	11.1	35.3	35.3
Goat milk (elsewhere)	(i)	218.2	287.8	(24.2)	2.5	3.6
Goat milk total		3,348.2	3,106.2	7.8	37.8	38.9
		7,762.3	6,926.4	12.1	87.5	86.7
Private Label and others:						
Private Label	(ii)	211.6	209.0	1.2	2.4	2.6
Others	(iii)	722.3	708.1	2.0	8.1	8.9
Private Label and others total		933.9	917.1	1.8	10.5	11.5
Dairy and related products		8,696.2	7,843.5	10.9	98.0	98.2
Nutrition products	(iv)	177.1	142.3	24.5	2.0	1.8
Total		8,873.3	7,985.8	11.1	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 ("**CIS**"), 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 which are mainly produced in Australia.

Despite the prolonged outbreak of the COVID-19 pandemic, the headwinds from the declining birth rate and the intense market competition, the Group's recorded revenue of RMB8,873.3 million for the Year 2021, representing an increase of 11.1% when compared with the year ended 31 December 2020 (the "**Year 2020**"). The increase was mainly driven by the continuous increase in revenue of the Group's own-branded formula milk powder business by 12.1% to RMB7,762.3 million attributable by the effective marketing strategies launched by the Group and the continuous product premiumisation trend in Mainland China. Such increase in growth rate was partly offset by the slower than expected revenue growth in the overseas market which was adversely affected by the lockdown and travel restrictions during the year. Excluding the revenue attributed to the overseas market, the Group's revenue derived from own-branded formula milk powder products in the PRC market, which accounted for 85.0% of the Group's total revenue, increased by 13.6% to RMB7,544.1 million. According to relevant industry data, the Group's market share in the infant formula market in Mainland China increased further to 6.9% and was ranked fifth in the infant formula industry in the Year 2021.

Own-branded cow milk formulas

During the year, revenue of the Group's own-branded cow milk formulas amounted to RMB4,414.1 million, representing a YoY increase of RMB593.9 million or 15.5%. Amongst all BUs, the Hyproca 1897 BU (which comprises the brands of Hyproca Hollary, Hyproca Hypure and Neolac), focuses on the ultra premium market and recorded revenue for the Year 2021 of RMB3,181.5 million, representing a YoY increase of RMB483.9 million or 17.9% as compared with the Year 2020. In particular, Hyproca Hollary, one of our superstar brands, remained one of the fastest-growing brand of the Group with a YoY growth rate of 22.0%. The Allnutria BU gathered momentum after streamlining its brands, organisation and channels in the Year 2020, and recorded revenue for the Year 2021 of RMB1,019.3 million, representing a YoY increase of RMB192.7 million or 23.3% as compared with the Year 2020. Especially, Allnutria G4, one of the major brands of Allnutria, recorded a 49.8% YoY growth in the Year 2021 as compared with the Year 2020.

Own-branded goat milk formulas

After the channel reform of Kabrita in the PRC in the Year 2020, the Group's own-branded goat milk formulas resumed its growth momentum in the Year 2021 with a revenue of RMB3,348.2 million, representing a YoY growth of 7.8%. In particular, revenue derived in the PRC market, which accounted for 93.5% of the global Kabrita sales for the year, recorded a YoY increase of 11.1%.

According to research data from Frost & Sullivan, the PRC goat milk powder market reached a scale of RMB20.0 billion in terms of retail sales in the Year 2020. The Group's goat milk powder products, namely Kabrita, remained the leader in the PRC market. A market research report issued by AC Nielsen showed that for the past four years, Kabrita made up over 60% of the sales of imported infant goat milk powder in the PRC for 4 consecutive years.

Other than in the PRC, Kabrita is also available in markets including Europe, the USA, the Middle East countries, the CIS, Mexico, etc. Due to the COVID-19 pandemic, revenue derived from these markets recorded a decline of 24.2% to RMB218.2 million for the Year 2021. Despite that, we observe some encouraging recovery with revenue derived in the second half which increased by 42.7% when compared with the first half of 2021.

All Kabrita of the Group is produced in the Netherlands using 100% goat whey protein. The Company attributed the success of Kabrita to its unique formula, its high quality of milk source, effective marketing strategies and high level of education and services provided to customers.

Private Label and Others

During the Year 2021, revenue of formula milk powder products on an original equipment manufacturing basis (the "**Private Label**") and other businesses, which represented 10.5% of the total revenue of the Group, both increased by a low single digit growth to RMB211.6 million and RMB722.3 million, respectively. The increase in revenue on Private Label was mainly attributable to growth in business of the existing Private Label customers. Due to the lockdown and travel restrictions as a result of COVID-19 pandemic, the development of new customers for Private Label business was temporary interrupted during the year. The increase in revenue on others was mainly attributable to the increase in trading of commodities as a result of the increase in the intake of milk, particularly goat milk, for the processing of related ingredients in order to fulfil internal production needs. Trading of the related by-products such as cream, milk powder, etc., increased accordingly.

Nutrition business

During the Year 2021, revenue derived from the nutrition products amounted to RMB177.1 million, representing a YoY increase of RMB34.8 million, or 24.5%. The increase was mainly attributable to the continuous increase in sales of NC Gut Relief, a product which has beneficial effect on the gastrointestinal tract, and a series of probiotic related products which was newly launched in last year. Revenue contributed by the probiotic related products amounted to a total of RMB84.2 million, representing an increase of 108.9%, for the Year 2021.

Gross profit and gross profit margin

	Gross profit		Gross profit margin	
	2021 RMB'M	2020 RMB'M	2021 %	2020 %
Own-branded formula milk powder products:				
Cow milk	2,641.2	2,200.8	59.8	57.6
Goat milk	1,964.8	1,834.8	58.7	59.1
	4,606.0	4,035.6	59.3	58.3
Private Label and others	25.7	33.9	2.8	3.7
Dairy and related products	4,631.7	4,069.5	53.3	51.9
Nutrition products	113.3	87.1	64.0	61.2
	4,745.0	4,156.6	53.5	52.0
Less: write-down of inventories to net realisable value	(274.3)	(174.6)		
Total	4,470.7	3,982.0	50.4	49.9

The Group's gross profit for the Year 2021 was RMB4,470.7 million, representing an increase of RMB488.7 million, or 12.3%, when compared with the Year 2020. The increase in the gross profit margin of the Group from 49.9% for the Year 2020 to 50.4% for the Year 2021 was primarily due to the net effect of (i) the rebound of the profit margin of the Group's own-branded formula milk powder products following management's efforts on the strategic adjustments and channel reorganisation in the prior year; and (ii) the increase in inventories provision of RMB99.7 million mainly attributable to a provision made by the Group for the products that are not expected to be sold as scheduled as a result of the aggregate effects of market consolidation and change in consumer preferences.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2021 RMB'M	2020 RMB'M
Interest income	(i)	28.1	31.6
Government grants	(ii)	40.7	43.6
Others		9.3	14.9
		78.1	90.1

Notes:

(i) The amount mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC. The decrease in interest income was in line with the decrease in the average bank balances during the Year 2021.

(ii) The amount mainly represented incentive income received from the government of the Hunan province, the PRC for the contribution made by Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**") in the Hunan province, the PRC during the Year 2021.

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 27.2% (Year 2020: 25.9%) of the revenue for the Year 2021. The increase in the selling and distribution expenses to revenue ratio was mainly because more advertising and promotion activities in proportion to revenue were carried out during the year as the effects of the COVID-19 pandemic situation in Mainland China gradually receded and more resources were allocated to the advertising and promotion activities in face of the intense market competition in order to increase the market share of the Group.

Administrative expenses

Administrative expenses mainly comprised staff costs (including the non-cash equity-settled share option expense of RMB10.9 million (Year 2020: RMB20.2 million)), travelling expenses, auditor's remuneration, professional fees, depreciation and R&D costs.

The administrative expenses accounted for 8.0% (Year 2020: 8.7%) of the revenue of the Group for the Year 2021. The decrease in administrative expenses to revenue ratio was mainly due to the general decrease in the growth rate of respective expenses partly due to economies of scale and partly due to cost control measures implemented by the Group to enhance its competitiveness.

Other expenses

An analysis of other expenses is as follows:

	Notes	2021 RMB'M	2020 RMB'M
Charitable donations	(i)	22.3	35.0
Foreign exchange losses, net	(ii)	12.7	3.6
Impairment of trade receivable	(iii)	36.5	–
Provision for a customer claim	(iv)	34.3	–
Impairment of goodwill	(v)	14.5	–
HNC FV Loss	(vi)	–	43.0
Others		15.0	7.1
		135.3	88.7

Notes:

(i) The amount was mainly for charitable and anti-pandemic activities.

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

(iii) The amount represented impairment of trade receivable related to a customer 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.

(iv) The Group has filed a legal proceeding in the Netherlands against a former customer. This claim led to a counterclaim from this customer. Based on the Company's assessment after evaluating the situation and the information available to-date, a provision for this claim of RMB34.3 million is recognised in the Year 2021.

(v) The amount represented the impairment of goodwill arising from the acquisition of certain of the Group's nutrition businesses. Due to the change in regulations in 2019 and the ongoing outbreak of COVID-19 pandemic since 2020, the performance of the Group's nutrition business has yet to achieve the previously set target. Accordingly, the recoverable amount of the nutrition business, which is calculated based on the latest 5-year forecast, is lower than its carrying amount and accordingly, an impairment of goodwill is recognised for the current year.

(vi) The prior year amount represented a loss on fair value change of a derivative financial instrument arising from the contingent consideration as a result of the acquisition of Hyproca Nutrition (Hongkong) Company Limited and its subsidiaries (the "**HNC FV Loss**").

Finance costs

The finance costs of the Group for the Year 2021 amounted to RMB18.8 million (Year 2020: RMB28.9 million), representing mainly 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 borrowings and the decrease in effective interest rate due to a relatively higher portion of the borrowings were drawn down in the Netherlands where the interest rate was lower than in other jurisdictions, namely Hong Kong and Mainland China.

Share of profits and losses of associates

Balance mainly represented (i) share of losses of Farmel Holding B.V. and its subsidiaries (the "**Farmel Group**") of RMB35.3 million (Year 2020: share of profits of RMB21.4 million) for the Year 2021. 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 Bioflag International Corporation ("**Bioflag**") and its subsidiaries (the "**Bioflag Group**") of RMB9.7 million (Year 2020: share of losses of RMB1.0 million). The Bioflag Group is principally engaged in the R&D, manufacturing and sale of probiotics– and fermentation-related application products.

The reversal of performance of the associates was mainly due to:

(i) the decrease in results of the Farmel Group. During the reporting period, the Farmel Group, the Group's 50%-owned associate, entered into certain short positions relating to dairy commodities (including butter, milk and base powder) in order to hedge against the anticipated price fluctuation of those products. In respect of these short positions, the Farmel Group recognised losses of a total of EUR12.5 million (equivalent to RMB95.1 million), including unrealised mark-to-market losses of EUR7.5 million (equivalent to RMB57.1 million) for the reporting period and accordingly the Group recognised its share of these losses amounted to RMB47.6 million for the reporting period (the "**Hedging Losses**"). As of the date of this report, price of these dairy commodities has retreated and accordingly the abovementioned unrealised losses partially reversed subsequent to 31 December 2021; and

(ii) the decrease in results of the Bioflag Group owing to (a) the slower than expected business development; and (b) the recognition of an impairment of goodwill on certain of its subsidiaries amounted to RMB24.2 million (Year 2020: Nil) (the Group shared RMB6.3 million (Year 2020: Nil) thereon) during the year.

Income tax expenses

The profits generated by the Group for the Year 2021 were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria China and Hyproca Nutrition Co., Ltd. ("**HNC**"), both being wholly-owned subsidiaries of the Company, were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% for the Year 2021. 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% (Year 2020: 16.5%) for the first EUR245,000 (Year 2020: EUR200,000) taxable profits and 25% for the taxable profits exceeding EUR245,000 (Year 2020: EUR200,000). 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 adjusted effective tax rate of 17.9% (excluding the adjusted items as shown below) for the Year 2021 increased by 0.4 percentage points as compared with the Year 2020 of 17.5% (excluding the HNC FV Loss of RMB43.0 million).

Profit attributable to ordinary equity holders of the Company

The Group's profit attributable to equity holders of the Company for the Year 2021 amounted to RMB1,040.3 million, representing an increase of RMB36.2 million, or 3.6% when compared with the Year 2020.

An analysis of profit attributable to equity holders of the Company on the like-for-like basis is set out below:

	2021 RMB'M	2020 RMB'M
Profit attributable to equity holders of the Company	1,040.3	1,004.1
Non-recurring items:		
Impairment of trade receivable*	36.5	–
Provision for a customer claim, net of tax	25.7	–
Impairment of goodwill*	14.5	–
Professional fees in relation to various merger and acquisition projects, net of tax	10.6	–
Share of the Hedging Losses	47.6	–
Share of Bioflag's goodwill impairment*	6.3	–
The HNC FV Loss*	–	43.0
One-off BUs integration expenses, net of tax	–	36.2
	1,181.5	1,083.3
Additional inventory provision, net of tax	81.1	–
	1,262.6	1,083.3

* Items adjusted for calculating effective tax rate.

Excluding the adverse impact attributable to various non-recurring losses and the additional inventory provision of RMB81.1 million (net of tax), the profit attributable to equity holders of the Company would have increased by RMB179.3 million or 16.6% to RMB1,262.6 million when compared with the Year 2020.

Analysis on Consolidated Statement of Financial Position

As at 31 December 2021, the total assets and net asset value of the Group amounted to RMB9,514.2 million (2020: RMB9,248.0 million) and RMB5,493.6 million (2020: RMB5,151.9 million), respectively.

The increase in total assets of the Group as at 31 December 2021 was mainly attributable to the net effect of:

(i) the increase in cash and cash equivalents and pledged deposits of a total of RMB447.8 million as a result of the cashflows generated from operating activities; and

(ii) the decrease in inventories by RMB202.5 million as a result of the aggregate effects of (a) the improved production planning and logistic lead time in the upstream production facilities; and (b) the recognition of additional inventory provision during the year.

The increase in total assets of the Group as at 31 December 2021 was mainly financed by cash flows generated from operating activities of the Group of RMB1,071.3 million (Year 2020: RMB1,130.2 million).

The increase in net assets of the Group as at 31 December 2021 was mainly a result of the net effect of (i) the net profit generated for the Year 2021 of RMB1,040.3 million (Year 2020: RMB1,004.1 million); (ii) the payment of 2020 final dividend of RMB388.2 million; and (iii) the decrease in the value of the Group's EUR denominated assets as a result of the depreciation of EUR against RMB.

Working Capital Cycle

As at 31 December 2021, the current assets to current liabilities ratio of the Group was 1.70 times (2020: 1.58 times). The increase in such ratio was mainly due to the net effect of the increase in cash and cash equivalents and pledged deposits and the decrease in inventories as explained above.

An analysis of key working capital cycle is as follows:

	2021 Number of days	2020 Number of days	Change Number of days
Inventories turnover days	191	203	(12)
Debtors' turnover days	19	20	(1)
Creditors' turnover days	34	35	(1)

The Group's inventories turnover days continue to decrease gradually for the Year 2021 and this was mainly attributable to the improved production planning and logistic lead time in the upstream production facilities. As set out in the 2020 annual report of the Company, the Company's short-term target is to reduce the inventories turnover days to 190 days which has more or less been achieved during the year. The turnover days of the Group's trade and bills receivables and payables remained fairly stable and were in line with the credit periods granted to the customers/by the suppliers.

Analysis on Consolidated Statement of Cash Flows

	2021 RMB'M	2020 RMB'M
Net cash flows from operating activities	1,071.3	1,130.2
Net cash flows used in investing activities	(606.5)	(402.5)
Net cash flows used in financing activities	(34.1)	(494.9)
Net increase in cash and cash equivalents	430.7	232.8

Net cash flows from operating activities

The net cash flows from operating activities of the Group for the Year 2021 amounted to RMB1,071.3 million (Year 2020: RMB1,130.2 million) was mainly contributed by the profit before tax for the Year 2021 of RMB1,233.7 million (Year 2020: RMB1,220.8 million).

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2021 of RMB606.5million (Year 2020: RMB402.5 million) mainly represented the effect of (i) the purchases of items of property, plant and equipment of RMB442.3 million (Year 2020: RMB439.9 million) mainly for the building of a new infant formula base powder facility (the "**New IFBP Facility**") and other related facilities in the Netherlands; and (ii) the additions to other intangible assets of RMB114.1 million (Year 2020: RMB66.7 million).

Net cash flows used in financing activities

The net cash flows used in financing activities of the Group for the Year 2021 of RMB34.1 million (Year 2020: RMB494.9 million) was primarily attributed to the net effect of (i) dividends paid during the year of RMB388.2 million (Year 2020: RMB322.4 million); and (ii) the net drawdown of new bank loans and other borrowings of a total of RMB342.8 million (Year 2020: net repayment of RMB152.0 million).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Year 2021.

TREASURY POLICY

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

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

	As at 31 December	
	2021 RMB'M	2020 RMB'M
Interest-bearing bank loans and borrowings	(1,303.0)	(1,086.3)
Less: Pledged deposits[(1)]	255.2	212.1
Cash and cash equivalents[(2)]	2,262.2	1,857.5
	1,214.4	983.3
Total assets	9,514.2	9,248.0
Shareholders' equity	5,538.5	5,171.4
Gearing ratio[(3)]	N/A	N/A
Solvency ratio[(4)]	58.2%	55.9%

Notes:

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

	2021		2020	
Currency	RMB'M	%	RMB'M	%
RMB	253.2	99.2	211.2	99.6
Others	2.0	0.8	0.9	0.4
Total	255.2	100.0	212.1	100.0

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

	2021		2020	
Currency	RMB'M	%	RMB'M	%
RMB	1,926.2	85.1	1,534.8	82.6
EUR	118.6	5.2	90.4	4.9
AUD	116.0	5.1	92.1	5.0
HK$	31.8	1.4	53.0	2.8
US$	31.2	1.4	50.5	2.7
Others	38.4	1.8	36.7	2.0
Total	2,262.2	100.0	1,857.5	100.0

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

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

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

As at 31 December 2021, the Group had outstanding borrowings of RMB1,303.0 million (2020: RMB1,086.3 million), of which RMB739.9 million (2020: RMB559.0 million) was due within one year and the remaining RMB563.1 million (2020: RMB527.3 million) was due over one year. As at 31 December 2021, the Group's bank overdrafts and revolving facilities that were attributed to the Ausnutria B.V. group amounting to EUR100.0 million (equivalent to approximately RMB722.0 million) (2020: EUR100.0 million, equivalent to approximately RMB802.5 million), of which EUR60.0 million (equivalent to approximately RMB433.2 million) (2020: EUR20.0 million, equivalent to approximately RMB160.5 million) had been utilised as at 31 December 2021.

Subsequent to the end of the reporting period, in January 2022, a review of the Ausnutria B.V. group's loan facilities has been conducted. The bank overdrafts and revolving facilities have been increased by EUR50.0 million to EUR150.0 million.

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

	2021		2020	
Currency	RMB'M	%	RMB'M	%
EUR	1,256.5	96.4	1,001.7	92.2
RMB	12.5	1.0	40.3	3.7
Others	34.0	2.6	44.3	4.1
Total	1,303.0	100.0	1,086.3	100.0

As at 31 December 2021, the Group had pledged (i) the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR289.0 million, equivalent to approximately RMB2,086.4 million (2020: EUR243.6 million, equivalent to approximately RMB1,955.0 million); and (ii) the time deposits that were placed in the PRC and the Netherlands of a total of RMB255.2 million (2020: RMB212.1 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, Australia and New Zealand. During the Year 2021, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), EURO ("**EUR**"), United States dollars ("**US$**"), Australian dollars ("**AUD**"), Taiwan dollars ("**TWD**") or New Zealand dollars ("**NZD**") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in RMB, EUR and AUD, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, EUR, US$, AUD, TWD or NZD 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 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 an interest rate cap contract with a bank of a notional amount of EUR40.0 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.

CAPITAL COMMITMENTS

As at 31 December 2021, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of land and buildings plant and machineries, intangible assets and acquisition of dairy related assets of a total of RMB634.7 million (2020: RMB89.0 million).

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any significant contingent liabilities (2020: Nil).

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
31 December 2021	3,902	11	735	148	100	4,896
31 December 2020	4,158	11	733	150	150	5,202

The decrease in the number of full-time employees was mainly due to the restructure of one of the cow milk formula BUs, namely Puredo and the optimisation of staff resources of Kabrita BU in the PRC.

For the Year 2021, total employee costs, including Directors' emoluments, amounted to RMB1,485.5 million (Year 2020: RMB1,380.7 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

USE OF PROCEEDS FROM YILI SUBSCRIPTION

The gross and net proceeds raised from the Yili Subscription which was completed subsequent to the end of the reporting period, on 28 January 2022, amounted to approximately HK$905.4 million and HK$905.0 million, respectively. The utilisation of the net proceeds from the Yili Subscription, which it is expected to be fully utilised by end of 2023, as at the date of this report is set out below:

	Net proceeds from the Yili Subscription HK$'M	Utilised during the period from the completion of the Yili Subscription to the date of this report HK$'M	Unutilised balance as at the date of this report HK$'M
Expansion of the Company's upstream production facilities	271.5	–	271.5
Acquisition of nutrition-related business	271.5	–	271.5
Enhance the Group's processing and logistics capabilities in the PRC	181.0	–	181.0
Investment in the Group's brand building related activities	90.5	–	90.5
General working capital:			
(a) Repayment of bank loans and bank borrowings in Hong Kong and the Netherlands	45.2	45.2	–
(b) Working capital	45.3	–	45.3
General working capital total	90.5	45.2	45.3
Total	905.0	45.2	859.8

The Directors are pleased to present the corporate governance report (the "**CG Report**") for the Year 2021.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance within the Group at all times and believes that such practices help safeguard the interests of the shareholders of the Company (the "**Shareholders**"), enhance corporate value and accountability as well as improve the Group's 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 embodies 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 Year 2021. 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.

The CG Code and code provisions specified above and in this report refer to the CG Code and code provisions prior to their amendments effective on 1 January 2022.

MODEL CODE FOR TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2021 and up to the date of this report.

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

THE BOARD

Board Composition

As at the end of the reporting period, the Board comprised nine members, including three executive Directors (the "**EDs**"), three non-executive Directors (the "**NEDs**") and three independent non-executive Directors (the "**INEDs**"). Save for Mr. Shi Liang and Mr. Qiao Baijun, both working in CITIC Agri Fund Management Co., Ltd ("**CAFM**"), a substantial Shareholder, the Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure that a strong independence exists across the Board, with diversity in skills, expertise, experience and qualifications concerning the Directors. The biographies of the Directors including, the relationship between the members, if any, are set out in the section headed "Management Profiles" on pages 59 to 64 of this report.

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

For the Year 2021, the Board comprised the following members and each of their roles are as follows:

	Board Committees		
	Audit Committee	Nomination Committee	Remuneration Committee
Director			
Executive Directors:			
Mr. Yan Weibin *(Chairman)*	N/A	Chairman	Member
Mr. Bartle van der Meer *(Chief Executive Officer)*	N/A	N/A	N/A
Ms. Ng Siu Hung	N/A	N/A	N/A
Non-Executive Directors:			
Mr. Shi Liang *(Vice-Chairman)**	N/A	Member	Member
Mr. Qiao Baijun	N/A	N/A	N/A
Mr. Tsai Chang-Hai*	N/A	N/A	N/A
Independent Non-Executive Directors:			
Mr. Lau Chun Fai Douglas	Chairman	Member	Chairman
Mr. Jason Wan	Member	Member	Member
Mr. Aidan Maurice Coleman	Member	Member	Member

* resigned on 18 March 2022

Subsequent to the reporting period, on 18 March 2022, Mr. Sun Donghong was appointed as a NED and a member of the Nomination Committee, and was elected as the Vice-Chairman of the Board; and Mr. Zhang Zhanqiang was appointed as a NED and a member of the Remuneration Committee.

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

During the Year 2021, the Board at all times met the requirements of the Listing Rules of appointing at least three INEDs representing one-third of the Board with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise.

Board Responsibilities

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

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

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

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

The Board acknowledges its responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2021, the Board ensured that (i) the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards, and they have been applied consistently; (ii) judgments and estimates made are prudent, fair and reasonable; and (iii) the consolidated financial statements are prepared on a going concern basis. The Board is also responsible for the timely publication of the consolidated financial statements of the Group.

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

The statement made by Ernst & Young, the independent auditors of the Company, about their reporting responsibilities on the consolidated financial statements of the Group as well as their opinion are set out in the "Independent Auditors' Report" of this report.

Executive Directors

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

Non-Executive Directors

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

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

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

Independent Non-Executive Directors

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

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

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

Each INED is required to inform the Stock Exchange as soon as practicable if there is any change of his or her own personal particulars that may affect his or her independence. No such notification was received during the Year 2021.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers all INEDs are independent in accordance with the definition of the Listing Rules for the Year 2021. The chairman of the Board (the "**Chairman**") had a meeting with the INEDs without the presence of other Directors in the Year 2021 pursuant to Rule A.2.7 of the CG Code.

Mr. Jason Wan ("**Mr. Wan**") has served as an INED for more than ten years, the Board has assessed and reviewed the annual confirmation of independence from Mr. Wan and affirmed that Mr. Wan remains independent; the nomination committee of the Company (the "**Nomination Committee**") has assessed and is satisfied of the independence of Mr. Wan; and the Board considers that Mr. Wan remains independent of management and free of any relationship which could materially interfere with the exercise of his independent judgement. Notwithstanding the length of his service, the Company believes that Mr. Wan's valuable knowledge and experience in processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products will continue to benefit the Company and the Shareholders as a whole.

Appointment, Re-election and Removal of Directors

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

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

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

Chairman of the Board and Chief Executive Officer

Since the early stage of its incorporation, the Company has segregated the duties of the Chairman and its chief executive officer (the "**CEO**"). During the Year 2021 and as at the date of this report, Mr. Yan Weibin is the Chairman and Mr. Bartle van der Meer is the CEO. The Chairman and the CEO are separately held by different Board members in order to ensure a balance of power and authority, independence and balanced judgment of views. The Chairman is responsible for overseeing and leading the Board, making sure it works effectively, performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. The CEO is responsible for managing and executing the Group's overall business directions and corporate operation decisions.

Directors' Liability Insurance

The Company has subscribed for appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against the Directors arising out of corporate activities. The coverage and the sum insured under the policy are reviewed and renewed on an annual basis. The insurance coverage was renewed on 7 January 2022.

Induction and Continuous Professional Development

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

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

Based on the training records as provided to the Company by the Directors, the Directors have participated in the following training during the Year 2021:

	Types of training
Executive Directors:	
Mr. Yan Weibin	A, B
Mr. Bartle van der Meer	A, B
Ms. Ng Siu Hung	A, B
Non-executive Directors:	
Mr. Shi Liang	A, B
Mr. Qiao Baijun	A, B
Mr. Tsai Chang-Hai	A, B
Independent Non-executive Directors:	
Mr. Lau Chun Fai Douglas	A, B
Mr. Jason Wan	A, B
Mr. Aidan Maurice Coleman	A, B

Notes:

A: trainings and seminars

B: read newspapers, journals and updates relating to the Group's business and regulatory requirements, and materials relating to the Listing Rules and relevant laws

Board's Corporate Governance Functions

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

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

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

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

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

(e) to review the Company's compliance with Appendix 14 to the Listing Rules (the CG Code and CG Report).

During the Year 2021, the Board has reviewed (i) the Company's corporate governance policies and practices; (ii) training and continuous professional development of the Directors and senior management; and (iii) the Company's policies and practices on compliance with legal and regulatory requirements.

Board and Board Committee meetings

The Board meets regularly, no less than four times a year pursuant to Rule A.1.1 of the CG Code, to discuss the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications. The schedule for the regular meetings of the Board and the Board committees was prepared and approved by the Board at the end of the previous year. Formal notices were sent to the Directors at least 14 days before the respective meetings shall be held officially.

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

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

BOARD COMMITTEES

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

Audit Committee

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

The Audit Committee had reviewed the Company's interim results for the six months ended 30 June 2021, the annual results for the Year 2021, risk management and internal control systems of the Group, the effectiveness of the Company's internal audit function as well as considered and discussed with the external auditors regarding their re-appointment and independence. All issues raised by the external auditors and the Audit Committee have been addressed by the Board. During the Year 2021, no issues brought to the attention of the Board were of sufficient significance for disclosure in this report.

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

Nomination Committee

The Nomination Committee comprises five members during the year, an ED (Mr. Yan Weibin), a NED (Mr. Shi Liang) and all the three INEDs (Mr. Lau Chun Fai Douglas, Mr. Jason Wan, and Mr. Aidan Maurice Coleman). The Nomination Committee is chaired by Mr. Yan Weibin. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, the nomination policy and diversity policy of the Board and the Nomination Committee on a regular basis; recommend to the Board suitable candidates for directorship after considering the nominees' independence and quality in order to ensure the fairness and transparency of all nominations; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors if necessary. In the selection process of a candidate to act as a Director, the Nomination Committee makes reference to criteria including but not limited to, reputation for integrity, accomplishment and experience in the industry, professional and educational background, and commitment in respect of available time and assesses the independence of the INEDs. The written terms of reference of the Nomination Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange, and are available to the Shareholders upon request.

Nomination procedures and process

(i) Appointment by the Board

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

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

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

(ii) Appointment by the Shareholders at a general meeting

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

(iii) Re-appointment at a general meeting

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

For those existing INEDs, who have offered themselves for re-appointment and served the Company more than 9 years, the Nomination Committee shall consider the reason why they are still independent and therefore eligible for re-election. The Nomination Committee will then make recommendations for the Board's consideration and the Board will make recommendations to the Shareholders.

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

During the Year 2021, the Nomination Committee reviewed the board diversity policy, the procedure for the selection, appointment and reappointment of Directors, the structure, size and composition of the Board, the independence of the INEDs and considered the qualifications of the retiring Directors standing for re-election at the AGM on an annual basis.

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

Remuneration Committee

The Remuneration Committee comprises five members during the year, an ED (Mr. Yan Weibin), a NED (Mr. Shi Liang) and all the three INEDs (Mr. Lau Chun Fai Douglas, Mr. Jason Wan, and Mr. Aidan Maurice Coleman). The Remuneration Committee is chaired by Mr. Lau Chun Fai Douglas. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall emolument policy and structure relating to all Directors and senior management of the Group, review performance-based remuneration, and ensure none of the Directors determine their own remuneration. The written terms of reference of the Remuneration Committee, which are in line with the code provisions of the CG Code, had been posted on both the websites of the Company and the Stock Exchange and are available to the Shareholders upon request.

During the Year 2021, the Remuneration Committee has reviewed the emolument policy and structure of the Company, the share option plan, the remuneration packages as well as the annual bonuses of the Directors and the senior management on an annual basis.

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

Strategic Committee

The Strategic Committee was established in 2019 and comprises three members, two EDs (Mr. Yan Weibin and Mr. Bartle van der Meer) and a NED (Mr. Qiao Baijun). The primary duties of the Strategic Committee are to draw up long-term development strategies and significant investments of the Company, propose significant capital investment for operation projects, and conduct studies and make recommendations on important matters that would affect the development of the Company.

During the Year 2021, the Strategic Committee has reviewed the 5-year strategic plan of the Company covering significant capital investment and new products development plans; the sustainability on the supply of key raw materials and the adequacy of working capital of the Group.

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

Executive Committee

The Executive Committee comprises three members, two EDs (Mr. Yan Weibin and Mr. Bartle van der Meer) and the chief financial officer of the Company (the "**CFO**") and the Company Secretary (Mr. Wong Wei Hua, Derek). The primary duties of the Executive Committee are to execute and monitor significant business and operation decisions approved by the Board. Upon delegation by the Board, the Executive Committee also assists the Board to formulate business development strategies to ensure that the Group's business objectives, business development plans and annual budget are properly managed.

Attendances of the Directors at various Board meetings, Board committee meetings and general meetings during the Year 2021:

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meeting	Year 2020 AGM	Extraordinary general meeting
Executive Directors:						
Mr. Yan Weibin[1]	6/6	2/3	1/1	1/1	1/1	1/1
Mr. Bartle van der Meer	6/6	N/A	N/A	N/A	0/1	0/1[3]
Ms. Ng Siu Hung	6/6	N/A	N/A	N/A	1/1	1/1
Non-executive Directors:						
Mr. Shi Liang	1/6	N/A	1/1	1/1	1/1	0/1[3]
Mr. Qiao Baijun	6/6	N/A	N/A	N/A	1/1	0/1[3]
Mr. Tsai Chang-Hai	5/6	N/A	N/A	N/A	0/1	0/1[3]
Independent Non-executive Directors:						
Mr. Lau Chun Fai Douglas[2]	6/6	3/3	1/1	1/1	1/1	1/1
Mr. Jason Wan	6/6	3/3	1/1	1/1	1/1	1/1
Mr. Aidan Maurice Coleman	6/6	3/3	1/1	1/1	1/1	1/1

Notes:

1. Chairman of the Board and the Nomination Committee.

2. Chairman of the Audit Committee and the Remuneration Committee.

3. Did not attend the extraordinary general meeting because they were required to abstain from voting at this meeting.

Delegation by the Board

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

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

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

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

Remuneration of Directors and Senior Management

The remuneration of Directors and the senior management by band for the Year 2021 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	8
1,000,001 – 1,500,000	1
1,500,001 – 2,000,000	5
2,000,001 – 2,500,000	2
2,500,001 – 3,000,000	5
3,000,001 – 3,500,000	3
3,500,001 – 4,000,000	1
4,000,001 – 4,500,000	1
	26

Further particulars regarding Directors' and chief executive's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

COMPANY SECRETARY

The Company Secretary is a full-time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for facilitating the Board process, as well as communication among Board members, with the Shareholders and management. For the Year 2021, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out on page 62 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITOR'S REMUNERATION

During the Year 2021, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	RMB'000
Annual audit services	6,640
Review of quarterly results and other assurance services	1,360
Non-audit services*	3,757
Total	11,757

* Represented advisory services mainly on conducting various due diligence services, and services on the sustainability report.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control Framework

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

Risk Management Approach

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

Internal Control Systems

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

Internal Audit

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

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

Handling and Dissemination of Inside Information

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 SFO. The aforementioned guideline set out the procedure and internal control to ensure timely disclosure of information on the Group and fulfilment of the Group's continuous disclosure obligations and provides a general guide and standards for the Company's senior management, officers and relevant employees in dealing in the securities of the Company to ensure potential inside information is being captured and confidentiality is being maintained until disclosures are made. During the year ended 31 December 2021, no incidents of non-compliance of the "Employees' Code of Dealing the Securities of the Company" was noted by the Group.

Assessing The Effectiveness of Risk Management And Internal Control System

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. The review process comprises, among other things, meeting with senior management, internal audit department and external auditor, reviewing the relevant work reports and information of key performance indicators, the management's self-assessment on internal control as detailed above and discussing the major risks with the senior management of the Company. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems on an annual basis covering the Year 2021, among others, the financial, operational and compliance controls. The Board considered the risk management and internal control systems of the Group are effective and adequate. No material deficiencies nor significant areas of concern that might affect the Shareholders were identified during the review. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

The Company encourages the Shareholders to attend the AGM and other general meetings to communicate their views and concerns to the Board directly to ensure a high level of accountability. The Directors acknowledge their responsibility for the timely holding of AGMs. The last Shareholder's meeting was the extraordinary general meeting held on 31 December 2021 at 22nd Floor, Block A, Building 1, Ausnutria Building, Suncity, Purui East Road, Yueliangdao Street, Wangcheng District, Changsha City, Hunan Province, the PRC for the purpose of considering, and if thought fit, approving, among other things, the conditional Subscription Agreement dated 27 October 2021 entered into between the Company and Hongkong Jingang Trade Holding Co., Limited in relation to the proposed share subscription of a total of 90,000,000 Shares at the subscription price of HK$10.06 per subscription share and the transactions contemplated thereunder. Particulars of the major items considered at the meeting are set out in the circular of the Company dated 15 December 2021. The proposed ordinary resolution was passed by way of poll at the meeting.

The AGM for the Year 2021 will be held on 26 May 2022. The notice of AGM will be sent to the Shareholders at least 20 clear business days before the AGM.

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

Dividend Policy

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

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

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

Constitutional Documents

During the Year 2021, there had been no significant change in the Company's constitutional documents.

Shareholders' Rights

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

The Directors hereby present their report and the audited financial statements for the Year 2021.

PRINCIPAL ACTIVITIES

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

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

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

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

An analysis of the Group's performance for the Year 2021 by operating segment is set out in note 4 to the financial statements of this report.

BUSINESS REVIEW

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

Topics	Sections
A fair review of the business of the Group during the Year 2021 and the Group's future business development	Chairman's Statement (pages 8 to 13)
A discussion of the principal risks and uncertainties facing the Group, measures undertaken to manage such risks and an analysis of the Group's performance using key performance indicators	Management Discussion and Analysis (pages 23 to 27)
The Company's key relationships with its employees	Chairman's Statement (pages 8 to 13) Directors' Report (page 45)
The Company's key relationships with its customers and suppliers	Directors' Report (page 47)
A discussion on relationships with the Company's stakeholders	Corporate Governance Report (pages 41 to 43)

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and has provided guidelines to staff on compliance with laws and regulations. The Group's main operations are carried out by the Company's subsidiaries in the PRC, the Netherlands, Australia and New Zealand while the Company is listed on the Stock Exchange. During the Year 2021 and up to the date of this report, the Board was not aware of any non-compliance with the relevant laws and regulations that has a significant impact on the Company.

SUSTAINABILITY POLICIES AND PERFORMANCE

The Group believes strong sustainability governance is crucial in minimising the potential impact from environmental, social, and governance issues. Business operations of the Group do not generally result in pollution issues, nevertheless, the Group strives to strengthen its environmental protection efforts on conserving resources and managing waste from its business activities. The Group also values its employees and recognises the importance of their personal development. Through a variety of media like Ausnutria Academy, the Group provides its employees with regular training for their continuous professional development in areas such as management, communication, sales and quality control.

The Board has oversight of the responsibilities over the Group's sustainability, including the integration of sustainability strategies into its long-term business strategies. The Board is also responsible for evaluating and determining sustainability risks and opportunities, and ensuring sustainability-related risk management and control systems are effectively in place.

The Group has formulated a sustainability vision and defined three foundational pillars as the core focus of the Group in driving sustainability: Better Nutrition, Better Life, and Better Environment. This reinforces the Group's commitment to broader international societal goals, the United Nations Sustainable Development Goals (UNSDG) set by the UN General Assembly in 2015 for the year 2030. The Group has identified eight UNSDGs that are relevant to the Group out of the collection of seventeen UNSDGs.

The Group's governance on sustainability further strengthened in recent years, encouraging a more structured integration of the sustainability efforts among subsidiaries. A group-level sustainability committee (the "**Sustainability Committee**") was established in 2018 to support the Board in implementing sustainability strategies across subsidiaries. Chaired by Mr. Yan Weibin, the Chairman, the Sustainability Committee comprises regional senior management to ensure that regional sustainability initiatives are in line with the strategic direction set by the Board. The Sustainability Committee meets regularly to discuss and report on the progress and challenges on sustainability issues to ensure all appropriate matters are effectively and timely reported to the Board for decision-making. Daily implementation of sustainability initiatives is supported by local teams to ensure material sustainability issues are well-managed.

Climate change has been a growing concern in the world. The Group actively responded to it by performing a detailed climate risk assessment on its operations and supply chain in Year 2021 with the assistance of an external professional. The Group has been working towards reducing natural gas dependency and shifting to heating by electricity to achieve zero nitrogen emissions.

In accordance with Rule 13.91 of the Listing Rules, the Company will publish a sustainability report within five months after the end of the financial year, in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

RESULTS AND DIVIDENDS

The Group's results for the Year 2021 and the Group's financial position at that date are set out in the financial statements on pages 69 to 163 of this report.

The Board is pleased to recommend the payment of a final dividend of HK$0.28 (Year 2020: HK$0.27) per Share for the Year 2021 to be distributed out of the Company's share premium account. Subject to the approval of the Shareholders at the forthcoming AGM to be held on 26 May 2022, the proposed final dividend is expected to be paid on or around 23 June 2022. As at the date of this report, there was no arrangement with any Shareholders under which he/she/it has waived or agree to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

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

For the purpose of determining Shareholders who are eligible to attend and vote and the forthcoming AGM, the register of members of the Company will be closed from 23 May 2022 to 26 May 2022 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified to attend the forthcoming AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 20 May 2022.

(b) Entitlement for the proposed final dividend

For the purpose of determining Shareholders who are qualified for the proposed final dividend, the register of members of the Company will be closed from 1 June 2022 to 6 June 2022 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for the proposed final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 31 May 2022.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 164 of this report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2021 are set out in note 13 to the financial statements.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the Year 2021 are set out in note 14 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 26 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the Year 2021 are set out in notes 30 and 31 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2021.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2021 are set out in note 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's accumulated losses amounted to RMB104,582,000 (2020: RMB81,574,000). As at 31 December 2021, the Company's share premium account available for distribution under certain conditions, amounted to RMB2,824,031,000 (2020: RMB3,186,678,000), of which RMB393,423,000 (2020: RMB389,927,000) has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the Year 2021, the Group made charitable contributions totaling RMB22,283,000 (Year 2020: RMB35,016,000).

MAJOR CUSTOMERS AND SUPPLIERS

The Group seeks to build, sustain and grow its customer relationships by promoting interactions with and among business partners and customers through different engagement programs and social platforms. This allows the Group to better capture feedback from customers, and for business partners and customers to have a better knowledge on the Group's dairy and nutritional products.

The Group works closely with its suppliers to build long-term partnerships that are mutually beneficial to all. Regarding this aim, the Group has established stringent supplier selection procedures to ensure only suppliers who share the same values with the Group are engaged. Regular performance monitoring and assessments are also in place to ensure compliance and to maintain a reliable and stable supply.

During the Year 2021, sales to the Group's five largest customers accounted for 8.6% (Year 2020: 7.9%) of the total sales for the year and sales to the largest customer included therein amounted to 2.6% (Year 2020: 2.1%). Purchases from the Group's five largest suppliers accounted for 29.3% (Year 2020: 33.9%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 12.3% (Year 2020: 14.3%).

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

DIRECTORS

The Directors who were in the office during the Year 2021 and up to the date of this report were as follows:

Executive Directors:

Mr. Yan Weibin	*(Chairman)*
Mr. Bartle van der Meer	*(Chief Executive Officer)*
Ms. Ng Siu Hung	

Non-executive Directors:

Mr. Sun Donghong (appointed on 18 March 2022)	*(Vice-Chairman)*
Mr. Zhang Zhanqiang (appointed on 18 March 2022)	
Mr. Qiao Baijun	
Mr. Shi Liang (resigned on 18 March 2022)	*(Vice-Chairman)*
Mr. Tsai Chang-Hai (resigned on 18 March 2022)	

Independent Non-executive Directors:

Mr. Lau Chun Fai Douglas
Mr. Jason Wan
Mr. Aidan Maurice Coleman

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

Further, in accordance with Article 84 of the Articles of Association, Mr. Bartle van der Meer, Ms. Ng Siu Hung and Mr. Aidan Maurice Coleman will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received annual confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2021. The Company considers all of the INEDs to be independent. The Company has also assessed the independence of Mr. Wan, who has served as an INED for more than ten years, details of which are set out in the session headed "The Board – Independent Non-Executive Directors" on page 61 of this report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Management Profiles" on pages 59 to 64 of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the Year 2021.

DIRECTORS' SERVICE CONTRACTS

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

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

EMOLUMENT POLICY

The remuneration of the Directors is determined by the Board, as authorised by the Shareholders at general meeting, with reference to the recommendation by the Remuneration Committee after taking into consideration of the Directors' experience, duties, responsibilities, performance, time devoted to the Group, the results of the Group as well as the prevailing market conditions. Details of remuneration of the Directors during the Year 2021 are set out in note 8 to the financial statements. As at the date of this report, there was no arrangement with any Director under which he/she has waived or agree to waive any emoluments. The remuneration of the senior management of the Group is recommended to the Board by the Remuneration Committee on the basis of their merit, qualifications and competence.

The Company has adopted a share option scheme (the "**Share Option Scheme**") as an incentive to the Directors and employees of the Group, details of these are set out in the section headed "Share Option Scheme" of the Directors' Report and in note 31 to the consolidated financial statements.

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

Save for the transactions as disclosed in the section headed "Change of Single Largest Shareholder" and the related party transactions (which did not constitute as "connected transactions" or "continuing connected transactions" under the Listing Rules) as disclosed in note 37 to the financial statements, no Director or an entity connected with the Director or the controlling Shareholders had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2021. During the Year 2021, there was no contract of significance for the provision of services to the Group by any controlling Shareholder or any of its subsidiaries.

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

As at 31 December 2021, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares of the Company:–

	Number of shares held, capacity and nature of interest			
Name of Director	Beneficial Owner	Interest of a controlled corporation	Total	Approximate percentage of issued share capital [3]
Mr. Yan Weibin	1,700,000	118,739,085[1]	120,439,085	7.01%
Mr. Bartle van der Meer	1,509,000	124,205,230[2]	125,714,230	7.32%
Ms. Ng Siu Hung	2,500,000	–	2,500,000	0.15%
Mr. Tsai Chang-Hai	466,666	–	466,666	0.03%
Mr. Lau Chun Fai Douglas	384,000	–	384,000	0.02%
Mr. Jason Wan	300,000	–	300,000	0.02%

Notes:

(1) The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan Weibin ("**Mr. Yan**"). Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.

(2) The Shares are held by Dutch Dairy Investments HK Limited, which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is wholly-owned by Fan Deming B.V., which is wholly-owned by Mr. Bartle van der Meer ("**Mr. van der Meer**"). Mr. van der Meer is therefore deemed to be interested in 124,205,230 Shares held by DDIHK under the SFO. Subsequent to the reporting period, on 28 January 2022, pursuant to the Yili SPA, DDIHK has sold 31,000,000 Shares to the Offeror. Accordingly, as at the date of this report, Mr. van der Meer is deemed to be interested in 93,205,230 Shares held by DDIHK and is interested in 94,714,230 Shares in aggregate.

(3) As at 31 December 2021, the total number of the issued Shares was 1,718,545,841. Subsequent to the reporting period, on 28 January 2022, the Company completed the issuance of 90,000,000 Shares to the Offeror pursuant to the Subscription Agreement. Accordingly, the total number of the issued Shares was 1,808,545,841 since then.

Long positions in share options of the Company:–

Name of Director	Number of share options beneficially owned
Mr. Yan Weibin	1,000,000
Mr. Bartle van der Meer	1,000,000
Ms. Ng Siu Hung	1,000,000
Mr. Shi Liang	500,000
Mr. Qiao Baijun	500,000
Mr. Tsai Chang-Hai	333,334
Mr. Lau Chun Fai Douglas	416,000
Mr. Jason Wan	500,000
Mr. Aidan Maurice Coleman	500,000

* Subsequent to the reporting period, all outstanding share options were lapsed upon final closing of the Offer. Details of the Share Option Scheme are set out in the section headed "Share Option Scheme" of the Directors' Report of this report.

Save as disclosed above, as at 31 December 2021, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the grant of share options on 15 January 2019 under the Share Option Scheme (as defined below) and as disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", at no time during the year and up to the date of this report were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2021, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Long position in the shares of the Company:

Name	Notes	Number of Shares	Nature of interest	Approximate percentage of issued share capital [7]
Inner Mongolia Yili Inustrial Group Co, Ltd.	1	620,824,763	Interest of controlled corporation	36.13%
Citagri Easter Ltd.	2	379,000,000	Beneficial owner	22.05%
Changsha Kunxin Xin'Ao Investment LP	2	379,000,000	Interest of controlled corporation	22.05%
Chengtong CITIC Agriculture Investment Fund	2	379,000,000	Interest of controlled corporation	22.05%
China Structural Reform Fund Co., Ltd* (中國國有企業結構調整基金股份有限公司)	2	379,000,000	Interest of controlled corporation	22.05%
Citagri Nutrition Investment Co., Limited	2	379,000,000	Interest of controlled corporation	22.05%
CITIC Agri Fund Management Co., Ltd.	2	379,000,000	Interest of controlled corporation	22.05%
CITIC Agriculture Technology Co., Ltd.	2	379,000,000	Interest of controlled corporation	22.05%
CITIC Limited	2	379,000,000	Interest of controlled corporation	22.05%
CITIC Group Corporation	2	379,000,000	Interest of controlled corporation	22.05%
Center Laboratories, Inc.	3	307,940,089 35,991,683	Beneficial owner Interest of a controlled corporation	17.92% 2.09%
DDIHK	4	124,205,230	Beneficial owner	7.23%
DDI	4	124,205,230	Interest of a controlled corporation	7.23%
Fan Deming BV	4	124,205,230	Interest of a controlled corporation	7.23%
Ms. Chen Miaoyuan	5	121,439,085	Interest of spouse	7.07%
Ausnutria BVI	6	118,739,085	Beneficial owner	6.91%

Notes:

1. Inner Mongolia Yili Industrial Group Co., Ltd is beneficially interested in 620,824,763 Shares through its wholly-owned subsidiary, Hongkong Jingang Trade Holding Co., Limited. Subsequent to the reporting period, Yili Industrial is beneficially interested in 1,070,113,149 Shares, representing 59.17% of the issued Shares upon final closing of the Offer.

2. Citagri Easter Ltd. ("**Citagri Easter**") is owned as to approximately 53.14% by Changsha Kunxin Xin'Ao Investment LP* (長沙鯤信信澳股權投資合夥企業(有限合夥))("**Kunxin Xin'Ao**"), 30.40% by Easter Fund II LP and 16.46% by Easter Fund LP. Kunxin Xin'Ao is owned as to 91.17% by Chengtong CITIC Agriculture Investment Fund as a limited partner, which in turn is owned as to 34.90% by China Structural Reform Fund Co., Ltd.* (中國國有企業結構調整基金股份有限公司) and owned as to 37.20% by CITIC Agriculture Technology Co. Ltd (中信農業科技股份有限公司). Citagri Nutrition Investment Co., Limited, the general partner of Easter Fund LP and Easter Fund II LP, is indirect wholly-owned subsidiary of CAFM. CAFM is the general partner of Kunxin Xin'Ao and its largest shareholder is CITIC Agriculture Technology Co., Ltd., which owns 40.41% of the equity interest in CAFM. CITIC Agriculture Technology Co., Ltd. is an indirect wholly-owned subsidiary of CITIC Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 267), and CITIC Limited is indirectly owned as to 58.13% by CITIC Group Corporation. Subsequent to the reporting period, pursuant to the Yili SPA, Citagri Easter has sold 286,599,262 Shares to the Offeror on 28 January 2022. Accordingly, as at the date of this report, Citagri Easter is interested in 92,400,738 Shares, representing 5.11% of the issued Shares.

3. Center Laboratories, Inc. is beneficially interested in 307,940,089 Shares and BioEngine Capital Inc., a non-wholly-owned subsidiary of Center Lab, is beneficially interested in 35,991,683 Shares. Center Lab is therefore deemed to be interested in 343,931,772 Shares in total under the SFO. Subsequent to the reporting period, pursuant to the Yili SPA, Center Lab has sold 177,233,818 Shares and BioEngine Capital Inc. has sold all its Shares to the Offeror on 28 January 2022. Accordingly, as at the date of this report, Center Lab is interested in 130,706,271 Shares, representing 7.23% of the issued Shares.

4. DDIHK is wholly-owned by DDI. DDI is wholly-owned by Fan Deming B.V., which is in turn wholly-owned by Mr. van der Meer. Each of DDI, Fan Deming B.V. and Mr. van der Meer is therefore deemed to be interested in the Shares held by DDIHK under the SFO. Subsequent to the reporting period, pursuant to the Yili SPA, DDIHK has sold 31,000,000 Shares to the Offeror on 28 January 2022. Accordingly, as at the date of this report, DDIHK is interested in 93,205,230 Shares, representing 5.15% of the issued Shares.

5. Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 120,439,085 Shares held by Mr. Yan (himself and through Ausnutria BVI) and the 1,000,000 shares options held by Mr. Yan (which were lapsed on 18 March 2022) under the SFO.

6. Ausnutria BVI is wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 118,739,085 Shares held by Ausnutria BVI under the SFO.

7. As at 31 December 2021, the total number of the issued Shares of the Company was 1,718,545,841. Subsequent to the reporting period, pursuant to the Subscription Agreement, 90,000,000 Shares were issued to the Offeror on 28 January 2022. Accordingly, the total number of the issued Shares was 1,808,545,841 since then.

* *For identification purpose only*

Save as disclosed above, as at 31 December 2021, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme:

(a) Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company.

(b) The participants

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for the Shares at a price calculated in accordance with subparagraph (f) below:

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

ii. any NEDs (including the INEDs), any of the subsidiaries or any Invested Entity;

iii. any supplier of goods or services to the Company or any of the subsidiaries or any Invested Entity;

iv. any customer of the Company or any Invested Entity;

v. any person or entity that provides research, development or other technological support to the Company or any Invested Entity; and

vi. any Shareholder or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Company to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Company.

(c) Maximum number of Shares

i. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time. No options may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded.

ii. The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme) to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 100,000,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option as defined in the prospectus of the Company dated 24 September 2009) (the "**General Mandate Limit**").

iii. Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Mandate Limit. However, the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the Shares in issue as of the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme and other share option schemes of the Company or exercised options) will not be counted for the purpose of calculating the limit as "refreshed". The Company will send a circular to the Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

iv. Subject to (i) above and without prejudice to (iii) above, the Company may seek separate approval of the Shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. The Company will issue a circular to the Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

(d) Maximum entitlement of each participant and connected persons

i. Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (the "**Individual Limit**").

ii. Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of the Shareholders in general meeting with such participant and his close associates (or his associates if the participant is a connected person (as defined in the Listing Rules)) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

iii. In addition to the Shareholders' approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or substantial Shareholder or any of their respective associates must be approved by the INEDs (excluding any INED who is the grantee of the options).

iv. Where any grant of options to a substantial Shareholder or an INED or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme or any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate more than 0.1% of the Shares in issue; and

(2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders. The grantee, his associate and all of the connected persons of the Company must abstain from voting in favour at such general meeting.

(e) Minimum period of holding an option and performance target

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) Subscription price for Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the nominal value of the Shares; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the option; and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day). A consideration of HK$1.00 is payable on acceptance of the offer of the grant of an option.

(g) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms and conditions of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(h) Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional (i.e. valid till 7 October 2019).

Status of the Share Option Scheme

As the Share Option Scheme has already expired on 7 October 2019, no further share options would be granted under the Share Option Scheme since then.

Particulars and movements of share options under the Share Option Scheme during the Year 2021 were as follows:

			Number of options		
Grantees	Date of grant	Exercise price per share option	Outstanding as at 2021.01.01	Exercised during the Year 2021	Outstanding as at 2021.12.31
Directors					
Mr. Yan Weibin	2019.01.15	HK$10.00	1,500,000	(500,000)	1,000,000
Mr. Bartle van der Meer	2019.01.15	HK$10.00	1,500,000	(500,000)	1,000,000
Ms. Ng Siu Hung	2019.01.15	HK$10.00	1,500,000	(500,000)	1,000,000
Mr. Shi Liang	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Qiao Baijun	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Tsai Chang-Hai	2019.01.15	HK$10.00	500,000	(166,666)	333,334
Mr. Lau Chun Fai Douglas	2019.01.15	HK$10.00	500,000	(84,000)	416,000
Mr. Jason Wan	2019.01.15	HK$10.00	500,000	–	500,000
Mr. Aidan Maurice Coleman	2019.01.15	HK$10.00	500,000	–	500,000
Sub-total			7,500,000	(1,750,666)[1]	5,749,334
Other					
Employees	2016.07.06	HK$2.45	141,667	(141,667)[2]	–
Employees	2019.01.15	HK$10.00	32,000,000	(750,000)[3]	31,250,000
Consultant of the Company	2019.01.15	HK$10.00	500,000	–	500,000
Total			40,141,667	(2,642,333)	37,499,334[4]

Notes:

1. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$11.76.

2. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$13.02.

3. The weighted average closing price of these Shares immediately before the dates on which the relevant share options were exercised is HK$11.76.

4. As at the date of this report, all outstanding options were lapsed upon closing of the Offer.

All options granted pursuant to the Share Option Scheme shall be/had vested in the grantees in the following manner:

Share options granted on 15 January 2019

- One-third was vested on 15 January 2021;
- One-third was vested on 15 January 2022;
- One-third shall be vested on 15 January 2023; and
- Exercise period started on 15 January 2021 and shall end on 14 January 2024.

No options was cancelled or lasped during the Year 2021. Subsequent to the reporting period, all outstanding options were lapsed upon final closing of the Offer. Further details are set out in the circular and announcement of the Company dated 10 February 2022 and 17 March 2022 respectively.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Company during the Year 2021 are provided in the section headed "Change of Single Largest Shareholder" on page 15 respectively of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the important events affecting the Group after the reporting period are provided in the section headed "Change of Single Largest Shareholder" on page 15 respectively of this report.

FINANCIAL ADVISORS' INTEREST

The Company extended the appointment of Asian Capital Limited as the Company's financial advisor on a retainer basis for consultation on compliance with the Listing Rules for a period of one year commencing from 24 August 2021. During the term of the appointment, Asian Capital Limited will be accountable to the Audit Committee. As notified by Asian Capital Limited, during the Year 2021 and up to the date of this report, neither Asian Capital Limited nor any of its directors, employees or associates had any interests in the Shares or shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares or shares of any member of the Group.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section head "Share Option Schemes" on pages 53 to 57 of this report, no equity-linked agreement was entered into by the Company during the Year 2021 or subsisted at the end of the Year 2021.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public during the Year 2021 and up to the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the CG Report on pages 29 to 43 of this report.

PERMITTED INDEMNITY PROVISION

The Company has subscribed appropriate and sufficient insurance coverage on directors' and officers' liability insurance throughout the Year 2021, which provides appropriate cover for the Directors and officers of the Company.

AUDITORS

The consolidated financial statements for the Year 2021 have been audited by Ernst & Young who shall retire at the forthcoming AGM. A resolution for their re-appointment as external auditors of the Company will be proposed at the forthcoming AGM. There has been no change in the Company's auditors in the preceding three years.

On behalf of the Board

Yan Weibin
Chairman

The PRC
28 March 2022

Biographical details of the Directors and the senior management of the Group for the Year 2021 and up to the date of this report are set out below:

DIRECTORS

Executive Directors

Mr. YAN Weibin ("Mr. Yan"), Chairman

Mr. Yan, aged 56, was appointed as an ED on 8 June 2009 and elected as the Chairman on 7 June 2013. Mr. Yan is the sole shareholder and director of Ausnutria BVI, one of the substantial Shareholders, and also a director of a number of the Company's subsidiaries (including Ausnutria China). He was one of the principal founders of the Group and joined the Group in September 2003 when Ausnutria China was established, and has been acting as the Chairman of Ausnutria China since its establishment. Mr. Yan is responsible for leading the Board and ensuring that it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Yan is also primarily responsible for the overall corporate strategy, planning and business development of the Group. He also acts as Chancellor of Ausnutria University. Mr. Yan was elected as a member of the Twelfth Hunan committee of the Chinese People's Political Consultative Conference in January 2018, and was elected to be the Vice-Chairman of Hunan Provincial Federation of Industrial and Commerce in June 2020. Mr. Yan graduated from Hunan University with a bachelor's degree in engineering and a master's degree in business administration. Mr. Yan was a director of Yuan Longping High-tech Agriculture Co., Ltd* (袁隆平農業高科技股份有限公司) ("**Longping High-tech**"), a company listed on the Shenzhen Stock Exchange, from 2004 to January 2016. At Longping High-tech, he served as chief executive officer from 2004 to April 2010, vice chairman and chief financial officer from April 2010 to December 2011, chief executive officer and chief financial officer from December 2011 to June 2012 and vice president from June 2012 to January 2016.

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

Mr. van der Meer, aged 76, was appointed as an ED and the CEO on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria B.V. and has been involving in the strategic management since the establishment of Ausnutria B.V. in 1994. He is also a member of the board of directors of Ausnutria B.V. and the chairman of this one-tier board since January 2020. Mr. van der Meer is primarily responsible for managing and executing the Group's overall business directions and corporate operation decisions. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of Fan Deming B.V., a private equity company which owned 100% equity interests in DDI, a substantial Shareholder, since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998 to March 2022.

Ms. NG Siu Hung ("Ms. Ng")

Ms. Ng, aged 53, was appointed as an ED on 19 September 2009. Ms. Ng is also an executive director of Ausnutria China, primarily responsible for the brand and culture building and public relations affairs of the Group. She graduated at University of Westminster, the United Kingdom with a master of arts degree in human resource management. Ms. Ng has been a director of Hunan Yukai Real Estate Co., Ltd* (湖南宇凱房地產有限公司) since 2004.

Non-executive Directors

Mr. Sun Donghong ("Mr. Sun"), Vice-Chairman

Mr. Sun, aged 49, graduated from Inner Mongolia University of Technology with a bachelor's degree in engineering in 1994. He has 27 years of experience in the dairy industry and has been successively engaged in production technology, production management, business operation management, strategic operations and etc. He joined Yili Industrial (a company established under Chinese laws and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887)) in 1994. He has been the assistant president of Yili Industrial since 2017 and is in charge of the Yili Industrial group's milk powder business department, yogurt business department, cheese business department, dairy technology research institute and such other new businesses.

Mr. Zhang Zhanqiang ("Mr. Zhang")

Mr. Zhang, aged 53, graduated from Inner Mongolia School of Finance and Economics in 1991 with a major in corporate finance, from Inner Mongolia University of Finance and Economics with a major in accounting in 1995, and from Central University of Finance and Economics with a bachelor's degree in management in 2007 respectively. He is a certified public accountant in the PRC, a certified tax agent in the PRC, and is qualified to practice accounting in the PRC. He joined Yili Industrial in January 2007, and has been the assistant to the president of the Yili Industrial group since 2019. Prior to that, he also served as the deputy general manager of the liquid milk business department and the general manager of the financial management department of Yili Industrial. Prior to joining Yili Industrial, he was primarily engaged in the accounting industry and served as a partner in Beijing Zhongtian Huazheng Accountancy Firm.

Mr. QIAO Baijun ("Mr. Qiao")

Mr. Qiao, aged 51, was appointed as a NED on 6 December 2018. Mr. Qiao graduated with a Bachelor of Science degree from the Faculty of Biology of China Agricultural University in 1993 and graduated with a master of economics degree from the Faculty of Agriculture and Economics from Renmin University of China in 1999. He is currently the general manager of CAFM, a substantial Shareholder. Mr. Qiao joined COFCO Corporation in 2006 and once served as the senior manager of the strategic investment management department, the head of the research department, the general manager of the strategic management department. Prior to joining COFCO Corporation, Mr. Qiao was engaged in the research in agriculture, food and beverage industry in China Galaxy Securities Co Ltd (stock code: 6881.HK) and CITIC Securities.

Independent Non-executive Directors

Mr. LAU Chun Fai Douglas ("Mr. Lau")

Mr. Lau, aged 49, was appointed as an INED on 2 January 2015. Mr. Lau has over 20 years of experience in auditing, accounting and financial and corporate management. Mr. Lau graduated from the University of New South Wales with a bachelor of commerce degree in accounting and finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, Chartered Accountants Australia and New Zealand and CPA Australia and a founding member of the Institute of Accountants Exchange. Before joining the Group, Mr. Lau was a partner at Ernst & Young (Assurance and Advisory Business Services) Hong Kong and Beijing and a regional director (China and Hong Kong) of the Institute of Chartered Accountants in English and Wales. Mr. Lau is an independent non-executive director of Chanjet Information Technology Company Limited (Stock code: 1588) since 2011, and GME Group Holdings Limited (Stock code: 8188) since February 2017.

Mr. Jason WAN ("Mr. Wan")

Mr. Wan, aged 58, was appointed as an INED on 19 September 2009. Mr. Wan is a tenured full professor, and Associate Director for the Institute for Food Safety and Health, Illinois Institute of Technology, the United States. Mr. Wan completed a PhD at Deakin University, Australia in 1992. Prior to that, he graduated with a bachelor of science degree from Hunan Agricultural University in 1983 and a master of science degree in dairy science and processing from Northeast Agricultural University in 1986. Mr. Wan was a lecturer in the Department of Food Science and Technology at Northeast Agricultural University from 1986 to 1988 and a visiting scientist at the Food Research Institute of the Department of Agriculture in Victoria, Australia in 1989. Mr. Wan was a post-doctoral researcher in the Department of Biochemistry at the University of Melbourne from 1992 to 1995 and a senior research scientist at CSIRO Food Science Australia from 1995 to 2009. Prior to his current position, Mr. Wan was a research professor in food microbiology and biotechnology at Illinois Institute of Technology, the United States from 2009 to 2015. Mr. Wan has extensive knowledge and expertise in the area of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. He has written many articles over the years on various subjects, including microbiology and biotechnology, and continues to develop his expertise in these subjects. Mr. Wan has also received numerous scholarships and research grants, including those supporting a number of PhD scholars relating to whey proteins and biological properties, as well as major research grants for research relating to dairy processing.

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

Mr. Coleman, aged 66, was appointed as an INED on 6 December 2018. Mr. Coleman graduated with a Bachelor of Arts degree in Economics and Psychology from The University of Auckland in 1978 and a Bachelor of Business Studies degree in marketing from The Massey University of New Zealand in 1991. He is a founder and currently the managing director of Longpoint Consulting Pty. Ltd., which provides private consulting and advisory services to various companies in Australia and New Zealand including retailers, dairy trading companies and FMCG marketing businesses. He has over 30 years of extensive experience in the manufacturing and marketing of consumer and food-service food and agricultural product. Prior to joining Longpoint Consulting Pty. Ltd., Mr. Coleman was the chief executive officer of Bega Cheese Limited (stock code: BGA.ASX), a company listed on the Australian Securities Exchange, until 2017. He was also the chief executive officer of Tatura Milk Industries Ltd. ("**Tatura**"), a wholly owned subsidiary of Bega Cheese Limited, from 2008 to 2011 and an executive director of Tatura from 2011 to 2017. Prior to joining Tatura, he was the managing director of Fonterra Brands (Australia) Pty. Ltd from 2005 to 2007, an Australian company which manufactures, markets and distributes dairy and non-dairy products.

SENIOR MANAGEMENT

Mr. WONG Wei Hua Derek ("Mr. Wong")

Mr. Wong, aged 50, is the CFO and the Company Secretary. Mr. Wong joined the Group as the deputy CFO in July 2011 and was appointed as joint Company Secretary (later redesignated as the Company Secretary on 3 December 2012) and the CFO on 26 September 2011. Mr. Wong has over 20 years of experience in auditing and financial and corporate management. Mr. Wong graduated from York University with a double bachelor's degree in accounting and mathematics. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in July 2011, he was an audit manager with an international accounting firm, the financial controller of a manufacturing group of companies and the general manager of an investment company principally engaged in mining business in Indonesia.

Mr. DAI Zhiyong ("Mr. Dai")

Mr. Dai, aged 46, is an executive director of Ausnutria China, vice chairman of the Group in the PRC region, principal of Ausnutria Institution of Food and Nutrition (澳優研究院) ("**Ausnutria Research Institute**") and chairman of Ausnutria Science and Technology Association (澳優科學技術協會). Shortly after the establishment of Ausnutria China, he joined the Group in 2003. Mr. Dai has a bachelor of chemistry degree and a master degree in food processing and safety. Mr. Dai held a management position in a dairy company for a number of years and has over 20 years of experience in the industry. Mr. Dai served Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品行銷有限公司) ("**Hunan Ava Nanshan Dairy**") as vice factory manager and person in charge of the R&D department of Inner Mongolia Ya Ke Shi Ru Factory* (內蒙古牙克石乳品廠) and was engaged in milk powder R&D works. Mr. Dai is primarily responsible for the operation management of Ausnutria Research Institute in the PRC region.

Mr. DENG Shenhui ("Mr. Deng")

Mr. Deng, aged 47, is the vice president of the Group in the PRC region and general manager of the Allnutria BU. He joined the Group in 2011. Mr. Deng graduated from Central South University, majoring in computer science. Mr. Deng held positions at multiple foreign computer software consulting companies and has over 10 years of experience in the industry. Mr. Deng served as department manager of the PRC region of the Asia Pacific Sales Services Department at Oracle Corp. Mr. Deng is primarily responsible for the overall operation management of the Allnutria BU, and assists with managing the human resources center in the PRC region.

Ms. Nicolette DIEKEMA ("Ms. Diekema")

Ms. Diekema, aged 52, is the quality assurance director of Ausnutria B.V. She joined the Group since 2020. Ms. Diekema graduated from Wageningen University & Research with a master's degree in food science and technology. Before joining Ausnutria B.V., Ms. Diekema had several years of international experience in the field of quality assurance & quality control in the dairy & food industry. Before joining Ausnutria, Ms. Diekema was the global quality, environment, safety and health manager at CSK Food Enrichment.

Ms. Froukje DIJKSTRA ("Ms. Dijkstra")

Ms. Dijkstra, aged 52, is the chief operations Officer of Ausnutria B.V. She joined the Group since April 2012. Ms. Dijkstra graduated in Technical Business Administration at the Noordelijke Hogeschool Leeuwarden. Before joining Ausnutria B.V., Ms. Dijkstra had over 20 years of experience in the chemical industry with different positions, latest at Enitor B.V.

Mr. Wouter ENGBERS ("Mr. Engbers")

Mr. Engbers, aged 51, is the ICT director of Ausnutria B.V. He joined the Group since 2021. Mr. Engbers graduated in Mechanics & Logistics – Operation research and simulation at the Technical University of Delft, and followed several Post-academic in Management and SAP implementations. Before joining Ausnutria B.V., Mr. Engbers had several years of experience in IT, SAP consultant and Logistics related positions.

Dr. Jeroen KIERS ("Dr. Kiers")

Dr. Kiers, aged 48, is the chief executive officer of Ausnutria B.V. He joined the Group since 2019. Dr. Kiers graduated in Medical Biology at the University of Amsterdam, additionally Dr. Kiers graduated with a doctorate degree in Nutrition, Health & Food Technology at Wageningen University in the Netherlands. In his career Dr. Kiers had several research and leading positions within the food & nutrition industry. Before joining Ausnutria, Dr. Kiers had his own company Soundies & JLK Nutrition.

Ms. HONG Haoru ("Ms. Hong")

Ms. Hong, aged 39, is the secretary of the management committee (中國區管理委員會) of the Group in the PRC region and assistant of the chief executive officer. Ms. Hong joined the Group in 2011 as supervisor of the office of the board of directors of Ausnutria China and was later appointed as secretary of the board of directors of Ausnutria China in January 2016. Prior to joining the Group in 2011, she served as secretary to president at Longping High-tech. Ms. Hong graduated from Hunan Agricultural University with a bachelor of arts degree. Ms. Hong is mainly responsible for assisting the Chairman/chief executive officer in the PRC region in his daily work, and manages the Executive Administrative Center (董秘及行政中心) of Ausnutria China.

Mr. HU Fangming ("Mr. Hu")

Mr. Hu, aged 45, is a vice president of the Group in the PRC region, general manager of the supply center and vice principal of Ausnutria Research Institute. He manages domestic production, overseas supply chain management and quality management for the supply centre. He joined the Group in October 2016 and stationed in the Netherlands as the project manager responsible for the new production plant project in the Netherlands. Subsequent to the completion of the project in December 2017, he returned to the PRC. Mr. Hu served as a utility engineer, project manager and production manager of Mars Foods (China) Co., Ltd. (瑪氏食品(中國)有限公司) from August 1998 to September 2009. From October 2009 to June 2014, he served as the manager of the engineering department and a plant manager of Dumex Baby Food Co., Ltd. (多美滋嬰幼兒食品有限公司) under Danone. He joined Biostime (Guangzhou) Health Products Limited in July 2014 as the director of global production until his resignation from all his positions in Biostime in August 2016. In 1998, Mr. Hu was awarded a bachelor's degree in electrical system and automation by Nanjing University of Science and Technology. Having worked in the food production industry ever since, Mr. Hu has extensive experience in operation management.

Mr. Mark KAPTEIN ("Mr. Kaptein")

Mr. Kaptein, aged 56, is the sales director of Ausnutria B.V. He joined the Group since 2020. Mr. Kaptein graduated from Erasmus University Rotterdam with a master's degree in healthcare management and policy. Before joining Ausnutria B.V., Mr. Kaptein had several years of international experience in Sales and General management positions, latest at Dr. Schar in Italy as business head in Metabolic Nutrition & Allergy Nutrition.

Ms. LI Yimin ("Ms. Li")

Ms. Li, aged 46, is a vice president of the Group in the PRC region and the general manager of the Kabrita BU. She joined the Group in February 2011. Ms. Li graduated from Sichuan University with a master's degree in business administration and held managerial positions at various enterprises. Ms. Li is mainly responsible for coordinating the strategy, business and other overseas market affairs of the Kabrita BU and the goat milk business in the PRC. She is also responsible for the Anulife BU and the collaboration between between its brands and channels in the PRC region.

Mr. LIU Yubiao

Mr. Liu Yubiao, aged 48, is a vice president of the Group in the PRC region and the general manager of Hyproca Bio-science Co., Ltd.* (海普諾凱生物科技有限公司), a wholly-owned subsidiary of the Company. He joined the Group upon the establishment of Ausnutria China and served as regional manager of Hunan province, manager of the Central China region (covering five provinces) and deputy general manager (常務副總經理) of the Allnutria BU. Mr. Liu Yubiao has over 17 years of experience in sales management in the dairy industry. He is mainly responsible for the worldwide operations of Hyproca Bio-science Co., Ltd and the Neolac BU.

Mr. LIU Yuehui

Mr. Liu Yuehui, aged 57, is the chief supervisor, party secretary and chairman of the labour union of the Group in the PRC region. He joined the Group shortly after the establishment of Ausnutria China in 2003. Mr. Liu Yuehui studied dairy techniques at the Inner Mongolia Light Manufacturing School* (內蒙古輕工業學校). He has held management positions in various dairy factories and has over 30 years of experience in the industry. Mr. Liu Yuehui was the assistant to the chief executive officer of Hunan Ava Nanshan Dairy. He is primarily responsible for Ausnutria China's affairs in relation to the party committee, auditing, labour unions and Provincial China Nutrition and Health Food Association* (省營養保健食品協會). He jointly manages party working committee* (黨工辦) and audit department in the PRC region.

Mr. LIU Xuecong

Mr. Liu Xuecong, aged 38, is a vice president of the Group in the PRC region and vice principal of Ausnutria Research Institute. He is responsible for the strategic development and planning of the Group's nutrition business segment as well as Bioflag International Corporation, a non-wholly-owned subsidiary of the Company, and the FSMP business, and jointly manages the Nutriunion BU and scientific compliance. He joined the Group in November 2019. Mr. Liu Xuecong graduated from Tianjin Medical University in 2007 and worked at the relevant department of the China Food and Drug Administration, Lee Kum Kee and Frieslandcampina. He has been the general secretary and branch secretary of the China Nutrition and Health Food Association since 2015 and has extensive experience and resources in the nutrition product and health supplement industry.

Mr. Johan WESTHOFF ("Mr. Westhoff")

Mr. Westhoff, aged 42, is the finance director of Ausnutria B.V. He joined the Group since 2009. Mr. Westhoff graduated in Business Economics at the Chr. Hogeschool Windesheim, and finalised a post-academic education in financial controlling at the University of Amsterdam. Before joining Ausnutria B.V., Mr. Westhoff had several years of experience in finance related positions.

Ms. ZHANG Xueqin ("Ms. Zhang")

Ms. ZHANG, aged 47, is the chief operation officer of the Group in the PRC region. She is responsible for budgeting, operations management and informatisation in the PRC region, and jointly manages human resources and daily financial management. She joined the Group in December 2017. Ms. Zhang graduated from Changsha University of Science and Technology in 2002 and worked at, among other companies, Changsha Tongcheng Holdings Co.,Ltd., Hualong Nissin Food Products Co., Ltd.* (華龍日清食品有限公司) and Changsha Eya Industrial Co., Ltd., responsible for financial management of listed companies, marketing and finance of joint ventures, retail finance and operation of mother and baby care product businesses, and key account management and total management of infant formula business. She has extensive experience in the operation and management of the mother and baby care and infant formula businesses.

Mr. Remco ZIELEMAN ("Mr. Zieleman")

Mr. Zieleman, aged 46, is the supply chain director of Ausnutria B.V. He joined the Group since 2018. Mr. Zieleman graduated from Fontys Hogeschool in Venlo with a bachelor's degree in Logistics and Technical Transport. Before joining Ausnutria B.V., Mr. Zieleman had several years of international experience in supply chain positions, latest at Mylan as global planning director.

* *For identification purpose only*

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

OPINION

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 69 to 163, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
As at 31 December 2021, the Group had goodwill with a total net carrying amount of RMB258.7 million. According to the requirements of IAS 36 *Impairment of Assets*, the Group performed impairment assessment annually based on the recoverable amounts of the respective cash-generating units ("**CGUs**") to which the goodwill is allocated. Management's assessment process was complex and involved significant management judgements and estimates, such as the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate. The management of the Group determined that there was impairment amounting to RMB14.5 million in the CGU containing the goodwill during the year ended 31 December 2021. More details are set out in note 2.4 *Business combinations and goodwill*, note 3 *Impairment of goodwill* and note 16 *Goodwill* to the consolidated financial statements.	We involved internal valuation specialists to assist us in evaluating the methodology used in the impairment assessment and the inputs used by the Group including the discount rate and long-term growth rates. We assessed the key assumptions of the forecasts for the following years used to determine the recoverable amounts of various CGUs, by comparing the forecasts with the historical performance of CGUs and the business development plan. We evaluated the reasonableness of and reperforming the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use. We assessed the adequacy of the related disclosures of goodwill impairment in the financial statement.
Accounting for the customer loyalty program and the distributor incentive program	
The Group operates the customer loyalty program and the distributor incentive program to grant award points to end-customers or baby stores and grant incentives to distributors. End-customers or baby stores can redeem the award points for free products within one year and distributors can redeem incentives for free products in future purchase. Management determined that both programs provide a material right to the customer and allocated the consideration received or receivable into two parts, the current sales and the deferred income, based on the relative stand-alone selling prices of goods and award points or incentives. The estimation of the stand-alone selling prices of award points and incentives was complex and requiring significant management judgement and estimates. The accounting policies, significant estimates and related disclosures are included in note 2.4 *Revenue recognition and contract liabilities*, note 3 *Judgements* and note 5 *Revenue, other income and gains* to the consolidated financial statements.	We obtained an understanding of, assessed and tested the design and operation of the controls over the estimation of the stand-alone selling prices of award points and incentives. We assessed the estimation of the percentage of award points or incentives that may be redeemed by end-customers and baby stores or distributors, with reference to the historical information, market practice and the subsequent settlement of award points and incentives as at 31 December 2021. We recalculated the stand-alone selling prices of award points and incentives and evaluated the allocation results of the transaction price based on the relative stand-alone prices of the goods sold and award points granted to end-customers and baby stores or the incentives granted to distributors. We assessed the adequacy of the Group's disclosures of the customer loyalty program and the distributor incentive program in the financial statement.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Denis Ming Kui Cheng.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	8,873,274	7,985,816
Cost of sales		(4,402,544)	(4,003,859)
Gross profit		4,470,730	3,981,957
Other income and gains	5	78,118	90,105
Selling and distribution expenses		(2,415,489)	(2,066,765)
Administrative expenses		(706,902)	(692,996)
Other expenses		(135,287)	(88,707)
Finance costs	7	(18,754)	(28,850)
Share of profits and losses of associates		(38,765)	26,102
PROFIT BEFORE TAX	6	1,233,651	1,220,846
Income tax expense	10	(231,426)	(220,812)
PROFIT FOR THE YEAR		1,002,225	1,000,034
Attributable to:			
Owners of the parent		1,040,262	1,004,106
Non-controlling interests		(38,037)	(4,072)
		1,002,225	1,000,034
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
– For profit for the year (RMB cents)		60.57	60.93
Diluted			
– For profit for the year (RMB cents)		60.38	60.57

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
PROFIT FOR THE YEAR		1,002,225	1,000,034
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		(302,365)	64,562
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		(302,365)	64,562
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement income/(loss) on the defined benefit plan, net of tax		1,020	(2,195)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		1,020	(2,195)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(301,345)	62,367
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		700,880	1,062,401
Attributable to:			
Owners of the parent		737,074	1,066,201
Non-controlling interests		(36,194)	(3,800)
		700,880	1,062,401

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,836,332	1,840,357
Investment property	14	115,821	–
Right-of-use assets	15	283,812	359,731
Goodwill	16	258,688	297,541
Other intangible assets	17	420,979	411,642
Investments in associates	18	565,920	581,188
Prepayments, deposits and other assets	21	145,293	136,992
Deferred tax assets	29	255,034	257,981
Total non-current assets		3,881,879	3,885,432
CURRENT ASSETS			
Inventories	19	2,198,471	2,400,946
Trade and bills receivables	20	459,327	456,425
Prepayments, other receivables and other assets	21	457,104	435,576
Pledged deposits	22	255,237	212,062
Cash and cash equivalents	22	2,262,188	1,857,516
Total current assets		5,632,327	5,362,525
CURRENT LIABILITIES			
Trade and bills payables	23	405,978	409,247
Other payables and accruals	24	1,991,821	2,267,673
Derivative financial instruments	25	3	109
Interest-bearing bank loans and other borrowings	26	739,942	558,973
Tax payable		178,565	156,666
Total current liabilities		3,316,309	3,392,668
NET CURRENT ASSETS		2,316,018	1,969,857
TOTAL ASSETS LESS CURRENT LIABILITIES		6,197,897	5,855,289

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		6,197,897	5,855,289
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	26	563,079	527,299
Defined benefit plan	27	3,039	8,932
Deferred revenue	28	62,610	65,121
Deferred tax liabilities	29	72,779	94,520
Other liabilities		2,743	7,477
Total non-current liabilities		704,250	703,349
Net assets		5,493,647	5,151,940
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	149,485	149,267
Reserves	32	5,389,056	5,022,105
		5,538,541	5,171,372
Non-controlling interests		(44,894)	(19,432)
Total equity		5,493,647	5,151,940

Mr. Yan Weibin	Mr. Bartle van der Meer
Director	*Director*

	Attributable to owners of the parent									
	Share capital RMB'000 (note 30)	Share premium account RMB'000	Capital reserve RMB'000 (note 32(i))	Share option reserve RMB'000	Statutory surplus reserve RMB'000 (note 32(ii))	Exchange fluctuation reserve RMB'000 (note 32(iii))	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	149,267	3,186,678	(1,820,756)	40,541	123,551	(51,295)	3,543,386	5,171,372	(19,432)	5,151,940
Profit for the year	–	–	–	–	–	–	1,040,262	1,040,262	(38,037)	1,002,225
Other comprehensive income/(loss) for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(304,208)	–	(304,208)	1,843	(302,365)
Remeasurement income on the defined benefit plan, net of tax (note 27)	–	–	–	–	–	–	1,020	1,020	–	1,020
Total comprehensive income/(loss) for the year	–	–	–	–	–	(304,208)	1,041,282	737,074	(36,194)	700,880
Exercise of share options	218	24,039	–	(3,318)	–	–	–	20,939	–	20,939
Acquisition of non-controlling interests	–	–	(15,016)	–	–	–	–	(15,016)	4,392	(10,624)
Final 2020 dividend declared	–	(386,686)	–	–	–	–	–	(386,686)	–	(386,686)
Equity-settled share option arrangements	–	–	–	10,858	–	–	–	10,858	–	10,858
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	6,340	6,340
Transfer from retained profits	–	–	–	–	41,406	–	(41,406)	–	–	–
At 31 December 2021	149,485	2,824,031*	(1,835,772)*	48,081*	164,957*	(355,503)*	4,543,262*	5,538,541	(44,894)	5,493,647

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent										
	Share capital RMB'000 (note 30)	Treasury shares RMB'000	Share premium account RMB'000	Capital reserve RMB'000 (note 32(i))	Share option reserve RMB'000	Statutory surplus reserve RMB'000 (note 32(ii))	Exchange fluctuation reserve RMB'000 (note 32(iii))	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	140,031	(24,733)	2,385,407	(1,058,564)	24,072	123,551	(115,585)	2,541,475	4,015,654	48,254	4,063,908
Profit for the year	–	–	–	–	–	–	–	1,004,106	1,004,106	(4,072)	1,000,034
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	64,290	–	64,290	272	64,562
Remeasurement losses on the defined benefit plan, net of tax	–	–	–	–	–	–	–	(2,195)	(2,195)	–	(2,195)
Total comprehensive income for the year	–	–	–	–	–	–	64,290	1,001,911	1,066,201	(3,800)	1,062,401
Exercise of share options	597	–	17,720	–	(3,701)	–	–	–	14,616	–	14,616
Acquisition of non-controlling interests	8,879	–	1,131,289	(762,192)	–	–	–	–	377,976	(36,886)	341,090
Final 2019 dividend declared	–	–	(323,245)	–	–	–	–	–	(323,245)	–	(323,245)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(27,000)	(27,000)
Equity-settled share option arrangements	–	–	–	–	20,170	–	–	–	20,170	–	20,170
Cancellation of repurchased shares	(240)	24,733	(24,493)	–	–	–	–	–	–	–	–
At 31 December 2020	149,267	–	3,186,678*	(1,820,756)*	40,541*	123,551*	(51,295)*	3,543,386*	5,171,372	(19,432)	5,151,940

* These components of equity comprise the consolidated reserves of RMB5,389,056,000 (2020: RMB5,022,105,000) as at 31 December 2021 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,233,651	1,220,846
Adjustments for:			
Finance costs	7	18,754	28,850
Share of profits and losses of associates		38,765	(26,102)
Interest income	5	(28,099)	(31,603)
Depreciation of property, plant and equipment	6	167,024	126,124
Depreciation of investment property	6	1,312	–
Depreciation of right-of-use assets	6	51,440	63,688
Amortisation of other intangible assets	6	57,275	55,288
Write-down of inventories to net realisable value	6	274,340	174,593
Impairment of trade receivables	6	36,529	–
Impairment of goodwill	6	14,468	–
Losses on disposal of items of property, plant and equipment	6	2,590	1,993
Write-off/losses on disposal of items of other intangible assets	6	16,820	5,294
Equity-settled share option arrangements	6	10,858	20,170
Fair value (gains)/losses on derivative instruments			
– transactions not qualifying as hedges	6	(100)	380
– subsequent consideration	6	–	43,020
		1,895,627	1,682,541
Increase in inventories		(224,299)	(556,065)
Increase in trade and bills receivables		(71,958)	(43,174)
(Increase)/decrease in prepayments, other receivables and other assets		(52,904)	19,770
Increase in trade and bills payables		29,332	78,620
Increase in derivative financial instruments		–	(386)
(Decrease)/increase in other payables and accruals		(259,128)	217,905
Cash generated from operations		1,316,670	1,399,211
Interest received		29,003	28,405
Interest paid		(13,416)	(12,654)
Mainland China corporate income tax paid		(182,422)	(228,261)
Overseas tax paid		(78,516)	(56,477)
Net cash flows from operating activities		1,071,319	1,130,224

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Net cash flows from operating activities		1,071,319	1,130,224
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(442,315)	(439,893)
Additions to other intangible assets		(114,076)	(66,742)
Acquisition of a subsidiary		–	(80,037)
Investment in an associate		(7,000)	–
(Increase)/decrease in pledged time deposits		(43,175)	184,090
Net cash flows used in investing activities		(606,566)	(402,582)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares			
– upon exercise of the share options	30	20,939	14,616
New bank loans and other borrowings		1,021,873	265,845
Repayments of bank loans		(616,210)	(329,651)
Repayments of other loans		–	(386)
Principal portion of lease payments	34(b)	(62,906)	(87,782)
Acquisition of non-controlling interests		(10,624)	–
Contributions from non-controlling shareholders		6,340	–
Dividends paid		(388,161)	(322,410)
Dividends paid to non-controlling shareholders		–	(27,000)
Interest element of finance lease rental payments	34(b)	(5,338)	(8,098)
Net cash flows used in financing activities		(34,087)	(494,866)
NET INCREASE IN CASH AND CASH EQUIVALENTS		430,666	232,776
Cash and cash equivalents at beginning of year		1,857,516	1,674,541
Effect of foreign exchange rate changes, net		(25,994)	(49,801)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,262,188	1,857,516
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	2,253,860	1,296,509
Non-pledged time deposits with original maturity of less than three months when acquired		8,328	561,007
Cash and cash equivalents as stated in the consolidated statement of financial position and statement of cash flows		2,262,188	1,857,516

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**") 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 year, 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.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hyproca Nutrition Co. Ltd. [(1)] ("HNC")	PRC/Mainland China	RMB10,000,000	–	100	Marketing and distribution of goat milk nutrition products in Mainland China
Hyproca Nutrition (Hongkong) Company Limited	Hong Kong/ Mainland China	HK$1,000,000	–	100	Marketing and distribution of goat milk nutrition products in Hong Kong and Mainland China
Ausnutria Private Label B.V.	The Netherlands	EUR30,403	–	100	Marketing and distribution of dairy products under a private label
Ausnutria Dairy Ingredients B.V.	The Netherlands	EUR18,200	–	100	Marketing and distribution of dairy and related products
Holland Goat Milk B.V.	The Netherlands	EUR12,953	–	100	Collection of goat milk in the Netherlands
Ausnutria Nutrition Europe B.V.	The Netherlands	EUR18,000	–	100	Marketing and distribution of dairy products in Europe
Hyproca Nutrition East Limited	Hong Kong/Russia	HK$4,000,000	–	51	Marketing and distribution of dairy products in Russia
Hyproca Nutrition ME Trading L.L.C	Dubai	AED300,000	–	100	Marketing and distribution of dairy products in the Middle East
Hyproca Nutrition USA Inc.	United States of America	US$1	–	100	Marketing and distribution of dairy products in the United States
Hyproca Nutrition Canada Inc.	Canada	CAD100	–	100	Marketing and distribution of dairy products in Canada
Hyproca Bio-Science (Hong Kong) Company Limited	Hong Kong	HK$50,000,000	–	100	Marketing and distribution of dairy products in Hong Kong
Hyproca Bio-Science Co. Ltd. [(1)]	PRC/Mainland China	RMB10,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Allnutria Bio-Science Co. Ltd. [(1)]	PRC/Mainland China	RMB50,000,000	–	85	Marketing and distribution of dairy products in Mainland China
Puredo Health Service (Changsha) Co. Ltd [(1)]	PRC/Mainland China	RMB20,000,000	–	100	Marketing and distribution of dairy products in Mainland China
Changsha AnEr Nutrition Co. Ltd. [(1)]	PRC/Mainland China	RMB86,458,140	–	100	Production and distribution of dairy and related products in Mainland China
Ausnutria Pty Ltd	Australia	AUD56,428,571	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ADP Holdings (Australia) Pty Ltd ("**ADP**")	Australia	AUD14,002,000	–	100	Investment holding
Australian Dairy Park Pty Ltd	Australia	AUD14,000,000	–	100	Manufacturing and distribution of dairy and related products
Nutrition Care Pharmaceuticals Pty Ltd	Australia	AUD44,000,000	–	100	Manufacturing and distribution of nutrition products
Ozfarm Royal Pty Ltd ("**Ozfarm**")	Australia	AUD3,000,100	–	100	Marketing and distribution of dairy and related products in Australia
Aunulife Pty Ltd	Australia	AUD250,000	–	100	Development, distribution and sale of probiotic products
Pure Nutrition Ltd.	New Zealand	NZD7,500,000	–	60	Manufacturing and distribution of dairy and related products
Nutriunion (Hong Kong) Company Ltd	Hong Kong/ Mainland China	HK$100	–	100	Marketing and distribution of nutrition products in Mainland China and Hong Kong
Nutriunion (Guangzhou) Interconnection Technology Co. Ltd. (1)	PRC/Mainland China	RMB50,000,000	–	100	Marketing and distribution of nutrition products in Mainland China

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and defined benefit plans which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The nature and the impact of the revised IFRSs are described below:

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

The Group had certain interest-bearing bank and other borrowings denominated in EUR based on Euro Interbank Offered Rate ("**EURIBOR**") as at 31 December 2021. The Group expects that EURIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's EURIBOR-based borrowings. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met. Additional information about the transition and the associated risks is disclosed in note 39 to the financial statements..

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 17	*Insurance Contracts*[2, 4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to IFRSs 2018-2020	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the *previous Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirement for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	25 to 35 years
Leasehold improvements	5 to 8 years
Plant and machinery	5 to 15 years
Motor vehicles	5 to 10 years
Office equipment	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost model, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

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

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Non-patent technology and licence

Acquired non-patent technology is capitalised on a basis of the costs incurred to acquire and bring to use the specific technology. The licence acquired in a business combination is recognised at fair value at the acquisition date. Non-patent technology and the licence are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five to ten years.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five to ten years.

Software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five to ten years.

Milk collection right

Milk collection right is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of ten years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	25 to 50 years
Building and machinery	3 to 5 years
Motor vehicles	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as an operating lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank loans and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments,such as interest rate swaps. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of interest rate swaps are determined using the rates quoted by the Group's bankers to terminate the contracts.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred revenue account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

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

Sales of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products. The Group operates the customer loyalty program and the distributor incentive program to provide additional incentives to customers and distributors that provide a material right to each of them.

Customer loyalty program and distributor incentive program

The Group operates customer loyalty programs with two policies, i) which allow end-customers to earn award points and ii) which allow baby stores to earn award points when they purchase products of the Group. The Group also operates the distributor incentive program which allows distributors to earn incentives when they purchase products of the Group.

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

Other income

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Defined contribution plan

Most of the Group's subsidiaries in the Netherlands operate the defined contribution pension plan for certain of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the pension plan. The assets of the defined contribution pension plan are held separately from those of the Group in an independently administered fund. The Group's employer contribution rests fully with the employees when contributed into the defined contribution pension plan.

The Group's subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's subsidiaries in the Australia and New Zealand operate a defined contribution Superannuation Fund retirement benefit scheme (the "**SF Scheme**") under the Superannuation Fund Schemes for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the SF Scheme. The assets of the SF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contribution vest fully with the employees when contributed into the SF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the relevant authorities of the provinces or the local municipal governments in Mainland China in which the Group's subsidiaries are located. Contributions are made based on a percentage of the companies' payroll costs and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Defined benefit plan

One of the Group's subsidiaries in the Netherlands operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefit plan (continued)

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income by function:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is different from the functional currency of the Company of the Hong Kong dollar. The Group's consolidated financial statements are presented in RMB because management consider that a substantial majority of the group companies are in the PRC and the Group primarily generates and expands cash in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining whether the customer loyalty program provides material rights to customers

The Group operates a customer loyalty program in Mainland China, which allows customers to accumulate award points when they purchase the Group's products. The award points can be redeemed for free products, subject to a minimum number of points obtained. The Group assessed whether the award points provide a material right to the customer that needs to be accounted for as a separate performance obligation.

The Group determined that the award points provide a material right that the customer would not receive without entering into the contract. The free products the customer would receive by exercising the award points do not reflect the stand-alone selling price that a customer without an existing relationship with the Group would pay for those products. The customers' right also accumulates as they purchase additional products.

Determining whether the distributor incentive programme provides material rights to distributors

The Group operates a distributor incentive program in Mainland China, which grants distributors free goods when their purchase accumulates to a certain purchase amount. Free goods can only be redeemed in their future purchase. The Group assessed whether the incentive program provides a material right to the distributors that needs to be accounted for as a separate performance obligation.

The Group determined that the incentive program provides a material right that the distributors would not receive without entering into the contract. The free products the distributors would receive in future purchase under the incentive program do not reflect the stand-alone selling price that a distributor without an existing relationship with the Group would pay for those products. The distributors' right also accumulates as they purchase additional products.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB258,688,000 (2020: RMB297,541,000). The carrying amount of the Nutrition Business cash-generating unit exceeded its recoverable amount as of 31 December 2021, and a goodwill impairment charge of RMB14,468,000 was recorded in the consolidated financial statements of 2021 based on the results of the goodwill impairment test. Further details are included in note 16.

Provision for expected credit losses on trade receivables and contract assets

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is included in note 20 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2021 was RMB167,024,000 (2020: RMB126,124,000). Further details are included in note 13.

Defined benefit plan

One of the Group's subsidiaries in the Netherlands operates a defined benefit plan. Pension costs for the defined benefit plan are assessed using the projected unit credit method in accordance with IAS 19 Employee Benefits. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on high quality corporate bonds with currencies and terms similar to the estimated terms of benefit obligations. In calculating the Group's obligations in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Management appointed actuaries to carry out a full valuation of the pension plan to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the IFRS requirements.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit retirement plan and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions for determining the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are mainly recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2021 was RMB83,367,000 (2020: RMB86,182,000). The amount of unrecognised tax losses at 31 December 2021 was RMB31,536,000 (2020: RMB20,714,000). Further details are contained in note 29 to the financial statements.

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 in 2021 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 (other than dairy and related 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 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.

4. OPERATING SEGMENT INFORMATION (continued)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Year ended 31 December 2021			
Segment revenue (note 5)			
Sales to external customers	8,696,145	177,129	8,873,274
Intersegment sales	–	–	–
	8,696,145	177,129	8,873,274
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			8,873,274
Segment results	1,293,544	(39,020)	1,254,524
Reconciliation:			
Interest income			28,099
Finance costs (other than interest on lease liabilities)			(13,416)
Corporate and other unallocated expenses			(35,556)
Profit before tax			1,233,651
As at 31 December 2021			
Segment assets	6,896,134	426,068	7,322,202
Reconciliation:			
Elimination of intersegment receivables			(325,421)
Corporate and other unallocated assets			2,517,425
Total assets			9,514,206
Segment liabilities	2,785,877	382,533	3,168,410
Reconciliation:			
Elimination of intersegment payables			(325,421)
Corporate and other unallocated liabilities			1,177,570
Total liabilities			4,020,559
Other segment information			
Impairment losses recognised in profit or loss	310,783	14,554	325,337
Share of profits and losses of associates	(29,070)	(9,695)	(38,765)
Investments in associates	369,301	196,619	565,920
Depreciation and amortisation	263,422	13,629	277,051
Capital expenditure*	553,707	2,684	556,391

4. OPERATING SEGMENT INFORMATION (continued)

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Year ended 31 December 2020			
Segment revenue (note 5)			
Sales to external customers	7,843,554	142,262	7,985,816
Intersegment sales	–	–	–
	7,843,554	142,262	7,985,816
Reconciliation:			
Elimination of intersegment sales			–
Revenue from operations			7,985,816
Segment results	1,264,735	(11,974)	1,252,761
Reconciliation:			
Interest income			31,603
Finance costs (other than interest on lease liabilities)			(20,752)
Corporate and other unallocated expenses			(42,766)
Profit before tax			1,220,846
As at 31 December 2020			
Segment assets	7,041,170	465,862	7,507,032
Reconciliation:			
Elimination of intersegment receivables			(328,653)
Corporate and other unallocated assets			2,069,578
Total assets			9,247,957
Segment liabilities	3,184,024	359,527	3,543,551
Reconciliation:			
Elimination of intersegment payables			(328,653)
Corporate and other unallocated liabilities			881,119
Total liabilities			4,096,017
Other segment information			
Impairment losses recognised in profit or loss	170,280	4,313	174,593
Share of profits and losses of associates	27,140	(1,038)	26,102
Investments in associates	374,874	206,314	581,188
Depreciation and amortisation	232,659	12,441	245,100
Capital expenditure*	519,454	11,499	530,953

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2021 RMB'000	2020 RMB'000
The PRC	7,803,250	6,932,067
European Union	658,474	647,940
North and South America	161,364	144,175
Middle East	112,361	165,947
Southeast Asia	57,093	29,283
Australia	23,358	54,816
New Zealand	311	3,599
Others	57,063	7,989
	8,873,274	7,985,816

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

(b) Non-current assets

	2021 RMB'000	2020 RMB'000
The PRC	1,144,793	1,127,918
The Netherlands	2,039,005	1,959,269
Australia	306,704	380,346
New Zealand	136,343	159,918
	3,626,845	3,627,451

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

Information about major customers

During the year, there was no revenue from a single external customer accounting for 10% or more of the Group's total revenue (2020: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	8,873,274	7,985,816

Revenue from contracts with customers

(a) Disaggregated revenue information

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

	For the year ended 31 December 2021		
Segments	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	8,696,145	177,129	8,873,274
Total revenue from contracts with customers	8,696,145	177,129	8,873,274
Geographical markets			
The PRC	7,632,186	171,064	7,803,250
European Union	658,474	–	658,474
North and South America	161,364	–	161,364
Middle East	112,361	–	112,361
Southeast Asia	57,093	–	57,093
Australia	17,293	6,065	23,358
New Zealand	311	–	311
Others	57,063	–	57,063
Total revenue from contracts with customers	8,696,145	177,129	8,873,274
Timing of revenue recognition			
Goods transferred at a point in time	8,696,145	177,129	8,873,274
Total revenue from contracts with customers	8,696,145	177,129	8,873,274

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

	For the year ended 31 December 2020		
Segments	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Type of goods or services			
Sale of goods	7,843,554	142,262	7,985,816
Total revenue from contracts with customers	7,843,554	142,262	7,985,816
Geographical markets			
The PRC	6,817,816	114,251	6,932,067
European Union	647,940	–	647,940
North and South America	144,175	–	144,175
Middle East	165,947	–	165,947
Southeast Asia	29,283	–	29,283
Australia	26,805	28,011	54,816
New Zealand	3,599	–	3,599
Others	7,989	–	7,989
Total revenue from contracts with customers	7,843,554	142,262	7,985,816
Timing of revenue recognition			
Goods transferred at a point in time	7,843,554	142,262	7,985,816
Total revenue from contracts with customers	7,843,554	142,262	7,985,816

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

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

	For the year ended 31 December			
	2021		2020	
	Dairy and related products RMB'000	Nutrition products RMB'000	Dairy and related products RMB'000	Nutrition products RMB'000
Revenue				
External customers	8,696,145	177,129	7,843,554	142,262
Intersegment sales	–	–	–	–
	8,696,145	177,129	7,843,554	142,262
Intersegment adjustments and eliminations	–	–	–	–
Total revenue from contracts with customers	8,696,145	177,129	7,843,554	142,262

(b) Contract balances

	31 December 2021 RMB'000	31 December 2020 RMB'000
Other payables and accruals		
– Contract liabilities (note 24(a))	899,924	1,383,009

Contract liabilities included in other payables and accruals include consideration received from customers in advance and the fair value of award points and incentives not yet redeemed.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(b) Contract balances (continued)

Set out below is the amount of revenue recognised from:

	2021 RMB'000	2020 RMB'000
Amounts included in contract liabilities at the beginning of the year (note 24(a))	1,383,009	1,153,411

(c) Performance obligations

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

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

Customers are entitled to award points according to the customer loyalty program which results in allocation of a portion of the transaction price to the award points entitled by customers. Revenue is recognised when award points are redeemed.

Distributors are entitled to incentives according to the distributor incentive program which results in allocation of a portion of the transaction price to the incentives entitled by distributors. Revenue is recognised when the incentives are redeemed.

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December is as follows:

	2021 RMB'000	2020 RMB'000
Within one year (note 24(a))	603,792	541,850

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

Other income and gains

	Note	2021 RMB'000	2020 RMB'000
Other income and gains			
Interest income		28,099	31,603
Government grants	(a)	40,673	43,576
Management fees income from associates		196	217
Others		9,150	14,709
Total other income and gains		78,118	90,105

5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains (continued)

(a) The amount mainly represented incentive income received from the government of the Hunan province, the PRC, where the Company's subsidiaries operate. All these grants are related to expenses and there were no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		4,128,204	3,829,266
Write-down of inventories to net realisable value		274,340	174,593
Cost of sales		4,402,544	4,003,859
Depreciation of property, plant and equipment	13	167,024	126,124
Depreciation of investment property	14	1,312	–
Depreciation of right-of-use assets	15	51,440	63,688
Amortisation of other intangible assets	17	57,275	55,288
Research and development costs		193,157	181,292
Impairment of goodwill**	16	14,468	–
Lease payments not included in the measurement of lease liabilities	15	8,852	6,292
Losses on disposal of items of property, plant and equipment		2,590	1,993
Write-off/losses on disposal of items of other intangible assets		16,820	5,294
Foreign exchange differences, net**		12,728	3,603
Fair value (gains)/losses:			
Derivative instruments			
– transactions not qualifying as hedges	25	(100)	380
– Subsequent HNC Consideration**		–	43,020
Impairment of trade receivables**	20	36,529	–
Provision for a customer claim**#		34,250	–
Auditor's remuneration		8,000	8,520
Advertising and promotion expenses		1,282,745	1,095,096
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		1,004,157	970,928
Temporary staff costs		261,016	212,151
Other employee related expenses		135,143	127,483
Equity-settled share option expense	31	10,858	20,170
Pension scheme contributions*		74,320	49,972
		1,485,494	1,380,704

* At 31 December 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2020: Nil).

** These items are included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

Amount represented provision for a claim from a former customer in relation to a legal proceeding in the Netherlands.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest on bank loans, overdrafts and other loans	13,516	21,670
Interest on lease liabilities	5,338	8,098
Total interest expense on financial liabilities not at fair value through profit or loss	18,854	29,768
Unrealised gain on interest rate cap (note 25)	(100)	(918)
	18,754	28,850

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2021 RMB'000	2020 RMB'000
Fees	2,406	2,579
Other emoluments:		
Salaries, allowances and benefits in kind	4,989	5,240
Equity-settled share option expense	2,037	3,780
Pension scheme contributions	131	72
	7,157	9,092
	9,563	11,671

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

There were no share options granted during the year ended 31 December 2021. In prior years, share options were granted to the directors in respect of their services provided to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021					
Executive directors:					
Yan Weibin	249	2,013	407	58	2,727
Bartle van der Meer	249	1,605	407	–	2,261
Ng Siu Hung	249	1,371	407	73	2,100
	747	4,989	1,221	131	7,088
Non-executive directors:					
Shi Liang*	249	–	136	–	385
Qiao Baijun	249	–	136	–	385
Tsai Chang Hai*	249	–	136	–	385
	747	–	408	–	1,155
Independent non-executive directors:					
Aidan Maurice Coleman	290	–	136	–	426
Jason Wan	290	–	136	–	426
Lau Chun Fai Douglas	332	–	136	–	468
	912	–	408	–	1,320
	2,406	4,989	2,037	131	9,563

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020					
Executive directors:					
Yan Weibin	267	2,088	756	28	3,139
Bartle van der Meer	267	1,720	756	–	2,743
Ng Siu Hung	267	1,432	756	44	2,499
	801	5,240	2,268	72	8,381
Non-executive directors:					
Shi Liang*	267	–	252	–	519
Qiao Baijun	267	–	252	–	519
Tsai Chang Hai*	267	–	252	–	519
	801	–	756	–	1,557
Independent non-executive directors:					
Aidan Maurice Coleman	311	–	252	–	563
Jason Wan	311	–	252	–	563
Lau Chun Fai Douglas	355	–	252	–	607
	977	–	756	–	1,733
	2,579	5,240	3,780	72	11,671

* resigned on 18 March 2022

Subsequent to the reporting period, on 18 March 2022, Mr. Sun Donghong was appointed as a non-executive director ("**NED**"), a member of the Nomination Committee and elected as the Vice-Chairman of the Board; and Mr. Zhang Zhanqiang was appointed as a NED and a member of the Remuneration Committee.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2020: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one (2020: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2020: three) non-director highest paid employees of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	10,578	8,006
Equity-settled share option expense	841	1,260
Pension scheme contributions	254	124
	11,673	9,390

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

	Number of employees	
	2021	2020
HK$3,000,001 to HK$3,500,000	2	2
HK$3,500,001 to HK$4,000,000	1	1
HK$4,000,001 to HK$4,500,000	1	–
Total	4	3

There were no share options granted during the year ended 31 December 2021 (2020: Nil).

10. 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 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% (2020:16.5%) for the first EUR245,000 (2020: EUR200,000) taxable profits and 25% for taxable profits exceeding EUR245,000 (2020: EUR200,000). Under Hong Kong tax laws, profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2020: 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 China and HNC were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% up to the year ending 31 December 2022.

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.

	2021 RMB'000	2020 RMB'000
Current charge for the year – Mainland China		
Charge for the year	245,498	231,314
Underprovision in prior years	6,462	–
Current charge for the year – Netherlands		
Charge for the year	9,937	39,427
Overprovision in prior years	(19,961)	(10,278)
Current charge for the year – Hong Kong		
Charge for the year	7,350	5,630
Current charge for the year – Taiwan		
Charge for the year	1,422	491
Deferred income tax (note 29)	(19,282)	(45,772)
Total tax charge for the year	231,426	220,812

10. INCOME TAX (continued)

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

2021

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Australia		New Zealand		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	45,833		103,741		1,340,224		1,555		(32,062)		(46,152)		(40,398)		(139,090)		1,233,651	
Income tax at the statutory income tax rate	7,562	16.5	25,935	25.0	335,056	25.0	412	26.5	(6,733)	21.0	(13,846)	30.0	(11,311)	28.0	(7,149)	5.1	329,926	26.7
Tax effects on preferential tax rates	–	–	(186)	(0.2)	(112,189)	(8.4)	–	–	–	–	–	–	–	–	–	–	(112,375)	(9.1)
Effect on opening deferred tax due to disposal of subsidiaries	–	–	(9,514)	(9.2)	–	–	–	–	–	–	–	–	–	–	12,281	(8.8)	2,767	0.2
Adjustments in respect of current tax in previous periods	–	–	(19,961)	(19.2)	6,462	0.5	–	–	–	–	–	–	–	–	–	–	(13,499)	(1.1)
Non-deductible items and others, net	1,102	2.4	–	–	5,567	0.4	–	–	58	(0.2)	1,518	(3.3)	3,993	(9.9)	884	(0.6)	13,122	1.1
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	30,780	2.3	–	–	–	–	–	–	–	–	–	–	30,780	2.5
Profits and losses attributable to associates	–	–	9,310	9.0	–	–	–	–	–	–	–	–	–	–	–	–	9,310	0.8
Additional deduction of expenses	–	–	(2,470)	(2.4)	(34,612)	(2.6)	–	–	–	–	(1,549)	3.4	–	–	–	–	(38,631)	(3.1)
Tax losses not recognised	337	0.7	–	–	10,315	0.8	–	–	–	–	5,334	(11.6)	13,520	(33.5)	2,030	(1.5)	31,536	2.6
Income not subject to tax	–	–	(21,510)	(20.7)	–	–	–	–	–	–	–	–	–	–	–	–	(21,510)	(1.8)
Tax charge at the Group's effective rate	9,001	19.6	(18,396)	(17.7)	241,379	18.0	412	26.5	(6,675)	20.8	(8,543)	18.5	6,202	(15.4)	8,046	(5.8)	231,426	18.8

2020

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Australia		New Zealand		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	15,508		297,302		1,133,321		(236)		(11,134)		(30,842)		(47,361)		(135,712)		1,220,846	
Income tax at the statutory income tax rate	2,559	16.5	74,231	25.0	283,248	25.0	(63)	26.5	(2,338)	21.0	(9,253)	30.0	(13,261)	28.0	(11,137)	8.2	323,986	26.5
Tax effects on preferential tax rates	–	–	(5,534)	(1.9)	(91,612)	(8.1)	–	–	–	–	–	–	–	–	–	–	(97,146)	(8.0)
Adjustments in respect of current tax in previous periods	–	–	(10,278)	(3.5)	–	–	–	–	–	–	–	–	–	–	–	–	(10,278)	(0.8)
Tax losses utilised from previous periods	–	–	–	–	(1,266)	(0.1)	–	–	–	–	–	–	–	–	–	–	(1,266)	(0.1)
Non-deductible items and others, net	1,380	8.9	–	–	6,566	0.6	–	–	–	–	324	(1.1)	–	–	629	(0.5)	8,899	0.7
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	31,442	2.8	–	–	–	–	–	–	–	–	–	–	31,442	2.6
Profits attributable to associates	–	–	(6,882)	(2.3)	–	–	–	–	–	–	–	–	–	–	208	(0.2)	(6,674)	(0.5)
Additional deduction of expenses	–	–	(1,234)	(0.4)	(21,345)	(1.9)	–	–	–	–	(52)	0.2	–	–	–	–	(22,631)	(1.9)
Tax losses in previous years not recognised	–	–	–	–	–	–	–	–	–	–	–	–	5,806	(12.3)	–	–	5,806	0.5
Tax losses not recognised	–	–	–	–	1,126	0.1	–	–	–	–	501	(1.6)	13,261	(28.0)	20	–	14,908	1.2
Income not subject to tax	(98)	(0.6)	(23,425)	(7.9)	(576)	(0.1)	(5)	2.1	–	–	(1,922)	6.2	–	–	(208)	0.2	(26,234)	(2.1)
Tax charge at the Group's effective rate	3,841	24.8	26,878	9.0	207,583	18.3	(68)	28.6	(2,338)	21.0	(10,402)	33.7	5,806	(12.3)	(10,488)	7.7	220,812	18.1

The share of tax benefits attributable to associates totalling RMB1,156,000 (2020: tax expenses of RMB6,841,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Proposed final dividend – HK28 cents (2020: HK27 cents) per ordinary share	393,423	389,927

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

12. 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 year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,717,549,709 (2020: 1,648,004,506) in issue during the year.

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

Earnings

	2021 RMB'000	2020 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	1,040,262	1,004,106

Shares

	Number of shares	
	2021	2020
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	1,717,549,709	1,648,004,506
Effect of dilution – weighted average number of ordinary shares:		
Share options	5,441,539	9,709,475
	1,722,991,248	1,657,713,981

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021:							
Cost	1,202,026	469,381	15,478	263,839	60,717	302,048	2,313,489
Accumulated depreciation and impairment	(213,255)	(198,602)	(7,396)	(29,528)	(24,351)	–	(473,132)
Net carrying amount	988,771	270,779	8,082	234,311	36,366	302,048	1,840,357
At 1 January 2021, net of accumulated depreciation and impairment	988,771	270,779	8,082	234,311	36,366	302,048	1,840,357
Additions	9,779	45,988	3,819	7,061	17,012	358,656	442,315
Disposals	(993)	(417)	(49)	(384)	(747)	–	(2,590)
Depreciation provided during the year	(63,961)	(84,840)	(4,775)	(6,597)	(6,851)	–	(167,024)
Transfers	4,320	10,014	–	4	–	(14,338)	–
Transfer to investment property	(3,974)	–	–	–	–	(119,437)	(123,411)
Exchange realignment	(79,426)	(18,133)	(348)	(14,947)	(41)	(40,420)	(153,315)
At 31 December 2021, net of accumulated depreciation and impairment	854,516	223,391	6,729	219,448	45,739	486,509	1,836,332
At 31 December 2021:							
Cost	1,108,242	484,213	17,755	251,148	75,489	486,509	2,423,356
Accumulated depreciation and impairment	(253,726)	(260,822)	(11,026)	(31,700)	(29,750)	–	(587,024)
Net carrying amount	854,516	223,391	6,729	219,448	45,739	486,509	1,836,332

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and building RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020:							
Cost	965,477	352,328	13,439	261,129	55,036	200,489	1,847,898
Accumulated depreciation and impairment	(153,841)	(164,681)	(8,035)	(30,422)	(19,423)	–	(376,402)
Net carrying amount	811,636	187,647	5,404	230,707	35,613	200,489	1,471,496
At 1 January 2020, net of accumulated depreciation and impairment	811,636	187,647	5,404	230,707	35,613	200,489	1,471,496
Additions	74,415	57,687	3,787	13,126	4,262	286,616	439,893
Acquisition of a subsidiary	22,799	–	–	–	1,519	–	24,318
Disposals	(389)	(980)	(202)	(422)	–	–	(1,993)
Depreciation provided during the year	(57,522)	(52,350)	(1,014)	(10,073)	(5,165)	–	(126,124)
Transfers	116,716	73,761	–	5	226	(190,708)	–
Transfer to other intangible assets	–	–	–	–	–	(131)	(131)
Exchange realignment	21,116	5,014	107	968	(89)	5,782	32,898
At 31 December 2020, net of accumulated depreciation and impairment	988,771	270,779	8,082	234,311	36,366	302,048	1,840,357
At 31 December 2020:							
Cost	1,202,026	469,381	15,478	263,839	60,717	302,048	2,313,489
Accumulated depreciation and impairment	(213,255)	(198,602)	(7,396)	(29,528)	(24,351)	–	(473,132)
Net carrying amount	988,771	270,779	8,082	234,311	36,366	302,048	1,840,357

At 31 December 2021, the Group has pledged the land and building located in the Netherlands that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR83,748,000 (equivalent to approximately RMB604,635,000) (2020: EUR92,549,000, equivalent to approximately RMB742,706,000) for the banking facilities granted to the Group to finance the Group's daily working capital and capital expenditure plans (note 26(b)(i)).

The Group's land included in property, plant and equipment with net carrying amounts of EUR7,117,000 (equivalent to approximately RMB51,383,000) (2020: EUR7,443,000, equivalent to approximately RMB59,730,000), AUD5,854,000 (equivalent to approximately RMB27,057,000) (2020: AUD5,854,000, equivalent to approximately RMB29,365,000) and NZD3,000,000 (equivalent to approximately RMB13,066,000) (2020: NZD3,000,000, equivalent to approximately RMB14,115,000) situated in the Netherlands, Australia and New Zealand, respectively, is held as freehold land.

14. INVESTMENT PROPERTY

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	–	–
Transfer from property, plant and equipment	123,411	–
Depreciation provided during the year	(1,312)	–
Exchange realignment	(6,278)	–
Carrying amount at 31 December	115,821	–

The balance represented an investment property which is adjacent to the Group's existing production facilities located in Heerenveen, the Netherlands. The investment property, which it is then leased to a third party under operating lease, is principally used for the production of tins and such packaging products are to be sold to the Group as well as other third parties. Further summary details of which are included in note 15 to the financial statements.

At 31 December 2021, the Group has pledged the investment property in the Netherlands that were attributed to Ausnutria B.V. Group with a net carrying amount of EUR16,042,000 (equivalent to approximately RMB115,821,000) for the banking facilities granted to the Group to finance the Group's daily working capital and capital expenditure plans (note 26 (b)(ii)).

At 31 December 2021, the Group's land included in investment property with net carrying amount of EUR522,000 (equivalent to approximately RMB3,769,000) situated in the Netherlands, is held as freehold land.

The fair value of the investment property as at 31 December 2021 was RMB115,821,000.

15. LEASES

The Group as a lessee

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

(a) Right-of-use assets

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

	Leasehold land RMB'000	Building and machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2020	26,264	300,400	22,650	349,314
Additions	–	42,153	1,910	44,063
Additions as a result of acquisition of a subsidiary	64,157	–	–	64,157
Depreciation charge	(2,597)	(58,924)	(2,167)	(63,688)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(40,175)	(195)	(40,370)
Exchange realignment	–	5,675	580	6,255
As at 31 December 2020 and 1 January 2021	87,824	249,129	22,778	359,731
Additions	–	10,651	4,624	15,275
Depreciation charge	(3,179)	(45,775)	(2,486)	(51,440)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(19,405)	–	(19,405)
Exchange realignment	–	(18,266)	(2,083)	(20,349)
As at 31 December 2021	84,645	176,334	22,833	283,812

15. LEASES (continued)

The Group as a lessee (continued)

(b) *Lease liabilities*

The carrying amount of lease liabilities (included under interest-bearing bank loans and other borrowings) and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	205,153	282,012
New leases	15,275	44,063
Accretion of interest recognised during the year	5,338	8,098
Payments	(68,244)	(87,782)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(15,889)	(46,009)
Exchange realignment	(16,182)	4,771
Carrying amount at 31 December	125,451	205,153
Analysed into:		
Current portion	52,843	79,551
Non-current portion	72,608	125,602
	125,451	205,153

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

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

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities (note 7)	5,338	8,098
Depreciation charge for right-of-use assets	51,440	63,688
Expense relating to short-term leases	8,852	6,292
Total amount recognised in profit or loss	65,630	78,078

(d) The total cash outflow for leases is disclosed in note 34(b) to the financial statements.

The Group as a lessor

The Group leases its investment property (note 14) consisting of a factory building in the Netherlands under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB1,314,000 (2020: Nil).

15. LEASES (continued)

The Group as a lessor (continued)

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 RMB'000
Within one year	3,249
After one year but within five years	12,995
After five years	6,498
	22,742

16. GOODWILL

	RMB'000
At 1 January 2020:	
Cost	289,803
Accumulated impairment	–
Net carrying amount	289,803
Cost at 1 January 2020, net of accumulated impairment	289,803
Exchange realignment	7,738
Cost and net carrying amount at 31 December 2020	297,541
At 31 December 2020:	
Cost	297,541
Accumulated impairment	–
Net carrying amount	297,541
Cost at 1 January 2021, net of accumulated impairment	297,541
Impairment during the year	(14,468)
Exchange realignment	(24,385)
Cost and net carrying amount at 31 December 2021	258,688
At 31 December 2021:	
Cost	273,156
Accumulated impairment	(14,468)
Net carrying amount	258,688

16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the product cash-generating units for impairment testing:

- Ausnutria B.V. cash-generating unit;
- Nutrition Business cash-generating unit;
- Youluck cash-generating unit;
- ADP cash-generating unit; and
- Ozfarm cash-generating unit;

Ausnutria B.V. cash-generating unit

The recoverable amount of the Ausnutria B.V. cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11% (2020:12%). The growth rate used to extrapolate the cash flows of the Ausnutria B.V. unit beyond the five-year period is 3% (2020: 3%).

Nutrition Business cash-generating unit

The recoverable amount of the Nutrition Business cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12.3% (2020: 14%). The growth rate used to extrapolate the cash flows of the Nutrition Business unit beyond the five-year period is 3% (2020: 3%). The carrying amount of the Nutrition Business cash-generating unit exceeded its recoverable amount as of 31 December 2021, and a goodwill impairment loss of RMB14,468,000 (2020: Nil), which it is calculated based on results of the goodwill impairment test, was recognised in profit or loss during the year.

Youluck cash-generating unit

The recoverable amount of the Youluck cash-generating unit has been determined based on a value –in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14% (2020: 14%). The growth rate used to extrapolate the cash flows of the Youluck unit beyond the five-year period is 3% (2020: 3%).

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

ADP cash-generating unit

The recoverable amount of the ADP cash-generating unit has been determined based on a value-in –use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14.5% (2020: 14.5%). The growth rate used to extrapolate the cash flows of the ADP unit beyond the five-year period is 3% (2020: 3%).

Ozfarm cash-generating unit

The recoverable amount of the Ozfarm cash-generating unit has been determined based on a value –in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14% (2020: 14.5%). The growth rate used to extrapolate the cash flows of the Ozfarm unit beyond the five-year period is 3% (2020: 3%).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

Cash-generating units	Carrying amount of goodwill	
	2021 RMB'000	2020 RMB'000
Ausnutria B.V.	73,317	81,494
Nutrition Business	42,224	60,874
Youluck	2,631	2,668
ADP	10,929	11,864
Ozfarm	129,587	140,641
	258,688	297,541

Assumptions were used in the value-in-use calculation of the Ausnutria B.V., Nutrition Business, Youluck, ADP and Ozfarm cash-generating units for the years ended 31 December 2021 and 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are post-tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on the market development of Ausnutria B.V., Nutrition Business, Youluck, ADP and Ozfarm cash-generation units, and discount rates are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2021						
Cost at 1 January 2021, net of accumulated amortisation	172,677	95,243	128,425	5,317	9,980	411,642
Additions	1,944	60,993	49,149	–	1,990	114,076
Disposal	–	(16,808)	(12)	–	–	(16,820)
Amortisation provided during the year	(20,264)	(17,293)	(16,835)	(1,465)	(1,418)	(57,275)
Exchange realignment	(12,229)	(8,859)	(8,511)	(458)	(587)	(30,644)
At 31 December 2021	142,128	113,276	152,216	3,394	9,965	420,979
At 31 December 2021:						
Cost	241,166	166,995	209,150	24,039	16,886	658,236
Accumulated amortisation	(99,038)	(53,719)	(56,934)	(20,645)	(6,921)	(237,257)
Net carrying amount	142,128	113,276	152,216	3,394	9,965	420,979

	Non-patent technology and licence RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2020						
Cost at 1 January 2020, net of accumulated amortisation	193,171	96,497	85,347	6,683	16,402	398,100
Additions	1,048	9,436	56,222	–	36	66,742
Disposal	(170)	(185)	–	–	(4,939)	(5,294)
Transfers from property, plant and machinery	131	–	–	–	–	131
Amortisation provided during the year	(24,631)	(12,749)	(14,918)	(1,522)	(1,468)	(55,288)
Exchange realignment	3,128	2,244	1,774	156	(51)	7,251
At 31 December 2020	172,677	95,243	128,425	5,317	9,980	411,642
At 31 December 2020:						
Cost	257,794	135,441	171,755	26,720	15,917	607,627
Accumulated amortisation	(85,117)	(40,198)	(43,330)	(21,403)	(5,937)	(195,985)
Net carrying amount	172,677	95,243	128,425	5,317	9,980	411,642

18. INVESTMENTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Share of net assets	342,931	386,166
Goodwill on acquisitions	20,382	25,129
	363,313	411,295
Loan to an associate	202,607	169,893
	565,920	581,188

The loan to an associate is unsecured, interest-free and repayable on demand. In the opinion of the directors, this loan is not requested for repayment in the foreseeable future and is considered as part of the Group's net investments in the associates.

The Group's receivable and payable balances with the associates are disclosed in notes 20, 21 and 23 to the financial statements, respectively.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2021 RMB'000	2020 RMB'000
Share of the associates' profit and losses for the year	(38,765)	26,102
Share of the associates' total comprehensive (losses)/income	(38,765)	26,102
Aggregate carrying amount of the Group's investments in the associates	565,920	581,188

19. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	760,058	891,148
Finished goods	1,168,972	1,160,386
Goods in transit	242,047	309,113
Others	27,394	40,299
	2,198,471	2,400,946

At 31 December 2021, certain of the Group's inventories that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR179,038,000 (equivalent to approximately RMB1,292,599,000) (2020: EUR142,195,000, equivalent to approximately RMB1,141,115,000) were pledged to secure general banking facilities granted to the Ausnutria B.V. Group (note 26(b)(iii)).

20. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	431,510	437,138
Bills receivable	27,817	19,287
	459,327	456,425

The Group normally allows a credit period from 1 to 12 months (2020: 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.

Included in the Group's trade receivables is an amount due from associates of EUR12,417,000 (equivalent to approximately RMB89,647,000) (2020: EUR8,754,000, equivalent to approximately RMB70,251,000), which is repayable on credit terms similar to those offered to the major customers of the Group.

An ageing 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:

	2021 RMB'000	2020 RMB'000
Within 3 months	342,357	400,673
3 to 6 months	34,853	16,919
6 months to 1 year	14,040	8,850
Over 1 year	40,260	10,696
	431,510	437,138

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

	2021 RMB'000	2020 RMB'000
At beginning of year	–	–
Impairment losses (note 6)	36,529	–
Amount written off as uncollectible	(348)	–
Exchange realignment	(1,542)	–
At end of year	34,639	–

20. TRADE AND BILLS RECEIVABLES (continued)

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.

As at 31 December 2021, certain of the Group's trade receivables that were attributed to the Ausnutria B.V. Group with a net carrying amount of EUR10,157,000 (equivalent to approximately RMB73,332,000) (2020: EUR8,868,000, equivalent to approximately RMB71,166,000) were pledged to secure general bank loans and overdraft facilities granted to the Ausnutria B.V. Group (note 26(b)(iv)).

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Prepayments and deposits	353,943	342,237
Interest income receivable	6,720	7,623
Other tax recoverable	136,270	138,263
Others	105,464	84,445
	602,397	572,568
Classified as non-current: Prepayments, deposits and other assets	(145,293)	(136,992)
	457,104	435,576

Included in the Group's other receivables is an amount due from associates of EUR200,000 (equivalent to approximately RMB1,444,000) (2020: Nil).

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to entities which have no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	2,253,860	1,296,509
Time deposits	263,565	773,069
	2,517,425	2,069,578
Less: Pledged deposits for bank loans and overdrafts (note 26(b)(v))	(255,237)	(212,062)
Cash and cash equivalents	2,262,188	1,857,516

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB1,926,164,000 (2020: RMB973,802,000). In addition, time deposits of the Group denominated in RMB amounted to RMB253,250,000 (2020: RMB772,239,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

23. 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:

	2021 RMB'000	2020 RMB'000
Within 12 months	403,898	406,969
Over 12 months	2,080	2,278
	405,978	409,247

Included in the trade and bills payables are amounts due to associates of EUR3,167,000 (equivalent to approximately RMB22,865,000) (2020: EUR4,998,000, equivalent to approximately RMB40,109,000), which are repayable within 60 days.

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

24. OTHER PAYABLES AND ACCRUALS

	Notes	2021 RMB'000	2020 RMB'000
Contract liabilities	(a)	899,924	1,383,009
Deposits		50,152	31,496
Accrued salaries and welfare		216,535	170,303
Other tax payables		155,236	65,928
Other payables	(b)	240,974	183,727
Accrued promotion and advertising expenses		360,749	367,293
Other accruals		68,251	65,917
		1,991,821	2,267,673

Notes:

(a) Details of contract liabilities are as follows:

	2021 RMB'000	2020 RMB'000
Short-term advances received from customers for the sale of goods	296,132	841,159
Deferred income	603,792	541,850
Total contract liabilities	899,924	1,383,009

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2021		2020	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Interest rate caps	–	3	–	109

The Ausnutria B.V. Group has entered into an interest rate cap contract to manage its interest rate exposures. The interest rate cap was measured at fair value through profit or loss. A net fair value gain on the interest rate cap amounting to RMB100,000 (2020: RMB537,000) was recognised in profit or loss during the year.

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	31 December 2021 Annual effective interest rate (%)	31 December 2021 Maturity	31 December 2021 RMB'000	31 December 2020 Annual effective interest rate (%)	31 December 2020 Maturity	31 December 2020 RMB'000
Current:						
Lease liabilities (note 15(b))	3.3	2022	52,843	3.3	2021	79,551
Bank loans – secured	3-month EURIBOR + 1.35 – 1.70	2022	71,247	3-month EURIBOR + 0.9 – 1.70	2021	175,494
Bank overdrafts – secured	3-month EURIBOR + 1.35 – 1.70	2022	433,183	3-month EURIBOR + 1.35 – 1.70	2021	160,500
Bank loans – secured	0.2 – 2.3	2022	157,234	1.0 – 2.3	2021	115,951
Other loans – unsecured*	4.22	2022	25,435	4.22	2021	27,477
			739,942			558,973
Non-current:						
Lease liabilities (note 15(b))	3.3	2023-2037	72,608	3.3	2022-2037	125,602
Bank loans – secured	3-month EURIBOR + 1.35 – 1.70	2023	288,111	3-month EURIBOR + 1.35 – 1.70	2023	399,441
Bank loans – secured	0.2 – 4.79	2023	201,051	4.79	2023	801
Other loans – unsecured*	3-month EURIBOR +3.0	2023	1,309	3-month EURIBOR +3.0	2022	1,455
			563,079			527,299
			1,303,021			1,086,272

* Loans from non-controlling shareholders of a subsidiary

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank loans, overdrafts and other loans repayable:		
Within one year or on demand	687,099	479,422
In the second year	272,771	81,705
In the third to fifth years, inclusive	217,700	319,992
	1,177,570	881,119
Lease liabilities repayable:		
Within one year or on demand	52,843	79,551
In the second year	66,659	56,085
In the third to fifth years, inclusive	4,673	67,784
After five years	1,276	1,733
	125,451	205,153
	1,303,021	1,086,272

Notes:

(a) The Group's bank overdrafts and revolving facilities that were attributed to the Ausnutria B.V. Group amounting to EUR100,000,000 (equivalent to approximately RMB721,970,000) (2020: EUR100,000,000, equivalent to approximately RMB802,500,000), and EUR60,000,000 (equivalent to approximately RMB433,182,000 of the bank overdrafts (2020: EUR20,000,000, equivalent to approximately RMB160,500,000) of the bank overdrafts had been utilised as at 31 December 2021, with a certain pledge of the Group's assets.

(b) Certain of the Group's bank loans and overdraft facilities are secured by:

(i) mortgages over the Ausnutria B.V. Group's land and buildings situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR83,748,000 (equivalent to approximately RMB604,635,000) (2020: EUR92,549,000 (equivalent to approximately RMB742,706,000));

(ii) mortgages over the Ausnutria B.V. Group's investment property situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR16,042,000 (equivalent to approximately RMB115,821,000 (2020: Nil));

(iii) pledges of the Ausnutria B.V. Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR179,038,000 (equivalent to approximately RMB1,292,599,000) (2020: EUR142,195,000 (equivalent to approximately RMB1,141,115,000));

(iv) pledges of the Ausnutria B.V. Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR10,157,000 (equivalent to approximately RMB73,332,000) (2020: EUR8,868,000 (equivalent to approximately RMB71,166,000)); and

(v) pledges of certain of the Group's time deposits amounting to RMB255,237,000 (2020: RMB212,062,000).

27. DEFINED BENEFIT PLAN

Ausnutria Ommen B.V. operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 67 (2020: age of 67).

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

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

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

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

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2021 by the appraiser, using the projected unit credit actuarial valuation method.

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

	2021	2020
Discount rate (%)	1.20	0.60
Expected rate of future pension cost increases (%)	1.20	0.60
Expected rate of salary increases (%)	1.25	1.75
Indexation post activities (%)	0.00	0.00

The actuarial valuation showed that the market value of plan assets was RMB30,959,000 (2020: RMB38,384,000) and that the actuarial value of these assets represented 91% (2020: 81%) of the benefits that had been accrued to qualifying employees. The deficiency of RMB3,039,000 (2020: RMB8,932,000) is expected to be cleared over the remaining life expectancy (based on unconditional future indexations for active and post-active participants).

27. DEFINED BENEFIT PLAN (continued)

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2021				
Discount rate	0.25	(1,538)	0.25	1,653

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2020				
Discount rate	0.25	(2,287)	0.25	2,456

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

The total expenses recognised in profit or loss in respect of the plan are as follows:

	2021 RMB'000	2020 RMB'000
Current service cost	–	–
Past service cost	(2,192)	–
Interest cost	556	150
Net benefit expenses	(1,636)	150
Recognised in cost of sales	(1,636)	150
	(1,636)	150

27. DEFINED BENEFIT PLAN (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2021 RMB'000	2020 RMB'000
At 1 January	47,316	39,202
Past service cost	(2,192)	–
Interest cost	(4,095)	7,171
Benefit paid	(2,748)	(213)
Exchange differences	(4,283)	1,156
At 31 December	33,998	47,316

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2021

		Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2021 RMB'000	Service cost RMB'000	Additional charges RMB'000	Net interest expense RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Return on plan assets (excluding amounts included in net interest expense) RMB'000	Actuarial changes arising from changes in demographic assumptions RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	Contribution by the employer RMB'000	Foreign exchange difference RMB'000	31 December 2021 RMB'000
Defined benefit obligations	(47,316)	2,192	–	(259)	1,933	2,748	–	–	4,392	(38)	4,354	–	4,283	(33,998)
Fair value of plan assets	38,384	–	(525)	–	(525)	(2,748)	228	–	(4,027)	693	(3,334)	2,611	(3,657)	30,959
Benefit liabilities	(8,932)	2,192	(525)	(259)	1,408	–	228	–	365	655	1,020	2,611	626	(3,039)

2020

		Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2020 RMB'000	Service cost RMB'000	Additional charges RMB'000	Net interest expense RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Return on plan assets (excluding amounts included in net interest expense) RMB'000	Actuarial changes arising from changes in demographic assumptions RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	Contribution by the employer RMB'000	Foreign exchange difference RMB'000	31 December 2020 RMB'000
Defined benefit obligations	(39,202)	–	–	(490)	(490)	213	–	917	(5,123)	(2,475)	(6,681)	–	(1,156)	(47,316)
Fair value of plan assets	32,762	–	(55)	395	340	(530)	–	(791)	4,309	901	4,419	444	949	38,384
Benefit liabilities	(6,440)	–	(55)	(95)	(150)	(317)	–	126	(814)	(1,574)	(2,262)	444	(207)	(8,932)

27. DEFINED BENEFIT PLAN (continued)

The fair value of the total plan assets at 31 December 2021 was RMB30,959,000(2020: RMB38,384,000).

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

	2021 RMB'000	2020 RMB'000
Within the next 12 months	1,393	3,836
Between 2 and 5 years	5,804	5,818
Between 5 and 10 years	6,317	7,824
Total expected contributions	13,514	17,478

The average duration of the defined benefit obligations at the end of the reporting period was 19.2 (2020: 20.6) years.

28. DEFERRED REVENUE

On 22 May 2018, the Company purchased two plots of land in Changsha city, Hunan province, for the building of the headquarters of the Group in the PRC region (the "**PRC Headquarters**"). In order to support the long term growth of the Group, Ausnutria China received government grants as financial subsidies to support the development.

Such government grants received are treated as deferred revenue as at the end of the reporting period and are to be amortised and recognised as other income over the expected useful life of the PRC Headquarters.

29. DEFERRED TAX

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

Deferred tax liabilities

2021

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2021	(2,593)	66,874	1,114	29,125	94,520
Deferred tax credited to profit or loss during the year (note 10)	(427)	(9,813)	(353)	(7,019)	(17,612)
Exchange realignment	3,857	(7,891)	(95)	–	(4,129)
Gross deferred tax liabilities at 31 December 2021	837	49,170	666	22,106	72,779

29. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

2020

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2020	(1,677)	69,338	1,447	29,639	98,747
Deferred tax credited to profit or loss during the year (note 10)	(858)	(4,750)	(366)	(514)	(6,488)
Exchange realignment	(58)	2,286	33	–	2,261
Gross deferred tax liabilities at 31 December 2020	(2,593)	66,874	1,114	29,125	94,520

Deferred tax assets

2021

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	2,233	86,182	8,700	10,512	109,449	40,905	257,981
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(1,349)	757	(2,363)	–	14,700	(10,075)	1,670
Exchange realignment	(155)	(3,572)	–	–	–	(890)	(4,617)
Gross deferred tax assets at 31 December 2021	729	83,367	6,337	10,512	124,149	29,940	255,034

2020

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	1,546	79,736	3,343	10,512	98,416	29,337	222,890
Deferred tax credited to profit or loss during the year (note 10)	636	10,816	5,357	–	11,033	11,442	39,284
Exchange realignment	51	(4,370)	–	–	–	126	(4,193)
Gross deferred tax assets at 31 December 2020	2,233	86,182	8,700	10,512	109,449	40,905	257,981

29. DEFERRED TAX (continued)

Deferred tax assets (continued)

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

The Group has tax losses arising in Hong Kong of RMB13,194,000 (2020: RMB11,154,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of RMB95,058,000 (2020: RMB53,798,000) that will expire in one to five years for offsetting against future taxable profits. The Group has tax losses arising in New Zealand of RMB116,382,000(2020: RMB68,096,000) that are available for offsetting against future taxable profits. The Group has tax losses arising in Australia of RMB17,780,000 (2020: Nil) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% (2020: 5%). The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2021, the Group has not recognised deferred tax liabilities of RMB247,239,000 (2020: RMB223,954,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB2,854,319,000 (2020: RMB2,161,036,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

30. SHARE CAPITAL

Share capital

	2021 HK$'000	2020 HK$'000
Issued and fully paid:		
1,718,545,841 (2020: 1,715,903,508) ordinary shares of HK$0.10 each	171,855	171,590

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

	Notes	Number of shares in issue '000	Share capital RMB'000
At 1 January 2021		1,715,903	149,267
Share options exercised	(a)	2,643	218
At 31 December 2021		1,718,546	149,485

Notes:

(a) The subscription rights attaching to 142,000 and 2,501,000 share options were exercised at the subscription price of HK$2.45 and HK$10.00 per Share, respectively (note 31), resulting in the issue of a total of 2,643,000 Shares for a total consideration before expenses, of HK$25,358,000 (equivalent to approximately RMB20,939,000). An amount of RMB3,318,000 was transferred from the share option reserve to share capital and share premium account upon the exercise of the share options.

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

31. SHARE OPTION SCHEME

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

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

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

iii. any customer of the Group or any Invested Entity;

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

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

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

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

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

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

31. SHARE OPTION SCHEME (continued)

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

	2021		2020	
	Weighted average exercise price HK$ per Share	Number of options '000	Weighted average exercise price HK$ per Share	Number of options '000
At 1 January	9.97	40,142	8.91	46,738
Exercised during the year	9.60	(2,643)	2.45	(6,596)
At 31 December	10.00	37,499	9.97	40,142

The weighted average share price at the date of exercise for share options exercised during the year was HK$11.89 (2020: HK$14.33) per Share.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2021

Number of options '000	Exercise price HK$ per Share	Exercise period
–	2.45	06-7-17 to 20-1-21
37,499	10.00	15-1-21 to 14-1-24
37,499		

2020

Number of options '000	Exercise price HK$ per Share	Exercise period
142	2.45	06-7-17 to 20-1-21
40,000	10.00	15-1-21 to 14-1-24
40,142		

The fair value of the share options granted was HK$112,131,000 (2020: HK$112,131,000), of which the Group recognised a share option expense of HK$13,090,000 (equivalent to approximately RMB10,858,000) (2020: HK$22,696,000, equivalent to approximately RMB20,170,000) during the year.

31. SHARE OPTION SCHEME (continued)

The fair value at grant date is estimated using a binomial model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. There is no cash settlement of the options. The fair value of options granted during year was estimated on the date of grant using the following assumptions:

	Granted on 21 January 2016 and 6 July 2016	Granted on 15 January 2019
Dividend yield (%)	0.00	1.26
Expected volatility (%)	47.45 – 49.09	41.59
Risk-free interest rate (%)	1.36 – 1.6	2.33
Contractual life of share options (year)	5	5
Weighted average share price (HK$)	2.45	10.00

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 2,643,000 share options exercised during the year resulted in the issue of 2,643,000 ordinary shares of the Company and new share capital of HK$264,300 (equivalent to approximately RMB218,000) (before issue expenses), as further detailed in note 30 to the financial statements.

At the end of the reporting period, the Company had 37,499,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 37,499,000 additional ordinary shares of the Company and additional share capital of HK$3,750,000 (equivalent to approximately RMB3,066,000).

Subsequent to the end of the reporting period, the 37,499,000 share options lapsed following the closing of the General Offer. Further details of which are set out in the announcement and circular of the Company dated 10 February 2022 and 17 March 2022, respectively.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 73 to 74 the financial statements.

(i) Capital reserve

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

(ii) Statutory surplus reserve

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

(iii) Exchange fluctuation reserve

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

33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests as at 31 December 2021 are set out below:

	2021	2020
Percentage of equity interest held by non-controlling interests:		
Pure Nutrition Limited ("**PNL**")	40%	40%

	2021 RMB'000	2020 RMB'000
Loss for the year allocated to non-controlling interests:		
PNL	(16,974)	(20,987)
Accumulated balances of non-controlling interests at the reporting date:		
PNL	(60,479)	(47,780)

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

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2021 RMB'000	2020 RMB'000
Revenue	311	3,449
Cost	(19,935)	(28,511)
Total expenses	(22,811)	(27,405)
Loss for the year	(42,435)	(52,467)
Total comprehensive loss for the year	(42,435)	(52,467)
Current assets	5,646	8,097
Non-current assets	145,146	171,780
Current liabilities	(301,990)	(299,328)
Net cash flows used in operating activities	(23,057)	(8,044)
Net cash flows used in investing activities	(81)	(149)
Net cash flows from financing activities	22,817	8,040
Net decrease in cash and cash equivalents	(321)	(153)

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB15,275,000 and RMB15,275,000, respectively, in respect of lease arrangements for plant and equipment (2020: non-cash additions to right-of-use assets and lease liabilities of RMB44,063,000 and RMB44,063,000, respectively).

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

2021

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2021	881,119	205,153
Changes from financing cash flows	405,663	(68,244)
Foreign exchange movement	(109,212)	(16,182)
New lease	–	15,275
Interest expense	–	5,338
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(15,889)
At 31 December 2021	1,177,570	125,451

2020

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2020	921,778	282,012
Changes from financing cash flows	(64,192)	(95,880)
Foreign exchange movement	23,533	12,869
New lease	–	44,063
Interest expense	–	8,098
Revision of a lease-term arising from a change in the non-cancellable period of a lease	–	(46,009)
At 31 December 2020	881,119	205,153

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

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

	2021 RMB'000	2020 RMB'000
Within operating activities	8,852	6,292
Within financing activities	68,244	95,880
	77,096	102,172

35. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 13, 14, 15, 19, 20, 22 and 26, respectively, to the financial statements.

36. CAPITAL COMMITMENTS

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Land and buildings	172,179	–
Plant and machinery	378,508	85,501
Intangible assets	2,476	3,500
Acquisition of dairy related assets	81,583	–
	634,746	89,001

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2021 RMB'000	2020 RMB'000
Purchases of products from the associates	(i)	244,557	325,283
Sales of products to the associates	(i)	357,662	273,087
Management fees received from an associate	(ii)	196	217

Notes:

(i) These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

(ii) The management fees were charged based on the management time incurred by the management of the Ausnutria B.V. Group for the associates.

(b) Outstanding balances with related parties:

Details of the balances with the associates as at the end of the reporting period are disclosed in notes 20, 21 and 23 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	36,746	39,415
Retirement benefit contributions	1,391	1,090
Equity-settled share option expense	4,044	7,510
Total compensation paid to key management personnel	42,181	48,015

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2021

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	459,327	459,327
Financial assets included in prepayments, other receivables and other assets	6,720	6,720
Pledged deposits	255,237	255,237
Cash and cash equivalents	2,262,188	2,262,188
	2,983,472	2,983,472

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	405,978	405,978
Financial liabilities included in other payables and accruals	–	243,837	243,837
Derivative financial instruments	3	–	3
Interest-bearing bank loans and other borrowings	–	1,303,021	1,303,021
	3	1,952,836	1,952,839

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2020

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	456,425	456,425
Financial assets included in prepayments, other receivables and other assets	7,623	7,623
Pledged deposits	212,062	212,062
Cash and cash equivalents	1,857,516	1,857,516
	2,533,626	2,533,626

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	409,247	409,247
Financial liabilities included in other payables and accruals	–	226,491	226,491
Derivative financial instruments	109	–	109
Interest-bearing bank loans and other borrowings	–	1,086,272	1,086,272
	109	1,722,010	1,722,119

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Financial liabilities				
Derivative financial instruments	3	109	3	109
Interest-bearing bank loans and other borrowings	1,303,021	1,086,272	1,410,418	1,198,443
	1,303,024	1,086,381	1,410,421	1,198,552

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and amounts due from/to associates approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2021 was assessed to be insignificant.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

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

Liabilities measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	3	–	3

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	109	–	109

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (2020: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

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

The Group manages its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into an interest rate cap contract with a bank in which the 3-month floating EURIBOR being capped at an interest rate of zero per annum. At 31 December 2021, after taking into account of the effect of the interest rate cap, approximately 42.9% (2020: 96.8%) of the Group's interest-bearing borrowings bore interest at floating rates.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2021		
EUR	100	(5,051)
EUR	(100)	5,051
2020		
EUR	100	(8,492)
EUR	(100)	8,492
TWD	100	(36)
TWD	(100)	36

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in the Netherlands, Hong Kong, Australia and New Zealand in currencies other than the Group's functional currency (i.e., RMB). In addition, the Group's certain bank balances are denominated in HK$, EUR, AUD, NZD and TWD, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$, EUR, AUD, NZD and TWD.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
As at 31 December 2021					
Trade and bills receivables*	–	–	–	459,327	459,327
Financial assets included in prepayments, other receivables and other assets					
– Normal**	6,720	–	–	–	6,720
Pledged deposits					
– Not yet past due	255,237	–	–	–	255,237
Cash and cash equivalents					
– Not yet past due	2,262,188	–	–	–	2,262,188
	2,524,145	–	–	459,327	2,983,472
As at 31 December 2020					
Trade and bills receivables*	–	–	–	456,425	456,425
Financial assets included in prepayments, other receivables and other assets					
– Normal**	7,623	–	–	–	7,623
Pledged deposits					
– Not yet past due	212,062	–	–	–	212,062
Cash and cash equivalents					
– Not yet past due	1,857,516	–	–	–	1,857,516
	2,077,201	–	–	456,425	2,533,626

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Liquidity risk

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

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

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

	2021					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	–	–	52,842	70,891	1,718	125,451
Interest-bearing bank loans and other borrowings (excluding lease liabilities)	–	506,832	184,059	493,449	–	1,184,340
Trade and bills payables	–	385,291	18,607	2,080	–	405,978
Financial liabilities included in other payables and accruals	14,760	27,285	201,792	–	–	243,837
Derivative financial instruments	–	3	–	–	–	3
Total	14,760	919,411	457,300	566,420	1,718	1,959,609

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	–	–	79,551	123,869	1,733	205,153
Interest-bearing bank loans and other borrowings (excluding lease liabilities)	–	314,649	169,406	404,988	–	889,043
Trade and bills payables	–	370,735	36,234	2,278	–	409,247
Financial liabilities included in other payables and accruals	19,618	35,471	171,402	–	–	226,491
Derivative financial instruments	–	109	–	–	–	109
Total	19,618	720,964	456,593	531,135	1,733	1,730,043

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

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

	2021 RMB'000	2020 RMB'000
Interest-bearing bank loans and other borrowings	(1,303,021)	(1,086,272)
Less: Pledged deposits	255,237	212,062
Cash and cash equivalents	2,262,188	1,857,516
Surplus cash	1,214,404	983,306
Total assets	9,514,206	9,247,957
Gearing ratio	N/A	N/A

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	463,979	463,979
Total non-current assets	463,979	463,979
CURRENT ASSETS		
Due from subsidiaries	2,484,441	2,910,852
Prepayments, other receivables and other assets	1,951	3,516
Cash and cash equivalents	5,464	18,304
Total current assets	2,491,856	2,932,672
CURRENT LIABILITIES		
Due to subsidiaries	53,364	48,569
Other payables	10,644	3,351
Total current liabilities	64,008	51,920
NET CURRENT ASSETS	2,427,848	2,880,752
TOTAL ASSETS LESS CURRENT LIABILITIES	2,891,827	3,344,731
Net assets	2,891,827	3,334,731
EQUITY		
Share capital	149,485	149,267
Reserves (note)	2,742,342	3,195,464
Total equity	2,891,827	3,344,731

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Capital reserve* RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2020	2,385,407	171,320	24,072	(197,433)	54,119	2,437,485
Total comprehensive profit/(loss) for the year	–	–	–	115,859	(175,620)	(59,761)
Exercise of share options	17,720	–	(3,701)	–	–	14,019
Equity-settled share option arrangements	–	–	20,170	–	–	20,170
Final 2019 dividend declared	(323,245)	–	–	–	–	(323,245)
Acquisition of non-controlling interests	1,131,289	–	–	–	–	1,131,289
Cancellation of repurchased shares	(24,493)	–	–	–	–	(24,493)
At 31 December 2020 and 1 January 2021	3,186,678	171,320	40,541	(81,574)	(121,501)	3,195,464
Total comprehensive profit/(loss) for the year	–	–	–	(23,008)	(75,007)	(98,015)
Exercise of share options	24,039	–	(3,318)	–	–	20,721
Equity-settled share option arrangements	–	–	10,858	–	–	10,858
Final 2020 dividend declared	(386,686)	–	–	–	–	(386,686)
At 31 December 2021	2,824,031	171,320	48,081	(104,582)	(196,508)	2,742,342

* The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganisation in 2009 over the nominal value of the Company's shares issued in exchange therefor.

42. EVENTS AFTER THE REPORTING PERIOD

On 27 October 2021, the Company was notified by Citagri Easter Limited, BioEngine Capital Inc., Center Laboratories, Inc. and Dutch Dairy Investments HK Limited, all being substantial shareholders of the Company, (collectively, the "**Vendors**") that, Yili Industrial, through its wholly-owned subsidiary, the Subscriber, entered into a sale and purchase agreement with the Vendors to purchase an aggregate of 530,824,763 Shares at a total consideration of HK$5,340,097,116 (i.e. HK$10.06 per Share) (the "**Yili Transfer**"). Furthermore, on the same day, the Subscriber entered into a subscription agreement with the Company to subscribe an aggregate of 90,000,000 new Shares of HK$0.10 each at the subscription price of HK$10.06 per Subscription Share. Pursuant to Rule 26.1 of the Takeover Codes, the Subscriber is required to make an offer for all issued Shares (other than those already owned and/or agreed to be acquired by the Subscriber and/or the parties acting in concert with it) (the "**General Offer**").

The Yili Transfer and the Yili Subscription were completed subsequent to the end of the reporting period on 28 January 2022.

On 17 March 2022, the Subscriber accepted a total of 449,288,386 Shares upon the closing of the General Offer. Accordingly Yili Industrial, through the Subscriber, held an aggregate of 1,070,113,149 Shares, representing approximately 59.17% of the Company's issued Shares, and therefore became the controlling shareholder of the Company.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	8,873,274	7,985,816	6,736,153	5,389,568	3,926,466
Cost of sales	(4,402,544)	(4,003,859)	(3,202,836)	(2,728,933)	(2,236,267)
Gross profit	4,470,730	3,981,957	3,533,317	2,660,635	1,690,199
Other income and gains	78,118	90,105	69,191	114,109	57,463
Selling and distribution expenses	(2,415,489)	(2,066,765)	(1,771,834)	(1,444,237)	(969,127)
Administrative expenses	(706,902)	(692,996)	(558,289)	(461,853)	(298,025)
Other expenses	(135,287)	(88,707)	(138,666)	(59,621)	(28,466)
Finance costs	(18,754)	(28,850)	(33,332)	(29,753)	(22,110)
Share of profits and losses of:					
A joint venture	–	–	–	1,159	940
Associates	(38,765)	26,102	6,797	11,553	7,671
PROFIT BEFORE TAX	1,233,651	1,220,846	1,107,184	791,992	438,545
Income tax expense	(231,426)	(220,812)	(228,288)	(147,440)	(103,765)
PROFIT FOR THE YEAR	1,002,225	1,000,034	878,896	644,552	334,780
Attributable to:					
Owners of the parent	1,040,262	1,004,106	878,390	635,100	308,133
Non-controlling interests	(38,037)	(4,072)	506	9,452	26,647
	1,002,225	1,000,034	878,896	644,552	334,780

	As at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	9,514,206	9,247,957	8,343,194	6,829,006	5,621,130
Total liabilities	(4,020,559)	(4,096,017)	(4,279,286)	(3,434,458)	(3,674,124)
Net assets	5,493,647	5,151,940	4,063,908	3,394,548	1,947,006
Non-controlling interests	44,894	19,432	(48,254)	(140,810)	(206,515)
	5,538,541	5,171,372	4,015,654	3,253,738	1,740,491

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