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AUSNUTRIA DAIRY CORPORATION LTD 澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

	2022 RMB'M	2021 RMB'M (restated)*	Change %
Revenue	7,795.5	8,575.2	(9.1)
Gross profit	3,392.8	4,153.4	(18.3)
Gross profit margin (%)	43.5	48.4	(4.9) pps
EBITDA	484.5	1,158.4	(58.2)
Profit attributable to equity holders of the Company	216.5	763.8	(71.7)
Final dividend per share (HK\$)	0.06	0.28	(78.6)

For the year ended 31 December 2022 (the “Year 2022”), Ausnutria Dairy Corporation Ltd (“Ausnutria” or the “Company”) and its subsidiaries (collectively, the “Group”) recorded the followings:

- Revenue decreased by RMB779.7 million or 9.1%.
- Gross profit decreased by RMB760.6 million or 18.3%.
- EBITDA decreased by RMB673.9 million or 58.2%.
- Profit attributable to equity holders of the Company decreased by RMB547.3 million or 71.7%. Excluding the adverse impact attributable to various non-recurring losses as set out in the Financial Review section, profit attributable to equity holders of the Company would have decreased by RMB312.3 million or 39.8% to RMB472.3 million.

In addition, the board (the “Board”) of directors (the “Directors”) of the Company has recommended the payment of a final dividend of HK\$0.06 (2021: HK\$0.28) per share of the Company (the “Share”) for the Year 2022.

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

The Board hereby announces the audited consolidated financial results of the Group for the Year 2022 together with the comparative figures for the year ended 31 December 2021 (the “**Year 2021**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

(All amount in RMB unless otherwise stated)

	Notes	2022 RMB'000	2021 RMB'000 (restated)
Revenue	4	7,795,512	8,575,157
Cost of sales	5	<u>(4,402,707)</u>	<u>(4,421,787)</u>
Gross profit		3,392,805	4,153,370
Selling and distribution expenses	5	(2,167,165)	(2,412,395)
Administrative expenses	5	(604,217)	(520,095)
Research and development expenses	5	(197,101)	(193,157)
Net impairment losses on financial assets		(16,133)	(50,629)
Other income, other gains/(losses) – net	6	<u>(133,518)</u>	<u>(23,997)</u>
Operating profit		274,671	953,097
Finance costs		(14,943)	(18,754)
Share of profits and losses of investments accounted for using the equity method		11,598	(43,692)
Impairment of investments accounted for using the equity method		<u>(20,049)</u>	<u>–</u>
Profit before income tax		251,277	890,651
Income tax expense	7	<u>(62,934)</u>	<u>(164,937)</u>
Profit for the year		<u>188,343</u>	<u>725,714</u>
Attributable to:			
The equity holders of the Company		216,526	763,794
Non-controlling interests		<u>(28,183)</u>	<u>(38,080)</u>
		<u>188,343</u>	<u>725,714</u>
Earnings per share attributable to the equity holders of the Company	9		
– Basic earnings per share (RMB cents)		<u>12.08</u>	<u>44.47</u>
– Diluted earnings per share (RMB cents)		<u>12.08</u>	<u>44.33</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(All amount in RMB unless otherwise stated)

	2022 RMB'000	2021 RMB'000 (restated)
Profit for the year	188,343	725,714
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>(134,888)</u>	<u>(227,358)</u>
<i>Item that will not be reclassified to profit or loss</i>		
Remeasurement income on the defined benefit plan, net of tax	1,001	1,020
Exchange difference on translation from functional currency to presentation currency	<u>298,331</u>	<u>(75,007)</u>
Total other comprehensive income/(loss) for the year	164,444	(301,345)
Total comprehensive income for the year	352,787	424,369
Attributable to:		
The equity holders of the Company	391,110	460,606
Non-controlling interests	<u>(38,323)</u>	<u>(36,237)</u>
	352,787	424,369

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

(All amount in RMB unless otherwise stated)

		As at 31 December		As at
		2022	2021	1 January
	Notes	RMB'000	RMB'000	RMB'000
			(restated)	(restated)
ASSETS				
Non-current assets				
Property, plant and equipment		2,521,841	1,836,332	1,840,357
Investment property		116,925	115,821	–
Right-of-use assets		271,937	283,812	359,731
Goodwill		102,323	258,688	297,541
Other intangible assets		472,046	420,979	411,642
Investments accounted for using the equity method		364,368	560,993	581,188
Financial asset at fair value through profit of loss		28,009	20,000	–
Prepayments, deposits and other assets		113,337	121,936	136,992
Deferred tax assets		442,857	414,956	327,837
		<u>4,433,643</u>	<u>4,033,517</u>	<u>3,955,288</u>
Current assets				
Inventories		2,226,735	2,179,228	2,400,946
Trade and bills receivables	10	661,903	445,227	456,425
Prepayments, other receivables and other assets		442,685	372,228	435,576
Income tax recoverable		37,213	84,876	–
Financial assets at fair value through profit or loss		6,808	–	–
Pledged deposits		125,248	255,237	212,062
Cash and cash equivalents		1,861,860	2,262,188	1,857,516
		<u>5,362,452</u>	<u>5,598,984</u>	<u>5,362,525</u>
Total assets		<u>9,796,095</u>	<u>9,632,501</u>	<u>9,317,813</u>

		As at 31 December		As at
		2022	2021	1 January
	Notes	RMB'000	RMB'000	RMB'000
			(restated)	(restated)
LIABILITIES				
Current liabilities				
Trade and bills payables	11	559,808	405,978	409,247
Other payables and accruals		822,555	1,028,975	818,486
Contract liabilities		1,036,288	1,593,098	1,778,066
Financial liability at fair value through profit or loss		–	3	109
Interest-bearing bank loans and other borrowings		1,021,632	687,099	479,422
Lease liabilities		70,415	52,843	79,551
Income tax payable		89,916	229,144	183,668
		<u>3,600,614</u>	<u>3,997,140</u>	<u>3,748,549</u>
Total current liabilities				
Non-current liabilities				
Interest-bearing bank loans and other borrowings		443,982	490,471	401,697
Lease liabilities		24,407	72,608	125,602
Defined benefit plan		1,952	3,039	8,932
Deferred revenue		82,064	62,610	65,121
Deferred tax liabilities		74,987	72,779	94,520
Other liabilities		3,033	2,743	7,477
		<u>630,425</u>	<u>704,250</u>	<u>703,349</u>
Total non-current liabilities				
Total liabilities				
		<u>4,231,039</u>	<u>4,701,390</u>	<u>4,451,898</u>
EQUITY				
Equity attributable to the equity holders of the Company				
Share capital	12	156,061	149,485	149,267
Reserves		5,490,510	4,828,601	4,738,118
		<u>5,646,571</u>	<u>4,978,086</u>	<u>4,887,385</u>
Non-controlling interests		(81,515)	(46,975)	(21,470)
Total equity				
		<u>5,565,056</u>	<u>4,931,111</u>	<u>4,865,915</u>
Total equity and liabilities				
		<u><u>9,796,095</u></u>	<u><u>9,632,501</u></u>	<u><u>9,317,813</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(All amount in RMB unless otherwise stated)

	2022 RMB'000	2021 RMB'000
Net cash flows (used in)/generated from operating activities	<u>(357,537)</u>	<u>1,071,319</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(571,513)	(442,315)
Additions to other intangible assets	(133,030)	(114,076)
Purchases of financial assets at fair value through profit and loss	(8,009)	–
Investments in associates	(28,407)	(7,000)
Proceeds from disposal of items of property, plant and equipment	11,475	–
Proceeds from disposal of a subsidiary	5,500	–
Increase in pledged time deposits	–	(43,175)
	<u>(723,984)</u>	<u>(606,566)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		
– upon issue of new shares	739,024	–
– upon exercise of the share options	–	20,939
New bank loans and other borrowings	847,081	1,021,873
Repayments of bank loans	(528,784)	(616,210)
Principal portion of lease payments	(57,507)	(68,244)
Acquisition of non-controlling interests	–	(10,624)
Contributions from non-controlling shareholders	1,800	6,340
Repurchase of shares	(36,397)	–
Dividends paid to the equity holders of Company	(430,176)	(388,161)
Dividends paid to non-controlling shareholders	(922)	–
Decrease in pledged time deposits	129,989	–
	<u>664,108</u>	<u>(34,087)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(417,413)	430,666
Cash and cash equivalents at beginning of year	2,262,188	1,857,516
Effect of foreign exchange rate changes, net	17,085	(25,994)
	<u>1,861,860</u>	<u>2,262,188</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,861,860	2,262,188
Cash and bank balances	1,833,510	2,253,860
Non-pledged time deposits with original maturity of less than three months when acquired	<u>28,350</u>	<u>8,328</u>
Cash and cash equivalents as stated in the consolidated statement of financial position and statement of cash flows	<u>1,861,860</u>	<u>2,262,188</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amount in RMB unless otherwise stated)

1 CORPORATE INFORMATION

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

In the opinion of the directors, upon final closing of the mandatory conditional cash offer on 17 March 2022, the parent and the ultimate holding company of the Company is Hongkong Jingang Trade Holding Co., Limited (the "Subscriber") and Inner Mongolia Yili Industrial Group Co., Ltd. ("Yili Industrial"), respectively.

2 BASIS OF PREPARATION

2.1 Compliance with IFRSs and HKCO

These consolidated financial statements of the Group 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 (Cap. 622).

2.2 Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments) measured at fair value; and
- defined benefit pension plans – plan assets measured at fair value.

2.3 New and amended standards adopted by the Group

The following amended standards and interpretations have been adopted by the Group for the first time to the financial reporting periods commencing on or after 1 January 2022:

		Effective for accounting periods beginning on or after
IAS 16 (Amendments)	Property, plant and equipment: proceeds before intended use	1 January 2022
IAS 37 (Amendments)	Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020		1 January 2022
IFRS 3 (Amendments)	Reference to the conceptual framework	1 January 2022

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.4 New and amended standards not yet adopted by the Group

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions:

		Effective for accounting periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IFRS 16 (Amendments)	Leases liability in a sale and leaseback	1 January 2024
IAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
IAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had two reportable operating segments in the Year 2022 as follows:

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

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

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

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

	Dairy and related products RMB'000	Nutrition products RMB'000	Total RMB'000
Year ended 31 December 2022			
Segment revenue (Note 4)			
Sales to external customers	7,662,551	132,961	7,795,512
Intersegment sales	—	—	—
	<u>7,662,551</u>	<u>132,961</u>	<u>7,795,512</u>
Reconciliation:			
Elimination of intersegment sales	—	—	—
Revenue from operations	<u><u>7,662,551</u></u>	<u><u>132,961</u></u>	<u><u>7,795,512</u></u>
Rental income (Note 6)	3,282	—	3,282
Segment results	404,799	(141,738)	263,061
Reconciliation:			
Interest income (Note 6)			38,193
Finance costs (other than interest on lease liabilities)			(11,661)
Corporate and other unallocated expenses			<u>(41,598)</u>
Profit before tax			<u><u>251,277</u></u>
As at 31 December 2022			
Segment assets	7,821,974	331,254	8,153,228
Reconciliation:			
Elimination of intersegment receivables			(344,241)
Corporate and other unallocated assets			<u>1,987,108</u>
Total assets			<u><u>9,796,095</u></u>
Segment liabilities	2,733,391	376,275	3,109,666
Reconciliation:			
Elimination of intersegment payables			(344,241)
Corporate and other unallocated liabilities			<u>1,465,614</u>
Total liabilities			<u><u>4,231,039</u></u>
Other segment information			
Impairment losses recognised in profit or loss	388,333	60,095	448,428
Share of profits and losses of investments accounted for using the equity method	19,937	(8,339)	11,598
Impairment of investments accounted for using the equity method	(20,049)	—	(20,049)
Investments accounted for using the equity method	176,089	188,279	364,368
Depreciation and amortisation	243,573	12,901	256,474
Capital expenditure*	<u><u>697,519</u></u>	<u><u>7,024</u></u>	<u><u>704,543</u></u>

	Dairy and related products RMB'000 (restated)	Nutrition products RMB'000	Total RMB'000 (restated)
Year ended 31 December 2021			
Segment revenue (Note 4)			
Sales to external customers	8,398,028	177,129	8,575,157
Intersegment sales	—	—	—
	8,398,028	177,129	8,575,157
Reconciliation:			
Elimination of intersegment sales	—	—	—
Revenue from operations	<u>8,398,028</u>	<u>177,129</u>	<u>8,575,157</u>
Rental income (Note 6)	1,314	—	1,314
Segment results	949,268	(39,020)	910,248
Reconciliation:			
Interest income (Note 6)			28,099
Finance costs (other than interest on lease liabilities)			(13,416)
Corporate and other unallocated expenses			<u>(35,594)</u>
Profit before tax			<u>890,651</u>
As at 31 December 2021			
Segment assets	7,014,429	426,068	7,440,497
Reconciliation:			
Elimination of intersegment receivables			(325,421)
Corporate and other unallocated assets			<u>2,517,425</u>
Total assets			<u>9,632,501</u>
Segment liabilities	3,466,708	382,533	3,849,241
Reconciliation:			
Elimination of intersegment payables			(325,421)
Corporate and other unallocated liabilities			<u>1,177,570</u>
Total liabilities			<u>4,701,390</u>
Other segment information			
Impairment losses recognised in profit or loss	334,630	14,554	349,184
Share of profits and losses of investments accounted for using the equity method	(33,997)	(9,695)	(43,692)
Investments accounted for using the equity method	364,374	196,619	560,993
Depreciation and amortisation	263,422	13,629	277,051
Capital expenditure*	<u>553,707</u>	<u>2,684</u>	<u>556,391</u>

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

Non-current assets

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
The PRC	1,197,189	1,141,436
The Netherlands	2,555,553	2,034,078
Australia	110,344	306,704
New Zealand	127,700	136,343
	<u>3,990,786</u>	<u>3,618,561</u>

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

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Revenue from contracts with customers	<u>7,795,512</u>	<u>8,575,157</u>

Disaggregated revenue information

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

Segments

	For the year ended 31 December 2022		
Type of goods or services	Dairy and related products <i>RMB'000</i>	Nutrition products <i>RMB'000</i>	Total <i>RMB'000</i>
Sale of goods	7,652,048	132,961	7,785,009
Rendering services	10,503	–	10,503
	<u>7,662,551</u>	<u>132,961</u>	<u>7,795,512</u>

Geographical information

	For the year ended 31 December 2022		
	Dairy and related products <i>RMB'000</i>	Nutrition products <i>RMB'000</i>	Total <i>RMB'000</i>
Geographical markets			
The PRC	6,436,059	127,497	6,563,556
European Union	739,371	–	739,371
Middle East	167,577	–	167,577
North and South America	153,319	–	153,319
Southeast Asia	118,931	–	118,931
Australia	30,480	5,464	35,944
New Zealand	3,918	–	3,918
Others	12,896	–	12,896
Total revenue from contracts with customers	<u>7,662,551</u>	<u>132,961</u>	<u>7,795,512</u>
Timing of revenue recognition			
At a point in time	7,652,048	132,961	7,785,009
Over time	10,503	–	10,503
Total revenue from contracts with customers	<u>7,662,551</u>	<u>132,961</u>	<u>7,795,512</u>
	For the year ended 31 December 2021		
	Dairy and related products <i>RMB'000</i> (restated)	Nutrition products <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services			
Sale of goods	<u>8,398,028</u>	<u>177,129</u>	<u>8,575,157</u>
Total revenue from contracts with customers	<u>8,398,028</u>	<u>177,129</u>	<u>8,575,157</u>

For the year ended 31 December 2021

	Dairy and related products <i>RMB'000</i> (restated)	Nutrition products <i>RMB'000</i>	Total <i>RMB'000</i> (restated)
Geographical markets			
The PRC	7,334,069	171,064	7,505,133
European Union	658,474	–	658,474
Middle East	112,361	–	112,361
North and South America	161,364	–	161,364
Southeast Asia	57,093	–	57,093
Australia	17,293	6,065	23,358
New Zealand	311	–	311
Others	57,063	–	57,063
	<u>8,398,028</u>	<u>177,129</u>	<u>8,575,157</u>
Total revenue from contracts with customers			
Timing of revenue recognition			
At a point in time	<u>8,398,028</u>	<u>177,129</u>	<u>8,575,157</u>
	<u>8,398,028</u>	<u>177,129</u>	<u>8,575,157</u>
Total revenue from contracts with customers			

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 (2021: Nil).

5 EXPENSE BY NATURE

	Note	2022 RMB'000	2021 RMB'000 (restated)
Raw materials, packaging materials, consumables and purchased commodity used		3,278,221	3,324,066
Changes in inventories of finished goods		(22,630)	(8,586)
Employee benefit expenses, including directors' emoluments	(i)	1,481,025	1,485,494
Promotion and advertising expenses		1,207,261	1,285,012
Write down of inventories to net realisable value		224,302	284,087
Transportation expenses		177,476	165,007
Depreciation of property, plant and equipment		146,239	167,024
Travel and entertainment expenses		132,459	158,258
Laboratory expenses		106,245	112,734
Office expenses		95,659	98,564
Consulting expenses		91,433	79,781
Sampling expenses		91,385	84,907
Repair and maintenance expenses		68,390	50,385
Amortisation of other intangible assets		66,873	57,275
Depreciation of right-of-use assets		39,594	51,440
Impairment of other intangible assets		20,734	–
Short-term rental expenses		17,567	8,852
Auditors' remunerations			
– Audit services		13,820	9,180
Impairment of property, plant and equipment		5,199	–
Depreciation of investment property		3,768	1,312
Others		126,170	132,642
		7,371,190	7,547,434

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

	2022 RMB'000	2021 RMB'000
Wages, salaries and staff expenses	938,327	1,004,157
Temporary staff costs	302,634	261,016
Other employee related expenses	157,898	135,143
Equity-settled share option expense	–	10,858
Cancellation of equity-settled share option arrangements	4,908	–
Pension scheme contributions*	77,258	74,320
Total employee benefit expenses	1,481,025	1,485,494

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

6 OTHER INCOME, OTHER GAINS/(LOSSES) – NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i> (restated)
Other income		
Interest income	38,193	28,099
Government grants*	27,546	40,673
Rental income	3,282	1,314
	<u>69,021</u>	<u>70,086</u>
Other gains/(losses) – net		
Gain on disposal of a subsidiary	1,949	–
Charitable donations	(11,680)	(22,283)
Foreign exchange losses, net	(9,501)	(12,728)
Impairment of goodwill	(162,011)	(14,468)
Provision for a customer claim	–	(34,250)
Others	(21,296)	(10,354)
	<u>(202,539)</u>	<u>(94,083)</u>
Total other income, other gains/(losses) – net	<u>(133,518)</u>	<u>(23,997)</u>

* *The amount mainly represented incentive income received from the government in Mainland China, 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.*

7 INCOME TAX

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

Under the Mainland China income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25%. Ausnutria Dairy (China) Co. Ltd. ("**Ausnutria China**") and Hyproca Nutrition Co. Ltd. ("**HNC**") were designated as High-tech Enterprises and were granted a preferential CIT rate of 15% up to the year ended 31 December 2022.

Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT rate of 15% (2021: 15%) for the first EUR395,000 (2021: EUR245,000) taxable profits and 25.8% (2021:25%) for taxable profits exceeding EUR395,000 (2021: EUR245,000). Ausnutria B.V. and its subsidiaries (the "**Ausnutria B.V. Group**") has been granted a preferential tax benefit in April 2021 for the assessable profits generated in the Netherlands which covers the period from 2018 to 2024 for the recognition of Ausnutria B.V. Group's contribution on research and development in the past years. The preferential tax rates are 7% and 9% for the periods from 2018 to 2020 and from 2021 to 2024, respectively, on earnings that were or are to be generated by qualifying intellectual property.

Under Hong Kong tax laws, profits tax has been provided at the rate of 16.5% on the assessable profits arising in Hong Kong during the 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 (2021: 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%.

	2022 RMB'000	2021 RMB'000 (restated)
Current tax		
Mainland China current CIT	48,669	275,537
Overseas current CIT	36,940	(1,252)
	85,609	274,285
Deferred tax		
Mainland China deferred income tax	(48,583)	(97,444)
Overseas deferred income tax	25,908	(11,904)
	(22,675)	(109,348)
Total tax charge for the year	62,934	164,937

8. DIVIDEND

	2022 RMB'000	2021 RMB'000
Proposed final dividend – HK\$0.06 (2021: HK\$0.28) per ordinary share	96,479	393,423

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

The dividends paid by the Company in 2022 and 2021 for the years ended 31 December 2021 and 2020 amounted to approximately RMB430,176,000 and RMB388,161,000 respectively.

A dividend in respect of the year ended 31 December 2022 of HK\$0.06 per share, amounting to a total dividend of RMB96,479,000 was proposed by the Directors on the Board meeting held on 30 March 2023 and is to be proposed for approval at the annual general meeting to be held on 30 May 2023. These consolidated financial statements do not reflect this dividend payable.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of shares of 1,792,267,948 (2021: 1,717,549,709) 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 Company, 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 shares into ordinary shares.

Earnings

	2022 RMB'000	2021 RMB'000 (restated)
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	216,526	763,794

Shares

	Number of shares	
	2022	2021
Weighted average number of shares in issue during the year used in the basic earnings per share calculations	1,792,267,948	1,717,549,709
Effect of dilution – weighted average number of ordinary shares: share options	–	5,441,539
	1,792,267,948	1,722,991,248

10 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2022 RMB'000	2021 RMB'000 (restated)
Trade receivables from third parties	470,931	385,074
Trade receivables from related parties	172,083	89,647
	643,014	474,721
Bills receivables	40,839	27,817
<i>Less:</i> Provision for impairment of trade receivables	(21,950)	(57,311)
	661,903	445,227

The Group normally allows a credit period from 1 to 6 months (2021: from 1 to 6 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	As at 31 December	
	2022 RMB'000	2021 RMB'000 (restated)
Within 3 months	529,118	342,530
3 to 6 months	52,222	34,853
6 months to 1 year	20,798	14,040
Over 1 year	40,876	83,298
	<u>643,014</u>	<u>474,721</u>

11 TRADE AND BILLS PAYABLES

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

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Within 12 months	556,458	403,898
Over 12 months	3,350	2,080
	<u>559,808</u>	<u>405,978</u>

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

12 SHARE CAPITAL

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Issued and fully paid: 1,800,111,838 (2021: 1,718,545,841) ordinary shares of HK\$0.10 each	<u>180,011</u>	<u>171,855</u>

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

	Notes	Number of shares in issue '000	Share capital RMB'000
As at 1 January 2022		1,718,546	149,485
Issue of shares	(a)	90,000	7,346
Repurchase of shares	(b)	(8,434)	(770)
As at 31 December 2022		<u>1,800,112</u>	<u>156,061</u>

Notes:

- (a) On 27 October 2021, the Subscriber, a wholly-owned subsidiary of 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 the Subscription Shares to the Subscriber was completed on 28 January 2022.
- (b) During the Year 2022, the Company repurchased 8,434,000 shares at a total consideration of HK\$39,863,420 (equivalent to approximately RMB36,397,000).

13 RESTATEMENTS

In preparation for the consolidated financial statements of the Group for the year ended 31 December 2022, the management noted certain misstatements in prior years. The management has corrected these misstatements to the consolidated financial statements as at 31 December 2021 and for the year then ended.

The effects of the restatements on the Group’s consolidated statement of profit or loss for the Year 2021 are summarised as follows:

	Adjustments								Total
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Revenue	(298,117)	-	-	-	-	-	-	-	(298,117)
Cost of sales	-	-	-	(9,747)	-	(9,496)	-	-	(19,243)
Selling and distribution expenses	3,094	-	-	-	-	-	-	-	3,094
Administrative expenses	-	-	-	-	-	-	(6,350)	-	(6,350)
Net impairment losses on financial assets	-	(14,100)	-	-	-	-	-	-	(14,100)
Other income, other gains/(losses) – net	-	-	-	-	(3,357)	-	-	-	(3,357)
Share of profits and losses of investments accounted for using the equity method	-	-	(4,927)	-	-	-	-	-	(4,927)
Income tax expense	76,168	-	-	1,462	866	2,450	1,638	(16,095)	66,489
Profit for the year	(218,855)	(14,100)	(4,927)	(8,285)	(2,491)	(7,046)	(4,712)	(16,095)	(276,511)
Attributable to:									
The equity holders of the Company	(218,780)	(14,100)	(4,927)	(8,285)	(2,491)	(7,046)	(4,712)	(16,127)	(276,468)
Non-controlling interests	(75)	-	-	-	-	-	-	32	(43)
	(218,855)	(14,100)	(4,927)	(8,285)	(2,491)	(7,046)	(4,712)	(16,095)	(276,511)
Earnings per share attributable to the equity holders of the Company									
Basic earnings per share (RMB cents)	(12.74)	(0.82)	(0.29)	(0.48)	(0.15)	(0.41)	(0.27)	(0.94)	(16.10)
Diluted earnings per share (RMB cents)	(12.70)	(0.82)	(0.29)	(0.48)	(0.14)	(0.41)	(0.27)	(0.94)	(16.05)

The profit for the year ended 31 December 2021 was decreased by RMB276,511,000 due to the total effect of the above restatements.

The effects of the restatements on the Group's consolidated statement of comprehensive income for the year ended 31 December 2021 are summarised as follows:

	Adjustments								Total
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Profit for the year	(218,855)	(14,100)	(4,927)	(8,285)	(2,491)	(7,046)	(4,712)	(16,095)	(276,511)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	<u>(218,855)</u>	<u>(14,100)</u>	<u>(4,927)</u>	<u>(8,285)</u>	<u>(2,491)</u>	<u>(7,046)</u>	<u>(4,712)</u>	<u>(16,095)</u>	<u>(276,511)</u>
Total comprehensive income attributable to:									
The equity holders of the Company	(218,780)	(14,100)	(4,927)	(8,285)	(2,491)	(7,046)	(4,712)	(16,127)	(276,468)
Non-controlling interests	(75)	-	-	-	-	-	-	32	(43)
	<u>(218,855)</u>	<u>(14,100)</u>	<u>(4,927)</u>	<u>(8,285)</u>	<u>(2,491)</u>	<u>(7,046)</u>	<u>(4,712)</u>	<u>(16,095)</u>	<u>(276,511)</u>

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

	Adjustments								Total
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Increase/(Decrease)									
ASSETS									
Non-current assets									
Investments accounted for using the equity method	-	-	(4,927)	-	-	-	-	-	(4,927)
Prepayments, deposits and other assets	-	-	-	-	(3,357)	-	-	-	(3,357)
Deferred tax assets	146,024	-	-	1,462	866	2,450	1,638	7,482	159,922
Current assets									
Inventories	-	-	-	(9,747)	-	(9,496)	-	-	(19,243)
Trade and bills receivables	-	(14,100)	-	-	-	-	-	-	(14,100)
LIABILITIES									
Current liabilities									
Other payables and accruals	(69,272)	-	-	-	-	-	6,350	-	(62,922)
Contract liabilities	693,174	-	-	-	-	-	-	-	693,174
Income tax payable	-	-	-	-	-	-	-	50,579	50,579
EQUITY									
Reserves	(474,937)	(14,100)	(4,927)	(8,285)	(2,491)	(7,046)	(4,712)	(43,957)	(560,455)
Non-controlling interests	(2,941)	-	-	-	-	-	-	860	(2,081)

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

	Adjustments								Total
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	
Increase/(Decrease)									
ASSETS									
Non-current assets									
Deferred tax assets	69,856	-	-	-	-	-	-	-	69,856
LIABILITIES									
Current liabilities									
Other payables and accruals	(66,178)	-	-	-	-	-	-	-	(66,178)
Contract liabilities	395,057	-	-	-	-	-	-	-	395,057
Income tax payable	-	-	-	-	-	-	-	27,002	27,002
EQUITY									
Reserves	(256,157)	-	-	-	-	-	-	(27,830)	(283,987)
Non-controlling interests	(2,866)	-	-	-	-	-	-	828	(2,038)

Notes:

- (i) This adjustment corrected the error in the accuracy of the recognition for sales incentive program. The error resulted in an overstatement of revenue, selling and distribution expenses and income tax expense in 2021, understatement of contract liabilities and deferred tax assets, and overstatement of other payables and accruals as at 1 January 2021 and 31 December 2021.
- (ii) This adjustment corrected the error in the accuracy of trade and bills receivables provision for certain customer. The error resulted in an understatement of net impairment losses on financial assets in 2021, and overstatement of trade and bills receivables as at 31 December 2021.
- (iii) This adjustment corrected the error in the accuracy of share of profits and losses of investments accounted for using the equity method. The error resulted in an overstatement of share of profits and losses of investments accounted for using the equity method in 2021, and overstatement of investments accounted for using the equity method as at 31 December 2021.
- (iv) This adjustment corrected the error in the accuracy of inventory provision. The error resulted in an understatement of cost of sales and overstatement of income tax expense in 2021 and understatement of inventory provision and deferred tax assets as at 31 December 2021.
- (v) This adjustment corrected the error in the accuracy of prepayments, deposits and other assets. The error resulted in an overstatement of other income (other income is presented in the “Other income, other gains/(losses) – net”) and overstatement of income tax expense in 2021, and overstatement of prepayments, deposits and other assets and understatement of deferred tax assets as at 31 December 2021.
- (vi) This adjustment corrected the error in the accuracy of inter-company transactions elimination. The error resulted in an understatement of cost of sales and overstatement of income tax expense in 2021, and overstatement of inventories and understatement of deferred tax assets as at 31 December 2021.
- (vii) This adjustment corrected the error in the accuracy of provision for employees with long term sick leave in Netherlands. The error resulted in an understatement of administrative expenses and overstatement of income tax expense in 2021, and understatement of other payables and accruals and understatement of deferred tax assets as at 31 December 2021.
- (viii) This adjustment corrected the error in the accuracy of income tax payable. The error resulted in an understatement of income tax expense in 2021, and understatement of income tax payable and deferred tax assets as at 31 December 2021, and understatement of income tax payable as at 1 January 2021.

14 COMPARATIVE INFORMATION

Certain comparative amounts in the consolidated financial statements have been reclassified to conform with the current year’s presentation.

15 EVENTS AFTER THE REPORTING PERIOD

On 21 October 2022, Ausnutria B.V., a wholly-owned subsidiary of the Company, and Dairy Goat Holland B.V., an independent third party, entered into the sale and purchase agreement for the acquisition of 50.0% of the issued shares of Amalthea Group B.V., a company incorporated in the Netherlands, and its subsidiaries (the “**Amalthea Group**”) at a cash consideration of approximately EUR18.4 million (equivalent to approximately RMB130.7 million) (the “**Acquisition**”). The Amalthea Group is principally engaged in the exploitation of cheese factory and the trading of goat cheese and related products. Further details regarding the Acquisition were set out in the announcement of the Company dated 21 October 2022.

Subsequent to the end of the reporting period, on 9 February 2023, the Acquisition was completed and the Amalthea Group became a joint venture of the Company thereafter.

CHAIRMAN’S STATEMENT

After three years of the global pandemic, society is gradually getting back to normal. However, I am feeling anxious while presenting this annual result. To Ausnutria, 2022 was a difficult year. We faced challenges in our supply chain due to the eruption of the Russo-Ukrainian conflict at the beginning of 2022. The contraction of the infant formula market in the PRC due to the declining birth rate and the adverse impact of the global pandemic exposed us to intensive competition in a stagnant market. The complicated international environment, the global supply chain challenges, the market recession and the high inflation across the world have altogether unveiled certain inadequacies of the Company. Nevertheless, we faced these challenges with concerted efforts and determination and we forged ahead. In 2022, Ausnutria completed various strategic mergers and acquisitions, scientific research and upgrades, new product rollouts, brand-building, sustainable development practices and so on. With steady perseverance and great courage, we surmounted the year of obstacles. I truly appreciate the support from all our partners.

I. Financial Performance

After years of sound financial growth, our revenue recorded a decrease from RMB8,575.2 million (restated) to RMB7,795.5 million, representing a year-on-year (“YoY”) decrease of 9.1%. Mainland China remained the largest market for our own-branded formula milk powder products and accounted for 80.2% of our total revenue. Our gross profit decreased from RMB4,153.4 million (restated) to RMB3,392.8 million, representing a YoY decrease of 18.3%. Our net profit attributable to equity holders of the Company decreased from RMB763.8 million (restated) to RMB216.5 million, representing a YoY decrease of 71.7%. Despite the unsatisfactory performance of the overall infant formula industry, sales of our own-branded goat milk powder recorded a YoY growth of 6.6% in the Year 2022, with the PRC and overseas markets grew by 5.5% and 21.8% respectively. According to industry statistics, based on actual retail sales data in the Year 2022, the market share of Kabrita in the infant and young children’s goat milk powder market in the PRC further increased by more than five percentage points. Furthermore, according to NielsenIQ, Kabrita’s market share in the imported infant goat milk powder in the PRC exceeded 60.0% for five consecutive years (2018 to 2022). It is envisaged that Kabrita’s market position as the “leading goat” will continue.

II. Shareholding Structure Stabilised with Smooth Change of Controlling Shareholder

Following the successful general offer made by Yili Industrial to invest in the Company, both parties entered into a new era of synergies in strategic cooperation. Both parties pool their respective strengths and strive to build a better future by focusing on serving the PRC market and speeding up globalisation based on the core business principles of excellence, innovation, win-win and respect.

III. Supported the Development of Core and New Businesses by Insisting on Research and Development

Received various first prizes in respect of research and development (“R&D”): Ausnutria received the first China Patent Awards (中國專利獎) in the goat milk industry, obtained the first permit to produce food for special medical purposes (“FSMP”) in Hunan Province, the PRC, and became the first producer to use chromium-free passivation cans. The result of our “Southern China Milk-derived Probiotic Strains Selection and Resources Base Building (南方乳源益生菌菌種篩選及資源庫建設)” project was recognised as a substantial breakthrough in bridging the research gap. Our “Technological Research and Functional Assessment of Anti-Hypertensive Peptides Produced by Proteolysis of Goat Milk Cheese (山羊乳酪蛋白酶解法生產降血壓肽的工藝研究及功效評價)” project was accredited as a “world-leading” project (which is the highest acclaim of its kind). We also received a national invention patent for postbiotics.

Guided industry development as a leader: Ausnutria took concrete actions to lead the industry towards high quality by undertaking one of the major projects in the nation’s 14th Five-Year Plan and participated in the drafting of two group standards to support the green development of the dairy industry, and two other group standards in relation to the analysis of animal-based ingredients in milk and dairy products to provide the basis for verifying the authenticity of the milk sources of dairy products.

FSMP R&D: We have been moving full steam ahead with our FSMP business and rolled out two more comprehensive nutritional formula products, Kangsude Shushan Comprehensive Nutritional Formula Food for Special Medical Purpose (康素得舒膳特殊醫學用途全營養配方食品) and Kangsude Zhenshan Comprehensive Nutritional Formula Food for Medical Purpose (康素得臻膳醫學用途全營養配方食品). So far, we have already obtained registration certificates for three FSMP products. This not only further broadened Ausnutria’s FSMP product portfolio but also started a new chapter in the development of Ausnutria’s FSMP business.

Continued to strengthen in-house scientific research and innovation ability: Ausnutria was supported by two academicians. Professor Shan Yang (單楊), an academician of the Chinese Academy of Engineering, established his first innovation team workstation in Ausnutria, while Professor Chen Wei’s (陳衛) workstation in Ausnutria was put on the list of Hunan’s provincial academician workstations. We also continued to maintain strategic partnerships with world-renowned universities. Furthermore, Ausnutria Nutrition Institute (ANI) attended the 54th annual meeting of the European Society for Paediatric Gastroenterology, Hepatology and Nutrition (ESPGHAN) and reported the latest clinical data about Kabrita and goat milk formula powder. We also shared four latest research findings based on our research papers at the 2nd China Breast Milk Science Conference and received positive feedback from peers in the industry.

Diversified new products with replacement and upgrades: For our own-branded formula milk powder products, Kabrita splendidly launched the toddler growing-up nutrition goat milk formula Xiangyang (向揚), organic goat milk powder Yuebai (悅白), middle-aged and elderly people goat milk powder Yingjia Baohu (營嘉葆護) and goat milk formula Yingjia Yingxin (營嘉滢心); Hyproca 1897 launched its first infant formulas for special medical purposes Zhishu (稚舒) and A2 protein* milk source product Xizhi (喜致), and upgraded Cuihu (萃護) to more easily absorbed A2 protein* milk source; Allnutria launched three new infant milk powder products Ausnutria Aiyou (澳優愛優), Allnutria Ruiyu (能立多睿優) and Ruihuo (睿活), to capture the domestic milk powder segment. For our nutrition products, NC Gut Relief was upgraded and rolled out as Gut Relief Plus, which combines the benefits of gut fortification and protection; Aunulife also launched two new nutrition products, Aunulife Zhihu (智護) DHA Algal Oil Gelatin Gummy and Aunulife Yuanli (元力) Lactoferrin Goat Milk Formula, and upgraded two probiotics products, Aunulife Yuanqi (元氣) and Aunulife Yichang (益暢).

IV. Increased Capacity by Mergers and Acquisitions of Milk Sources

We acquired a number of goat milk assets in the Netherlands, including Milk Connect B.V. (a company with the right to collect goat milk in the Netherlands) and the Amalthea Group (a renowned goat cheese enterprise in the Netherlands) to perfect the goat milk industry chain and increase Ausnutria's fresh goat milk supply by approximately 45,000 tonnes per year, which help consolidate our all-round comprehensive leadership position in the goat milk sector.

In addition, our goat whey concentrate production facility in the Netherlands has been completed during the Year 2022 while the new infant formula base powder facility, with an investment amounted to EUR140.0 million, is expected to be finished this year. The third phase of Ausnutria's nutrition and health science park located in Changsha, the PRC is currently under construction and is expected to be completed in September this year.

V. Boosted Market Growth Through Brand-Building

Collaborated with influential celebrities: Kabrita proudly engaged both Ms. Tang Yan (唐嫣) and Mr. Huang Lei (黃磊) as dual ambassadors to start a new era of goat milk feeding; Hyproca 1897 launched a new brand-building campaign and appointed Mr. Lang Lang (郎朗) and Ms. Gina Alice (吉娜) as dual spokespersons; OzFarm also revitalised its brand by cooperating with Ms. Wu Minxia (吳敏霞), the gold-medalist mom.

Organised a number of powerful events: We placed heart-warming advertisements in the subway of Changsha to celebrate Mother's Day. We also put together a series of activities to memorialise the 20th anniversary of the establishment of China's Arctic research station to salute the Northern expedition. Allnutria promoted the Love Babies' Day (328世界愛寶日) to support parenting education for new-generation parents.

Participated in various high-profile exhibitions: We participated in the China International Import Expo for the fifth consecutive year. In the China International Consumer Products Expo, it was our first time to promote globalised development by showcasing our achievements and speaking to the world on behalf of the PRC's dairy industry.

VI. Standardised Business Systems and Digitalised Business Operation

Digitalisation is the top priority for Ausnutria in respect of operational efficiency, and the Group constantly speeds up the digitalisation of its industrial production. By using big data, mobile devices and artificial intelligence technologies, we continued in digital and smart development and developed an electronic global product quality tracing system that covers quality control throughout the whole production process spanning from the procurement of raw materials to the delivery of products to consumers. We also introduced world class manufacturing to our factories across the globe to enhance the efficiency of both domestic and international supply chains and strengthen the synergies between them.

To accelerate the digitalisation of the dairy industry, a number of “Outstanding Cases of Digitalisation in the Dairy Industry of China (中國奶業數字化轉型卓越案例)” were selected at the 13th Dairy Conference of China with the aims of deepening the knowledge and consensus in terms of digitalisation and promoting digitalisation experience and cases. With its outstanding contribution to the digitalisation of the dairy industry, Ausnutria was selected as one of the outstanding cases. Being committed to and by implementing the “Empowering the Dairy Industry of China – Digital Transformation and Innovation 2025 (《賦能中國奶業—數字化轉型與創新2025》)” project, we actively supported and led the dairy industry in exploring new ways to digitalise the industry.

VII. Practised Better Life and Guided Sustainable Development

We utilised Ausnutria Foundation as the platform to assist in combating against the pandemic as well as assisting disaster relief. Ausnutria continued to pursue acts of charity, including donations in kind to meet the needs of underprivileged people in Hunan, the PRC in winter at the beginning of the Year 2022; donations of materials to support pandemic prevention and control efforts in various cities in the PRC including Shanghai and Guangzhou; and delivery of pandemic supplies to Tibet under “Hyproca Tundra Rose Project (海普諾凱格桑花公益行)”. We also organised a talent training program to nurture entrepreneurial talents to foster rural economic development under the “Meishan Shangjun (梅山商俊)” project and promoted the improvement of rural education environment through the Ausnutria’s “Charity Walk (樂享六一公益行)”. Altogether, we have donated millions in cash and in kind under Ausnutria Foundation. We also supported health-related community programmes by making cash donations to the Roparun Foundation and The Foundation Kika in the Netherlands to support and raise money for cancer patients, organize charity sales to support childhood cancer research and support children from impoverished families. Ausnutria always gives back to the communities.

With respect to social development, we published our sustainability report for the seventh consecutive year to demonstrate Ausnutria’s long-term commitment to nourishing life and growth. Furthermore, our sustainability report 2021 was awarded an “A” grade by MSCI, a leading global provider of indexes, attributable to Ausnutria’s outstanding performance in terms of sustainable development.

VIII. Earning Recognitions by Forging Ahead with Established Path

Ausnutria received the quality gold award (質量金獎), and for the fifth consecutive year, the technological advancement award (技術進步獎) by the China Dairy Industry Association, the award for the best infant nutrition dairy products in the World Dairy Innovation Awards 2022, the award of excellence (優秀獎) in the China Patent Awards and the “ESG Outstanding Social Responsibility Practice Corporation Case for 2022 (2022企業ESG傑出社會責任實踐案例)”. I was also awarded the honorary title of the first-ever “Advanced Individual of New Hunan Contribution Award”. These and other important recognitions demonstrated the outstanding strength of Ausnutria.

IX. Outlook

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

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

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

INDUSTRY OVERVIEW

Affected by the declining birth rates, the multi-billion dollar infant formula market in the PRC experienced slower growth and even contraction in recent years. According to relevant industry data, the overall scale of the PRC infant formula industry for the Year 2022 decreased by mid-single digit percentage points YoY. To compete in this stagnant market condition, industry players proactively controlled their inventory level and product delivery in the Year 2022 with the aim of restoring the market order. As a result of all these measures undertaken by the industry players, the market condition in the PRC returned to a much healthier level in the second half of the Year 2022.

Nevertheless, based on product categories, attributable to the unique advantages of being easily absorbable and having higher nutritional value, goat milk powder outperformed the industry. In this segment, the Group's Kabrita formula milk powder products maintained their leadership position. A market research conducted by NielsenIQ showed that Kabrita has accounted for over 60.0% of the sales of imported infant and young children's goat milk powder in the PRC for five consecutive years from 2018 to 2022. According to the relevant industry data, based on retail sales in 2022, the market share of Kabrita in the PRC infant and young children's goat milk powder market increased further by over five percentage points, demonstrating its extending lead. In terms of price ranges, ultra-premium+ products (with an average price per kilogram of over RMB420.0), which are the main products of the Group, continued to be the dominant category in the infant formula market and recorded double digit YoY growth. Driven by rising consumer demand and expectations, the migration to premium products is expected to continue in the next few years. In respect of sales channels, due to the impact of the pandemic on daily travel, the market share of baby stores, which account for the lion's share, dipped while only that of online channels rose in 2022.

However, it is expected that as a result of the success of the three years long pandemic control measures, the resumption of everyday travel will revive demand from offline mother and baby stores' sales, facilitate the Group's diversified offline marketing event, and hence help the Group to obtain new customers and boost retail sales.

Marking the beginning of a new era after the 20th National Congress of the Chinese Communist Party, 2023 will witness gradual recovery of the consumption market. Thanks to the central government's policies to raise birth rate and end pandemic control measures, the short-term drop in birth rate in the PRC is expected to be reversed in the next few years, thereby revitalising the infant formula market. In addition, 2023 is also the pivotal year in the implementation of the new GB standard. The infant formula industry may experience a new round of elimination and further market consolidation. The replacement of old products by new products under the new GB standard registration will also improve market order, reduce irregular pricing and thus promote healthy sustainable channel and corporate growth of the industry.

CHANGE OF SINGLE LARGEST SHAREHOLDER

On 28 January 2022, Yili Industrial, through its wholly and beneficially owned company, Hongkong Jingang Trade Holding Co., Limited (i.e. the Subscriber), (i) purchased an aggregate of 530,824,763 Shares at a total consideration of HK\$5,340,097,116 (i.e. HK\$10.06 per Share) from Citagri Easter Limited, BioEngine Capital Inc., Center Laboratories, Inc. and Dutch Dairy Investments HK Limited (all being the then substantial shareholders of the Company); and (ii) subscribed for an aggregate of 90,000,000 new Shares at the subscription price of HK\$10.06 per subscription share and a net price of HK\$10.05 per subscription share after deducting related expenses.

The aforementioned subscription of new Shares were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 31 December 2021. Further details regarding the above transactions are set out in the Company's announcement dated 27 October 2021 and Company's circular dated 15 December 2021.

Upon completion of the above transactions, on 28 January 2022, the Subscriber 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 Codes on Takeovers and Mergers of Hong Kong, 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 the parties acting in concert with it) (the "Offer"). On 17 March 2022, being the final closing date of the Offer, the Subscriber received valid acceptances of an aggregate of 449,288,386 Shares. Accordingly, the Subscriber is interested in 1,070,113,149 Shares, representing approximately 59.17% of the then issued Shares. For details, please refer to the Company's announcements dated 28 January 2022, 10 February 2022 and 3 March 2022 respectively and the Company's composite document dated 10 February 2022.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

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

Revenue

	Notes	2022		2021	Change	Proportion to total	
		RMB'M	RMB'M			2022	2021
			(Restated)		%	%	(Restated)
Own-branded formula milk powder products:							
Cow milk (in the PRC)	(i)	2,923.5	4,095.0	(28.6)	37.5	47.8	
Goat milk (in the PRC)	(i)	3,325.3	3,151.0	5.5	42.7	36.7	
Goat milk (elsewhere)	(i)	265.7	218.2	21.8	3.4	2.5	
Goat milk total		3,591.0	3,369.2	6.6	46.1	39.2	
		6,514.5	7,464.2	(12.7)	83.6	87.0	
Private Label and others:							
Private Label	(ii)	207.7	211.6	(1.8)	2.7	2.5	
Others	(iii)	940.3	722.3	30.2	12.0	8.4	
Private Label and others total		1,148.0	933.9	22.9	14.7	10.9	
Dairy and related products		7,662.5	8,398.1	(8.8)	98.3	97.9	
Nutrition products	(iv)	133.0	177.1	(24.9)	1.7	2.1	
Total		7,795.5	8,575.2	(9.1)	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.

The Group recorded revenue of RMB7,795.5 million for the Year 2022, representing a decrease of RMB779.7 million, or 9.1%, from RMB8,575.2 million (restated) for the Year 2021. The decrease in revenue was mainly attributable to the decrease in revenue from own-branded cow milk formulas as a result of the endured fierce competition in the industry due to the declining birth rate in the PRC and the adverse impact of the worldwide pandemic.

Own-branded cow milk formulas

Since the end of the Year 2021, the Group proactively made a series of adjustments to the sales strategies of Hyproca 1897 (the Group's Cow Milk Formulas core brand), with the aims of providing consumers with fresher and better quality products, reduce inventory pressure in the distribution channels and ensure long-term healthy development and competitiveness of its core products. As part of its adjustments, the Group further streamlined its distribution channels and implemented more stringent control over their overall inventory levels. These measures continued in the Year 2022. As a result of the above measures undertaken by the Company, the performance and hence sales revenue derived from the Group's own-branded cow milk formulas decreased by RMB1,171.5 million, or 28.6%, YoY.

Despite the decrease in the revenue figures as reported in the Group's financial statements, according to NielsenIQ, the market share of Hyproca 1897 for the Year 2022 increased by 0.2 percentage points YoY. The Group considers that such increase was attributable to its outstanding product quality and successful brand building efforts over the years and therefore Hyproca 1897 maintained a healthy growth in actual retail end and a continuous increase in market share.

Despite the challenges, the Group's own-branded cow milk formulas business units made substantial efforts in various aspects during the period under review including (1) the brand concept of Hyproca 1897 was upgraded to "Comprehensive Nutrition, Decades of Research" (全面營養，百年精研) to precisely identify the uniqueness of the brand; (2) enriched the Group's product portfolio, enhanced its productivity and assisted its marketing team by launching new products and upgrading existing products: Hyproca 1897 newly launched its first lactose-free infant formula for special medical purposes "Zhishu (稚舒)", first human milk oligosaccharides (HMO) blended formula "Future (未來版)", first A2 protein* milk source product "Xizhi (喜致)", and upgraded "Cuihu (萃護)" to more easily absorbed A2 protein* milk source; Allnutria launched three new infant milk powder products "Ausnutria Aiyou (澳優愛優)", "Allnutria Ruiyu (能立多睿優)" and "Ruihuo (睿活)", to capture the domestic milk powder segment; and (3) channel reinvention and revitalisation by increasing the proportion of baby chain stores (母嬰連鎖店), enhancing channels distribution, optimising the channel value chain and controlling product logistics to better protect the interests of the channel.

Own-branded goat milk formulas

For the Year 2022, sales of own-branded goat milk formulas amounted to RMB3,591.0 million, representing a YoY increase of RMB221.8 million, or 6.6%. The Group's own-branded goat milk formulas are all produced in the Netherlands and marketed globally.

Sales of the Group’s own-branded goat milk formulas in the PRC for the Year 2022 amounted to RMB3,325.3 million, representing a YoY growth of 5.5%, among which, sales in the PRC returned to a double-digit growth YoY in the second half of the Year 2022. The Group attributed such growth to Kabrita’s insistence on (1) intensive research of goat milk: joined hands with authoritative institutions to organise discussion forum with experts in the field of medical nutrition on the nutrition and feeding effects of infants and young children, launched nationwide academic cooperation meetings at all levels and brand academic activities, thereby enhancing the brand’s professional reputation and strengthening the influence of the brand in the professional channel industry; (2) increasing investment in brand building and marketing by adopting the dual celebrity endorsements model by engaging Ms. Tang Yan (唐嫣) and Mr. Huang Lei (黃磊), releasing monthly trending dramas, and focusing on combinations of media attentions such as escalator advertising, commercial district screens, and new media platforms in key cities to achieve multiple interactions with target consumers; (3) focusing on the promotion of key baby chain stores, upgrading and reforming the channel value chain, controlling the flow of products, etc. to better protect the interests of the channels and achieve a “win-win” situation for the channels with perseverance; (4) focusing on consumer setting activities with the policy of “Innovation, Diversity, Quality and Efficiency (創新多様、提質驅效)”; and (5) diversification of new products with replacement and upgrades: launched the toddler growing-up nutrition goat milk formula “Xiangyang (向揚)”, organic goat milk powder “Yuebai (悅白)”, middle-aged and elderly people goat milk powder “Yingjia Baohu (營嘉葆護)”, goat milk formula “Yingjia Yingxin (營嘉滢心)” and organic goat milk powder “Yingjia (營嘉)” (the first organic goat milk powder for adults).

According to NielsenIQ, in terms of imported infant and young children’s goat milk powder, Kabrita’s market share in the imported infant and young children’s goat milk powder market in the PRC exceeded 60.0% for five consecutive years (2018 to 2022).

Kabrita is also available in markets including Europe, the USA, the Middle East countries, the CIS, Mexico, etc. Contributed by the resumption from COVID-19 pandemic, revenue derived from these markets recorded an increase of 21.8% to RMB265.7 million for the Year 2022.

Moving forward, in light of the increasing brand concentration, Kabrita will continue to adhere to its existing dual development strategy to meet the needs of consumers and channels by providing professional products and services, and will continue to expand its leading position as the world’s number one goat milk brand.

Nutrition business

During the Year 2022, revenue derived from the nutrition products amounted to RMB133.0 million, representing a YoY decrease of RMB44.1 million, or 24.9%. The decrease was mainly attributable to the slowdown in sales of gut relief products, which decreased by RMB48.9 million or 64.2% when compared with the Year 2021. The decrease was partially compensated by the increase in probiotic related products. Revenue contributed by the probiotic related products for the Year 2022 amounted to a total of RMB98.5 million, representing a YoY increase of 16.9%.

Gross profit and gross profit margin

	Gross profit		Gross profit margin	
	2022	2021	2022	2021
	<i>RMB'M</i>	<i>RMB'M</i>	%	%
		(Restated)		(Restated)
Own-branded formula milk powder products:				
Cow milk	1,513.3	2,322.1	51.8	56.7
Goat milk	1,967.6	1,976.3	54.8	58.7
	3,480.9	4,298.4	53.4	57.6
Private Label and others	53.6	25.8	4.7	2.8
	3,534.5	4,324.2	46.1	51.5
Dairy and related products	82.6	113.3	62.1	64.0
Nutrition products	3,617.1	4,437.5	46.4	51.7
Less: write-down of inventories to net realisable value	(224.3)	(284.1)		
Total	3,392.8	4,153.4	43.5	48.4

The Group's gross profit for the Year 2022 was RMB3,392.8 million, representing a YoY decrease of RMB760.6 million, or 18.3%. The decrease in the gross profit margin of the Group from 48.4% for the Year 2021 to 43.5% for the Year 2022 was primarily due to (i) increase in discount and rebates granted to distributors for the Group's own-branded formula milk powder products as a result of the intense market competition; (ii) increase in milk price; and (iii) the high inflation in the Netherlands (11.6% for the Year 2022), where the Group's upstream facilities are located. Such decrease was partly compensated by the decrease in inventories provision of RMB59.8 million.

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 27.8% (Year 2021: 28.1% (restated)) of the revenue, remained relatively stable for the Year 2022.

Administrative expenses

Administrative expenses mainly comprised staff costs, travelling expenses, office expenses, auditor's remuneration, professional fees, depreciation and the impairment of intangible assets and property, plant and equipment of RMB20.7 million and RMB5.2 million, respectively. Excluding the one-off impact of the impairments, the increase in administrative expenses was primarily attributed to the general increase in staff costs and travelling expenses following the gradual recovery from the worldwide pandemic and the increase in professional fees incurred in respect of the Group's corporate actions.

Other income, other gains/(losses) – net

	2022 <i>RMB'M</i>	2021 <i>RMB'M</i>
Other income		
Interest income	38.2	28.1
Government grants*	27.5	40.7
Rental income	3.3	1.3
	<u>69.0</u>	<u>70.1</u>
Other gains/(losses) – net		
Gain on disposal of a subsidiary	1.9	–
Impairment of goodwill	(162.0)	(14.5)
Charitable donations	(11.7)	(22.3)
Foreign exchange losses, net	(9.5)	(12.7)
Provision for a customer claim	–	(34.3)
Others	(21.2)	(10.3)
	<u>(202.5)</u>	<u>(94.1)</u>
Total other income, other gains/(losses) – net	<u>(133.5)</u>	<u>(24.0)</u>

* The amount mainly represented subsidies received from the government in Mainland China for the contribution made by Ausnutria China in the Hunan province, the PRC during the Year 2022.

Finance costs

The finance costs of the Group for the Year 2022 amounted to RMB14.9 million (Year 2021: RMB18.8 million), representing mainly the interest on bank loans and other borrowings raised principally for the financing of the upstream capital expenditures of the Group, particularly in the Netherlands. The decrease in finance costs was mainly due to an unrealised gain on interest rate cap contracts of RMB6.8 million (Year 2021: RMB0.1 million) recognised during the year mainly resulted from the increase in interest rate which is more than sufficient to offset the impact arising from the increase in average interest-bearing bank loans and bank interest rate during the year.

Share of profits and losses of investments accounted for using the equity method

The amount mainly represented share of profits of Farmel Holding B.V. and its subsidiaries (the “**Farmel Group**”) of RMB22.6 million (Year 2021: share of losses of RMB40.5 million (restated)) for the Year 2022. The Farmel Group is principally engaged in the collection and trading of milk and dairy related commodities in Europe. The purpose for the investment in the Farmel Group is to secure the long-term milk supply for the Group’s operations in the Netherlands.

The turnaround of the performance of the Farmel Group was mainly due to an one-off trading loss of RMB57.1 million arising from the hedging of dairy commodities (mainly butter) being recognised last year.

Impairment of investments accounted for using the equity method

The amount represented the impairment of goodwill of AJM B.V., the Group's 50%-owned joint venture, and its subsidiaries (the "AJM Group") of approximately RMB20.0 million (Year 2021: Nil) as a result of its continuous under performance. The AJM Group is principally engaged in the sale and marketing of nutrition products, particularly formula milk powder products and cereals under its own brand names.

Income tax expenses

The effective income tax rate of the Group increased from 18.5% to 25.0% for the Year 2022. The increase in effective income tax rate by 6.5 percentage points was mainly due to there was a one-off written off of deferred tax assets of RMB47.9 million (Year 2021: Nil) being recognised during the year as a result of the continuous loss making on some of the Company's subsidiaries.

Profit attributable to the equity holders of the Company

The Group's profit attributable to the equity holders of the Company for the Year 2022 amounted to RMB216.5 million, representing a decrease of RMB547.3 million, or 71.7% when compared with the Year 2021.

Such decrease is mainly attributable to the decrease in revenue of the Group's own-branded cow milk formulas and the decrease in gross profit margin of the Group's own-branded formula milk powder products by 4.2 percentage points for the reasons as set out in the above.

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

	Year 2022 <i>RMB'M</i>	Year 2021 <i>RMB'M</i> (Restated)
Profit attributable to the equity holders of the Company	216.5	763.8
Non-recurring items:		
Impairment of goodwill	162.0	20.8
Impairment of other intangible assets	20.7	–
Impairment of property, plant and equipment	5.2	–
Impairment of investments accounted for using the equity method	20.0	–
Write-off of deferred tax assets	47.9	–
	255.8	20.8
Adjusted profit attributable to the equity holders of the Company	472.3	784.6

Excluding the adverse impact attributable to various non-recurring losses, the net profit attributable to equity holders of the Company would have decreased by RMB312.3 million, or 39.8%, when compared with the Year 2021.

Analysis on Consolidated Statement of Financial Position

As at 31 December 2022, the total assets and net asset value of the Group amounted to RMB9,796.1 million (2021: RMB9,632.5 million (restated)) and RMB5,565.1 million (2021: RMB4,931.1 million (restated)), respectively.

The increase in total assets of the Group as at 31 December 2022 was mainly attributable to the net effect of:

- (i) the addition of property, plant and equipment of RMB792.8 million mainly arising as a result of the additions of construction in progress of RMB408.5 million for the building of a new infant formula base powder facility (the “**New IFBP Facility**”) in the Netherlands and the addition of new headquarters in the PRC of RMB223.0 million;
- (ii) the addition of other intangible assets of RMB133.0 million arising mainly for the purchase of goat milk collection rights and the upgrades of system software as part of the Group’s digitalisation plan of RMB84.0 million and RMB31.0 million, respectively;
- (iii) the increase in trade and bills receivables of RMB216.7 million as a result of the increase in e-commerce business which the credit period is longer than offline trading;
- (iv) the impairment of goodwill of the Nutrition Business and Ozfarm cash-generating unit of a total of RMB162.0 million as mentioned above; and
- (v) the decrease in cash and cash equivalents as a result of the decrease in cash flows generated from operating activities during the year.

The increase in total assets of the Group as at 31 December 2022 was mainly financed by proceeds from placement of new shares to the Subscriber of RMB739.0 million and the Group’s internal financial resources.

The increase in net assets of the Group as at 31 December 2022 was mainly resulted from the net effect of (i) the increase in the share capital and share premium of the Company from the placement of new shares to the Subscriber of RMB739.0 million; (ii) the net profit generated for the Year 2022 of RMB216.5 million (Year 2021: RMB763.8 million (restated)); and (iii) the payment of final dividend for the Year 2021 of RMB430.2 million.

Working Capital Cycle

As at 31 December 2022, the current assets to current liabilities ratio of the Group was 1.49 times (2021: 1.40 times (restated)).

An analysis of key working capital cycle is as follows:

	2022 Number of days	2021 Number of days (Restated)	Change Number of days
Inventories turnover days	183	189	(6)
Debtors' turnover days	26	19	7
Creditors' turnover days	40	34	6

The Group's inventories turnover days decreased gradually for the Year 2022 which was mainly attributable to the improved production planning and logistic lead time in the upstream production facilities.

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

Analysis on Consolidated Statement of Cash Flows

	2022 RMB'M	2021 RMB'M
Net cash flows (used in)/from operating activities	(357.5)	1,071.3
Net cash flows used in investing activities	(724.0)	(606.5)
Net cash flows from/(used in) financing activities	664.1	(34.1)
Net (decrease)/increase in cash and cash equivalents	(417.4)	430.7

Net cash flows (used in)/from operating activities

The net cash flows used in operating activities of the Group for the Year 2022 amounted to RMB357.5 million (Year 2021: net cash inflows of RMB1,071.3 million). The decrease in cash flows from operating activities was mainly attributable to the decrease in profit before tax by RMB639.4 million to RMB251.3 million and the decrease in contract liabilities by RMB556.8 million to RMB1,036.3 million as a result of the Group's policy to request its distributors to redeem more of their bonus points this year in order to support their liquidity position.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2022 of RMB724.0 million (Year 2021: RMB606.5 million) mainly represented the effect of (i) the purchases of items of property, plant and equipment of RMB571.5 million (Year 2021: RMB442.3 million) mainly for the building of the New IFBP Facility and other related facilities in the Netherlands; and (ii) the additions to other intangible assets of RMB133.0 million (Year 2021: RMB114.1 million) mainly for the purchase of goat milk collection rights and software upgrades as part of the Group's digitalisation plan of RMB84.0 million and RMB31.0 million, respectively.

Net cash flows from/(used in) in financing activities

The net cash flows from financing activities of the Group for the Year 2022 of RMB664.1 million (Year 2021: used in of RMB34.1 million) was primarily attributed to the net effect of (i) proceeds raised from placement of new shares to the Subscriber in January 2022 of RMB739.0 million (Year 2021: Nil); (ii) the decrease in pledged time deposits of RMB130.0 million (Year 2021: Nil); (iii) dividends paid during the year of RMB430.2 million (Year 2021: RMB388.2 million); and (iv) the net drawdown of new bank loans and other borrowings and lease payments of a total of RMB260.8 million (Year 2021: RMB337.4 million).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

On 21 October 2022, Ausnutria B.V., a wholly-owned subsidiary of the Company, and Dairy Goat Holland B.V., an independent third party, entered into the sale and purchase agreement for the acquisition of 50.0% of the issued shares of Amalthea Group B.V., a company incorporated in the Netherlands, and its subsidiaries (the “**Amalthea Group**”) at a cash consideration of approximately EUR18.4 million (equivalent to approximately RMB130.7 million) (the “**Acquisition**”). The Amalthea Group is principally engaged in the exploitation of cheese factory and the trading of goat cheese and related products. Further details regarding the Acquisition were set out in the announcement of the Company dated 21 October 2022.

Subsequent to the end of the reporting period, on 9 February 2023, the Acquisition was completed and the Amalthea Group became a joint venture of the Company thereafter.

Saved as disclosed above, there were no other material investments, acquisitions or disposals of subsidiaries, joint ventures or associated companies during the Year 2022 and up to the date of this announcement.

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	
	2022 <i>RMB'M</i>	2021 <i>RMB'M</i>
Interest-bearing bank loans and other borrowings	(1,465.6)	(1,177.6)
Lease liabilities	(94.8)	(125.4)
<i>Less:</i> Pledged deposits	125.2	255.2
Cash and cash equivalents	<u>1,861.9</u>	<u>2,262.2</u>
	426.7	1,214.4
		(Restated)
Total assets	9,796.1	9,632.5
Shareholders' equity	5,646.6	4,978.1
Gearing ratio ⁽¹⁾	N/A	N/A
Solvency ratio ⁽²⁾	<u>57.6%</u>	<u>51.7%</u>

Notes:

- (1) Calculated as a percentage of net bank loans and other borrowings and lease liabilities over total assets.
- (2) 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 2022, the Group had outstanding borrowings of RMB1,465.6 million (2021: RMB1,177.6 million), of which RMB1,021.6 million (2021: RMB687.1 million) was due within one year and the remaining RMB444.0 million (2021: RMB490.5 million) was due over one year. As at 31 December 2022, the Group's bank overdrafts and revolving facilities that were attributed to the Ausnutria B.V. group amounting to EUR150.0 million (equivalent to approximately RMB1,113.4 million) (2021: EUR100.0 million, equivalent to approximately RMB722.0 million), of which EUR86.0 million (equivalent to approximately RMB637.2 million) (2021: EUR60.0 million, equivalent to approximately RMB433.2 million) had been utilised as at 31 December 2022.

As at 31 December 2022, the Group had pledged (i) property, plant and equipment (including land and buildings, plant and machineries, motor vehicles and office equipment), inventories, investment property and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of EUR283.4 million, equivalent to approximately RMB2,104.0 million (2021: EUR314.0 million, equivalent to approximately RMB2,267.5 million); and (ii) the time deposits that were mainly placed in the PRC of RMB123.6 million (2021: RMB255.2 million) for the banking facilities granted to the Group for the financing of the Group's daily working capital and capital expenditure plans.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands, Australia and New Zealand. During the Year 2022, 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 interest rate cap contracts with a bank of notional amount of EUR32.0 million (2021: EUR40.0 million) and a total notional amount of EUR150.0 million (2021: Nil) with 3-month floating Euro Interbank Offered Rate being capped at an interest rate of zero per annum and 3% per annum, respectively. All the interest rate cap contracts 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, pledged deposits, 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 2022, the Group had contracted, but not provided for, capital commitments mainly in respect of purchase of land and buildings, plant and machinery, intangible assets and acquisition of dairy related assets of a total of RMB597.9 million (2021: RMB634.7 million).

CONTINGENT LIABILITIES

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

PRIOR YEAR ADJUSTMENTS

The Company restated its comparative figures for the Year 2021 in order to correct certain prior period errors identified.

As depicted in note 13 to the Company's financial results for the Year 2022 (which is contained on page 19 of this announcement), the restatement comprises of eight (8) adjustments, causing a decrease of RMB276.5 million in the Company's profits for the Year 2021 in total. Among these eight (8) adjustments, adjustment (i) (which corrects the errors in the accuracy of the recognition for sales incentive program) has the most significant financial impact, causing RMB218.9 million decrease in the Company's profits. The remaining seven (7) adjustments contribute to the remaining RMB57.6 million decrease in the Company's profits.

Adjustment (i) was initially discovered in May 2022 (details of which are disclosed in the Company's interim report for the six months ended 30 June 2022), and further adjustment is made in this regard after the Company completed a profound review on the accounting treatment of its sales incentive program. In respect of adjustments (ii) to (v), the Company discovered these errors during the audit of its consolidated financial statements for the Year 2021 and decided not to take up these adjustments at the time as they do not materially affect the Group's financial performance and financial position.

The Company confirms that the aforementioned prior year adjustments have no enduring impact to the Group's consolidated financial statements going forward. The Company further undertakes to conduct a comprehensive review for the purpose of improving its internal control and financial reporting systems so as to mitigate the risk of re-occurrence.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Year 2022, the Company repurchased 8,434,000 Shares on the Stock Exchange at a total consideration of HK\$39,863,420. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the Shares repurchased by the Company during the Year 2022 are disclosed as below:

Month of Repurchase	Aggregate number of Shares repurchased	Repurchased Price		Total consideration paid ⁽²⁾ HK\$
		Highest HK\$	Lowest HK\$	
July	1,177,000	7.55	6.78	8,477,230
September	2,456,000	5.00	4.46	11,720,790
October	4,517,000	5.19	3.60	18,663,180
November	284,000	3.70	3.47	1,002,220
Total	<u>8,434,000⁽¹⁾</u>			<u>39,863,420</u>

Notes:

1. These Shares repurchased by the Company were cancelled on 30 November 2022.
2. The total consideration paid excluded expenses paid for the Share repurchase.

Save for the above, neither the Company nor any of its subsidiaries purchased, redeemed or sold interest in any of the Shares during the Year 2022.

SUSTAINABILITY POLICIES AND PERFORMANCE

Being sustainable and creating shared value with different stakeholders have always been a commitment of the Group. The Group has been implementing strategic plans to streamline its operations and resources across different regions whilst being mindful of integrating sustainability into the Group's business. The Group is committed to continue to stand by its sustainability vision and the relevant United Nations Sustainable Development Goals. The Group's sustainability report for the Year 2021 received a rating A from MSCI.

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

Pursuant to Rule 4(2)(iv) to Appendix 27 to the Listing Rules, the Company will publish a sustainability report at the same time as the publication of the annual report, in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance within the Group at all times and believes that such practices help safeguard the interests of the Shareholders, enhance corporate value and accountability as well as improve 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 on the Stock Exchange as its own code of corporate governance practices. The Board also strives to implement the best practices embodied in the CG Code whenever feasible and as far as practicable.

In the opinion of the Board, the Company has complied with the respective code provisions of the CG Code during the Year 2022. 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 refer to the CG Code and code provisions prior to their amendments effective on 1 January 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as contained in Appendix 10 to the Listing Rules as the standards for the Directors’ dealings in the securities of the Company. Having made specific enquiries with all Directors by the Company, the Directors confirmed that they have complied with the required standard set out in the Model Code during the Year 2022.

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

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and notes to the consolidated financial statements for the Year 2022 as set out in this announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the Year 2022. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by PricewaterhouseCoopers on this announcement.

AUDIT COMMITTEE

The audit committee of the Board comprises three independent non-executive Directors, namely, Mr. Ma Ji, Mr. Song Kungang and Mr. Aidan Maurice Coleman. The audit committee of the Board has reviewed the audited consolidated financial statements of the Group for the Year 2022 including the restatements, the accounting principles and practices adopted by the Group and discussed with the management of the Company on matters relating to auditing, risk management and internal controls and financial reporting.

DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK\$0.06 (Year 2021: HK\$0.28) per Share for the Year 2022 to be distributed out of the Company's share premium account. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company ("AGM") to be held on 30 May 2023, the proposed final dividend is expected to be paid on or around 28 June 2023. As at the date of this announcement, 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 at the forthcoming AGM, the register of members of the Company will be closed from 24 May 2023 to 30 May 2023 (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 23 May 2023.

(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 5 June 2023 to 7 June 2023 (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 2 June 2023.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company for the Year 2022, which contains the detailed results and other information of the Company for the Year 2022 required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

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

The PRC, 30 March 2023

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