Yashili International Holdings Ltd
雅士利國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01230)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS
(All amounts in Renminbi ("RMB") million unless otherwise stated)

	For the year ended 31 December		
	2019	2018	Percentage change
Key results			
Revenue	**3,412.0**	3,011.2	13.3%
Gross profit	**1,266.8**	1,193.8	6.1%
Operating profit	**18.3**	-132.3	-113.8%
Earnings before interest, tax, depreciation and amortization (EBITDA)	**156.9**	20.9	650.7%
Profit attributable to equity holders of the Company	**112.4**	52.3	114.9%
Net operating cash flow *(Note 1)*	**177.2**	264.1	-32.9%
Basic earnings per share (RMB cents) *(Note 2)*	**2.4**	1.1	118.2%
Net asset value per share (RMB yuan) *(Note 3)*	**1.2**	1.2	—
Proposed special dividend per share (RMB cents) *(Note 4)*	**0**	1	-100%
Dividend payout ratio	**—**	—	—

Notes:

1. Cash inflow generated from operating activities for the year less cash outflow generated from operating activities for the year.

2. Profit attributable to equity holders of the Company for the year divided by the weighted average number of ordinary shares in issue for the year.

3. Net assets at year end divided by the number of ordinary shares at year end.

4. Proposed special dividend for the year divided by the number of ordinary shares at year end.

The board of directors (the "**Board**") of Yashili International Holdings Ltd. (the "**Company**" or "**Yashili**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards together with the comparative figures for 2018. The financial information of the Group for the year ended 31 December 2019 prepared in accordance with the IFRSs are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CONTINUING OPERATIONS			
REVENUE	4	**3,411,962**	3,011,200
Cost of sales		**(2,145,191)**	(1,817,421)
GROSS PROFIT		**1,266,771**	1,193,779
Other income and gains	4	**28,929**	91,572
Selling and distribution expenses		**(963,810)**	(1,140,433)
Administrative expenses		**(222,978)**	(208,637)
Impairment profit/(loss) on financial assets		**(5,804)**	1,249
Other expenses		**(84,836)**	(69,841)
Finance income		**94,467**	113,577
Finance costs		**(9,816)**	(16,099)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	5	**102,923**	(34,833)
Income tax credit	6	**9,443**	87,108
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**112,366**	52,275
Attributable to:			
Owners of the parent		**112,366**	52,275
		RMB cents	*RMB cents*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		**2.4**	1.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**112,366**	52,275
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of group entities	**43,954**	7,351
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**43,954**	7,351
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**43,954**	7,351
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**156,320**	59,626
Attributable to:		
Owners of the parent	**156,320**	59,626

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,549,669**	1,510,604
Construction in progress		**63,414**	85,677
Investment properties		**73,548**	73,785
Right-of-use assets		**112,659**	—
Land use rights		**—**	86,420
Intangible assets		**346,294**	327,972
Goodwill		**991,236**	991,236
Deferred tax assets		**385,712**	371,036
Long-term bank deposits		**546,091**	100,000
Prepayments, other receivables and other assets		**4,135**	8,882
Total non-current assets		**4,072,758**	3,555,612
CURRENT ASSETS			
Inventories	*9*	**924,018**	757,376
Trade receivables	*10*	**152,632**	151,571
Prepayments, other receivables and other assets		**205,498**	237,012
Other current financial assets		**49,434**	86,604
Structural bank deposits		**593,960**	608,409
Pledged deposits	*11*	**9,968**	315,315
Cash and bank balances	*11*	**1,504,233**	2,010,318
Total current assets		**3,439,743**	4,166,605

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	*12*	**553,468**	308,058
Other payables and accruals	*13*	**1,202,365**	1,418,278
Interest-bearing bank and other borrowings	*14*	**36,209**	415,128
Tax payable		**7,294**	8,569
Total current liabilities		**1,799,336**	2,150,033
NET CURRENT ASSETS		**1,640,407**	2,016,572
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,713,165**	5,572,184
NON-CURRENT LIABILITIES			
Deferred income		**3,477**	4,362
Interest-bearing bank and other borrowings	*14*	**18,671**	—
Deferred tax liabilities		**9,296**	9,997
Total non-current liabilities		**31,444**	14,359
Net assets		**5,681,721**	5,557,825
EQUITY			
Equity attributable to owners of the parent			
Share capital		**399,352**	399,352
Reserves		**5,282,369**	5,158,473
TOTAL EQUITY		**5,681,721**	5,557,825

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Boards ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for other current financial assets and structural bank deposits which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing right that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of plant, building, machinery, equipment, motor vehicles and land use right. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the leases term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance cost).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedient when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Accordingly, the Group recognised right-of-use assets of RMB117,570,000 and lease liabilities of RMB29,568,000 as at 1 January 2019. Prepaid rental of RMB1,582,000 and land use rights of RMB86,420,000 were derecognised, resulting in a decrease in prepaid land lease payments included in prepayments, other receivables and other assets and a decrease in land use rights.

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ Decrease *RMB'000*
Assets	
Increase in right-of-use assets	117,570
Decrease in land use right	(86,420)
Decrease in prepaid land lease payments	(1,582)
Increase in total assets	29,568
Liabilities	
Increase in interest-bearing bank and other borrowings	29,568
Increase in total liabilities	29,568

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	35,041
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(343)
Commitments relating to leases of low-value assets	(1,265)
	33,433
Weighted average incremental borrowing rate as at 1 January 2019	3.26%
Discounted operating lease commitments as at 1 January 2019	29,568
Lease liabilities as at 1 January 2019	29,568

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The adoption of IFRIC 23 did not have any significant impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

Since the acquisition of Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. ("Oushi Mengniu") and Dumex Baby Food Co., Ltd. ("Dumex China") in 2015 and 2016, respectively, and the operation of Yashili New Zealand Dairy Co., Limited ("Yashili New Zealand") at the end of 2015, the Group has undergone various group reorganisations, including the purchase, production and sales functions.

From 2019, the Group is reorganised into business units based on their products and services and has four reportable operating segments as follows:

(a) Production and sale of milk powder products – this segment includes the development, manufacture and sale of milk powder products in the PRC and overseas.

(b) Other milk powder products – this segment includes the production and sale of base powder.

(c) Sale of dissolvable products – this segment includes the development, manufacture and sale of soymilk powder, rice flour and cereal products.

(d) Other operations mainly include the sale of surplus raw materials, and consigned processing operation, the results of these operations are included in the "others" column.

The change was made to improve the way in which the business units can be managed. The comparative figures have been retrospectively adjusted, by presenting other milk powder products as a separate operating segment.

For the purpose of assessing segment performance and allocating resources among segments, the senior executive management team assesses the performance of the operating segments based on a measure of "reportable segment profit", i.e., "revenue less cost of sales and allocated selling and distribution expenses". The Group does not allocate other income and gains, net finance costs, expenses other than certain selling and distribution expenses to its segments, as senior executive management does not use this information to allocate resources to or evaluate the performance of the operating segments. Segment assets and liabilities are not regularly reported to the Group's senior executive management and, therefore, information of reportable segment assets and liabilities is not presented in these financial statements.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Year ended 31 December 2019				
	Milk powder products *RMB'000*	**Other milk powder products** *RMB'000*	**Dissolvable products** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue					
Sales to external customers	**2,650,244**	**574,869**	**143,203**	**43,646**	**3,411,962**
Intersegment sales	**—**	**69,142**	**—**	**—**	**69,142**
	2,650,244	**644,011**	**143,203**	**43,646**	**3,481,104**
Reconciliation:					
Elimination of intersegment sales	**—**	**(69,142)**	**—**	**—**	**(69,142)**
Revenue					**3,411,962**
Segment results	**282,022**	**40,764**	**16,822**	**(36,647)**	**302,961**
Reconciliation:					
Finance income					**94,467**
Finance costs					**(9,816)**
Other income and gains					**28,929**
Unallocated other expenses					**(313,618)**
Profit before tax					**102,923**
Other segment information					
Depreciation and amortisation	**65,148**	**64,401**	**6,312**	**2,785**	**138,646**
Unallocated amounts					**734**
Total depreciation and amortisation					**139,380**

	Year ended 31 December 2018				
	Milk powder products *RMB'000*	Other milk powder products *RMB'000*	Dissolvable products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	2,442,281	327,906	145,033	95,980	3,011,200
Intersegment sales	—	138,458	—	—	138,458
	2,442,281	466,364	145,033	95,980	3,149,658
Reconciliation:					
Elimination of intersegment sales	—	(138,458)	—	—	(138,458)
Revenue					3,011,200
Segment results	33,909	48,763	(37,726)	8,400	53,346
Reconciliation:					
Finance income					113,577
Finance costs					(16,099)
Other income and gains					91,572
Unallocated other expenses					(277,229)
Loss before tax					(34,833)
Other segment information					
Depreciation and amortisation	82,293	55,043	7,219	8,648	153,203
Unallocated amounts					5,348
Total depreciation and amortisation					158,551

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers	**3,411,962**	3,011,200
	3,411,962	3,011,200

Revenue from contracts with customers

(i) Disaggregated revenue information

	For the year ended 31 December 2019				
	Milk powder products *RMB'000*	**Other milk powder products** *RMB'000*	**Dissolvable products** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Types of goods or services					
Sale of goods	**2,650,244**	**574,869**	**143,203**	**23,418**	**3,391,734**
Consigned processing services	**—**	**—**	**—**	**20,228**	**20,228**
Total revenue from contracts with customers	**2,650,244**	**574,869**	**143,203**	**43,646**	**3,411,962**
Geographical markets					
Mainland China	**2,641,937**	**3,479**	**143,203**	**39,890**	**2,828,509**
Overseas	**8,307**	**571,390**	**—**	**3,756**	**583,453**
Total revenue from contracts with customers	**2,650,244**	**574,869**	**143,203**	**43,646**	**3,411,962**
Timing of revenue recognition					
Goods transferred at a point in time	**2,650,244**	**574,869**	**143,203**	**23,418**	**3,391,734**
Services transferred at a point of time	**—**	**—**	**—**	**20,228**	**20,228**
Total revenue from contracts with customers	**2,650,244**	**574,869**	**143,203**	**43,646**	**3,411,962**

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

	For the year ended 31 December 2018				
	Milk powder products *RMB'000*	Other milk powder products *RMB'000*	Dissolvable products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Types of goods or services					
Sale of goods	2,442,281	327,906	145,033	14,764	2,929,984
Consigned processing services	—	—	—	81,216	81,216
Total revenue from contracts with customers	2,442,281	327,906	145,033	95,980	3,011,200
Geographical markets					
Mainland China	2,377,228	14	145,033	66,638	2,588,913
Overseas	65,053	327,892	—	29,342	422,287
Total revenue from contracts with customers	2,442,281	327,906	145,033	95,980	3,011,200
Timing of revenue recognition					
Goods transferred at a point in time	2,442,281	327,906	145,033	14,764	2,929,984
Services transferred at a point of time	—	—	—	81,216	81,216
Total revenue from contracts with customers	2,442,281	327,906	145,033	95,980	3,011,200

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**249,686**	289,320

(ii) Performance obligations

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

Sale of dairy and nourishment products

Revenue from the sale of dairy and nourishment products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the dairy and nourishment products.

Consigned processing services

Revenue from the provision of consigned processing service is recognised when dairy and nourishment products are delivered.

An analysis of other income and gains is as follows:

	Note	2019 *RMB'000*	2018 *RMB'000*
Other income and gains			
Gross rental income from investment property operating leases			
– Income relating to fixed lease payments		**9,562**	7,733
Government grants			
– Compensation for expenses incurred		**6,145**	21,052
– Compensation for acquisition of assets		**885**	1,084
– Taxes refunded		**77**	142
Net gain on disposal of assets classified as held for sale	*(a)*	**–**	51,962
Others		**12,260**	9,599
		28,929	91,572

Note:

(a) During the year ended 31 December 2018, the Group received a consideration of RMB252,822,000 for disposing of property, plant and equipment and a land use right of Scient (China) Baby Nourishment Co., Ltd.("Scient (China)"). The corresponding cost and expenses incurred amounted to RMB200,860,000, resulting in a net gain of RMB51,962,000 before income tax.

5. PROFIT/(LOSS) BEFORE TAX

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

	Note	**2019** *RMB'000*	2018 *RMB'000*
Cost of goods sold		**2,132,589**	1,756,628
Cost of consigned processing services		**12,602**	60,793
		2,145,191	1,817,421
Depreciation of items of property, plant and equipment		**107,416**	136,107
Depreciation of investment properties		**4,037**	3,937
Depreciation of right-of-use assets		**10,554**	—
Amortisation of land use rights		**—**	2,373
Amortisation of other non-current assets		**3,627**	2,419
Amortisation of intangible assets		**13,012**	8,367
Total depreciation and amortisation		**138,646**	153,203
Minimum lease payments under operating leases of buildings		**—**	29,660
Lease payments not included in the measurement of lease liabilities		**35,613**	—
Auditors' remuneration		**2,944**	2,983
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and allowances		**465,179**	473,897
Termination benefits		**11,940**	20,889
Pension scheme contributions (defined contribution schemes)		**32,976**	29,522
Equity-settled share-based payment expenses		**15,100**	7,272
		525,195	531,580
Interest income		**(66,736)**	(77,677)
Gain on other investments		**(27,731)**	(35,900)
Total financial income		**(94,467)**	(113,577)
Impairment of trade receivables	*10*	**4,429**	(1,566)

6. INCOME TAX

PRC income tax has been provided at the rate of 25% (2018: 25%) on the estimated assessable profits arising in PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	2019	2018
	RMB'000	*RMB'000*
Current income tax	**4,864**	15,908
Deferred income tax	**(14,307)**	(103,016)
Tax credit for the year from continuing operations	**(9,443)**	(87,108)

A reconciliation of the income tax credit applicable to profit/(loss) before tax at the PRC statutory income tax rate and the income tax credit at the Group's effective income tax rate for the year is as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit/(Loss) before tax	**102,923**	(34,833)
At the PRC statutory tax rate of 25% (2018: 25%) (i)	**25,731**	(8,708)
Effect of deferred tax on change tax rate	**940**	—
Effect of non-deductible expenses	**626**	970
Effect of tax rate differences (i)	**(4,794)**	(6,706)
Tax losses not recognised	**11,610**	3,270
Tax losses utilised from previous periods	**(34,958)**	(62,292)
Effect of non-taxable income	**(8,598)**	(13,642)
Tax credit for the year at the effective rate	**(9,443)**	(87,108)

(i) Pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People's Congress on 16 March 2007 (the "New Tax Law"), the statutory income tax rate of the Group's PRC subsidiaries is 25% from 1 January 2008, except for Oushi Mengniu and Yaouduo (Inner Mongolia) Nutritional Food Company Limited which are subject to a preferential tax rate of 15%, in accordance with "The Notice of Tax Policies Relating to The Implementation of Western China Development Strategy". Since Inner Mongolia Yashili Nourishment Co., Ltd ("Inner Mongolia Yashili") is a small and micro enterprise, which is subject to a preferential tax rate of 3%.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The provision for Hong Kong profits tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profit for the year.

Pursuant to the rules and regulations of New Zealand, Yashili New Zealand is subject to an income tax rate of 28% (2018: 28%) in New Zealand.

7. DIVIDENDS

The directors do not recommend the payment of dividend for this year (2018: RMB47,524,000).

The directors recommend the payment of a special dividend of RMB1 per ordinary share for the year ended 31 December 2018 to shareholders whose names appear on the register of members on 18 June 2019, amounting to RMB47,524,000 in total. The special dividend for 2018 was approved by the company's shareholders at the annual general meeting held on 6 June 2019. It was paid fully in cash.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,745,560,296 (2018: 4,745,560,296) in issue during the year, as adjusted to reflect the rights issue during the year.

The parent has no dilutive potential shares.

The calculations of basic and diluted earnings per share are based on:

	2019	2018
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**112,366**	52,275

	Number of shares	
	2019	2018
	'000	*'000*
Shares:		
Weighted average number of ordinary shares for the purpose of the basic and diluted earnings per share calculations	**4,745,560**	4,745,560

9. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**262,689**	226,568
Finished goods	**333,733**	250,560
Work in progress	**301,439**	255,585
Packing materials	**24,391**	23,450
Low value consumables	**1,766**	1,213
	924,018	757,376

At 31 December 2019, no bank loan was secured by inventories (31 December 2018: inventories of RMB193,567,000 were collateralised for a bank loan of RMB33,920,000). All the assets of Yashili New Zealand including inventories of RMB244,793,000 were used as a deposit to obtain the letter of credit (31 December 2018: 193,567,000 were collateralised for the credit line).

10. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**164,614**	159,124
Impairment	**(11,982)**	(7,553)
	152,632	151,571

The Group normally allows a credit limit and credit term to its customers which is adjustable in certain circumstances. The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**119,984**	151,044
3 to 6 months	**29,837**	354
6 months to 1 year	**1,118**	69
1 to 2 years	**1,693**	88
Over 2 years	**—**	16
	152,632	151,571

At 31 December 2019, no bank loan secured by trade receivables (31 December 2018: trade receivables of RMB108,469,000 were collateralised for a bank loan of RMB33,920,000). All the assets of Yashili New Zealand including trade receivables of RMB33,991,000 were collateralised for the credit line (31 December 2018: RMB108,469,000 were collateralised for the credit line).

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

	Note	**2019**	2018
		RMB'000	*RMB'000*
At beginning of year		**7,553**	9,119
Impairment losses, net	*5*	**4,429**	(1,566)
At end of year		**11,982**	7,553

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing of the balances for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

		Ageing		
As at 31 December 2019	**Less than 1 year**	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**2%**	**81%**	**100%**	
Cross carrying amount (RMB'000)	**154,736**	**8,729**	**1,149**	**164,614**
Expected credit losses (RMB'000)	**3,797**	**7,036**	**1,149**	**11,982**

		Ageing		
As at 31 December 2018	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	1%	98%	99%	
Cross carrying amount (RMB'000)	153,438	4,092	1,594	159,124
Expected credit losses (RMB'000)	1,971	4,004	1,578	7,553

11. CASH AND BANK BALANCES AND OTHER DEPOSITS

	2019	2018
	RMB'000	*RMB'000*
Cash and cash equivalents as stated in the consolidated statement of cash flows	**576,164**	1,158,373
Pledged deposits	**9,968**	315,315
Time deposits with original maturity of more than three months	**1,474,160**	951,945
	2,060,292	2,425,633
Less: Short-term pledged deposits for banking facilities	**9,968**	315,315
Less: Long-term bank deposits	**546,091**	100,000
Cash and bank balances as stated in the consolidated statement of financial position	**1,504,233**	2,010,318

	2019	2018
	RMB'000	*RMB'000*
The above balances denominated in:		
– RMB	**1,762,222**	2,280,401
– United States dollar ("USD")	**185,877**	133,196
– Hong Kong dollar ("HKD")	**1,831**	3,981
– Australian dollar ("AUD")	**40,543**	—
– European dollar ("EUR")	**59,487**	5
– New Zealand dollar ("NZD")	**10,332**	8,050
	2,060,292	2,425,633

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. As at 31 December 2019, the effective annual interest rates of short-term time deposits were approximately 1.36% to 5.00% (31 December 2018: 1.10% to 5.90%), which would be due within a year. The effective interest rate of long-term deposits was 1.95% to 4.18% (31 December 2018: 4.18%). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As of 31 December 2019, no bank loan (31 December 2018: RMB286,984,000) was secured by time deposits (31 December 2018: RMB308,453,000), a deposit of RMB9,968,000 (31 December 2018: RMB6,862,000) and a long-term bank deposit of RMB90,000,000 (31 December 2018: RMB20,000,000) were pledged for letters of credit.

12. TRADE AND BILLS PAYABLES

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**422,713**	99,861
3 to 6 months	**66,720**	75,787
More than 6 months	**64,035**	132,410
	553,468	308,058

The amounts due to related parties included in trade payables are as follows:

	2019	2018
	RMB'000	*RMB'000*
Subsidiaries of the ultimate holding company	**75,349**	57,370
Subsidiaries of the parent's main shareholder	**19,478**	18,179
Associate of the ultimate holding company	**7,850**	—
Subsidiaries of a substantial shareholder	**714**	—
	103,391	75,549

Trade payables, including amounts due to related parties, are non-interest-bearing and are normally settled within one month to three months.

13. OTHER PAYABLES AND ACCRUALS

		2019	2018
	Note	***RMB'000***	*RMB'000*
Accrued expenses		**588,198**	729,017
Contract liabilities	*(a)*	**126,938**	249,686
Accrued payroll		**201,541**	205,608
Guarantee deposits from customers		**115,001**	74,056
Payables for constructions of property, plant and equipment		**64,167**	44,467
Other tax payables		**21,374**	14,539
Termination benefits payables		**15,792**	13,563
Interest payables		**673**	5,274
Others		**68,681**	82,068
		1,202,365	1,418,278

The amounts due to related parties included in other payables and accruals are as follows:

	2019	2018
	RMB'000	*RMB'000*
A substantial shareholder and its subsidiaries	**5,118**	17,784
Subsidiaries of the parent's main shareholder	**60**	20
	5,178	17,804

Note:

(a) Details of contract liabilities are as follows:

	31 December 2019	31 December 2018	1 January 2018
	RMB'000	*RMB'000*	*RMB'000*
Short-term advances received from customers			
Sale of goods	**126,938**	249,686	289,320
Total contract liabilities	**126,938**	249,686	289,320

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2019			As at 31 December 2018		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans – secured	**3.20***	**2020**	**26,831**	0.30-4.05*	2019	415,128
Lease liabilities			**9,378**			—
			36,209			415,128
Non-current						
Lease liabilities			**18,671**			—

	2019	2018
	RMB'000	*RMB'000*
Bank loans denominated in		
– RMB	**26,831**	223,270
– USD	**—**	44,131
– HKD	**—**	134,935
– NZD	**—**	12,792
	26,831	415,128

(a) As of 31 December 2019, no time deposits was pledged for certain bank loans (31 December 2018: A bank loan with an amount of approximately RMB286,984,000 was pledged by time deposits amounting to RMB308,453,000). A bank loan with an amount of approximately RMB26,831,000 was pledged by a bank wealth management product amounting to RMB26,722,000 (31 December 2018: A bank loan with an amount of approximately RMB94,224,000 was pledged by a bank wealth management product amounting to RMB96,551,000).

(b) As at 31 December 2019, no other assets were pledged for certain bank loans (31 December 2018, all the assets of Yashili New Zealand of NZD 300,873,000 were secured for a bank loan of RMB33,920,000).

* During the year of 2019, the contracted interest rate is 3.2 (2018: 0.3-4.05, HIBOR+0.7, LIBOR+0.7, LIBOR+1.0, BKBM[1]+1.0).

1. BKBM: The New Zealand Bank Bill Benchmark Rate (BKBM) is a base rate in New Zealand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

New policies optimized industry's competition landscape with development opportunities for leading enterprises ahead

In 2019, China further revised the normative policies and food safety regulations for the Chinese milk powder market to raise the registration threshold and quality requirements for infant formula. Among such policies and regulations, the Administrative Measures for the Registration of Infant Formula Milk Powder Products (《嬰幼兒配方乳粉產品配方註冊管理辦法》) (the "**Recipe Registration Requirement**") which has a significant impact on the Chinese milk powder industry, clarified that formula milk powder will be regulated by pharmaceutical management methods, only infant formula milk powder enterprises that meet the requirements of relevant production specifications can apply for formula registration of the products, and penalties are intensified for violations. As of 31 December 2019, a total of 164 infant formula enterprises had completed the registration of 1,281 recipes and the Company had completed the registration of 54 recipes in total, which enabled the Company to take its place among the enterprises with the highest registered recipes in the industry. The 2019 Food Safety Supervision and Sampling Plan (《2019年食品安全監督抽檢計劃》) stipulates that "double random" spot checks will be conducted on key food production enterprises, tightening the safety regulation for infant formulas. The newly revised Regulations on the Implementation of the Food Safety Law (《食品安全法實施條例》) was also officially implemented, with emphasis on improving the monitoring for food safety risks, including infant formulas, special medical food and healthcare food. The Plan for the Promotion of Domestic Infant Formula Milk Powder (《國產嬰幼兒配方乳粉提升行動方案》) issued by the NDRC (the "**Infant Formula Promotion Plan**") in June 2019 clearly stated that the proportion of domestic infant formula milk powder sold in China shall be increased with a goal to maintain 60% of self-supply in the industry. Supported by the Infant Formula Promotion Plan, the quality and brand improvement of domestic infant formulas is expected to accelerate again in the future. These initiatives will help optimize the structure of the industry, improve the quality of milk powder in the domestic market, accelerate the reshuffle of the industry, and bring favorable development opportunities for leading enterprises.

Industrial concentration is further promoted, and consumption upgrade has become a new growth driver

Against the backdrop of declining growth in new births, consumption upgrade has become the new growth driver for China's milk powder market. Milk powder products are trending towards premiumization and branding promotion, and the upgrade of formula ingredients has led to rising product prices. The new generation of consumers for mother-and-baby products is less sensitive to product prices, but instead focuses on quality assurance, diversified products, after-sales services and one-stop shopping experience. As consumers focus on reputation and quality, channel vendors tend to cooperate with big brands with nationwide resources. Therefore, the market share of China's infant formula industry is increasingly concentrated on big brands, leaving less and less room for small and medium-sized milk powder brand enterprises. Large-scale milk powder enterprises are making plans centered on "products + channels", increasing R&D investment, enriching product portfolios to strive for the shares in different market segments, actively implementing the omni-channel strategy of "e-commerce + mother-and-baby", further extending channels downwards, and continuously improving the regional competitiveness of mother-and-baby chain stores and single stores. The continuous optimization of digitalized management is an important means applied by major milk powder enterprises for precise marketing.

Consumption upgrade promotes premiumization and enormous growth potential for goat milk powder and adult milk powder

With the steady growth of national income, the infant milk powder market is rapidly developing towards premiumization. In recent years, goat milk powder has gradually become popular in the market. In 2019, the goat milk powder market experienced explosive growth and has become a new growth force for the Chinese dairy product market, and many milk powder enterprises are putting greater efforts on the exploration of the market segment of goat milk powder. In addition, under the background that the aging of population is intensifying and people's health awareness and demand are increasing day by day, the market demand for middle-aged and elderly milk powder continues to expand. Compared with the infant formula market, the size of adult milk powder industry is still small with no outstanding leading brands, the maturity of the industry still needs to be improved, and because of its wider range of consumers and more market segments, this industry enjoys a vast space for future development, with differentiated products being the key to success.

BUSINESS REVIEW

Always true to its original aspiration, the Group is committed to becoming the trustworthy brand of choice to provide consumers with comprehensive nutrition and health solutions. The Group has strong resource support from the controlling shareholder, Mengniu Group and the second largest shareholder, Danone Asia Baby Nutrition Pte. Ltd. ("**Danone Asia**") which advances the Group's business exploration and internationalization. The business model of the Group incorporates key factors such as premium imported dairy raw materials, world-class milk sources, world-class scientific research and self-developed recipes, advanced manufacturing system, strict quality control and quality management systems, and gathers global high-quality resources in the pursuit of the highest quality in the dairy industry, which enable us to offer trustworthy products to consumers. During the year, the Group continued to enrich its product portfolio, innovate brand strategies, increase R&D investment, promote differentiated layout, innovate marketing efforts, and expand digitalized management to seize the opportunities in the industry and enhance performance growth.

In 2019, the Group maintained a good momentum of development. The Group continued the development of new high-end infant milk powder, goat milk powder and organic milk powder products, and launched the formula milk powder more suitable for middle-aged and elderly people to drink, cooperated with well-known brand spokespersons, and innovated digital and intelligent marketing methods. In the fiercely competitive market landscape, the sales of organic and goat milk powder increased by 16%. "Doraler" and "Dumex" and "Dumex TruYn" far exceeded the industry average, achieving a growth of more than 60% in 2019. At the same time, the Group expanded the coverage of adult milk powder and nutrition products on special nutrition products for high-end development. At the same time, it horizontally developed market segments and made outstanding performance in adult milk powder, an overall increase of 95% over the same period last year, of which, the high-end products under Yourui brand for middle-aged and elderly people grew by 900%.

During the year, the growth in Yashili's sales revenue was mainly due to the continued development of organic products in the infant formula market, increasing the market share of the overall organic products, and the in-depth exploration of the goat milk powder channels to achieve long-term, sustainable and stable development. Among them, goat milk products enjoy a good momentum of development with a double-digit growth rate in 2019 much higher than the industry average. In addition, with the aging population structure in China, the Group adjusted its strategy for adult milk powder by focusing on high-end adult milk powder, launching middle-aged and healthy functional milk powder, and focusing on the promotion of Mengniu's adult milk powder, and invited Mr. Li Jianyi as the spokesman of the Yourui adult powder series, which successfully increased brand exposure through all-round advertisements on media. The empowerment of Mengniu brand and the advantages in malls and supermarkets have facilitated the brand building of infant formula and adult milk powder.

Segment results

Since the first half of 2019, the Group, based on the particularities of base powder products in terms of raw material purchase, production and sales, has separated the base powder business from the original operating segment under "Others" and renamed as "Other milk powder products" segment. There are four reportable operating segments as follows:

Milk powder products

For the twelve months ended 31 December 2019, the results of milk powder products segment were RMB2,650.3 million (2018: RMB2,442.3 million), increasing by over 8.5% as compared to the last year, which was mainly attributable to the significant growth in adult milk powder, because, with the aging population structure in China, the Group adjusted its strategy for adult milk powder by focusing on high-end adult milk powder and the promotion of Oushi Mengniu adult milk powder; meanwhile, Oushi Mengniu adult milk powder uses the trademark of Mengniu and takes advantages of its advantages in the channels of malls and supermarkets to record a significant growth in sales volume.

Other milk powder products

For the twelve months ended 31 December 2019, the results of other milk powder products segment were RMB574.9 million (2018: RMB327.9 million), increasing by 75.3% as compared to the last year, which was mainly attributable to sales of base powder products of Yashili New Zealand. The growth for current period as compared to the last year was primarily due to the increase in utilization of production capacity of Yashili New Zealand.

Dissolvable products

For the twelve months ended 31 December 2019, the results of dissolvable products segment were RMB143.2 million (2018: RMB145.0 million), decreasing by 1.3% as compared to the last year, which was mainly attributable to the Group focusing its major production and sales efforts on milk powder products with higher gross profit, which led to the decrease in the results of dissolvable products. According to third-party research, the brand reputation of Yashily is taking a lead among domestic milk powder brands.

Others

For the twelve months ended 31 December 2019, the results of others segment were RMB43.6 million (2018: RMB96.0 million), decreasing by 54.5% as compared to the last year, which was mainly attributable to the reduction of the consigned processing service due to the allocation of the production capacity to the Group's self-products during the year, and the increase of low-value waste with the increase of production during the year, which resulted in the decrease in the performance of the others segment.

Introduction to Products

Craftsmanship with ingenuity

The Group has been focusing on the research, development and production of nutrition food, bringing together high-quality raw materials worldwide with the spirit of craftsmanship, and manufacturing high-quality infant formula and health and nutrition products with high international standards to meet the nutritional needs of Chinese infants and children during daily feeding at different stages of growth, and the pursuit of people at various ages for health.

The Group lays equal focus on the two businesses of infant formula and health and nutrition food. In order to meet the diversified needs of consumers, the Group has built up a product matrix of five major brands, namely Yashily, Dumex, Reeborne, Doraler and Arla, to achieve the brand strategy of focusing on both "cow and goat" and the full coverage in multi-level markets, including middle, high-end and ultra-high-end markets. Currently, the Group has completed the registration of 54 infant formulas under 18 series, including Arla Baby & Me.

— Yashily, a brand focusing on the nutrition research of Chinese babies for 36 years, boasts its production base in New Zealand, sources milk with superior quality from New Zealand and concurrently implements quality inspection standards of both China and New Zealand, thereby striving to become a world-class "infant formula expert in China". In terms of branding, Yashily has invited Ms. Yao Chen to act as its global brand ambassador, seeking to upgrade brand image to be a wise choice for mothers; in terms of products, it gathers high-quality raw materials worldwide such as OPO structured lipid, lactoferrin, prebiotics and nucleotides.

— Reeborne enjoys organic milk sources in Alps that are fostered on clean soil for more than three years to ensure that the milk sources are pure and pollution-free; selects Simmental cows with high protein content that are grass-fed outdoor to produce natural milk; passes WIT organic certification, and ensures strict compliance with organic standards from milk source, production to transportation, making every can safe and traceable.

— Dumex was born in Europe in 1946 with over 50 years of experience in research on breast milk and over 20 years of experience in research on immune and digestive systems, constantly innovates in the formulas from cow milk to goat milk with a golden ratio of 9:1 of probiotics, high DHA and lactoferrin content.

— With a century-old brand history and as the world's largest organic dairy brand, Arla, has been authorized as the brand used by Danish royals. The organic milk powder of Arla Baby & Me has obtained three major organic certifications, and contains high DHA and a superior ratio of prebiotics; Arla Baby & Me Lanxi (藍曦) contains unique nutrition synergistic combination of NutriCollab, and contains quality nutritious elements such as choline, taurine and nucleotide; the new upgraded formula of Arla Milex (美力滋) combines OPO structured lipid, Bb-12 probiotics and a superior ratio of prebiotics to form Pro Plus nutrition equation which fits the natural needs.

— Originating from Australia, Doraler goat milk powder contains 100% whole goat milk protein, which is easy to be digested as its natural attributes and to be absorbed by human body. Doraler upholds the brand philosophy of "Freedom, Bravery and Exploration" and advocates "Freedom to Grow, Be Loved by Nature". It proposes parents in new generations to avoid excessive intervention in their babies' development and encourages parents to free their babies appropriately for more growing room, such that the babies would express freely and explore the new territories with confidence and courage.

— Yashili's products also include various milk powder products for adults, such as Mengniu brand adult milk powder, Youyi brand adult milk powder, Yourui brand milk powder for the middle-aged and elderly and various dissolvable products such as Zhengwei brand oatmeal and Yashily infant nutritional rice cereal. Infant rice cereal products are upgraded and innovated to launch an organic rice cereal series, and Mr. Li Jianyi has been invited to act as the spokesperson for the Mengniu adult milk powder under the Mengniu Yourui brand to inject vitality into the brand.

Brand Strategies

Reshaping brand image with the proposition of "Gathering the Best Worldwide for Chinese Babies"

The Group completed a comprehensive brand upgrade for the Yashily brand in 2019, and held a brand conference in Shanghai to launch a new TVC, where Ms. Yao Chen, the brand ambassador, was invited to showcase the brand proposition of "Gathering the Best Worldwide for Chinese Babies". The brand conference achieved more than 180 million advertising exposures by putting screen advertisements and pre-movie advertisements in mainstream video media such as iQIYI and Douyin, and successfully won more than 160 million views on Weibo.

Strengthening brand image and attracting international attention

In 2019, the Group continued to strengthen its cooperation with China Central Television ("CCTV") by increasing advertising in CCTV, including on its News, TV series and children channels, such as CCTV-1, CCTV-8, CCTV-13, CCTV-14, to fully cover consumer groups of distributors and mothers. Through the cooperation with the Canton Tower, the landmark of Guangzhou, the Group has continuously gathered the nationwide and global attention to turn Yashili into talk of the town. According to third-party research, the brand reputation of Yashily is taking a lead among domestic milk powder brands.

Wining various awards with outstanding quality achieved by craftsmanship

By virtue of a series of breakthroughs in brand cultivation, quality improvement and leadership in standards, the Group has won recognition and appreciation from the industry and consumers. During the year, the Group's brands and products won various awards including the "International High Quality Gold Award (國際高質量金獎)" with "Monde Selection (世界食品品質評鑒大會)", "Craftsmanship Brand Award for Chinese Mother-and-Baby Milk Powder Products (中國母嬰產品匠心智選奶粉匠心品牌獎)", "Product Innovation Award (產品創新獎)" and "Best Brand Marketing Award 2019 (2019年最佳品牌營銷獎)".

Promoting brand reputation with innovative experience marketing

In 2019, the Group launched an integrated marketing activity of "A Journey of Tracing the Source of Five Countries in Three Continents" (三洲五國溯源之旅) to bring distributors and media to the Group's milk sources, and became the title sponsor of "Feel The World" (慢遊全世界), the first exclusive travel IP program of iQIYI to show the public its four overseas milk sources and production bases, and propagated the Group's brand culture and value centered on high quality through the great appeal of celebrities to strengthen the consumers' confidence in the Group's brands.

Capturing target market by recommending and selling products in Alibaba e-commerce platform

The Group entered into strategic partnership with Alibaba to comprehensively accelerate digital and intelligent operations, and it promotes the conversion of the e-commerce through precise consumer group targeting by Alibaba to conduct advertising and marketing. In 2019, the e-commerce channel continued to grow, achieving a double-digit growth. During the Double Eleven shopping festival, the e-commerce channel achieved an outstanding performance with a growth of 142% compared to the same period of last year, the total sales volume in 2018 was exceeded in just 13 minutes after the activity commenced. The brand flagship store of the Group also recorded a significant increase of 500% compared to 2018, and the Doraler infant formula even ranked Top 1 under the infant goat milk category in terms of the number of buyers on the very day and was awarded the "Heimaxianfeng (黑馬先鋒) Silver Prize".

Product Research and Development

In the course of scientific research, the Group continuously strives for excellence, and gathers the world's best scientific research talents to conduct research on breast milk, provide scientific basis for infant formula products, and develop milk powder that is more suitable for Chinese babies and better meets consumers' differentiated needs for products. At the same time, in view of the growing nutritional needs of the middle-aged and elderly, the Group has mastered mature R&D and production technologies for formula milk powder, and has developed a series of adult milk powder for different needs. The Group continued to increase its investment in scientific research, and made great progress in the registration of milk powder formula and the research and development of nutrition products.

Infant formula keeps gaining recognition

As at the end of December 2019, the Group and its partner Arla had a total of 54 infant formula products out of 18 series approved for recipe registration, of which, the Group obtained the approval for registering 6 new infant formula recipes of 2 series in the first half of 2019.

Enriching the product portfolios for the group of people at the same age to achieve full coverage on market segments

The Group further designed unique recipes to cater for the demands of consumer groups in different age stages including children, teenagers, adults, middle-aged and elderly people. During the year, the Group completed the development and launch of Reeborne series of organic children milk powder, organic teenager milk powder, organic adult milk powder and organic maternal formula milk powder. In addition, the field of product development for special medical formula food was also expanded to special consumer groups targeted at adults.

The new formula for adult milk powder adds special functional food ingredients to provide added value for specific health care and improve the appeal of the products to consumers. During the year, the Group completed the development of four milk powder series for middle-aged and elderly people, namely Youruiguyi (悠瑞骨宜), Shunyi (順宜), Yitian (怡添) and selenium-rich high-calcium goat milk powder, and continued to innovate and develop nutrient-fortified milk powder with different functional ingredients to meet the diversified needs of middle-aged and elderly people.

Upgrading R&D technology and expanding research on breast milk components

The Group continued to put more efforts on fundamental R&D projects and developed research studies and patent applications on milk powder tests, which filled the gap of the national standard testing methods, improved the accuracy of testing and greatly increased the Group's industry competitiveness in terms of R&D testing. For example, the invention patent of the "Testing Method for the Casein Phosphopeptides in Food" (《食品中酪蛋白磷酸肽的檢測方法》) submitted by the Group has been under substantive review.

For the research on the nutrition composition of breast milk in the "13th Five-Year Plan", the Group has carried out the work relating to formula design, trial production and animal experiment, and has established a database accordingly. Moreover, based on the research on breast milk composition in eight cities nationwide, the Group has been proactively carrying out study on "Optimizing the Design and Development of Proteins and Amino Acids in Infant Foods" (《優化蛋白質和氨基酸在嬰配食品中的設計和開發》). In response to national policies, the Group has cooperated with national well-known medical institutions such as Capital Institute of Pediatrics to further explore the impact of nutrients contained in the infant formula on the brain, intestines and physical development of infants through clinical trials.

Sales Channels

Implementing the strategy of differentiated channel layout and actively developing new retail models

Under the organizational structure where business units operate on the basis of product lines, the Group gradually established the channel layout of "Mother-and-Baby Stores for Infant Formula Products, Malls and Supermarkets for Nutrition Products, Rapidly Developing E-commerce Channels and Comprehensively Developing New Channels and New Products". Empowered by digitalization, the Group made every effort to develop star products and formed targeted channel portfolios with other products, and achieved remarkable competitiveness in core channels. With regard to the development of channels for infant formula, the Group mainly focused on mother-and-baby stores that develop steadily, and carefully operated on a combination of channels complemented by modern trade and e-commerce. The Group carefully developed the second- and the third-tier markets and expanded into the first- and the second-tier markets, and cooperated with core chain retailers nationwide. The KA (Key Account) malls and supermarkets across the country and in important regions are the main channels for the Group's adult milk powder and nutrition dissolvable products. During the year, the Group continued to strengthen and increase the market scale of adult milk powder products such as "Youyi" and "Yourui", as well as children milk powder products such as "Future Star". Other than the traditional channel of modern trade, the Group also actively expand e-commerce and new retail, increasing the proportion of sales contributed by e-commerce to promote revenue growth.

Continuing efforts put on new goat milk powder and organic milk powder products

With the upgrade of consumption, goat milk powder and organic milk powder with differentiated and healthy attributes have become popular rapidly. During the year, the Group increased its investment in launching new products and conducted targeted channel layout and promotion for different product lines. "Australia Doraler", "Dumex goat milk powder" and "Dumex TruYn" were quickly and effectively distributed in 2019, and gained certain advantages in local areas and weighted stores. The Group continued the research and development of organic products, launched the "Reeborne" organic adult milk powder series in the first half of 2019, and conducted marketing and promotion in malls and supermarkets in particular. In terms of other products, the Group also carried out product development on adult milk powder and launched selenium-rich goat milk and student milk powder in strip packaging; in terms of dissolvable products, the Group launched innovative products such as "Maiba" dissolvable cereal to achieve comprehensive coverage on the consumption needs at various age groups.

Promoting brand loyalty with diversified marketing campaigns

In terms of marketing, the Group invited new spokespersons during the year to enhance the popularity of such brands as "Yashily", "Australia Doraler" and "Yurui Adult Milk Powder", and established nearly 20,000 brand outlets, and organized more than 200 large-scale roadshow activities. At the same time, the Group carried out the "Most Beautiful Mother" theme promotion activities throughout the year, conducted nationwide roadshows, displays and exhibitions in various business units with more than 300,000 audiences, effectively improving overall performance and confidence of the channels. On the occasion of the 70th anniversary of the founding of the People's Republic of China, the Group organized the channel activity of the "Most Beautiful Mother, Scanning Code to Find Gold Can", which brought the overall sales atmosphere across the channels to a peak during the peak season.

Increasing investment in digitalization to support innovative marketing

In terms of marketing innovation, in addition to basic promotional activities carried out regularly, the Group increased its investment in digitalization and intelligence, and explored and implemented more marketing methods in the innovative and interactive activities for attracting new consumers. The gradual transformation from traditional marketing management to marketing empowerment enables various marketing activities to be smarter, more innovative and more effective, thus effectively promoting the sustainable development of the Group's sales channels.

Quality Management

The year of 2019 is the second year of the Group's "Three Quality Years". The Quality Management Center continued to cultivate in greater depth, constantly improve quality management, and maintain high levels of product quality.

Wining various quality management awards

Throughout the year, the pass rate of the Group's products in external sample inspections was 100%, and the Group's products won the Gold Award in the "Monde Selection", the Oscars for product quality, the " Seven-Star Award for Food and Health Products in China" (中國食品健康七星獎), the "Outstanding Award for Product Quality Control" (產品質量管控卓越獎), and one of the "Top 10 Brands of 2018-2019 China Organic Milk Powder Industry" at the first China Organic Milk Powder Development Forum, which fully prove that the Group's quality management strength is highly recognized in the industry and have strengthened consumer confidence in the Group's products.

Focusing on quality control over production process

In order to improve the on-site quality management in factories, standardize operating procedures and strengthen on-site visualization, the Group's Quality Management Center and Supply Chain Management Center carried out process quality improvement projects, where various parts of the production process were analyzed in a systematic way through on-site workshops in factories to identify key points and difficulties in production process control, and formulating relevant guidance documents for these key points and difficulties. At the same time, members of the project teams visited each factory site to provide on-site guide, supporting all factories to complete and put into practice the relevant documents and records to effectively carry out standardized production activities and strengthen the quality control over the production process.

Constantly enhancing quality awareness

The trainings on the quality knowledge in the factories organized by the Group during the year were more specific in content, providing comprehensive coverage from the basic Food Safety Law, laws and regulations to specific testing procedures and equipment operation, etc., with more detailed and specific content, and the Group created the atmosphere for quality culture among all staff through various channels. During the year, the Group's domestic factories carried out a total of 321 quality training sessions, a significant increase of 118% over 2018. At the same time, the Group organized 11 promotion activities through online release of quality-related knowledge regarding Food Safety Law and GMP, etc. In addition, quality trainings were also integrated into daily production management, and sharing and communication among employees were strengthened.

Passing production permission and certification at the rate of 100%, and improving quality level through internal and external audit

In 2019, the Group's factories passed 78 audits in total, including production permission, GMP, HACCP, FSSC22000, BRC and organic certification. Among them, the Shanxi factory passed the national inspection of the food safety production standard system for infant formula milk powder, and several other domestic factories passed the unannounced inspections by the market supervision and management bureaus at provincial (municipal) levels. In addition, the Group's internal quality cross-audit system was established, and the Quality Management Center, in conjunction with the Supply Chain Management Center and the R&D Management Center, conducted cross-audits of the quality systems of four domestic factories. The Group continued to improve the quality management level of its own factories by promoting the routinization of internal cross-audits and calibrating standards with external audits.

Upgrading product quality and safety tracking system to national platform

The Group is committed to the construction of product quality tracking systems. All infant formula products under the brands of the Group have achieved "One can, one code". In 2019, the Group has become one of the pilot enterprises for the construction of infant formula quality and safety tracking system. The Group's internal product tracking information system has been upgraded into the platform of the Ministry of Industry and Information Technology of China (the "MIIT"), and consumers can currently gain the access to the key information of product descriptions and enterprises for a number of products on the platform of the MIIT, which is a sufficient testament of the Group's confidence in its product quality.

Supply Chain

Continuous improvement with priority in culture

In the strategic planning for the upstream and downstream development of the supply chain, the Group clearly defined the vision of "Supply Chain as a Service", the mission of "Becoming a Model in Industry Supply Chain Management and a Pioneer in Digital Transformation through Strict Administration and Coordinated Operations", and the core values for supply chain of "Great Performance, Great Incentives and Greater Performance", "Remaining Fastest with Continuous Improvement to Become a Pioneer", "Criticism and Self-criticism", as well as the core development strategy of "Keeping oriented to customer demand and taking the optimization of the total supply chain cost as the purpose to create an outstanding performance-driven profit center for the supply chain through teamwork, professional division of responsibilities and continuous improvement ".

Refined and digitalized management to improve quality and efficiency

In respect of lean production management, the Group strengthened the refined management of quality control over production lines to improve quality and efficiency during production. All of the domestic factories of the Group passed the national infant formula production system audit in 2019. The Group also increased its investment in the projects for the digitalization of the supply chain. At the sales end, the Group started the digitalization and intelligentization of middle-platform data and the intelligent commercial reports, and at the production end, the Group initiated the online digitalized and intelligent operation management to collect offline data online. At the same time, in terms of the supply chain layout worldwide, the Group successfully controlled the cost of milk sources in the upstream, maintained its competitive edge in strategic supply management and reserve of key raw milk, raw goat milk, organic raw materials and lactoferrin content, and reached out to front-line sales market to actively grasp the market demand and gradually transform to the demand-driven business strategy. The Group fully adjusted the inventory structure, responded quickly to demand growth, improved the speed of order responding, and shortened the time for product delivery.

Management System

The Group further enhanced the transformation of digitalization in 2019.

During the year, the Group cooperated with e-commerce giant Alibaba to build a digitalized middle platform to link the enterprise data along the entire supply chain, and conduct data collection and analysis in seven business areas including consumer behavior, store business, marketing, shopping guide operations, membership points, e-commerce business and manager views in order to improve consumer operation capabilities and efficiency. At the same time, the Group carried out comprehensive innovation cooperation with Alibaba in new retail, including data banking, online and offline data integration, light store, and mini programs, etc. The construction of data middle platform and the commencement of new retail are the key steps for Yashili's digitalization strategy which includes data-based business operation, business-oriented data collection and data intelligence. The Group expects to achieve data-based operation to allow data to flow, generate value, and accumulate data assets across the Group, thus providing support for business innovation, operation analysis and management decisions.

In terms of supply chain, the Group launched an intelligent monitoring cloud system during the year, realizing online real-time management of factory data through intelligent BI projects, to visualize production data and gradually realize intelligent production data. In terms of warehouse management, the Group comprehensively implemented SAP WMS warehousing space management to improve warehouse management capabilities. Meanwhile, the Group's tracking system is linked to the national tracking platform of the Ministry of Industry and Information Technology, and the data is transparent online in real time on the official platform. At the front end, the Group further developed and launched a smart shopping guide platform to fully digitalize shopping guide behavior management and performance management. In terms of expense control, the Group initiated the construction of a marketing expense management system to optimize the management of promotional campaign expenses and utilization efficiency and such management system will be launched in 2020.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue amounted to RMB3,412.0 million (2018: RMB3,011.2 million), representing a 13.3% increase compared to the last year.

By product category	**2019** *RMB million*	2018 *RMB million*	Percentage change
Milk powder products	**2,650.3**	2,442.3	8.5%
Other milk powder products	**574.9**	327.9	75.3%
Dissolvable products	**143.2**	145.0	-1.3%
Others	**43.6**	96.0	-54.5%
Total	**3,412.0**	3,011.2	13.3%

As of 31 December 2019, sales revenue from milk powder products amounted to RMB2,650.3 million (2018: RMB2,442.3 million), representing an increase of 8.5% from the last year. Sales revenue from organic and goat infant formula milk powder products amounted to RMB719.0 million, accounting for 27.1% (2018: RMB617.3 million, accounting for 25.3%) of the sales revenue from milk powder products. Sales revenue from dissolvable products amounted to RMB143.2 million (2018: RMB145.0 million), representing a decrease of 1.3% from the last year, which was mainly because the operation of dissolvable products ceased in certain traditional channels. Sales revenue from other milk powder products amounted to RMB574.9 million (2018: RMB327.9 million), representing an increase of 75.3% from the last year, which was mainly derived from the base powder sold by the subsidiary Yashili New Zealand to Danone.

The increase in the Group's sales revenue was mainly due to: (1) the continuous development of organic products in the infant formula market to increase the market presence of organic products; and the in-depth exploration of the channels for goat milk powder to achieve long-term, sustainable and stable development, with goat milk products enjoying a good development momentum and growing by approximately 60% in 2019, far higher than the industry average; (2) expansion of the coverage of adult milk powder and nutrition products on new functional products to shift focus to high-end products while developing market segments; (3) the promotion of brand credibility empowered by A-listers, and the increased exposure of products through all-round advertisements on media to boost the growth in online and offline sales.

Gross profit

For the year ended 31 December 2019, the Group recorded a gross profit of RMB1,266.8 million (2018: RMB1,193.8 million), representing an increase of 6.1% from the last year. The gross profit margin was 37.1%, representing a decrease of 2.5% from the last year, which was mainly because the proportions of the sales revenue from adult milk powder products and base powder increased significantly, and yet both adult milk powder and base powder products generated lower gross profit as compared to infant formulas. In addition, the prices of raw materials for milk powder have been increasing steadily, imposing modest pressure on the costs

Selling and distribution expenses

For the year ended 31 December 2019, the Group generated selling and distribution expenses of RMB963.8 million (2018: RMB1,140.4 million), representing a decrease of 15.5% from the last year.

The Group's selling and distribution expenses as a percentage of revenue decreased to 28.2% (2018: 37.9%), representing a decrease of 9.7% from the last year, which was mainly due to the optimization of the utilization efficiency of selling expenses in the year, and the decreased investment resulting from the adjustment of brand strategy in line with market conditions.

Administrative expenses

For the year ended 31 December 2019, administrative expenses amounted to RMB223.0 million (2018: RMB208.6 million), representing an increase of 6.9% from the last year, which was mainly attributable to the one-off strategic consultation fees incurred by Yashili (Cayman Islands) during the year. The proportion of administrative expenses in revenue dropped to 6.5% (2018: 6.9%), a decrease of 0.4%, indicating an improvement in the efficiency of the expenses.

Net finance income

For the year ended 31 December 2019, net finance income amounted to RMB84.7 million (2018: RMB97.5 million). The decrease in net finance income of 13.1% was mainly attributable to the decrease of liquidity available for investment as a result of repayment of borrowings.

Income tax credit

For the year ended 31 December 2019, the income tax credit of the Group amounted to RMB9.4 million (income tax credit of 2018: RMB87.1 million), and the effective income tax rate was –9.1% (2018: –250.3%). The increase in income tax credit was mainly attributable to utilization of unrecognized temporary differences in previous years, decrease in taxable losses and performance improvement this year.

Inventory

As at 31 December 2019, the balance of inventory of the Group amounted to RMB924.0 million (31 December 2018: RMB757.4 million). The increase in inventory was mainly due to the increased inventory in preparation for the Spring Festival and the storage of certain rare raw materials in advance.

Other current financial assets/structural bank deposits

As at 31 December 2019, other current financial assets included fixed yield wealth management products and structural bank deposits of RMB643.4 million, with an anticipated annualised yield of 1.3% to 6.1% (31 December 2018: 4.1% to 4.5%).

Trade receivables

As at 31 December 2019, the Group's trade receivables amounted to RMB152.6 million (31 December 2018: RMB151.6 million). In 2019, the trade receivables turnover days were 16 days (2018: 18 days), representing a decrease of 2 days as compared to the last year, which was attributable to the accelerated collection of receivables.

Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

Capital commitment

As at 31 December 2019, the Group's net cash outflow in capex was RMB102.7 million (31 December 2018: RMB110.6 million). As at 31 December 2019, the Group's capital commitment was RMB9.7 million (31 December 2018: RMB5.4 million), which is mainly related to workshop renovation projects and the purchase of milk powder production equipment.

Provision for doubtful debts of trade receivables

As at 31 December 2019, the Group had provision for doubtful debts of RMB12.0 million (2018: RMB7.6 million). The provision was made for impaired receivables relating to customers that were in default or delinquency of payments. The Group does not hold any collateral or other credit enhancements over such amounts. An impairment analysis is performed by the Group at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing of the balances for the groupings of various customer segments with similar loss patterns (i.e., by customer type).

Provision for impairment and disposal losses of inventories

As at 31 December 2019, the Group's balance of provision for impairment of inventories was RMB78.7 million (31 December 2018: RMB55.5 million), which was mainly because certain inventories affected by the formula recipe policy had longer age profile and were required to provide for impairment under the policy accordingly. In addition, the Group recorded losses on disposal of inventories of RMB4.4 million in 2019 (2018: RMB2.6 million), which was mainly because certain inventories affected by the formula recipe policy had longer age profile and were required to provide for impairment under the policy accordingly.

Pledge of assets

As at 31 December 2019, assets with an aggregate value of approximately RMB1,453.2 million (31 December 2018: RMB1,948.7 million) were pledged by the Group.

Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Group amounted to RMB112.4 million, a 114.9% increase compared to the last year. The increase was mainly due to the increase in the sales revenue and the decrease in the distribution expenses and administration expenses in the year.

Liquidity and capital resources

As at 31 December 2019, the Group's liquidity and capital resources, including cash and cash equivalents, pledged bank deposits to be released within one year, bank deposits and investment deposits, amounted to RMB2,692.0 million in total (31 December 2018: RMB3,109.2 million), representing a decrease of 13.4%. The decrease was mainly due to the utilization of liquidity for the increase in inventory resulting from goods storage at the end of the year.

Operating activities

For the year ended 31 December 2019, the Group's net cash inflow from operating activities was RMB177.2 million (2018: RMB264.1 million). The decrease in the net operating cash inflow was mainly due to the utilization of certain cash flow resulting from the increased proportions of imported products and raw materials.

Investing activities

For the year ended 31 December 2019, net cash outflow generated from investing activities amounted to RMB695.1 million (2018: net cash inflow of RMB508.1 million), which was mainly attributable to the increase in time deposits with maturity more than three months during the year.

Financing activities

For the year ended 31 December 2019, net cash outflow generated from financing activities amounted to RMB64.2 million (2018: RMB283.2 million), mainly attributable to the repayment of bank loan borrowed in previous years and no additional borrowings incurred this year.

Interest-bearing bank and other borrowings

As at 31 December 2019, the Group's interest-bearing bank and other borrowings amounted to RMB54.9 million (31 December 2018: RMB415.1 million). The annualised interest rates for loans denominated in RMB was 3.2%. The above loans shall be repayable on demand upon maturity. As at 31 December 2019, the Group's gearing ratio, which is calculated by total interest-bearing bank and other borrowings at year end divided by total assets at year end, was 0.7% (31 December 2018: 5.4%).

Use of net proceeds from the Initial Public Offering

The Company's net proceeds from the Initial Public Offering amounted to approximately RMB1,965.8 million after deduction of relevant expenses. As of 31 December 2019, the Company had used up all the net proceeds from the Initial Public Offering in accordance with the manner as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 30 October 2010.

HUMAN RESOURCES

As at 31 December 2019, the Group had a total of 2,965 full-time employees (31 December 2018: 2,920). The total staff cost for the year was approximately RMB532.4 million (2018: RMB541.8 million).

Please refer to "Share Option Schemes" of this announcement for the share option scheme adopted by the Company.

In 2019, the Human Resources Management Center further strengthened cultural construction, empowered business operation, motivated employees and built up brands to build a lean, professional and efficient team in accordance with the strategic objectives of the Group.

Strengthening cultural construction to enhance performance

The Group continued to strengthen the values of "Integrity, Responsibility and Entrepreneurship" and organized a series of activities to promote corporate culture, including mini lectures by senior management on corporate culture, power of models and cross-department cultural value workshops, which strengthened the staff's recognition and practice of the Group's core values, improved organizational performance, and won the "2019 Best Human Resource Management Practice Award" granted by the American Chamber of Commerce in South China.

Developing talents to empower business development

In line with the business development needs of the Group, the Group recruited professionals in the industry, improved the mechanism for talent promotion and training, provided trainings on specialized and general knowledge to employees in various departments and ranks to improve employees' working skills and quality and add value to human resources continuously which help improve the capabilities of employees in all lines and achieve business goals of each business unit.

Motivating employees with sincerity

The Group has established a transparent and effective communication and working environment in order to establish a motivated, dedicated and professional workforce. To this end, the Group regularly conducts employee seminars and interviews with key talents to understand the employees' thoughts, and has established an employee congress to promote democratic corporate management. The Group also continued to implement a five-fold incentive mechanism to continuously encourage employees to challenge themselves and achieve better performance.

Establishing brand to improve image

The Group continued to carry out employer brand building activities and won five authoritative awards for human resources in succession in 2019, including the "Annual Breakthrough Award" (年度打破獎), "Outstanding Human Resource Management Award 2019" (2019年人力資源管理傑出獎), "Lili Treasure Management Performance Top Award" (最佳麗力寶藏管理操演鼎新前衛頭號獎) and "Best Talent Cultivation Award 2019" (2019年度最佳人才打點鼎新獎) granted by Liepin, a domestic elite career development platform, which further enhanced the corporate image. Meanwhile, the Group promoted the internal staff's employer brand recognition by broadening the internal recommendation channels, which increased the internal recommendation ratio to 30%.

SOCIAL RESPONSIBILITY

Adhering to the business philosophy of "Society Nurtures Enterprises, and Enterprises Feed Society", Yashili International always upholds the belief that product quality is the highest priority, and also takes the lead in shouldering corporate social responsibility, actively participates in public welfare undertakings to feed the society, and provide nutrition support for the poor in line with the national leader's strategic thought of "Precise Poverty Alleviation and Precise Poverty Elimination".

In early January, a team of volunteers of Doraler visited Dalongmiao Village of Mazhuang Xiang, Zhenping County, Nanyang City, Henan Province and carried out a "warm winter public service plan" to encourage citizens to donate spare but clean clothes, toys and stationeries for children. The Group also donated Doraler goat milk powder to the local babies.

In March, the Group entered into a strategic agreement with the relevant ministries of Lijiang government, pursuant to which the Group agreed to support a number of poverty alleviation projects covering education, ecology and other areas in the next three years, as well as local tourism and public welfare programs, with a view to improving the living standards of local residents. The Group also provided milk powder products and school uniforms to local primary schools and nursing homes. In addition, the Group also offered goods and materials to the remote Madi Village, Ruijin City, Jiangxi Province and visited the primary school in Madi Village and local poor households.

In June, the Group carried out nutrition-targeted poverty alleviation in poor areas; and together with the Women's Federation of Li County, Gansu Province, delivered Yashili's Youyi high-calcium nutrition milk powder for middle-aged and elderly people to poor households in Li County, Gansu Province, aiming to protect the health of people in poverty. Together with Mengniu, the Group offered healthy school milk to the local kindergarten children, in order to help children gradually cultivate good dietary habits, including drinking milk.

In July, under the organization of the China Dairy Industry Association, a team of representatives of the Group and the representatives of 15 dairy brands visited the Yanglinjie Town of Yueyang County with materials to bring Yashili's Youyi high-calcium growth milk powder for primary and middle school students to the children of Yanglin Middle School, to help the poor young people grow up healthy through nutrition.

In October, to support the special science popularization campaign for bringing healthy food to rural areas in Dadi Village, Hunan Province in 2019, the Group brought Yashili's Youyi high-calcium nutrition milk powder for middle-aged and elderly people to deliver warmth to the local poor elderly.

In the future, while adhering to the original intention of quality and sparing no effort to make every can of milk powder, the Group will continue to carry forward the spirit of caring for the society to benefit the community, and provide continuous support for the country to win the battle of precise poverty alleviation.

PUBLIC RELATIONS AND CRISIS MANAGEMENT

The Group strives to effectively communicate with social stakeholders such as relevant government departments, consumers and the media through various channels in a proactive, open, sound and active way to integrate information, relation, image, and media resources. The Group has also adopted various publicity approaches at the same time with a view to achieving win-win results. In respect of brand communication, the Group enhanced the awareness of the Group and its brands through various traditional and innovative media channels.

The Group is committed to improving the crisis management system by optimizing the efficiency of collaborative work among departments to deal with various consumer requests in a timely and effective manner, assisting and coordinating with government departments' enquiries and responding to media concerns, promptly offering solutions to consumers, preventing the outbreak of crises, effectively monitoring public opinions and promptly responding to industrial incidents. The Group paid high attention to the market, services and coordination with market sales, providing a solid support for sales.

INVESTOR RELATIONSHIP

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

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

FUTURE PROSPECTS

Policy Implications

Since the implementation of the Recipe Registration Requirement, the domestic demand for infant formula milk powder has increased significantly, which has a very obvious influence on the rise of the domestic infant formula industry, thus laying a solid foundation for the long-term healthy development of the formula milk powder market.

The Infant Formula Promotion Plan issued by the NDRC encourages enterprises to use raw milk as raw materials to produce infant formula milk powder to improve product quality, as a result of which, together with the facts that the new national standards for infant formula milk powder are about to be introduced, and that the 5-year validity period of registration of infant formula in 2017 is also about to be expired, enterprises are expected to usher in a new wave of infant formula milk powder product development and formula registration in the next one to three years.

The revision, release and update of policies, regulations and standards put forward stricter requirements on the research and development, production, inspection, labeling and formula registration, formula upgrade and change for infant formula food. In order to improve the quality of infant food, related standards and specifications will be further improved, which will bring both challenges and opportunities to the enterprises.

Industry Trend

High-quality differentiated products will dominate the market with a stable scale

With China's economic growth gradually shifting from focusing on quantity to focusing on quality, the optimization of industrial upgrade through supply-side reform and overall social consumption transformation, high-quality products and services have become the new form of social economy and life, and high-end and ultra-high-end markets are growing rapidly. The infant milk powder industry will still take on the continuous trend of providing high-quality products and differentiated services to consumers, organic and goat milk products develop rapidly. Although the birth population has declined, the birth rate is still relatively stable as seen in the birth population data for the whole year of 2019, the milk powder market is still undergoing structural adjustment, and the consumption amount per unit is also steadily increasing. Therefore, it is expected that the sales of infant formula milk powder in the entire industry will remain flat in 2020. However, at the same time, the competition in the domestic milk powder market is becoming fiercer and fiercer, and many leading brands as well as small and medium-sized brands are fighting for performance space in all channels.

Rise of domestic brands amidst fierce market competition

In the market, foreign brands have continued to penetrate into third-tier and fourth-tier cities, and leading brands have increased their investments in the market to compete for market shares, while small brands at the rear have been fiercely competing in channel prices. However, the post-90s and post-00s consumers are more preferring domestic style with high acceptance of domestic brands, which, coupled with the support of national policies and the upgrading of media advertisements for leading domestic brands, has contributed to the rise of domestic brands.

Mother-and-baby store channel will face both competition and opportunities

The mother-and-baby store channel is still the main battlefield for infant formula milk powder. In the first-tier and second-tier markets, the number of channel stores has grown steadily, and the level of single-store operation is of particular importance. In the third-tier and fourth-tier markets, the number of channel stores has grown continuously, and there is still considerable room for further exploration. During the transformation of channel retailers, medium-sized and large-sized mother-and-baby chain stores have begun to reflect the trend of turning mall- and supermarket-like and digitalization, and more mother-and-baby stores have begun to join together with manufacturers in the search of better business modes. In terms of the competition landscape, foreign-invested brands continue to implement the strategy of exploring channels in depth to deeply explore third-tier and fourth-tier cities, which has imposed competitive pressure on domestic brands; domestic brands have increased their investment in all channels, and have made remarkable progress in brand building and channel expansion. In terms of marketing activities, in addition to classic marketplaces and promotions, the change into new retail model has also brought more investments, with developments seen in capital, personnel and store operation models. With the digital and intelligent transformation of the Chinese retail industry, the mother-and-baby product industry will usher in new development opportunities.

Consumption concept and behavior in change

At the beginning of 2020, China was challenged by the epidemic prevention of the coronavirus disease, which caused a profound impact on the consumption concepts and shopping behaviors of Chinese consumers. Consumers' consumption concepts also tend to focus on product quality and health-related functionality, which requires dairy enterprises to pay more attention to product production and quality assurance while exerting efforts on the development of milk formula and the promotion of healthy ingredients. In terms of shopping behaviors, the promotion methods of physical stores, consumer interaction and even the delivery of goods will tend to be more integrated with the Internet. The business model of Internet-based new retail will also gain ground with the operation of manufacturers and channel stores.

Adult milk powder market to expand with rising health awareness

Under the background of the rapid development of China's general health industry, the health problems of middle-aged and elderly people have become increasingly concerned under the trend of aging population. The enhancing health awareness and the change of perceptions of middle-aged and elderly people are expected to further promote the rapid development of the nutrition food market for middle-aged and elderly people, especially the market of milk powder for middle-aged and elderly people. In the future, the Group will strive to develop adult milk powder into a new growth driver for performance and increase the business of high-end powder for middle-aged and elderly people.

Company Strategies

Brand Strategies

In 2020, the Group will focus on the brands of Reeborne, Baby & Me, Doraler and Yourui and gradually phase out certain products with low sales and gross profit, and further renew its brand, shape the high-end professional image of the brand, centralize resources, continue to invest in brand building and brand empowerment, and achieve resource sharing.

The Group will cooperate with the renowned IP "TRUMP CARD VS TRUMP CARD" (《王牌對王牌》) to expand channels in offline markets, precisely target consumer groups, focus on the development of high-end products, and strongly disseminate the high-end brand Reeborne's new brand proposition of "Intestinal Health Brings Happiness" through the key media in core cities to promote the awareness of the brand's high-end image. In addition to high-frequency exposure, the Group will strengthen its professional image through participating in authoritative award selections and international authoritative exhibitions including China International Import Expo; and build a closed-loop management system for precise marketing by organizing key marketing and promotion activities, terminal deployment and store promotion activities, and taking advantage of mother-and-baby vertical media and information flow advertising at the same time, to accurately target targeted groups, identify potential customers, strengthen brand authority endorsement and promote front-line sales.

The Group will continue to carry out large-scale roadshows and classes for mothers to enhance the consumer stickiness to brands and the appeal to young consumers; the Group's channel layout strategy will focus on the investment of resources in key markets and target key customers and key stores to further enhance brand influence through interaction with consumers in the three dimensions of people, goods, and markets. At the same time, the Group will vigorously promote digitalized media operations with Alibaba, increase the investment in social media channels such as e-commerce and organize online and offline promotion activities to enhance the interaction with consumers and drive sales growth.

Product Research and Development

The Group plans to complete applications for recipe registration of all infant formula products submitted in the previous year in 2020. Meanwhile, the Group has formulated detailed upgrade plans for the infant formula products already launched across all lines in respect of formulas and packages, and capture further share in high-end market by virtue of differentiated products.

In order to meet the diversified needs of consumers, the Group has been continuously enriching its brand matrix and improving its product structure. Going forward, the Group will continue to increase investment in the research and development of high-end products, enhance the technological content of the products, and design unique formulas for the people of different age groups such as infants, teenagers, adults, middle-aged and elderly people, to cover different market segments. The Group will grasp the market demand arising from the aging population, and strengthen the innovative development of nutrition-fortified milk powder with different functional ingredients to meet the diverse needs of the middle-aged and elderly people. In addition, for the field of product development of formula food for special medical purpose, the Group will also continue to expand to the special consumer groups targeted at adults.

The Group will continue to increase the investment in basic research and development projects, and follow national policies to conduct research on the nutritional composition of breast milk, promote the research on the nutritional composition of breast milk by the "13th Five-Year Plan" projects, and conduct further clinical trials through cooperation with well-known national medical institutions, to explore the effects of nutritional ingredients in infant formula on the cerebral nerves, intestinal canal and physical development of infants.

Sales channels

Focusing on core regions and key channels

The Group will focus on the provinces with strong presence of domestic brands, centralize resources for high-frequency media exposure, and seek regional breakthroughs to expand outward. In key regions, the Group will achieve full area coverage, full channel coverage, full product category coverage and full media coverage. The Group will complete the omni-channel layout, focus on the two high-growth channels of e-commerce and chain mother-and-baby stores. For e-commerce channels, the Group will adopt a strategy of achieving comprehensive layout of cross-screen promotion while developing flagship stores and e-commerce distribution concurrently. For chain mother-and-baby stores, the Group will focus on developing national and regional mother-and-baby chain stores in the key regions as selected.

Continuously focusing on infant formula and vigorously expanding the market for organic and goat milk products

The Group will continue to develop infant formula as its core product category, and be committed to stabilizing its milk powder business, building up the star brand of Reeborne. The Group will expand high-end market segments for goat milk and organic milk powder, and enhance the development of functional adult nutrition products to form a sound brand and product echelon.

Developing online and offline markets in parallel and continuing to localize channels

The Group will continue to develop in a balanced manner in both online and offline markets. In the online market, the Group will establish cooperation with large-scale systems and gradually establish a benchmark store system; in the offline market, the Group will continue to carry out channel penetration and exploration, and achieve stable distribution at the county, township, and village levels while increasing single-store sales. In terms of channels, in the mother-and-baby chain stores and KA shopping malls, the Group will formulate targeted strategic plans to continue to increase the market shares of dominant brands in mother-and-baby chain stores, while further achieving the nationwide layout of KA malls and supermarkets for adult milk powder products.

Exploring new opportunities in e-commerce and new retail

With the rapid development of e-commerce and new retail models, the Group will strengthen the cooperation with Alibaba in cloud-based smart computing, Tmall new retail and digital media, focus on controlling the big data of channels and consumers, and enhance online and offline traffic exchange, while providing consumers with accurate products and services, improving the service experience of front-end consumers, and taking advantage of new retail projects to bring new growth drivers and long-term development space for the Group.

Innovation in model and digital and intelligent transformation

The Group will promote digital and intelligent transformation to achieve digitalization for offline stores. The Group will take advantage of big data technology to connect internal systems with consumer data, empower distributors, outlets and consumers with different systems, and take advantage of a digital media for precise marketing and attract consumers to offline stores for sales conversion.

Supply Chain

In 2020, the Group's supply chain will continue to focus on the empowerment and optimization of the six segments to create an elite business team; while ensuring product quality, deepen cooperation with giants in the digital technology field, and promote the upgrade and transformation of digitalized supply chain construction to improve quality and efficiency; establish strategic alliances with more outstanding suppliers, continue to maintain the advantages in upstream raw material supply resources; adhere to the vision of "Supply Chain as a Service", continue to improve customer services; and diversify the development of new products to facilitate product innovation.

Human resources

In 2020, the Group will implement strategic human resource management, delegate practical duties to the Business Units of China Brands, Imported Brands and Nutritional Products and empower the leaders to make decisions, and by taking the business as the lead, it will promote the maximization of organizational performance and maintain the Group's sustainable competitive advantages through policy deployment, organizational construction, and implementation of practices.

Practicing cultural values and building organizational competitiveness

The Group will continue to implement and deepen the values of "Integrity, Responsibility and Entrepreneurship", and disseminate the corporate philosophy through training and various communication channels, and share its value system. In order to implement the corporate philosophy, the management of the Group will take the lead and implement behavioral management, rules and regulations to guide employees to practice the corporate philosophy in their daily work.

Promoting organizational reform and strengthening high performance management

The Group will comply with the corporate development strategies to promote human resource reform. Through rigorous recruitment and selection of employees, the Group will extensively train and develop its employees to improve their skills. The Group will also retain outstanding employees through competitive compensation, incentive system and assessment program, and closely monitor the performance process management to promote the overall performance of the Group and maintain its competitive advantages.

Building a talent team to ensure talent supply

The Group will continue to optimize key talent competency standards in accordance with the latest strategic requirements, to provide consistent guidance for the "selection, employment, training and retention" of talents and clarify the career development. Meanwhile, through routine talent review, the Group will form a survival-of-the-fittest mechanism for selecting the key talents, build a talent team for key positions and strengthen talent reserve and training to ensure continuous supply of the talents.

Strengthening employer brand building to enhance corporate image

The Group will continue to refine the value proposition of the employer brand and constantly promote internal and external employer brand building activities. Meanwhile, through enhancing online publicity and diversifying the forms of offline activities, the Group will stimulate the recognition by internal staff of the employer brand, communicate its corporate values and attract outstanding talents to join the Group.

EVALUATION ON THE IMPACT OF THE 2019 NOVEL CORONAVIRUS

Since the 2019 Novel Coronavirus broke out in January 2020 in PRC, the Group has actively taken measures to implement the regulations and requirements posted by the local governments on coronavirus epidemic prevention and control. The Group expected the coronavirus outbreak would have a certain temporary impact on business operation as the Group postponed the resumption of operation following the Chinese New Year holidays until 10 February 2020, which led to a one-week delay. Accordingly, there were slight delays in meeting the delivery schedule in February 2020 for some of the orders.The Group will continue to pay attention on the development of the coronavirus situation and evaluate the impact on the financial position and operation of the Group.

SHARE OPTION SCHEMES

The Company adopted a pre-lPO share option scheme (the "**Pre-lPO Share Option Scheme**") on 8 October 2010, and adopted a share option scheme (the "**Share Option Scheme**") on 8 October 2010. Details of the Share Option Scheme are as follows:

The Company has adopted the Share Option Scheme for the purpose of motivating eligible participants to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of the ordinary shares of the Company (the "**Shares**") which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at 1 November 2010 (the "**Listing Date**"), that is, 350,000,000 Shares, which represented approximately 7.38% of the Company's shares in issue as at the date of this announcement. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.00 upon acceptance of the grant on or before the 28th days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of the Share;

(b) the closing price of the Share as stated in the daily quotations sheets of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on the offer date; and

(c) the average closing price of the Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

On 23 July 2013, Mengniu International made a voluntary general offer to option holders of the Company ("**Option Offer**"), to cancel the outstanding options granted under the Pre-lPO Share Option Scheme and the Share Option Scheme. Please refer to the composite offer and response document issued by the Company, Mengniu Dairy and Mengniu International relating to, among other things, the Option Offer dated 23 July 2013 for further details.

On 13 August 2013 (being the final closing date of the Option Offer), the Option Offer was accepted in respect of 52,088,266 options. The underlying options together with all the rights attached thereto were cancelled and given up and all the outstanding options automatically lapsed upon acceptance of the Option Offer.

No option was granted by the Company nor was there any outstanding option granted by the Company from 1 January 2019 to 31 December 2019. As at 31 December 2019, there is no outstanding option granted by the Company.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Schemes" above, no equity-linked agreements were entered into by the Group, or existed during the year.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in paragraph headed "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Wednesday, 3 June 2020. Notice of the annual general meeting will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from Thursday, 28 May 2020 to Wednesday, 3 June 2020, both dates inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Wednesday, 3 June 2020, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 27 May 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Rules Governing the Listing of Securities ("**Listing Rules**") as the Group's code of conduct regarding directors' securities transactions.

Specific enquiry has been made by the Company with all directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

The Company has also established written guidelines (the "**Employees Written Guidelines**") on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules on the Stock Exchange.

The Board is of the view that throughout the year ended 31 December 2019, the Company has complied with all applicable code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 as explained under the paragraph "Chairman and Chief Executive Officer" below.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the growth of its business and to reviewing such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

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

The position of Chairman of the Company is held by Mr. Jeffrey, Minfang Lu. During the year ended 31 December 2019, Mr. Chopin Zhang was the CEO of the Company. On 8 January 2020, Mr. Chopin Zhang resigned, and Mr. Yan Zhiyuan was appointed as executive director and the CEO of the Company.

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO generally focuses on the Company's business development and daily management and operations. The Board considers that the respective responsibilities of the Chairman and CEO are clear and distinctive and hence written terms thereof are not necessary.

AUDIT COMMITTEE

The audit committee of the Company has reviewed, with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's financial statements for the year ended 31 December 2019.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yashili.hk). The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the above websites in due course.

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

Hong Kong, 25 March 2020

As at the date of this announcement, the Board of the Company comprises Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Gu Peiji (alias philip Gu) as non-executive directors; Mr. Yan Zhiyuan as executive director; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.