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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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

FINANCIAL HIGHLIGHTS

(all amounts in RMB million unless otherwise stated)

	For the six months ended 30 June		Percentage change
	2020	2019	
	(Unaudited)	(Unaudited)	
Key results			
Revenue	1,644.9	1,747.4	-5.9%
Gross profit	622.5	769.0	-19.1%
Profit attributable to equity holders of the Company	35.6	34.3	3.8%
Earnings per share (RMB cent) – Basic and diluted	0.8	0.7	14.3%

For the six months ended 30 June 2020, the revenue of the Group amounted to RMB1,644.9 million (the same period of 2019: RMB1,747.4 million), representing a decrease as compared to the same period of last year. Summary of the Group's business in the first half of the year is as follows:

1. The Group continuously adjusted its product strategies to gradually phase out products with low production value and gross profit, while such consolidation partially offset the sales growth of products to a certain extent;
2. In the first quarter, the Group made drastic adjustments in the brand positioning and product categories of infant formula milk powder. In the second quarter, the Group achieved recovery and increased profit margin, with revenue up by over 25% year-on-year in the second quarter.

The board of directors (the “**Board**”) of Yashili International Holdings Ltd. (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the interim period ended 30 June 2020 together with the comparative figures for the same period of 2019 are as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	<i>Notes</i>	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue	4	1,644,928	1,747,401
Cost of sales		<u>(1,022,469)</u>	<u>(978,421)</u>
Gross profit		622,459	768,980
Other income and gains	5	26,382	11,313
Selling and distribution expenses		(440,663)	(614,926)
Administrative expenses		(91,939)	(111,332)
Impairment of financial assets, net		(1,521)	153
Other expenses	6	(102,183)	(48,329)
Finance income		40,820	49,079
Finance costs		<u>(6,535)</u>	<u>(6,494)</u>
PROFIT BEFORE TAX	7	46,820	48,444
Income tax expense	8	<u>(11,204)</u>	<u>(14,158)</u>
PROFIT FOR THE PERIOD		<u>35,616</u>	<u>34,286</u>
		<i>RMB cents</i>	<i>RMB cents</i>
EARNINGS PER SHARE	9		
Basic and diluted		<u>0.8</u>	<u>0.7</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	35,616	34,286
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	<u>(37,291)</u>	<u>4,510</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(37,291)	4,510
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(1,675)</u>	<u>38,796</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 (Unaudited) <i>RMB'000</i>	31 December 2019 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,487,692	1,549,669
Construction in progress		45,093	63,414
Investment properties		64,741	73,548
Right-of-use assets		106,764	112,659
Intangible assets		351,287	346,294
Goodwill		991,236	991,236
Deferred tax assets		379,828	385,712
Long-term bank deposits		715,615	546,091
Prepayments, other receivables and other assets	12	638	4,135
Total non-current assets		4,142,894	4,072,758
CURRENT ASSETS			
Inventories	10	770,541	924,018
Trade receivables	11	192,930	152,632
Prepayments, other receivables and other assets	12	173,779	205,498
Other current financial assets		–	49,434
Structural bank deposits		540,994	593,960
Derivative financial instruments		22	–
Pledged deposits	13	27,145	9,968
Cash and bank balances	13	1,608,222	1,504,233
Total current assets		3,313,633	3,439,743

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

As at 30 June 2020

		30 June 2020	31 December 2019
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
CURRENT LIABILITIES			
Trade and bills payables	14	518,378	553,468
Other payables and accruals		903,638	1,202,365
Interest-bearing bank and other borrowings	16	316,940	26,831
Derivative financial instruments		9	–
Lease liabilities		9,224	9,378
Income tax payable		6,934	7,294
		<hr/>	<hr/>
Total current liabilities		1,755,123	1,799,336
		<hr/>	<hr/>
NET CURRENT ASSETS		1,558,510	1,640,407
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,701,404	5,713,165
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred income		3,295	3,477
Lease liabilities		14,867	18,671
Deferred tax liabilities		9,786	9,296
		<hr/>	<hr/>
Total non-current liabilities		27,948	31,444
		<hr/>	<hr/>
Net assets		5,673,456	5,681,721
		<hr/>	<hr/>
EQUITY			
Share capital		399,352	399,352
Reserves		5,274,104	5,282,369
		<hr/>	<hr/>
Total equity		5,673,456	5,681,721
		<hr/>	<hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

Yashili International Holdings Ltd. (the “Company”) was incorporated in the Cayman Islands on 3 June 2010 as an exempted company with limited liability under the Companies Law, Chapter 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is primarily engaged in the manufacture and sale of dairy and nourishment products.

In the opinion of the directors, the holding company of the Group is China Mengniu International Company Limited (“Mengniu International”) (BVI). The ultimate holding company of the Group is China Mengniu Dairy Company Limited (“Mengniu Dairy”).

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

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

Amendments to IFRS 3: Definition of a Business

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

Amendment to IFRS 16: Covid-19-Related Rent Concessions (early adopted)

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to IAS 1 and IAS 8: Definition of Material

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

The Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) Milk powder products – this segment includes the development, manufacture and sale of milk powder products in the People’s Republic of China (the “PRC”) and overseas.
- (b) Other milk powder products – this segment includes the production and sale of base powder.
- (c) 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.

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, unallocated other expenses to its segments, as the senior executive management does not use such 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 the interim condensed financial information.

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.

	For the six months ended 30 June 2020				
	Milk powder products <i>RMB'000</i> (Unaudited)	Other milk powder products <i>RMB'000</i> (Unaudited)	Dissolvable products <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (note 4)					
Sales to external customers	1,290,156	224,308	73,682	56,782	1,644,928
Intersegment sales	–	45,334	–	–	45,334
	<u>1,290,156</u>	<u>269,642</u>	<u>73,682</u>	<u>56,782</u>	<u>1,690,262</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales	–	(45,334)	–	–	(45,334)
Total revenue					<u>1,644,928</u>
Segment results	162,526	7,294	14,455	(2,894)	181,381
<i>Reconciliation:</i>					
Finance income					40,820
Finance costs (other than interest on lease liabilities)					(6,120)
Other income and gains					26,382
Unallocated other expenses					<u>(195,643)</u>
Profit before tax					<u>46,820</u>

	For the six months ended 30 June 2019				
	Milk powder products <i>RMB'000</i> (Unaudited)	Other milk powder products <i>RMB'000</i> (Unaudited)	Dissolvable products <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (note 4)					
Sales to external customers	1,398,645	264,206	59,308	25,242	1,747,401
Intersegment sales	–	13,795	–	–	13,795
	<u>1,398,645</u>	<u>278,001</u>	<u>59,308</u>	<u>25,242</u>	<u>1,761,196</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales	–	(13,795)	–	–	(13,795)
Total revenue					<u>1,747,401</u>
Segment results	123,858	12,755	3,418	13,572	153,603
<i>Reconciliation:</i>					
Finance income					49,079
Finance costs (other than interest on lease liabilities)					(6,043)
Other income and gains					11,313
Unallocated other expenses					(159,508)
Profit before tax					<u>48,444</u>

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers		
Sale of goods	1,621,866	1,731,006
Consigned processing services	23,062	16,395
	<u>1,644,928</u>	<u>1,747,401</u>

Disaggregated revenue information for revenue from contracts with customers:

Segments	For the six months ended 30 June 2020				
	Milk powder products <i>RMB'000</i> (Unaudited)	Other milk powder products <i>RMB'000</i> (Unaudited)	Dissolvable products <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services					
Sale of goods	1,290,156	224,308	73,682	33,720	1,621,866
Consigned processing services	–	–	–	23,062	23,062
Total revenue from contracts with customers	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>
Geographical markets					
Mainland China	1,265,273	9,816	73,682	56,782	1,405,553
Overseas	24,883	214,492	–	–	239,375
Total revenue from contracts with customers	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>
Timing of revenue recognition					
Goods transferred at a point in time	1,290,156	224,308	73,682	33,720	1,621,866
Services rendered at a point in time	–	–	–	23,062	23,062
Total revenue from contracts with customers	<u>1,290,156</u>	<u>224,308</u>	<u>73,682</u>	<u>56,782</u>	<u>1,644,928</u>

Segments	For the six months ended 30 June 2019				
	Milk powder products <i>RMB'000</i> (Unaudited)	Other milk powder products <i>RMB'000</i> (Unaudited)	Dissolvable products <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services					
Sale of goods	1,398,645	264,206	59,308	8,847	1,731,006
Consigned processing services	–	–	–	16,395	16,395
	<u>1,398,645</u>	<u>264,206</u>	<u>59,308</u>	<u>25,242</u>	<u>1,747,401</u>
Total revenue from contracts with customers	<u>1,398,645</u>	<u>264,206</u>	<u>59,308</u>	<u>25,242</u>	<u>1,747,401</u>
Geographical markets					
Mainland China	1,388,862	1,850	59,308	25,242	1,475,262
Overseas	9,783	262,356	–	–	272,139
	<u>1,398,645</u>	<u>264,206</u>	<u>59,308</u>	<u>25,242</u>	<u>1,747,401</u>
Total revenue from contracts with customers	<u>1,398,645</u>	<u>264,206</u>	<u>59,308</u>	<u>25,242</u>	<u>1,747,401</u>
Timing of revenue recognition					
Goods transferred at a point in time	1,398,645	264,206	59,308	8,847	1,731,006
Services rendered at a point in time	–	–	–	16,395	16,395
	<u>1,398,645</u>	<u>264,206</u>	<u>59,308</u>	<u>25,242</u>	<u>1,747,401</u>
Total revenue from contracts with customers	<u>1,398,645</u>	<u>264,206</u>	<u>59,308</u>	<u>25,242</u>	<u>1,747,401</u>

5. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains is as follows:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Rental income	5,546	4,158
Exempted accounts payable	–	1,481
Government grants		
– Compensation for expenses incurred	18,510	7
– Compensation for acquisition of assets	189	517
Net gain on disposal of non-current assets	284	–
Foreign exchange gains, net	596	3,103
Others	1,257	2,047
	<u>26,382</u>	<u>11,313</u>

6. OTHER EXPENSES

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Impairment of inventories	56,092	44,082
Donations	17,207	60
Loss from scrap inventories	11,518	–
Bank charges	1,624	1,514
Net loss on disposal of non-current assets	–	75
Others	15,742	2,598
	<u>102,183</u>	<u>48,329</u>

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost of goods sold	1,008,485	969,421
Cost of consigned processing services	13,984	9,000
Depreciation of items of property, plant and equipment	59,017	54,360
Depreciation of investment properties	1,765	1,146
Amortisation of intangible assets	8,386	5,311
Amortisation of right-of-use assets	5,627	5,216
Amortisation of other non-current assets	2,449	1,257
Total depreciation and amortisation	<u>77,244</u>	<u>67,290</u>
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries and allowances	216,951	233,752
(Reversal of)/termination benefits	(1,120)	2,369
Pension scheme contributions (defined contribution schemes)	3,135	16,300
(Reversal of)/equity-settled share-based payment expenses	(4,146)	10,627
	<u>214,820</u>	<u>263,048</u>

8. INCOME TAX EXPENSE

The major components of income tax in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current tax		
Provision for the period	5,545	6,043
Deferred tax	5,659	8,115
Total income tax charge	<u>11,204</u>	<u>14,158</u>

Pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People’s Congress on 16 March 2007 (the “Income Tax Law”), the statutory income tax rate of the Group’s subsidiaries established in Mainland China is 25%, except for Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (“Oushi Mengniu”) and Ya Ou Duo (Inner Mongolia) Nutrition & Food Co., Ltd. (“Ya Ou Duo”), 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”. According to “The Announcement of the State Administration of Taxation on Issues Concerning the Implementation of Inclusive Income Tax Reduction and Exemption Policies for Small and Micro Enterprises”, Inner Mongolia Yashili Nourishment Co., Ltd. (“Inner Mongolia Yashili”) was subject to a preferential tax rate of 5% from 28 April 2018 (date of establishment) to 30 June 2019. Such a preferential tax rate is not applicable to Inner Mongolia Yashili for the six months ended 30 June 2020.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Company and the Group’s subsidiaries incorporated in the BVI are tax exempted in the Cayman Islands and the BVI.

Hong Kong profits tax for the Group’s subsidiaries incorporated in Hong Kong have been provided at 16.5% for the six months ended 30 June 2020 (Six months ended 30 June 2019: 16.5%) on the estimated profits arising in Hong Kong during the period.

Pursuant to the rules and regulations of New Zealand, the Group’s subsidiaries incorporated in New Zealand are subject to income tax at a rate of 28% during the six months ended 30 June 2020 (Six months ended 30 June 2019: 28%).

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

The basic earnings per share amount for the period is calculated by dividing the profit for the period by the weighted average number of ordinary shares outstanding during the period.

The Group has no dilutive potential shares during the period.

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

	For the six months ended 30 June	
	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Earnings:		
Earnings used in the basic and diluted earnings per share calculation	<u>35,616</u>	<u>34,286</u>
	Number of shares	
	<i>(in thousand)</i>	<i>(in thousand)</i>
Shares:		
Weighted average number of ordinary shares for the purpose of the basic and diluted earnings per share calculation	<u>4,745,560</u>	<u>4,745,560</u>

10. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Raw materials	300,428	262,689
Finished goods	188,590	333,733
Work in progress	253,072	301,439
Packing materials	26,930	24,391
Low value consumables	1,521	1,766
	<u>770,541</u>	<u>924,018</u>

As at 30 June 2020, all the assets of Yashili New Zealand Dairy Co., Limited (“Yashili New Zealand”) including inventories of RMB209,479,000 were collateralised for the credit line (31 December 2019: RMB244,793,000 were collateralised for the credit line).

11. TRADE RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	204,590	164,614
Provision for impairment	(11,660)	(11,982)
	<u>192,930</u>	<u>152,632</u>

The Group normally allows a credit limit and a credit term to each of its customers which are adjustable in certain circumstances. 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 provision, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	161,499	119,984
3 to 6 months	26,130	29,837
More than 6 months	5,301	2,811
	<u>192,930</u>	<u>152,632</u>

The Group uses the forward-looking expected credit loss (ECL) approach as the accounting policy for impairment losses for trade receivables.

As at 30 June 2020, all the assets of Yashili New Zealand including trade receivables of RMB103,980,000 were collateralised for the credit line (31 December 2019: RM33,991,000 were collateralised for the credit line).

The amounts due from related parties of the Group included in the trade receivables are as follows:

	30 June 2020	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Subsidiaries of the ultimate holding company	5,958	968
A substantial shareholder and its subsidiaries	35,090	20,839
	<hr/> 41,048 <hr/>	<hr/> 21,807 <hr/>

The above amounts are unsecured, non-interest-bearing and repayable on credit terms similar to those offered to the major customers of the Group.

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2020	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Prepayments for purchase of raw materials	36,929	15,535
Value-added tax recoverable	33,896	29,278
Prepayments for purchase of advertising services	2,418	8,482
Interest receivable	12,142	3,817
Advances to sales offices	4,353	2,957
Others	85,179	152,261
	<hr/> 174,917 <hr/>	<hr/> 212,330 <hr/>
Less: Long-term deferred expenditure	(638)	(4,135)
Impairment allowance	(500)	(2,697)
	<hr/> 173,779 <hr/>	<hr/> 205,498 <hr/>

The amounts due from related parties included in prepayments, other receivables and other assets are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Subsidiaries of the ultimate holding company	117	–
Subsidiaries of the ultimate holding company's controlling shareholder	1,389	648
Associates of the ultimate holding company	32,194	–
A substantial shareholder and its subsidiaries	60	59
	<u>33,760</u>	<u>707</u>

As at 30 June 2020, all the assets of Yashili New Zealand including prepayments, other receivables and other assets of RMB7,635,000 were collateralised for the credit line (31 December 2019: RMB7,962,000 were collateralised for the credit line).

Except the amounts disclosed above, the amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

13. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,098,119	576,164
Pledged deposits		27,145	9,968
Time deposits with original maturity of more than three months		<u>1,225,718</u>	<u>1,474,160</u>
		<u>2,350,982</u>	<u>2,060,292</u>
Less: Short-term pledged deposits for banking facilities	(a)	(27,145)	(9,968)
Less: Long-term bank deposits	(b)	<u>(715,615)</u>	<u>(546,091)</u>
Cash and bank balances as stated in the consolidated statement of financial position		<u>1,608,222</u>	<u>1,504,233</u>

- (a) As at 30 June 2020, the bank deposits amounting to RMB23,400,000 were pledged for bank loans amounting to RMB50,000,000 (31 December 2019: nil).

As at 30 June 2020, there was no bank deposit pledged for letters of credit (31 December 2019: RMB4,476,000).

- (b) As at 30 June 2020, the long-term bank deposits amounting to RMB197,864,000 were pledged for bank loans amounting to RMB266,940,000 (31 December 2019: nil). As at 30 June 2020, the long-term bank deposits amounting to RMB2,136,000 were pledged for bank acceptance bills (31 December 2019: RMB90,000,000).

As at 30 June 2020, all the assets of Yashili New Zealand including bank deposits of RMB3,745,000 were collateralised for the credit line (31 December 2019: bank deposits of RMB5,492,000 were collateralised for the credit line).

14. TRADE AND BILLS PAYABLES

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

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	488,907	422,713
3 to 6 months	15,709	66,720
More than 6 months	13,762	64,035
	518,378	553,468

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

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Subsidiaries of the ultimate holding company	95,615	75,349
Subsidiaries of the ultimate holding company's controlling shareholder	21,262	19,478
Associates of the ultimate holding company	–	7,850
A substantial shareholder and its subsidiaries	–	714
	116,877	103,391

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

15. DIVIDENDS

The directors did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (Six months ended 30 June 2019: nil).

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020 Unaudited			31 December 2019 Audited		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans-secured	2.45-2.95*	2021	<u>316,940</u>	3.20*	2020	<u>26,831</u>

All bank loans were denominated in RMB.

As at 30 June 2020, the time deposits amounting to RMB221,264,000 were pledged for bank loans amounting to RMB316,940,000 (31 December 2019: nil). As at 30 June 2020, there was no bank loan pledged by a bank wealth investment product (31 December 2019: a bank loan of approximately RMB26,831,000 was pledged by bank wealth investment products amounting to RMB26,722,000).

* The contractual interest rates were 2.45-2.95% (2019: 3.2%).

MANAGEMENT’S DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

As demographic dividend is diminishing, the industry enters an era of inventory competition

As affected by the decreasing birth rate in recent years, the consumption in the domestic milk powder market has shown a downward trend. While demographic dividend is diminishing, the milk powder market has gradually transformed from quantity competition to quality competition. With the optimization of products and the upgrading of consumption in the industry, higher price levels keep the overall market size continuously stable, leading the milk powder market to enter a cycle of inventory competition.

National policies optimize industry structure and benefit outstanding enterprises

Infant formula milk powder shoulders the important mission of ensuring the healthy growth of infants. In order to further improve the quality of milk powder, the Chinese government has successively issued a series of policies to strengthen the control on the quality of milk powder products. In December 2019, the Regulations on the Implementation of the Food Safety Law (《食品安全法實施條例》) was revised to improve the monitoring of safety risks for food, including infant formula foods. The 2019 Food Safety Supervision and Sampling Plan (《2019年食品安全監督抽檢計劃》) introduced in the same year stipulates that “double random” spot checks will be conducted on key food production enterprises, tightening the safety regulation for infant formulas. The regulatory authorities have also taken a variety of measures to strengthen quality control, such as requiring domestic dairy enterprises to strengthen product quality and food safety awareness in terms of recipe registration, product production, and consumer education, so as to enhance the quality and reputation of domestic milk powder. These policies are conducive to optimizing industry structure, which in turn brings favorable development opportunities for leading enterprises. Market concentration has accelerated and consumers’ confidence in domestic brands has gradually restored.

Focuses on high-end products and product segmentation

With the increasing per capita national disposable income, consumption upgrades provide greater demand for high-end milk powder and further promote the development of the infant milk powder industry. Under the impact of the novel coronavirus pandemic in 2020, consumers will pay more attention to their health, and the consumption demand for high-quality dairy products will be more robust. The demand for high-end products will also drive the development of product segmentation in the industry.

In the main battlefield of infant formula milk powder, A2 protein milk powder, organic milk powder and goat milk powder are the key products of manufacturers, and the market will gradually seek the differentiated growth points of milk powder for pregnant women and special formula milk powder. Regarding nutrition products, the pandemic increases people's demand for and attention to them, and the National Health Commission (國家衛生健康委員會) issued the Guidelines on Nutrition and Dietary for Prevention and Treatment of Pneumonia Infection for Novel Coronavirus (《新型冠狀病毒感染的肺炎防治營養膳食指導》) on 8 February 2020, recommending general patients to take 300 grams of dairy products every day, which helps to boost their immune system. As a result, the demand for milk powder for the middle-aged and elderly, milk powder for children and students and milk powder for the whole family has increased significantly. In addition, the aging population provided greater opportunities for adult milk powder.

The novel coronavirus pandemic catalyzes digital marketing in the industry, which becomes a new market force

As affected by the novel coronavirus pandemic in early 2020, China's digital marketing has met market demand and gained a large customer base. The dairy industry also conformed to industry trends and developed new business forms such as contact-free home-reaching business, WeChat community marketing, social retail, etc., gaining more users and online transaction volume on traditional e-commerce platforms and expanding customer base. In the first half of 2020, major enterprises in the industry have increased their investment in digital construction and have accumulated corresponding operating experience. In the long run, the competition of digital marketing will become a new market force for dairy enterprises in the milk powder market.

BUSINESS REVIEW

Always true to its original aspiration, the Group is committed to becoming the brand of choice that provides consumers with trustworthy and comprehensive nutrition and health solutions. The Group has tremendous support in resources from the controlling shareholder, the 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 best quality in the dairy industry, thereby offering 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.

Segment Results

The Group classified its operating segments based on its products and services. There are four reportable operating segments as follows:

Milk powder products

For the six months ended 30 June 2020, the results of milk powder products segment were RMB1,290.1 million (the same period of 2019: RMB1,398.7 million), decreasing by 7.8% as compared to the same period of last year, which was mainly due to the Group's adjustments to its channels and product strategies, partly offsetting the sales growth of products to a certain extent. The reshaped core product Reeborne brand had a strong release in July 2020, which had an impact on sales in the first half of the year. As of July, the cumulative sales have already measured up to that of last year.

Other milk powder products

For the six months ended 30 June 2020, the results of other milk powder products segment were RMB224.3 million (the same period of 2019: RMB264.2 million), decreasing by 15.1% as compared to the same period of last year, which was mainly due to the decrease in the sales of base powder of Yashili New Zealand resulting from the impact of the novel coronavirus pandemic.

Dissolvable products

For the six months ended 30 June 2020, the results of dissolvable products segment were RMB73.7 million (the same period of 2019: RMB59.3 million), increasing by 24.3% as compared to the same period of last year, which was mainly attributable to the adjustments to product strategies, which led to the increase in the results of dissolvable products.

Others

For the six months ended 30 June 2020, the results of others segment were RMB56.8 million (the same period of 2019: RMB25.2 million), increasing by 125.4% as compared to the same period of last year, which was mainly attributable to the increase in the consigned processing services, which led to the increase in the results of the other segments.

Introduction to Products

Believing in “Breast Milk is the Best Food for Babies (母乳是寶寶最好的食物)”, the Group continues to innovate and develop infant formula products that are close to breast milk in terms of nutrition to meet the healthy nutritional needs of infants at different stages of growth. All products of the Group are produced with premium raw materials under high international standards, with an aim to become the top pick brands of all-round nutrition and health solutions for Chinese mothers and babies.

In order to meet the diversified needs of consumers, the Group’s business has expanded to the two large product categories of infant formula milk powder and health and nutrition products, which enables the Group to lay equal focus on the three large product categories, namely cow milk powder, organic milk powder and goat milk powder, and fully cover multi-level markets, including ultra-high-end, high-end and middle-end markets.

Yashily

Yashily, a brand focusing on the nutrition research of Chinese babies for 37 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”. It gathers high-quality raw materials worldwide such as OPO structured lipid, lactoferrin, prebiotics and nucleotides.

Dumex

Dumex, 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 prebiotics, high DHA and lactoferrin content.

Reeborne

In the first half of 2020, the Group reshaped the brand proposition of Reeborne by launching a series of breast milk-like milk powder products. As the core product series for the year and in the future, such products feature a lighter taste and more nutritious ingredients. To target customers with different needs, there are seven new products in the breast milk-like milk powder series, covering mainstream milk powder, high-growth organic milk powder and goat milk powder for segmenting product category.

Reeborne's "Kieember (菁珀)" cow milk powder adopts the advanced MSD drying process, which retains the vitality of nutritional ingredients. It contains double high-quality protein, patented OPO plus high living CPP factors and a golden ratio of prebiotics, providing babies with all kinds of nutrition that can be easily absorbed. Reeborne's "Qinyou (親悠)" organic milk powder adopts the pure organic milk source from seven-year clean soil farms in Alps and dairy cows that are grass-fed outdoor for 300 days, in a way to provide milk powder with protein content of up to 20% for babies and toddlers. It passes the WIT organic certification and adopts the "one can, one code" tracking system to provide quality assurance. Reeborne's "TruYn (初穎)" goat milk powder selects high-quality small molecule goat milk protein, specifically adds rare ingredients such as lactoferrin, the body-friendly OPO structured lipid and probiotics and prebiotics, and adopts the smell removal technology to provide high-quality nutrition for easy digestion and good absorption of babies. In addition, the breast milk-like milk powder series of Reeborne also includes other products with different prices and nutritional values that address different nutritional needs of infants.

Arla

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 by virtue of high quality. The organic milk powder of Arla Baby & Me has obtained three major organic certifications, and contains high DHA and a golden ratio of prebiotics. Arla Baby & Me Lanxi (藍曦) contains unique nutrition synergistic combination of NutriCollab, with the addition of 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 golden ratio of prebiotics to form Pro Plus nutrition formula which fits the natural needs.

Doraler

Originating from Australia, Doraler goat milk powder contains 100% whole goat milk protein, which can be easily digested and absorbed by human body because of its natural attributes. Doraler insists on not adding sucrose, flavors and fragrances, maltodextrin in any product, in order to provide babies with the purest and healthiest nutrition.

Other products

The Group's products also include various milk powder for adults, such as Mengniu brand adult milk powder, Youyi (優怡) brand adult milk powder, Yourui (悠瑞) brand milk powder for the middle-aged and elderly and various dissolvable products such as Zhengwei (正味) brand oatmeal and Yashily infant nutritional rice flour. In May this year, the Group launched Topconic (特康力), which is the first domestic healthcare milk powder ever been certified as a healthcare product for improving immunity. Topconic's high-end adult milk powder for the middle-aged and elderly adopts professional formula and scientific production to boost "nutrition + immunity" and contains "probiotics + prebiotics" as the selling point, both setting a new benchmark for high-end functional milk powder.

Brand Strategies

Rebranding and conducting strong media promotion

In order to integrate superior resources and innovate the brand, the Group launched several rebranding projects in the first half of 2020. Taking into account the current status of Reeborne brand and the trend of high-end development in the industry, the Group further focused on the product positioning of staying close to breast milk. The Group re-organised the categories for cow milk, goat milk and organic milk, etc., restructured product mix, launched seven new products for the Reeborne series, and reshaped Reeborne's brand proposition, with an aim to compete in the market with high quality and a new image. Reeborne also sponsored the first-tier variety show "Ace vs. Ace: Season 5 (《王牌對王牌第5季》)" in the first quarter of this year, which rapidly enhanced brand awareness and strengthened channel confidence in a short period of time.

In addition, the Group has also reshaped the high-end positioning of the brand Arla Baby & Me by highlighting the organic features of products, introducing new products, and upgrading brand image. Arla Baby & Me held an online global conference on 10 May 2020 and released a new TVC to promote its brand-new slogan of "Leading the World in the Production and Sales of Organic Dairy Products (有機乳品產銷量全球遙遙領先)". At the same time, Arla Baby & Me also focused on the advertisement input for outdoor media in key markets to facilitate the enhancement of brand awareness.

The Group has also re-established the Doraler's brand positioning of "Choosing Doraler for the Best Goat Milk from Australia (小羊來自澳洲，羊奶就選朵拉)", and with the use of the new visuals, highlighted its high-end image on milk powder canned and imported originally from Australia. By leveraging the ingenuity in striving for quality and branding, the core value of the brand would be enhanced.

Responding to the national call on promoting the healthy habit of drinking milk

During the pandemic, the Group's infant formula milk powder brands actively responded to the call from the National Health Commission in the "Guidelines on Nutrition and Dietary for Prevention and Treatment of Pneumonia Infection for Novel Coronavirus" and worked in line with the action plan of "Healthy Chinese People Drink Milk Everyday (天天飲奶，健康中國人)" launched by the Mengniu Group. For public relations campaigns, the Group focused on the media-interested topics and made frequent promotion in channels such as online media, self-media, mother-and-baby communities and e-commerce channels to enhance brand awareness and reputation.

Conducting innovative promotion activities

The Group's infant milk formula brands further strengthened the use of social platforms that young mothers are keen on, such as Douyin, Weibo and WeChat, to promote the brands and products in a variety of interesting forms, such as fun short videos, vivid graphics and celebrity interactions, so as to enhance the interaction between the brands and consumers.

Increasing the number of members with comprehensive layout

The Group successfully directed customer flows through external equity cooperation and cross-industry promotion. Since the restart of membership marketing in April and until the end of June, hundreds of thousands of members were recruited and the number of members continued to grow steadily, providing supplementary online traffic flows under the pandemic. The Group also cooperated with mother-and-baby retail platforms, mother-and-baby brands, medical channels, internet platforms, mother-and-baby communities, fast-moving consumer brands and financial platforms in various aspects such as online traffic flows, exposures and marketing, and explored innovative cooperation models to achieve growth in the number of members.

Product Research and Development

In the course of scientific research, the Group has been striving for excellence and committing to enhancing and consolidating the advantages of differentiated products. To meet the nutritional needs of infants at different stages of growth, the Group has been innovating and developing infant formula milk powder with nutritional composition close to breast milk. At the same time, the Group developed a series of adult milk powder in view of the growing nutritional needs of various consumer groups, especially middle-aged and elderly people. In addition, the Group's professional and sizeable R&D team made great progress in the registration of milk powder formulas and the research and development of nutrition products in response to the demand of both domestic and foreign markets.

Innovation and upgrading of infant formula milk powder

As of the end of June 2020, the Group and its partner Arla had a total of 54 infant formula products in 18 series approved for recipe registration. In order to continuously enhance and consolidate the advantages of differentiated products, the Group held a series of R&D and innovation conferences in 2020 to formulate a full-line product formula upgrade plan for launched infant formula products, including the innovative development of infant milk powder with breast-milk formula and the launch of infant formula products with new packaging image, so as to attract more consumers and raise the consumption level of products.

Innovation and development of high-end adult functional milk powder

The Group developed high-end adult functional milk powder by applying innovative functional ingredients to create more consumption hotspots for adult milk powder. In particular, after six years of research and development, the development of Topconic's Bifidobacterium Lactobacillus XOS milk powder was completed in 2020 and obtained the approval for healthcare food. Such product enhances the functions of the immune system by using the combination of probiotics and functional ingredients of XOS. In addition, the development of two series of milk powder for the middle-aged and elderly, namely Yourui Liyi (悠瑞力宜) and Xinpei (心沛), has also been completed in 2020. Such two series enhance the health of the middle-aged and elderly people by selecting functional ingredients that are beneficial to muscles and cardiovascular and cerebrovascular functions.

Continuous increase in R&D investment

The Group continued to increase its investment in the research and development of milk powder technology and testing methods to improve its technology level in research and development and product quality. In particular, for the research on the nutrition composition of breast milk under the “13th Five-Year Plan”, the Group has kicked off the work relating to formula design, trial production and animal experiment, and has established a database for breast milk nutrient composition. In addition, the Group has been proactively carrying out study on the topic “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 eight cities across the country. In response to national policies, the Group has cooperated with national well-known medical institutions such as Capital Institute of Pediatrics to further investigate the impact of nutrients contained in the infant formula on brain, intestine and physical development of infants through clinical trials.

Sales Channels

In the first half of 2020, the Group continued to implement the strategic layout of channel restructuring and strengthening. Under the organizational structure of business units managed on the basis of product lines of infant formula milk powder and nutrition products, the Group strengthened the strategic channel layout of “Mother-and-baby Stores for Infant Formula Products, Modern Trade Channels for Nourishment Products, Rapidly Developing E-commerce Channels and Comprehensively Developing New Channels and New Products (嬰配奶粉聚焦母嬰渠道，營養品聚焦商超渠道，快速發展電商渠道，新渠道新產品全面發展)”. In addition, during the novel coronavirus pandemic in early 2020, the Group adopted various measures in its sales channels to flexibly respond to challenges. The Group followed the new trend of channel changes by increasing the investment in digital marketing and forming targeted channel portfolios in line with its sound production lines. Thus, a solid distribution foundation was established among the core sales channels.

Consolidating core markets and enhancing refined management of stores

With regard to the development of channels for infant formula, the Group mainly focused on the development of mother-and-baby stores complemented by modern trade, e-commerce and new business channels, with an aim to consolidate the core markets, focus on the investment in major provinces and cities and insist on the strategy of channel penetration. While achieving good results from the distributions in third- and fourth-tier cities, the Group gradually improved the distribution level of outlets in second- and third-tier cities. At the same time, the Group cooperated with core chain retailers nationwide and increased investments in key stores, striving to achieve refined management of stores in terms of product distribution, staff operation and marketing activities and improve the overall operation quality of stores. The Group also continued to work on consumer communication in stores and utilized data to analyze the trend of consumers’ purchase behavior, to effectively intensify consumers’ favorability of the brand.

Diversifying marketing activities and continuously innovating marketing methods

In terms of marketing, in the first half of 2020, the Group enhanced brand communication for its various brands and implemented various themed promotion activities nationwide, which effectively improved the overall results and channel confidence. During the pandemic, the Group innovated its consumption channels, accelerated the transformation of consumption model from traditional retail to e-commerce and new retail, and promoted the sustainable development of its sales channels, such as using emerging media promotion models (e.g. live streaming, community communication, community group purchase, chain marketing and other multi-dimensional consumer interaction methods) to deepen consumers' awareness of the brand and attract a large number of target users by adopting Key Opinion Leader (KOL) marketing.

Establishing good reputation with efficient home delivery service

Due to the impact of the pandemic, the Group's sales channels experienced tremendous challenges in the first quarter of 2020. Facing the situation of temporary closure of many retail stores, employees failing to report duties and severely restricted logistics and delivery system, the Group promptly mobilized Yashili and customer service teams at all levels to organize and carry out the home delivery project of "Overcoming Difficulties with Love and Food (共克時艱，愛不斷糧)", so as to guarantee the supply of milk powder to end consumers on the premise of ensuring the safety and health of employees and partners, and establish good reputation among customers and consumers at all levels.

Quality Management

The year of 2020 is the third year of the Group's "Three Quality Years". The Quality Management Center continued to carry out rigorous control over quality and further improve the inspection process and standard, so as to maintain high levels of product quality.

Improving organizational structure and enhancing quality management level

In 2020, the Group sorted out 70 quality control projects within nine dimensions, namely the subject responsibilities of quality management for the entire business chain, quality performance management, quality system, regulations on technology, quality compliance and control in laboratory, review on the quality of industrial chain, research on food quality and safety, external affairs regarding technology and quality support, which further improved organizational structure, procedures and system establishment and expanded the scope and depth of management.

Establishing an information system to support comprehensive quality management

By establishing the Laboratory Information Management System (LIMS), which was integrated with the SAP system, data supports were provided for the Group's quality management, achieving the four main goals of streamlining, normalizing, simplifying and standardizing quality inspection, and ultimately achieving the visible and effective tracking of the quality of the supply chain. The Group has comprehensively sorted out the existing quality inspection procedures and standards and is intensively preparing for the online operation of the laboratory information system.

Improving quality control in production process

The Group continued to focus on the quality control in production process and implemented various measures (including the standardization of production operations, the control of environmental hygiene, the improvement in the control of foreign objects in the factory, the optimization of production practices and formulas, the control of material freshness, etc.) to improve product quality and reduce complaint rate. To strengthen the monitoring of production process, the Quality Management Center took reference to the industry supervision model to conduct unscheduled on-site inspections. The Quality Control Center also facilitated the continuous improvement of within the factory through annual internal audit and random unscheduled inspections. The Group also provided trainings for relevant personnel to improve quality awareness at all levels.

Supply Chain

Although the novel coronavirus pandemic in the first half of 2020 posed great challenges to the supply chain management work, the Group's supply chain adhered to implement the six major tasks (including talent, team and culture building, strict management of factories, maintenance of excellent supply chain operation, improvement of production, supply and sales coordination, establishment of key projects and connection between upstream suppliers and downstream customers), overcame the difficulties of the pandemic and completed the Group's strategic objectives in the first half of the year.

Realizing production and securing supply

During the Lunar New Year, the Group fully leveraged the global procurement advantages of itself and the Mengniu Group and deployed pandemic prevention materials and raw materials for production to support the production of its factories in Inner Mongolia and Shanxi and provided whole milk powder for the Group and the Mengniu Group as production reserves. On the premise of ensuring the health and safety of employees, the Group promptly organized production management and product supply in an orderly manner and ensured that protective gears for pandemic prevention during production were in place. The Group's four factories resumed production in mid to late February. In the first half of 2020, the Group achieved a double-digit year-on-year increase in output and a year-on-year decrease of 12 days in inventory turnover days. The Group also reduced inventory costs while ensuring product supply.

Exploring new income sources, reducing costs and enhancing efficiency

The Group was committed to expanding diversified businesses, including sharing of front-line production personnel with the Mengniu Group, sharing of business resources such as warehousing and labor resources with surrounding enterprises of the factories and commencing business cooperation in whole milk powder production with Shijiazhuang Junlebao Dairy Co., Ltd.. At the same time, the Group also stepped up efforts to reduce costs, enhance efficiency, consistently improve water recycling, energy conservation and emission reduction, optimize inspection and testing procedures, improve production schedules, and optimize logistics and transportation networks. The Group carried out more than 70 supply chain improvement projects under the special resource investment required to secure pandemic management and control, achieving significant results in reducing costs and enhancing efficiency.

Management System

In the first half of 2020, the Group completed internal integration. With the upgrading and transformation of its internal management system, the Group optimized and sorted out data assets to ensure smooth business operation.

Based on Yashili's digital platform jointly established with Alibaba, an e-commerce giant, in 2019, the Group launched the smart shopping guide platform online in the first half of 2020 to reshape the way of interaction with consumers by empowering shopping guidance with data. In terms of business model, the Group has created a brand-new operation model to facilitate the comprehensive digital upgrade of physical stores through Joyful-Shopping for staff members and Mengya Home and the establishment of independent online stores for every physical store. Consumers could watch video lessons conducted by experts on parenting knowledge centrally provided by brands in each independent store of Mengya Home, so as to accumulate the consumer assets of each store and expand the influence of brands. With the optimization and integration of channels brought by digitalization, not only did the Group innovate the service form of channel participants, but also introduce new business growth opportunities for the Group.

In terms of supply chain, the Group comprehensively implemented SAP WMS warehousing space management in the first half of the year to improve warehouse management capabilities. Meanwhile, the Group applied the LIMS system in the inspection process of raw materials, auxiliary materials, semi-finished products and finished products. The LIMS system was integrated with systems such as the SAP and ERP systems, etc., to provide data support for the comprehensive quality management of the Group and achieve visible and effective tracking of the quality management of supply chain. In terms of marketing, the Group initiated and launched the online marketing expense management system, and effectively managed the expenses and utilization efficiency of promotional campaigns through the digital management platform.

In the second half of 2020, the Group will continue to be consumer-oriented, establish a membership point system, improve membership rights and interests, and add value to the digital assets of members to empower consumers. The Group will establish an interactive platform for distributors and a terminal marketing platform to form a closed-loop business, reduce costs and improve efficiency to empower distributors. The Group will continue to promote the establishment of online business and digital upgrade of stores to empower stores.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group's revenue amounted to RMB1,644.9 million (the same period of 2019: RMB1,747.4 million), representing a decrease of 5.9% as compared to the same period of last year.

Revenue by brand and product category – for the six months ended 30 June (unaudited)

	2020	2019	Percentage change
By product category	RMB million	RMB million	
Milk powder products	1,290.1	1,398.7	-7.8%
Other milk powder products	224.3	264.2	-15.1%
Dissolvable products	73.7	59.3	24.3%
Others	56.8	25.2	125.4%
Total	1,644.9	1,747.4	-5.9%

For the six months ended 30 June 2020, milk powder products recorded a revenue of RMB1,644.9 million (the same period of 2019: RMB1,747.4 million), decreasing by 5.9% as compared to the same period in 2019. Other milk powder products recorded a revenue of RMB224.3 million (the same period of 2019: RMB264.2 million), decreasing by 15.1% as compared to the same period in 2019, mainly due to the decrease in the sales of base powder of Yashili New Zealand resulting from the impact of the novel coronavirus pandemic; dissolvable products recorded a revenue of RMB73.7 million (the same period of 2019: RMB59.3 million), increasing by 24.3% as compared to the same period in 2019; and other products recorded a revenue of RMB56.8 million (the same period of 2019: RMB25.2 million), increasing by 125.4% as compared to the same period in 2019.

The decrease in the Group's sale revenue was mainly attributable to: (1) the Group continuously adjusted its product strategies to gradually phase out products with low production value and gross profit, while such consolidation partially offset the sales growth of products to a certain extent; (2) in addition, due to the impact of the novel coronavirus pandemic and the macroeconomic downturn at home and abroad, the sales volume of products declined as compared to the same period of last year.

Facing the impact of the pandemic, the Group bravely fought against the pandemic and embraced the changes. In the second quarter, the business fully recovered. Compared with the first quarter, net income increased by 77% and operating profit margin increased by 17 percentage points with strong business development momentum.

Gross profit

For the six months ended 30 June 2020, the Group recorded a gross profit of RMB622.5 million (the same period of 2019: RMB769.0 million), representing a decrease of 19.1% from the same period of last year. The gross profit margin was 37.8%, representing a decrease of 6.2%, which was due to the increase in proportion of sales revenue from adult milk powder and dissolvable products with lower gross profit margin in the first half of the year. In addition, the acceleration in the sales of infant milk powder products in original packages also affected gross profit to a certain extent.

Selling and distribution expenses

For the six months ended 30 June 2020, the Group generated selling and distribution expenses of RMB440.7 million (the same period of 2019: RMB614.9 million), representing a decrease of 28.3% from the same period of last year. The selling and distribution expenses as a percentage of revenue was 26.8% for the first half of 2020 (the same period of 2019: 35.2%), representing a decrease of 8.4% from the same period of last year, which was mainly due to the fact that the Group enhanced the utilisation efficiency of selling and distribution expenses for the period. Meanwhile, brand strategies were under adjustment in accordance with market conditions, thus required less investment.

Administrative expenses

For the six months ended 30 June 2020, administrative expenses amounted to RMB91.9 million (the same period of 2019: RMB111.3 million), representing a decrease of 17.4% from the same period of last year, mainly attributable to the enhancement of operation efficiency of back offices and the optimization of corporate structure.

Net finance income

For the six months ended 30 June 2020, net finance income amounted to RMB34.3 million (the same period of 2019: RMB42.6 million). The decrease in net finance income of 19.5% was mainly attributable to the global adoption of quantitative easing policy under the pandemic, leading to a decrease in deposit rate and capital for deposits.

Income tax expense

For the six months ended 30 June 2020, the provision for income tax expense of the Group amounted to RMB11.2 million (the same period of 2019: RMB14.2 million) and the effective income tax rate was 23.9% (the same period of 2019: 29.2%). The decrease of the income tax expense was mainly due to the decrease in use of “temporary difference from the previous year and tax losses” for the period.

Inventories

As at 30 June 2020, the balance of inventories of the Group amounted to RMB770.5 million (31 December 2019: RMB924.0 million). The decrease in inventories of 16.6% was mainly because the Group renewed the packaging and enhanced the formula of infant formula milk powder. Each of the subsidiaries made production and operation arrangement with regards to the Group, with the companies responsible for sales selling more finished goods with old package and original formula, while the companies responsible for production exhausted its old packaging material as soon as possible. As of the end of the period, the Group's products in new packaging were still in early distribution. There were less finished products as compared to the end of the previous year, resulting in the general decrease of stock of inventories.

Other current financial assets/structural bank deposits

As at 30 June 2020, other current financial assets/structural bank deposits mainly included structural bank deposits in total of RMB541.0 million which were principal guaranteed and with anticipated annualised yields of 1.3% to 5.9% (31 December 2019: 1.3% to 6.1%).

Trade receivables

As at 30 June 2020, the Group's trade receivables amounted to RMB192.9 million (31 December 2019: RMB152.6 million). During the first half of 2020, the trade receivables turnover days were 19 days (31 December 2019: 16 days), representing an increase of 3 days as compared to the end of 2019, mainly due to the Group's subsidiary in New Zealand being affected by the export policy of New Zealand during the period, where exports were forbidden between February to April. As most of the transactions were made in May and June, the balance of receivables for the period increased correspondingly.

Human resources and employees' remuneration

As at 30 June 2020, the Group has a total of 2,574 full-time employees (30 June 2019: 3,180). The total staff cost for the period was approximately RMB219.0 million (the same period of 2019: RMB252.4 million). The decrease in staff cost was mainly attributable to the streamlining of the sales team during the period, leading to a decrease in number of staff for the period.

Contingent liabilities

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

Capital commitment

As at 30 June 2020, the Group's capital commitment was RMB59.5 million (31 December 2019: RMB9.7 million), which was mainly related to improvement projects in relation to the Recipe Registration Requirement and milk powder production equipment.

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 at 30 June 2020, 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

In the first half of 2020, the Human Resources Management Center adjusted its departmental structure and further explored talents and motivated employees in accordance with the strategic objectives of the Group to continuously enhance team performance.

Adjusting structure and strengthening business units

In order to effectively align with the corporate strategy and strengthen the business units, the Group, while upholding the vision of "quick market response, strong strategy execution and high operational efficiency (市場響應快，戰略執行強，運營效率高)" and the design principles of "vertical penetration, horizontal splitting, collaborating and sharing, and empowering and supporting (縱向下沉，橫向拆分，協同共享，賦能支持)", transferred all the functional centers and departments of the headquarters to business divisions, and promoted business through reasonable personnel deployment. The Group completed all the structural adjustments in March 2020.

Focusing on training outstanding talents

In the first half of 2020, the Group completed the organization and talent review across the Group, identified talents with high potentials, formulated personal development plans for employees, and designed development programs for talents at different levels and with different development needs under the "Blue Ocean Program (藍海計劃)" to promote outstanding talents. The Group also took advantage of customized cloud-based classes to enable online learning for all the employees, with more than 150 online courses. The Group launched a series of training programs, such as the Spark Instructor Program, morale improvement training, new employees training and monthly study station, etc., to continuously encourage employees to learn.

Reforming remuneration system and providing incentives to talents with excellent performance

The Group initiated the “High-Performance-Based Salary Adjustment Plan (高績效調薪計劃)” this year, aiming to advocate a performance-based culture and retain high-performance personnel. The measures included reforming the employees’ sales-based remuneration system and increasing the proportion of the employees’ fixed income to provide better protection to front-line salespersons; increasing monthly performance wages and strengthening process management to promote sound and sustainable business development; and introducing “Quantum Programs (量子計劃)” for various sales units and functions, thereby motivating the employees to accomplish annual goals.

Building a professional team and enhancing employers brand image

The Group firmly believes that talents are valuable capitals for corporate development. Through various channels, such as utilizing internal employee network, the Group recruited experienced sales talents in the milk powder industry to build an efficient sales team. By virtue of excellent human resources management, the Group was awarded the “2019 South China Human Resources Innovation and Excellence Award (Golden HR Award) (2019年度中國華南地區人力資源創先爭優(金人獎))” presented by Guangdong Human Resource Management Association (廣東省人力資源管理協會) and the “2020 Outstanding Human Resources Management Award (2020年人力資源管理傑出獎)” presented by 51job.com (前程無憂), which improved the employers brand image of the Group.

SOCIAL RESPONSIBILITY

In the face of the outbreak of the novel coronavirus pandemic in early 2020, the Group proactively shouldered its corporate social responsibility by making its own contributions for the prevention and control of the pandemic, fully mobilizing resources from all parties, and donating 51,826 sets of supplies in aggregate with a total value of RMB40 million to various institutions and units, including the Red Cross Society of Inner Mongolia Autonomous Region (內蒙古自治區紅十字會), China Children and Teenagers’ Fund (中國兒童少年基金會), China Nutrition and Health Food Association (中國營養保健食品協會), China Charity Federation (中華慈善總會), Henan Charity General Federation (河南省慈善總會) and Hubei Charity Federation (湖北省慈善總會).

In order to support front-line personnel to better participate in the prevention and control of the pandemic, Yashili donated 4,186 boxes of infant formula milk powder to Hubei Charity Federation (湖北省慈善總會) through China Charity Federation (中華慈善總會) to ensure food supply for the infants and young children of the front-line staff in governments and hospitals in Wuhan and various regions. At the same time, Yashili’s employees from different regions also joined the volunteer teams to deliver the donated supplies to the Mengniu Epidemic Prevention and Emergency Supplies Center of China Charity Federation (中華慈善總會(蒙牛)疫情防控應急物資中心), which was built by Mengniu Dairy, for distribution. Yashili also donated milk powder to charities, children's welfare homes and governmental agencies for novel coronavirus pandemic prevention and control in certain areas of Hubei Province through salespersons and distributors in Hubei Province.

Yashili also actively responded to the public welfare event named “Prevention of Novel Coronavirus Pneumonia and Guaranteeing Nutrition of Infants (防新型冠狀肺炎、保障嬰幼兒營養)” organized by China Children and Teenagers’ Fund in conjunction with China Nutrition and Health Food Association, by donating 13,490 boxes of infant formulas with a value of RMB20 million to China Children and Teenagers Fund to supply to the families with pregnant women and infants affected by the pandemic in Xiaogan, Xianning, Ezhou, Yichang, Huanggang and other places in Hubei Province.

In addition, Yashili donated products with a value of RMB10 million through the Red Cross Society of Inner Mongolia Autonomous Region to the Red Cross Societies in more than 10 provinces across the country. The donated products included Mengniu Yashili milk powder, Mengniu Yourui Guyi (悠瑞骨宜) milk powder for the middle-aged and elderly, Mengniu Yourui Shunyi (悠瑞順宜) milk powder for the middle-aged and elderly and Mengniu Yourui Yitian (悠瑞怡添) milk powder for the middle-aged and elderly to provide nutritional supplements for front-line personnel who were fighting against the pandemic.

In May 2020, Yashili also donated Topconic milk powder, which was worth more than RMB1 million, to Air Force Hospital for Guangzhou Southern Military Area (廣州南部戰區空軍醫院), the People's Hospital of Liangshan County (梁山縣人民醫院), the Education Bureau of Yuexiu District, Guangzhou (廣州越秀區教育局) and the School of Public Health of Sun Yat-sen University (中山大學公共衛生學院).

PUBLIC RELATIONS AND CRISIS MANAGEMENT

The Group has been striving to communicate with relevant government departments, media and consumers through various channels in a proactive, open, sound and active way to achieve mutual benefits and win-win results. In the first half of this year, affected by the pandemic, consumers paid more attention to food safety issues. The Group carried out system reforms, integrated Mengniu Group’s system with the original corporate crisis management system and strengthened learning and application to quickly handle various kinds of crises in an active and effective manner. With the support of the crisis management system, the Public Affairs Management Department coordinated with various departments to timely and accurately handle various consumer complaints and assist in handling the consultation of government departments and media concerns.

The Group also attached great importance to the market, actively served and coordinated for market sales, and timely responded to consumers’ concerns, which thereby effectively prevented the occurrence of crisis. By paying close attention to industry trends and news events, the Group responded to industry events in a timely manner and communicated with the public and the media effectively, thereby establishing a good position in the industry. The Group also actively released information to the media in the aspects of brand activities, industry activities and trending information. By controlling the pace of communication, the Group established trending, influential and readable topics for each event, to improve the understanding of the public and media on the Company and continuously enhance its corporate and brand image.

INVESTOR RELATIONS

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

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

FUTURE PROSPECTS

Policy implications

In the second half of 2020, the State Council will issue the “Opinions on Promoting the High-Quality Development of the Dairy Industry” (《關於推動乳製品行業高質量發展的意見》) to further optimize the industrial structure and ensure the quality and safety of dairy products, so as to boost the public confidence in domestic dairy products consumption, continuously improve the competitiveness of China’s dairy industry and promote the high-quality development of the industry.

With the continuous update and release of policies, regulations and standards, the Group will consistently pay attention to the development of national policies and associated implementation documents. Regarding the domestic milk powder industry, such policies will promote the overall quality upgrade of the industry, accelerate mergers and acquisition and increase industry concentration, bringing a broader room for development of the domestic dairy industry, which will be considered as both challenges and opportunities for dairy companies.

Industry trend

High-quality differentiated products remain as the major trend of the market

With China’s economy gradually focusing on quality transformation and industrial upgrade, and the consumption transformation across the society, the pursuit of high-quality products and services have become a new form of socio-economic trend and lifestyle. The infant milk powder industry will still take on the trend of continuing to provide the consumers with high-quality products and differentiated services. Facing the increasingly fierce competition in the domestic milk powder market and the increasing requirements for product quality against the backdrop of diminishing demographic dividend and new policies for milk powder, the production of high-quality and differentiated products is still the main breakthrough point to enhance corporate competitiveness. Organic and goat milk products market is expected to see continuous growth.

Adult milk powder enjoys huge market potential

With the increasing aging population in China and the higher awareness on healthcare of people, there will be an explosive growth in nutritional and healthcare products, and adult milk powder enjoys huge market potential. In the context of China's consumption upgrade, the adult milk powder industry will be led by users' demand to mainly coping with their needs, and continuously optimize products and services to give full play to the industry's potential under fierce competition.

Consumers prefer high-quality and healthy functional products

As affected by the novel coronavirus, the demands of Chinese consumers will tend to focus on the high quality and health functionality of the products. The quality incidents in the first half of 2020 will result in new quality regulatory requirements to the entire dairy industry. This trend requires dairy companies to pay more attention to product production and quality assurance, as well as the research and development of milk powder formula, the promotion of healthy ingredients and consumer education.

All-round investment and digital development of channels

In terms of channels, for the transformation of channel retailers, large and medium-sized mother-and-baby chain stores has begun to take on a trend of turning into modern trade stores and digitized, with more and more mother-and-baby stores starting to collaborate to seek better business modes. From the perspective of the competitive landscape, foreign brands have not developed enough brand and channel penetration, while domestic brands have increased their omni-channel investment and made remarkable achievements in brand building and channel expansion. For marketing activities, live broadcast promotions by celebrities have gradually become the main promotion model for high-end milk powder. The popularity of new retail formats has brought more investment and development in online + offline business models. With the digitalization, intelligentization and big data application of the retail industry in China and the rise and development of the business models like live broadcasts and community marketing, the mother-and-baby industry will be elevated to a new dimension of development.

Company strategies

Brand strategies

Focusing on brand and product category

The Group will continue to regard infant formula as its main product category, strive to consolidate milk powder products, and expand the market for organic and goat milk products, while gradually developing the market for dissolvable nutritional products. In particular, the Reeborne brand will focus on breast milk-like milk and organic products, the Arla brand will focus on high-end organic products, and the Doraler brand will seek for breakthroughs in imported goat milk, thereby forming a sound infant formula brand and product mix. On the other hand, under the two major trends of aging population and younger sub-healthy

population, the Group will continue to develop the strategy of multi-brand operation, focus on sub-health populations, and build an adult milk powder brand with high-end health maintenance functions for the middle-aged and elderly.

Enhancing brand image in multiple dimensions

In 2020, the Group will focus on newly renewed brands (such as Reeborne, Arla Baby & Me, and Doraler, etc.), further shape their high-end professional images, and concentrate resources to continuously invest in brand building and brand empowerment. In particular, the Group has held a press conference in the third quarter to promote Reeborne's new brand image to create a new concept of infant formula and enhance brand awareness. Reeborne will also use the image of mother and baby pandas to convey the brand concept of “Every Baby is a Mother's National Treasure (每個寶寶都是媽媽的國寶)”, and will actively participate in the national panda welfare and protection cause, calling on society to pay attention to and participate in the protection of pandas, so as to further strengthen the positive image of the Group in terms of social responsibility. In addition, Reeborne has also continued the cooperation with the spokesperson Yao Chen (姚晨), and launched a TV commercial in the third quarter to strengthen the brand's professional image.

In the second half of 2020, the Group will also continue to concentrate resources in core cities, and actively strengthen the distribution, retail-end construction, and consumer cultivation and interaction in core markets. Meanwhile, the Group will attract more consumers to buy star products by various means such as TV advertisements, cooperation with local media columns and internet advertisements.

Product research and development

To cater for the diversified needs of the market, the Group will continue to enrich its brand matrix and improve its product portfolio in the second half of 2020. The Group will continue to devote more efforts on the design of unique formulas for the needs of children, adolescents, adults, women, the middle-aged and the elderly. In order to grasp the opportunities brought by the increasing ageing population in China, the Group will strengthen the innovative development and application of nutritional supplement milk powder with different functional ingredients to meet the diversified needs of the middle-aged and elderly people. In addition, the Group will continue to explore the product development of formula foods for special medical purposes for adult consumer groups with special needs.

Besides, the Group will continue to strengthen the research on the nutritional components of breast milk, including cooperating with the Nutrition Research Institute of Mengniu to carry out research on how to make infant formula products that are more similar to breast milk, and actively cooperate with industry-leading food and nutritional science experts and institutions to develop a new generation of breast milk-like infant formula products, as well as continue to proceed the research on nutritional components of breast milk under the “13th Five-Year Plan”. Meanwhile, the Group will continue to increase the investment in basic research and development projects to continuously improve the technical level of research and development and product quality.

Sales channels

The Group will continue to increase investment in its various brands and the layout and construction of different sales channels for all business divisions, and continue to promote the balanced development of online and offline markets, focus on key products in core areas, enhance marketing digitalization, seize the development opportunities for e-commerce and new retail, and promote cross-border business development.

Balancing the development of online and offline markets and strengthening the operation of offline stores

The Group will continue to develop in a balanced manner in the online and offline markets in the second half of 2020. For online markets, the Group will establish cooperative relationships with large-scale manufacturers and gradually establish a network of benchmark stores. For offline markets, the Group will continue channel penetration and deep cultivation to achieve stable distribution at the county, township and village levels. For mother-and-baby chain stores and KA modern trade channels, the Group will formulate targeted strategic plans to continue to enlarge the market share of advantageous brands, while promoting the “RMB10,000 Store (萬元店)” program nationwide, and focusing resources on key stores to promote the in-depth development of the channels.

Focusing on key products in core areas

The Group’s infant formula key products will focus on key areas, commence saturation coverage, expand network layout, set up flagship store and strengthen shopping guide management. Extra efforts will be made to increase new customer and repeated purchase rate while cooperation with distributors will be further increased.

Strengthening market digitalization and promoting marketing innovation

In face of the impact of the pandemic and in line with the trend of the new retail industry, the Group will continue to invest in and promote digital marketing, focus on obtaining big data across channels, and provide consumers with tailor-made products and services. The Group will further promote the analysis and application of big data, optimize consumer service experience, and improve marketing effectiveness, while improving the efficiency of product supply, logistics and distribution, improving the overall service standard of the Group, and gaining insights into the changes in consumption patterns in terms of in-depth marketing, so as to enhance the adhesiveness of the channels and provide consumers with tailor-made services.

Seizing the development opportunities for e-commerce and new retail

The Group will seize the new opportunities brought about by e-commerce and new retail models, strengthen the cooperation with Alibaba in intelligent cloud computing, Tmall new retail and digital media, and take advantage of consumer big data to enhance online and offline traffic flow and improve overall services. Especially in the post-pandemic era, social e-commerce has emerged vigorously, and its difference from traditional e-commerce is that it can quickly facilitate transactions and increase conversion rates from the model of “search” to “discovery”. E-commerce and new retail will bring new growth points and room for development to the Group in the long run. Among which, e-commerce team operates independently, online and offline stores are linked and the management of public opinions and negative feedback is launched. We promptly responds to customers’ enquiry is promptly responded to, provides training to professional service team and boldly delegates power.

Supply chain

In the second half of 2020, the Group will focus on the production management in factories, optimize the existing systems, and continue to expand income sources and innovate, thereby helping the Group achieve its strategic goals.

The Group will carry out differentiated positioning for every factory at home and abroad to explore the projects for expanding sources of income and reducing expenses, increase capacity utilization, and implement measures for cost reduction and efficiency enhancement. These include the introduction of advanced management concepts of the WCM system to achieve the factory management goal of “zero waste, zero defect, zero failure and zero inventory” (零浪費、零缺陷、零故障、零庫存). In terms of plan management, the Group will continue the reform towards digitalization and use data to drive the implementation of plans to achieve end-to-end management system optimization.

In addition, the Group will continue to train talents with high potential, deploy key business teams to factories for rotation to strengthen their understanding of business operations, and carry out talent training to the teams at primary level to identify outstanding managers, as well as conduct a comprehensive evaluation on the employees and formulate targeted development plans. In terms of professional training, the Group will enhance the operation and management capabilities of the supply chain team by organizing comprehensive trainings targeted at “world-class smart manufacturing”, to help the Group achieve its strategic goals.

Human resources

In the second half of 2020, the Group will continue to introduce advanced management processes, systems, standards and set-ups to quickly respond to changes in market, and implement strategic human resources management and continue to optimize its business model under the business division system at the same time. We continued to delegate practical duties to the business units. Being business-oriented, the Group will maximize organizational performance and maintain the sustainable competitive advantages of the Group through policy deployment, organizational structure and their implementation.

Deepening corporate culture and strengthening performance management

The Group will continue to promote the values of “Integrity, Responsibility and Entrepreneurship” (誠信、擔當、創業精神), pass on the corporate culture to employees in various forms, and adopt competitive remuneration, incentive systems and appraisal systems to retain outstanding talents, while closely monitoring performance management to further enhance staff performance and vitality.

Constructing core talent supply chain to facilitate talent development

The Group will build a core talent supply chain, focus on training employees in key positions, follow up on the progress of the employees’ personal development plans, implement training plans for high-potential talents, and build a dual-track talent development mechanism. The Group will also focus on the training and development of the sales team to ensure the unceasing supply of talents.

Optimizing system construction and strengthening business support

The Group plans to complete the optimization of the human resources system in 2020 to realize the automation and systemization of work related to human resources, as well as the self-service of employee service functions. The Group will also continue to optimize the human resources and remuneration system to strengthen the support for its business, and retain outstanding employees through competitive incentive mechanisms such as the “Quantum Program” and sales increment awards. In addition, the Group will continue to recruit talents in the industry, develop higher-tier and lower-tier markets in line with its business strategies, and expand new channels.

Establishing employer brand to improve corporate image

The Group will continue to promote internal and external employer brand building activities, stimulate the recognition of employer brand from internal staff, expand internal recommendation channels and continuously promote the employer brand through online publicity activities, thereby enabling the Group to attract outstanding talents.

INTERIM DIVIDENDS

The Board does not recommend an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil) and recommends to retain the earnings for the period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES AS AT 30 JUNE 2020

As at 30 June 2020, the Directors and the chief executives of the Company and their respective associates had or was deemed to have the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), which have been notified to the Company and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities (the “Listing Rules”):

Directors' interests in the shares of Mengniu Dairy (being a holding company and an associated corporation of the Company):

Name of director	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage to the issued share capital of Mengniu Dairy
Mr. Jeffrey, Minfang Lu	Beneficial owner	11,522,520 ⁽¹⁾	0.29% ⁽²⁾
Mr. Zhang Ping	Beneficial owner	2,039,002 ⁽¹⁾	0.05% ⁽²⁾
Mr. Yan Zhiyuan	Beneficial owner	189,255 ⁽¹⁾	0.00% ⁽²⁾

Notes:

- (1) All the shares are held in long position.
- (2) The calculation is based on the number of shares as a percentage of the total number of issued shares of Mengniu Dairy (i.e. 3,938,589,900 shares) as of 30 June 2020.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executives of the Company had or was deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules. Save as disclosed above, at no time was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AS AT 30 JUNE 2020

To the best of knowledge of any Director or chief executive of the Company, as at 30 June 2020, the persons or corporations (other than Directors or chief executives of the Company) who had interest or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/Nature of interest	Number of ordinary shares⁽⁴⁾	Approximate percentage to the issued share capital⁽⁵⁾
Mengniu Dairy ⁽¹⁾	Interests in a controlled corporation	2,422,150,437 ⁽⁴⁾	51.04%
Mengniu International ⁽¹⁾	Beneficial owner	2,422,150,437 ⁽⁴⁾	51.04%
Danone SA ⁽²⁾	Interests in a controlled corporation	1,186,390,074 ⁽⁴⁾	25.00%
Danone Baby and Medical Holding ⁽²⁾	Interests in a controlled corporation	1,186,390,074 ⁽⁴⁾	25.00%
Danone Baby and Medical Nutrition BV ⁽²⁾	Interests in a controlled corporation	1,186,390,074 ⁽⁴⁾	25.00%
Nutricia International BV ⁽²⁾	Interests in a controlled corporation	1,186,390,074 ⁽⁴⁾	25.00%
Danone Asia ⁽²⁾	Beneficial owner	1,186,390,074 ⁽⁴⁾	25.00%
Vanguard International Investment Co., Ltd ⁽³⁾	Interests in a controlled corporation	303,462,119 ⁽⁴⁾	6.39%
Zhang Yangui ⁽³⁾	Interests in a controlled corporation	303,462,119 ⁽⁴⁾	6.39%
Zhang International Investment Limited ⁽³⁾	Beneficial owner	303,462,119 ⁽⁴⁾	6.39%

Notes:

- (1) As at 30 June 2020, Mengniu Dairy held 99.95% interest in Mengniu International and Mengniu International directly held the relevant shares.
- (2) As at 30 June 2020, Danone SA held 100% interest in Danone Baby and Medical Holding. Danone Baby and Medical Holding held 100% interest in Danone Baby and Medical Nutrition BV. Danone Baby and Medical Nutrition BV held 100% interest in Nutricia International BV. Nutricia International BV held 100% interest in Danone Asia and Danone Asia directly held the relevant shares.
- (3) As at 30 June 2020, Zhang International Investment Limited was held as to 35.06% by Vanguard International Investment Co., Ltd, which is in turn wholly owned by Mr. Zhang Yangui.
- (4) All the above shares are held in long position (as defined under Part XV of the SFO).
- (5) The total number of issued shares of the Company as at 30 June 2020 was 4,745,560,296.

Save as disclosed above, as at 30 June 2020, the Directors of the Company were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Pre-IPO Share Option Scheme**”) on 8 October 2010, and adopted a share option scheme (the “**Share Option Scheme**”) on 8 October 2010. 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-IPO Share Option Scheme and the Share Option Scheme. 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 2020 to 30 June 2020.

FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk primarily from bank deposits, other receivables and bank loans, denominated in foreign currencies (that are currencies other than the functional currencies of the operations to which the transactions relate). The currencies giving rise to this risk are primarily European dollars, Australian dollars, US dollars, New Zealand dollars and Hong Kong dollars.

PLEGDED ASSETS

As at 30 June 2020, the Group has pledged bank deposits, other current assets and non-current assets in aggregate of approximately RMB1,533.3 million (31 December 2019: RMB1,453.2 million).

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2020, the liquidity of the Group was comprised of cash and cash equivalents, pledged deposits to be released within one year and other current financial assets amounted to RMB2,891.9 million in aggregate (31 December 2019: RMB2,692.0 million), representing an increase of 7.4%. The increase was mainly due to that the Group has prepared sufficient funds for the production and sales of new packaged products in the second half of the year.

OPERATING ACTIVITIES

For the six months ended 30 June 2020, the Group's net cash outflows from operating activities amounted to RMB47.8 million (six months ended 30 June 2019: net cash outflows of RMB192.6 million). Net cash outflow from operating activities decreased from that of the same period of last year. The decrease was mainly due to that the Group increased production and stock of raw materials and packaging materials in view of the increased sales of infant formula and adult milk powder, which led to a significant increase in inventory and greater cash outflow during the same period of last year. During the period, the Group renewed the packaging and enhanced the formula of infant formula milk powder. Each of the subsidiaries made production and operation arrangement with regards to the Group, with the companies responsible for sales selling more finished goods with original package and formula, while the companies responsible for production exhausted its original packaging materials as soon as possible. As of the end of the period, the Group's products in new packaging were still in early distribution. Finished product and the general stock of inventory decreased as compared to the end of the prior year, leading to a decrease in cash outflows from operating activities.

INVESTING ACTIVITIES

For the six months ended 30 June 2020, the net cash inflows used in investing activities amounted to RMB317.4 million (six months ended 30 June 2019: net cash outflows of RMB329.3 million). There was cash inflow from investing activities during the period, mainly due to the decrease of bank deposits with original maturity of more than three months and other financial assets in the period.

FINANCING ACTIVITIES

For the six months ended 30 June 2020, the net cash inflows generated from financing activities amounted to RMB255.9 million (six months ended 30 June 2019: net cash inflows of RMB97.3 million). The increase in net cash from financing activities as compared to the same period of last year was mainly attributable to the increase in bank loans for the period.

LOANS AND BORROWINGS

As at 30 June 2020, the Group's interest-bearing bank and other borrowings amounted to RMB316.9 million (31 December 2019: RMB26.8 million). As at 30 June 2020, the total equity of the Group amounted to RMB5,673.5 million (31 December 2019: RMB5,681.7 million), debt to assets ratio (total interest-bearing bank and other borrowings at period end divided by total assets) was 4.2% (31 December 2019: 0.4%). The capital structure of the Group is reviewed by the Board annually, including the dividend policy and share repurchase activities of the Group.

CORPORATE GOVERNANCE

The Group is dedicated to ensuring high standards of corporate governance with an emphasis on the building up of a diligent and dedicated Board, a sound internal control system, with a view to enhancing its transparency and accountability to shareholders. The Board acknowledges that good corporate governance practices and procedures are beneficial to the Group and its shareholders.

During the period from 1 January 2020 to 30 June 2020, the Company has complied with all code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules, except for the deviation from code provision A.2.1 as explained below.

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 positions of Chairman and Chief Executive Officer (“**CEO**”) of the Company are held by Mr. Jeffrey, Minfang Lu and Mr. Yan Zhiyuan respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company’s business development and daily management and operations generally. The Board considers that the responsibilities of the Chairman and CEO respectively are clear and distinctive and hence written terms thereof are not necessary.

BOARD OF DIRECTORS

For the six months ended 30 June 2020, the Board’s composition have undergone the following changes:

- (1) Mr. Chopin Zhang resigned as an executive director, chief executive officer and authorized representative of the Company with effect from 8 January 2020.
- (2) Mr. Yan Zhiyuan was appointed as an executive director, chief executive officer and authorized representative of the Company with effect from 8 January 2020.

As at 30 June 2020, the Board was comprised of four non-executive Directors, one executive Director, and three independent non-executive Directors. The non-executive Directors were Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Gu Peiji (alias Philip Gu); the executive Director was Mr. Yan Zhiyuan; and the independent non-executive Directors were Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.10A of the Listing Rules, independent non-executive Directors shall represent at least one-third of the board. During the period from 1 January 2020 to 30 June 2020, the Board of the Company comprises eight members, three of whom are independent non-executive Directors. Therefore, Rule 3.10A has been duly complied with by the Company during the said period.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51(2) AND 13.51(B)(1) OF THE LISTING RULES

Mr. Chopin Zhang resigned as an executive director, chief executive officer and authorized representative of the Company with effect from 8 January 2020. Mr. Yan Zhiyuan was appointed as an executive director, chief executive officer and authorized representative of the Company with effect from 8 January 2020. Save as disclosed in the announcements of the Company dated 8 January 2020, there are no changes in the directors' biographical details since the date of the 2019 annual report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules.

SECURITIES TRANSACTIONS OF DIRECTORS

The Board has adopted the Model Code as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company.

The Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2020.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020.

COMPANY SECRETARY

Mr. Kwok Wai Cheong, Chris is the company secretary of the Company. Mr. Kwok is the financial controller and company secretary of Mengniu Dairy (the holding company of the Company), and is not an employee of the Company. Mr. Kwok contacts the management of the Company and reports to the chairman of the Board and/or the chief executive officer of the Company through Mr. Eric Fang of Investment Management Division, when necessary in accordance with the code provisions set out in the CG Code in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

As at 26 August 2020, the Audit Committee comprises two independent non-executive Directors, namely Mr. Lee Kong Wai Conway (Chairman) and Mr. Mok Wai Bun Ben and one non-executive Director, namely Mr. Zhang Ping (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise).

The Audit Committee has reviewed together with the management, the accounting principles and policies adopted by the Group and the Group's unaudited interim results for the six months ended 30 June 2020, and was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

In addition, the independent auditors of the Company, Ernst & Young, have reviewed unaudited interim results for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

SCOPE OF WORK OF ERNST & YOUNG

The financial figures set out in the announcement of interim results for the six months ended 30 June 2020 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft condensed consolidated financial information for the current period. 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 announcement of interim results.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2020 containing all the applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yashili.hk) in due course.

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

Hong Kong, 26 August 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.