



YuanShengTai Dairy Farm Limited 原生态牧业有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1431



2020 ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Hongliang (趙洪亮) (*Chairman*)
Mr. Fu Wenguo (付文國) (*Chief Executive Officer*)
Mr. Chen Xiangqing (陳祥慶) (*Chief Financial Officer*)
Mr. Liu Gang (劉剛)

Non-executive Directors

Mr. Leng Youbin (冷友斌)
Mr. Liu Hua (劉華)
Mr. Cai Fangliang (蔡方良)

Independent Non-executive Directors

Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Ms. Liu Jinping (劉晉萍)

JOINT COMPANY SECRETARIES

Ms. Song Miao (宋淼)
Ms. Cheng Lucy (曾若詩)

AUTHORISED REPRESENTATIVES

Mr. Chen Xiangqing (陳祥慶)
Mr. Liu Gang (劉剛)

AUDIT COMMITTEE

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗) (*Chairman*)
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)
Ms. Liu Jinping (劉晉萍)

REMUNERATION COMMITTEE

Mr. Zhang Yuezhou (張月周) (*Chairman*)
Mr. Zhu Zhanbo (朱戰波)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Mr. Zhao Hongliang (趙洪亮)

NOMINATION COMMITTEE

Mr. Zhu Zhanbo (朱戰波) (*Chairman*)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Mr. Zhang Yuezhou (張月周)
Mr. Fu Wenguo (付文國)

INDEPENDENT AUDITOR

Ernst & Young

PRINCIPAL BANKERS

Agricultural Development Bank of China
Industrial and Commercial Bank of China
Agricultural Bank of China
China Construction Bank

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
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183 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISORS

As to Hong Kong Laws
Loeb & Loeb LLP

STOCK CODE

1431

BOARD LOTS

1,000 shares

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

Chairman's Statement

TO OUR SHAREHOLDERS,

I would like to present the annual results of YuanShengTai Dairy Farm Limited (“**YuanShengTai**” or the “**Company**”) and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2020 (the “**Year**”) to our shareholders.

In 2020, the global economic growth faced various challenging tests due to the spread of the COVID-19 outbreak (the “**Pandemic**”) around the world amidst a complex and volatile international political and economic environment. According to the statistics released by the National Bureau of Statistics, China's overall economy declined initially before gradually picking up in the second half of the year in 2020. Its gross domestic product (GDP) for the year grew by 2.3% year on year and exceeded RMB100 trillion, making the country the only major economy with positive growth in the world for the pandemic-ravaged year. The statistics demonstrated a better-than-expected growth of domestic economy during the Year and the consumer demand were constantly recovering and rising.

The dairy industry was doing better generally during the Year thanks to the on-going revitalization of the national dairy industry, the growing awareness of residents to obtain high-quality nourishments after the Pandemic, and the persistent expansion and innovation of sales channels. In 2020, the government and dairy-related industry associations issued the “Guide for Chinese Households Concerning Milk and Dairy Products Consumption”, “Opinions on How to Promote Consumption and Improve Product Quality, and Accelerate the Development of a Powerful Domestic Market”, “Action Plan for Dairy Product Quality and Safety Improvement”. Moreover, during the National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC) in 2020, certain NPC representatives from the dairy industry came up with various proposals such as additional policy support of large-scale dairy farming companies in terms of land, technology, fiscal subsidy and financing to ensure long-term stability of forage planting. All these developments are believed to facilitate and sustain the healthy development of the dairy industry in the long run.

As a leading dairy farming company in the People's Republic of China (the “**PRC**”), YuanShengTai Dairy Farm Limited responded proactively to the complex and volatile business environment at home and abroad during the Year. The Group adhered to its large-scale and intensive development strategy. While striving to improve the Group's operation and management level and efficiency, it continued to increase its sales channels, strengthen its marketing efforts and strictly control its operating costs. In addition, the Group introduced a number of measures to deal with the challenges brought about by the unavailability of inter-city transportation so as to generate more revenue. With respect to milk quality, the Group always attaches paramount importance to the production of raw milk of the highest quality. The Group imposes rigorous management of the farms to maintain the advantage of freshness of milk sources, further enhancing the core competitiveness of the Group.

During the Year, the total sales volume of raw milk of the Group increased by approximately 6.3% to 355,599 tonnes from 334,424 tonnes in 2019. Total revenue amounted to RMB1,554 million, representing an increase of 12% as compared with 2019. During the Year, domestic raw milk prices picked up. The average selling price of the Group's raw milk during the Year was approximately RMB4,370 per tonne, representing a year-on-year increase of approximately 5.2%. The Group continued to implement measures such as expansion of cattle and herbs on the farms and optimization of the mix of dairy cows to achieve economies of scale and standardized development and increased yields per cow. The Group increased its commitment to prevention and control of the Pandemic and hygiene measures on the farms due to the Pandemic last year. In addition, the increasing cost of imported hay and feed and the increasing logistics and transportation costs partially offset the increase in the Group's sales of dairy products during the Year. The net profit for the Year was RMB578.0 million, representing a year-on-year increase of 159%. Gross profit increased by 22% to RMB463.3 million for 2020 from RMB379.7 million in 2019.



Chairman's Statement

Looking ahead to 2021, a great deal of opportunities are emerging in China's dairy industry, thanks to the effective control of the Pandemic in the PRC, on-going revitalization of the country's dairy industry, growing awareness of domestic households towards healthy diet and the shift of national nourishments from "sufficiency" to "healthiness". In order to meet the escalating consumer demand, YuanShengTai will adhere to large-scale and diversified development strategy, upgrade the modern management of farms and seize the opportunities created by national policies, focus on building a safe milk source base, target at production of raw milk of the highest quality, improve the comprehensive competitiveness and establish the Group's leading position in the market, and contribute to the healthy development of China's dairy industry.

On behalf of the board of directors, I would like to thank all our shareholders for their ever-persistent trust in and support of the Group. I also express my heart-felt gratitude to the board of directors, the management team and our staff for their diligent efforts and valuable contribution in the past year. In 2021, the Group will strive for steadfast progress and produce the best quality raw milk for consumers, so as to repay our shareholders and investors with solid performances.

Zhao Hongliang

Chairman

Hong Kong, 18 March 2021

Management Discussion and Analysis

MARKET REVIEW

Looking back to 2020, the novel coronavirus (COVID-19) (the “**Pandemic**”) was taking a toll on the development of China’s dairy industry in the first half of the year ended 31 December 2020 (the “**Year**”). The farming sector bore a brunt in terms of production, sales, and financial status. Generally, upstream milk prices were weak in the first half of the Year. In the second half of the Year, prices of raw milk rose sharply above record highs. In addition, the frequent outbreaks of the Pandemic fuelled rapid growth of the demand for white milk, low-temperature milk, milk powder and other products, which in turn drove up demand for raw milk.

With respect to feeds, the price of hay feed fluctuated due to the impact of the Pandemic and the Sino-US trade war in 2020. According to statistics released by China customs, the total amount of hay feed imported by China from January through November 2020 was 1.54 million tonnes, representing a year-on-year increase of 6.49%, and the average cost, insurance, and freight (CIF) price was US\$359.06 per tonne, representing an increase of 5.35% as compared with the same period of previous year. Among them, the alfalfa imports totaled to approximately 1.24 million tonnes, representing a year-on-year increase of 1.15%, and the average CIF price was US\$361.84 per tonne, representing a year-on-year increase of 7.0%. The rising price of imported hay feed has increased the business cost of farming companies.

With respect to the dairy industry, the staged decline in sales and consumption of dairy products as a result of the Covid-19 outbreak early in the Year had a certain degree of impact on the industry. As the Pandemic and corresponding measures have become a norm, consumers’ purchase through diversified channels maintained steady growth. The industry as a whole was still showing a steady and positive development trend thanks to the continuous innovation of dairy products, the rapid development of channels such as online shopping and other new retail outlets, the improvement of domestic cold chain logistics, and the evolvement of consumer preferences and the constant upgrade of the dairy product mix in recent years. According to the statistics released by the National Bureau of Statistics, total milk output in the country reached 34.4 million tonnes in 2020, representing a year-on-year increase of 7.5%.

In recent years, the state and industry associations have been monitoring the quality of dairy products, evidenced by implementation of the initiatives such as “Action Plan for Dairy Product Quality and Safety Improvement” issued by the China’s State Administration for Market Regulation, and the “Modern Dairy Farm Grading and Evaluation Measures (Trial)” issued by the China Dairy Association. Thus the brand influence and quality of domestic dairy products had greatly improved. According to the data in the “2020 Consumer Trend Report (Dairy Products)” released by China Institute of Economic Trends, as of 6 November 2020, the self-purchased sales amount of liquid dairy products by Chinese urban households increased by 3% as compared with the same period of the previous year while sales volume increased by 5% as compared with the same period of the previous year. The liquid dairy consumer market was gradually recovering after the Covid-19 outbreak.

In addition, the Customs Tariff Commission of the State Council stated in the “Adjustment Plan of Provisional Tariff Rates for Imports of 2021” that, starting from 1 January 2021, provisional import tariff tax rates that are lower than the most-favored-nation tariff rates applies to nearly 30 dairy products and raw material-related products. These include a variety of mixed natural feeds based on alfalfa and legumes. The business cost of the farming sector is expected to decrease benefiting from relevant policies.



Management Discussion and Analysis

As one of the leading dairy farming companies in the People's Republic of China (the “**PRC**”), the Group will continue to achieve better economies of scale by adjusting the size of the herd, improving the breeding and production technology. YuanShengTai will continue strive to produce high-quality raw milk, strengthen standardized production of milk source, implement strict quality supervision, and meet the society's increasingly diversified needs for dairy products.

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. During the Year, the total sales volume of raw milk of the Group increased by 6.3% to 355,599 tonnes from 334,424 tonnes in 2019. The total revenue amounted to RMB1,554 million, representing an increase of 12% as compared with the same period of 2019. During the Year, the Group recorded a net profit of RMB578.0 million (2019: RMB223.1 million), representing a year-on-year increase of 159%.

Since its establishment, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2020, the three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group. All these three major customers benefited from the preferential policy, continued to expand their product portfolio and expand into the international market, which were constructive to the sustained development of the Group's business. The revenue from these three major customers accounted for approximately 99.3% of the Group's revenue.

Following the close of the conditional voluntary general offer by CLSA Limited on behalf of China Feihe Limited (“**Feihe**”) (Stock Code: 6186, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)) for all of the outstanding shares of the Company and for the cancellation of all of the outstanding options of the Company on 2 December 2020, Feihe acquired 71.26% of issued shares of the Company from existing shareholders and obtained control over the Group with a consideration of HKD2,105.7 million. In addition, Feihe paid compensation to existing option holders of the Company with a consideration of HKD63.9 million. On 3 December 2020, Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang, the directors of Feihe, were appointed as the non-executive Directors and Ms. Liu Jinping, a director of Feihe, was appointed as an independent non-executive Director. Senior management of the Group did not change after the acquisition.

For more details of the acquisition by Feihe, please refer to the joint announcements dated 6 September 2020, 28 September 2020, 12 October 2020, 30 September 2020, 28 October 2020, 18 November 2020 and 2 December 2020 and the composite document dated 30 October 2020 jointly issued by the Company and Feihe.

In line with the increasing demand of the market for high-quality raw milk, the Group plans to continue to construct new farms in addition to the existing farms to grow its production capacity. In the future, the Group is expected to continue to supply raw milk products to the three major customers in the long term, and be committed to providing raw milk according to the highest safety standards and nutritional standards in China.

Construction of Farms

As of 31 December 2020, we had six farms in Heilongjiang Province and one farm in Jilin Province. Each farm had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres.

	Actual Designed Capacity <i>(Number of Cows/Head)</i>	Actual Headcounts	Area <i>(m²)</i>
Gannan Farm	12,000	11,307	986,333
Kedong Heping Farm	6,000	5,763	384,000
Kedong Ruixinda Farm	18,000	10,660	784,000
Zhenlai Farm	15,000	14,531	1,066,667
Kedong Yongjin Farm	12,000	8,393	714,000
Baiquan Ruixincheng Farm	15,000	9,361	994,000
Keshan Farm	12,000	9,383	980,000
Total	90,000	69,398	5,909,000

Milk Yield

During the Year, the average annual milk yield per cow was 10.61 tonnes, representing an increase of 1.5% as compared with 10.45 tonnes in 2019.

As our operation of farms becomes more mature and stable, and the age mix of cattle and the mix of herds are upgraded and optimized, the Group expects that the average milk yield of herds will continue to increase. In the future, the Group will continue to improve its profitability by adjusting and optimizing the cattle mix and improving the feeding formula and upgrading intelligent quality management.



Management Discussion and Analysis

Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's farms increased from 63,640 heads as of 31 December 2019 to 69,398 heads as of 31 December 2020. Among them, the total number of our matured milkable cows increased from 33,716 heads as of 31 December 2019 to 35,128 heads as of 31 December 2020. The increase in number of our matured milkable cows contributed to the steady growth of quality raw milk of the Group.

	31 December 2020	31 December 2019
Number of matured milkable cows	35,128	33,716
Number of heifers and calves	34,270	29,924
Total number of dairy cows	69,398	63,640

Price of Raw Milk

Due to the impact of the Pandemic, the supply and demand in the post-Pandemic phase returned to a tight balance. The raw milk was in short supply in the upstream, and as a result, domestic raw milk prices continued to rise. During the Year, the average selling price of raw milk of the Group was RMB4,370 per tonne, representing an increase of 5.2% as compared with the same period of previous year.

OUTLOOK

According to the data in the "2020 China Dairy Industry Development Report" (the "**Report**"), the current per capita consumption of dairy products in China is insufficient. At present, two most imperative concerns are the revitalization of the dairy industry and the steady modernization of the farming industry. The Report further pointed out that the dairy industry boasts of huge consumption potential and bright market prospects. In order to satisfy the diversified and personalised consumer needs, the Group will devote itself to improving the operational capabilities of the farms, focusing on production of high-quality raw milk, and strengthening standardised and large-scale production of products. In the future, the Group will seize market opportunities and upgrade its product mix, continuously leveraging on its own technological advantages and resource endowments in line with the innovation and consumption upgrading trend. We believe that while providing high-quality dairy products to the society, YuanShengTai will maintain its leading position in China's dairy farming industry and make its greatest contribution to the revitalization of China's dairy industry.

Our Revenue

During the Year, our total sales of milk produced increased by 11.8% from RMB1,389.5 million for the year ended 31 December 2019 to RMB1,554.0 million. The sales volume for the Year reached 355,599 tonnes, representing an increase of 21,175 tonnes or 6.3% as compared with 334,424 tonnes in 2019. The growth was primarily attributable to the increases in (i) herd size of matured milkable cows; and (ii) average annual milk yield per cow. Our average selling price of raw milk was RMB4,370 per tonne for the Year compared with RMB4,155 per tonne in 2019.

Cost of Sales

Our cost of sales for the Year was RMB1,090.7 million. The table below summarizes the components of our cost of sales by nature:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of sales		
Feed	776,108	703,508
Salary, welfare and social insurance	65,291	65,471
Depreciation	75,004	74,868
Veterinary cost	47,447	44,905
Utility	64,835	58,402
Transportation expenses	23,309	26,711
Other costs	38,738	35,935
Cost of sales, total	1,090,732	1,009,800

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB776.1 million and RMB703.5 million for the years ended 31 December 2020 and 2019, respectively, representing 71.2% and 69.7% of the cost of sales for the respective financial years ended 31 December 2020 and 2019. The increase in our feed costs was attributable to the increases in (i) the number of milkable cows; and (ii) the proportion of concentrated feed in the adjusted feeding formula.

Gross Profit

Given the above factors, the gross profit increased to RMB463.3 million for the Year (2019: RMB379.7 million), representing an increase of 22.0% as compared with that for 2019. Our gross profit margin also increased from 27.3% in 2019 to 29.8% in 2020.



Management Discussion and Analysis

Other Income and Gains

Other income and gains for the Year amounted to RMB43.9 million (2019: RMB35.6 million), representing an increase of 23.3%. The increase in other income and gains was attributable to: (i) income from land sublease generated by Zhenlai Farm for the first time in the current year. In order to ensure the supply of feeds required by the Group amidst the Pandemic, Zhenlai Farm leased a parcel of land which was sublet afterwards. This business is a sub-lease business under the operating lease model, and sub-lease income was recognized; (ii) increase in interest income; and (iii) increase in government subsidies, including subsidies for replacement of grains with feed and subsidies for retaining employees under the Covid-19.

Administrative Expenses

We incurred administrative expenses of RMB140.1 million for the Year (2019: RMB61.9 million) representing an increase of approximately 126.3% as compared with 2019. The increase in administrative expenses was attributable to: (i) exchange losses caused by the depreciation of the U.S. dollar; and (ii) professional fees related to the relocation of Baiquan Ruixincheng Farm; and (iii) professional fees related to the acquisition of the Company's shares by Feihe as mentioned in the paragraph headed "Business Review".

Other Expenses

Other expenses for the Year amounted to RMB28.0 million (2019: RMB11.6 million). The increase in other expenses was attributable to: the expense on land sub-lease incurred by Zhenlai Farm for the first time during the current year. In order to ensure the supply of feeds required by the Group amidst the Pandemic, Zhenlai Farm leased a parcel of land which was sublet afterwards. According to the International Financial Reporting Standards, the acquired land should be treated as an investment property and be measured at cost, and expense was recognized in respect of the sublease.

Changes in Fair Value Less Costs to Sell of Biological Assets

Changes in fair value less costs to sell of biological assets was a loss of RMB171.3 million for the Year as compared with a loss of RMB118.5 million for 2019. The increase was attributable to the increase of the feeding cost.

Impairment Losses and Accrued Expenses Related to Removal of Baiquan Ruixincheng Farm

The reversal of impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm amounted to RMB412.9 million for the Year, comparing with the impairment losses and accrued expenses of RMB0.2 million for 2019. Details are set out in note 6 to the financial statements.

Particulars of Important Events

Baiquan Ruixincheng Dairy Farming Co., Ltd. ("**Baiquan Ruixincheng**"), an indirect wholly-owned subsidiary of the Company, operates a farm in Baiquan County, Qiqihar City, Heilongjiang Province for the production and sale of milk. As at 31 December 2020, Baiquan Ruixincheng Farm had 9,361 dairy cows.

On 25 February 2019, Baiquan Ruixincheng received a notice from the Heilongjiang Provincial Department of Ecology and Environment which conveyed its decision to withdraw its previous approval given to Baiquan Ruixincheng in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm. Without the previous approval given by the Heilongjiang Provincial Department of Ecology and Environment, Baiquan Ruixincheng cannot continue the operation of the farm.

On 8 March 2019, Baiquan Ruixincheng received a notice from the Heilongjiang Shuangyang River Provincial Nature Reserve Management Office to request Baiquan Ruixincheng to remove its farm from its current location by the end of June 2020.

On 24 February 2020, Baiquan Ruixincheng received a notice from the Forestry and Grassland Bureau of Heilongjiang Province conveying its decision to withdraw its previous approval given to Baiquan Ruixincheng in 2015 in relation to the use of forestland for Baiquan Ruixincheng Farm and the use of grassland for Baiquan Ruixincheng Farm.

On 31 March 2020, Baiquan Ruixincheng received notice from the Qiqihar City Baiquan County Department of Ecology and Environment (齊齊哈爾市拜泉縣生態環境局) conveying its request for Baiquan Ruixincheng to remove the Baiquan Ruixincheng Farm from its current location at Baiquan County, Heilongjiang Province, the PRC in 15 days.

In July 2020, Baiquan Ruixincheng (as the appellant) received a successful administrative appeal verdict issued by the Baiquan County People's Government in favour of Baiquan Ruixincheng revoking the previous removal request issued by the Heilongjiang Shuangyang River Provincial Nature Reserve Management Office. In August 2020, Baiquan Ruixincheng further received a notice from the Qiqihar City Baiquan County Department of Ecology and Environment stating that as the area of the nature reserve has been adjusted and the Baiquan Ruixincheng Farm is no longer within the nature reserve area, they have agreed to revoke their previous removal request.

As of 12 January 2021, Baiquan Ruixincheng has successfully obtained all of the approvals granted previously to it in relation to the Baiquan Ruixincheng farm from relevant government authorities. Please refer to the announcements of the Company dated 1 March 2019, 15 March 2019, 25 February 2020, 2 April 2020, 5 August 2020 and 12 January 2021 for further details.



Management Discussion and Analysis

As a result of the above, reversal of impairment losses of approximately RMB412.9 million in respect of immovable fixed assets, construction in progress, and prepayments related to construction equipment and deferred income was recognised during the Year.

Profit for the Year of the Group

Taking into account all of the above factors, the Group's net profit was RMB578.0 million for the Year, as compared with a net profit of RMB223.1 million for the year ended 31 December 2019. Basic earnings per share was approximately RMB12.32 cents for the Year (2019: basic earnings per share of RMB4.76 cents).

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2019: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB581.1 million, as compared with RMB292.8 million in 2019. As at 31 December 2020, the Group had cash and cash equivalents of RMB1,029.6 million (2019: RMB1,009.8 million) which were denominated in Renminbi.

The Group had no bank borrowing during the Year (2019: Nil).

CAPITAL STRUCTURE

As at 31 December 2020, the Company's issued share capital was HK\$46,904,964 divided into 4,690,496,400 shares of HK\$0.01 each (the "**Shares**") (2019: HK\$46,904,964 divided into 4,690,496,400 Shares of HK\$0.01 each). The Company did not issue any new Shares during the Year.

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the Year, the principal capital expenditures of the Group were related to construction of new farms and major maintenance and acquisition of additional equipment and cows for its existing dairy farms.

As part of the future strategy of the Group, the Group's planned capital expenditures for its business operations will be primarily related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans, the net proceeds from the placing of new Shares under the general mandate from shareholders of the Company (the "Shareholders") and the unutilised net proceeds from the issue of new Shares under the global offering as set out in the prospectus of the Company dated 14 November 2013 (the "Prospectus").

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2020 nor were there other plans for material investments on capital assets as at the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO") AND PLACING OF NEW SHARES

The issued Shares were initially listed on the Main Board of the Stock Exchange on 26 November 2013. Gross proceeds raised from the IPO in such connection amounted to approximately HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company)) amounted to approximately HK\$2,564 million. The net proceeds were spent broadly in accordance with the Company's plan as disclosed in the Prospectus.

The table below sets out the planned applications of the net proceeds from the IPO and the actual usage:

	Planned use of net proceeds from the IPO (as stated in the prospectus) <i>HK\$ million</i>	Actual use of net proceeds from the IPO up to 31 December 2020 <i>HK\$ million</i>	Actual use of net proceeds from the IPO during the Year <i>HK\$ million</i>	Unused net proceeds from the IPO as at 31 December 2020 <i>HK\$ million</i>
Construction of new farms	1,923.0	1,923.0	–	–
Developing upstream operations	384.6	36.8	–	347.8
Working capital and general corporate purpose	256.4	256.4	–	–
Total	2,564.0	2,216.2	–	347.8



Management Discussion and Analysis

The unused net proceeds, being approximately HK\$347.8 million, are expected to be used in accordance with the Company's plan as disclosed in the Prospectus (i.e. to develop upstream operations) by 2021. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

The Board will continually evaluate the Group's business strategies and change or modify the plan in line with market conditions, to support business growth of the Group.

The Company issued 781,749,400 new Shares at a price of HK\$0.5 per Share pursuant to a placing of Shares completed on 13 January 2017 (the "**Placing**"). The net proceeds from the Placing (after deducting the placing commission payable to the placing agent and other expenses incurred in the Placing) were approximately HK\$384.6 million, which were intended to be used for importing heifers and calves from Australia and New Zealand and as general working capital.

The table below sets out the planned applications of the net proceeds from the Placing and the actual usage:

	Planned use of net proceeds from the Placing (as stated in the announcement of the Company dated 23 December 2016) <i>HK\$ million</i>	Actual use of net proceeds from the Placing up to 31 December 2020 <i>HK\$ million</i>	Actual use of net proceeds from the Placing during the Year <i>HK\$ million</i>	Unused net proceeds from the Placing as at 31 December 2020 <i>HK\$ million</i>
Importing heifers and calves from Australia and New Zealand and general working capital	384.6	98.7	–	285.9
Total	384.6	98.7	–	285.9

The unused net proceeds, being approximately HK\$285.9 million, are expected to be used as intended by 2021. A detailed schedule depends on the overall economic conditions, the development of the Company and market situation.

The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market conditions to deploy resources and proceeds better. Announcement(s) will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The remaining balance of such net proceeds was kept in licensed banks and approved financial institutions in Hong Kong and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

PLEDGE OF ASSETS

As at 31 December 2020, no assets of the Group were pledged as security for bank borrowings (2019: Nil).

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the United States dollars and Hong Kong dollars. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2020 and 2019 were RMB61.0 million and RMB13.3 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2020 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 1,552 employees (2019: 1,524 employees), of whom one was located in Hong Kong and all the others were located in the PRC.

The salaries of the Group's employees largely depend on their type and level of work as well as length of service with the Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Group participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013. A share option scheme was adopted by the Board on 7 November 2013 for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. The Group also provides and arranges on-the-job training for the employees.



Management Discussion and Analysis

The Directors and senior management of the Company receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Company or executing their functions in relation to its operations. The Company regularly reviews and determines the remuneration and compensation packages of the Directors and senior management.

Further, the remuneration committee of the Board reviews and recommends to the Board for consideration and approval of the remuneration and compensation packages of the Directors and senior management by reference to their time commitment and responsibilities, the salaries paid by comparable companies and the performance of the Group.

EVENT AFTER REPORTING YEAR

Save as disclosed elsewhere in this report, the Group did not have any material subsequent event after the Year and up to the date of this report.

UPDATES IN RELATION TO THE NOVEL CORONAVIRUS DISEASE

Since the outbreak of the Pandemic in December 2019, the Board has been monitoring the development of the Pandemic and assessing its impact to the Group's operations. The Company has since the Pandemic taken immediate steps and measures to protect its employees from being infected. As at the date of this report, the Board is not aware of any infected cases among the Group's employees. Despite there are a number of confirmed infected cases in Qiqihar, Heilongjiang province, where most of the Group's farms are located, the Group's operations have not experienced any material disruptions. As at the date of this report, the Board is not aware of any material adverse impact to the Group's financial or trading position caused by the Pandemic.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS (THE “EDS”)

Mr. Zhao Hongliang (趙洪亮)

Mr. Zhao, aged 54, is an ED and the chairman of the Group. He is primarily responsible for the overall strategic development of the Group. He is also a member of the remuneration committee of the board of directors of the Company (the “**Remuneration Committee**” and the “**Board**”, respectively). Mr. Zhao completed his high school education in the People’s Republic of China (the “**PRC**”) in July 1983.

Mr. Zhao is the founder of the Group. He has past experience in raising dairy cows and cattle management in Heilongjiang Province, the PRC. In 1995, he started to invest in various sectors in the PRC including real properties, trading of construction materials and mining. Simultaneously, he had been all along paying close attention to the dairy farming industry in the PRC. In 2008, he was awarded as one of the “Outstanding Private Entrepreneurs* (優秀民營企業家), and in the following year, he was awarded as one of “Top Ten Outstanding Young Entrepreneurs of the Farming District of Heilongjiang” (黑龍江墾區十大傑出青年企業家). Mr. Zhao has accumulated substantial experience in making investments in the PRC and has maintained a sound financial capability.

In 2008, Mr. Zhao invested in the dairy farming industry in the PRC and as a result, the Company’s first operating entity, namely Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (黑龍江克東瑞信達原生態牧業股份有限公司) (“**YST Heilongjiang**”), was established in September 2008.

Mr. Zhao is a director and the sole shareholder of a then controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)) of the Company. Mr. Zhao is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Royal Dairy Farm Limited (“**Royal Dairy Farm**”) and Natural Dairy Farm Limited (“**Natural Dairy Farm**”).

Mr. Fu Wenguo (付文國)

Mr. Fu, aged 53, is an ED, the chief executive officer and the general manager of the Group. Mr. Fu is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), Kedong Yongjin YuanShengTai Dairy Farm Limited (克東勇進原生態牧業有限公司), Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for overseeing the overall operations of the Group. He is also a member of the nomination committee of the Board (the “**Nomination Committee**”). Mr. Fu graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute Technology* (上海應用技術學院)) in 1989.

Mr. Fu joined the Group in December 2011 and was then in charge of overseeing the overall operations of the Group. Since January 2012, Mr. Fu has been assuming the office of general manager of the Group. He is also a member of the senior management of the Group. Mr. Fu has over 26 years of experience in the dairy farming industry.



Biographical Details of Directors and Senior Management

Mr. Chen Xiangqing (陳祥慶)

Mr. Chen, aged 48, was appointed as an ED and the chief financial officer of the Group on 10 September 2015. Mr. Chen was employed by Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) (“**Feihe Dairy**”) from April 2003 to June 2012, and had assumed various offices including the accounts manager, finance manager and internal control manager, respectively.

Mr. Chen graduated from Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學) (“**Bayi University**”) in July 1996, majoring in agricultural economy management. He is a holder of the certificate of accounting professional in the PRC. He has been accredited as a certified internal auditor by The Institute of Internal Auditors since November 2010.

Mr. Chen joined the Group in December 2012 as the head of finance department of the Group, in which he was responsible for overseeing the financial and auditing matters of the Group. Mr. Chen is a director of each of the following subsidiaries of our Company: Royal Dairy Farm and Natural Dairy Farm. Mr. Chen has 17 years’ working experience in the domestic raw milk industry of the PRC.

Mr. Liu Gang (劉剛)

Mr. Liu, aged 47, was appointed as an ED on 25 June 2018. Mr. Liu joined the Group in January 2012 and was appointed as one of the Company’s joint company secretaries and authorised representatives of the Company in 7 November 2013 and subsequently appointed as the Company’s sole company secretary (the “**Company Secretary**”) on 5 April 2017. Following his appointment as an ED on 25 June 2018, he resigned as the Company Secretary on the same date. Mr. Liu is a director of each of the following subsidiaries of our Company: Royal Dairy Farm and Natural Dairy Farm. Prior to joining our Group, Mr. Liu had accumulated more than 8 years of experience in the investment sector. Mr. Liu was awarded a bachelor’s degree in automation, majoring in measuring and control technology and instrumentations, by the Yanshan University* (燕山大學) in the PRC in July 1999. Mr. Liu is a younger brother of Mr. Liu Hua, a non-executive director of the Company.

NON-EXECUTIVE DIRECTORS (THE “NEDS”)

Mr. Leng Youbin (冷友斌)

Mr. Leng, aged 52, was appointed as a NED on 3 December 2020. He is an executive director, the chairman of the board and the chief executive officer of China Feihe Limited (“**Feihe**”, together with its subsidiaries “**Feihe Group**”), a company whose shares are listed on the main board of the Stock Exchange (stock code: 6186), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the “**SFO**”). He has over 30 years of experiences in the dairy industry. Mr. Leng has been a director, the chairman of the board and the chief executive officer of Feihe since January 2013, and was re-designated as an executive director in April 2017. Mr. Leng has been a director of Vitamin World USA Corporation (“**Vitamin World USA**”) since December 2017 and has been the executive director of Gannan Flying Crane Dairy Products Co., Ltd. (飛鶴(甘南)乳品有限公司) since March 2006. He has served as the general manager and director of Feihe Dairy since August 1996, during which he concurrently served as the deputy head of Zhaoguang Farm (趙光農場) from December 1999 to December 2001. Before that, he worked in Heilongjiang Province Zhaoguang Dairy Plant (黑龍江省趙光乳品廠) from March 1987 to May 1993. Mr. Leng has received various honors and awards. He was awarded “National Labor Model” (全國勞動模範) and “Outstanding Entrepreneur” (傑出企業家) in the dairy industry in China in 2015 and “National May 1st Labor Medal” (全國五一勞動獎章) in 2012. He was also awarded as one of the “Top Ten Technology Figures of Dairy Industry in China” (中國乳品加工業十大傑出科技人物) and the “Outstanding Private Entrepreneurs of Heilongjiang” (黑龍江省傑出民營企業家) in 2015. In 2018, Mr. Leng was awarded “Person of the Year 2018 of Chinese Economy” (2018中國經濟年度人物) and one of the “Hundred Outstanding Private Entrepreneurs during Forty Years since Reform and Opening up” (改革開放40年百名傑出民營企業家). Mr. Leng is a representative of the NPC of the thirteenth session. Mr. Leng currently serves as the vice chairman of the All-China Federation of Industry and Commerce (Non-governmental Commerce Chamber of China) (中華全國工商業聯合會(中國民間商會)) and the vice chairman of the Federation of Industry and Commerce of Heilongjiang Province (黑龍江省工商業聯合會).

He graduated from Northeast Agricultural University (東北農業大學) in Heilongjiang, China in July 1995 through correspondence course, and obtained an EMBA degree from the School of Economics of Peking University (北京大學經濟學院) in Beijing, China in July 2002 and an EMBA degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in Beijing, China in July 2007. Mr. Leng is a dairy engineer certified by the Personnel Bureau of Heilongjiang (黑龍江省人事廳) in September 1999.



Biographical Details of Directors and Senior Management

Mr. Liu Hua (劉華)

Mr. Liu, aged 49, was appointed as a NED on 3 December 2020. He is an executive director, the vice chairman of the board and the chief financial officer of Feihe. He joined Feihe HLJ in November 2000 and has been the chief financial officer of Feihe HLJ since then. He has been a director, the vice chairman of the board and the chief financial officer of Feihe since June 2013, and was re-designated as an executive director in April 2017. Mr. Liu has been a director of Vitamin World USA since December 2017. Mr. Liu has been involved in the financing activities of the Feihe Group, including the quotation of Flying Crane U.S. on the OTCBB in 2003, the listing of Flying Crane U.S. on the NYSE in 2009, and the listing of Feihe on the Stock Exchange in 2019.

Mr. Liu received an EMBA degree in finance from the Advanced Institute of Finance of Shanghai Jiao Tong University (上海交通大學高級金融學院) in Shanghai, China in December 2015. Mr. Liu is an elder brother of Mr. Liu Gang, an ED.

Mr. Cai Fangliang (蔡方良)

Mr. Cai, aged 52, was appointed as a NED on 3 December 2020. He is an executive director and the president of Feihe. He joined Feihe HLJ in November 2010 and has been the president of Feihe HLJ since then. He has been a director and the president of the Feihe since June 2013, and was re-designated as an executive director in April 2017. He has been a director of Vitamin World USA since December 2017. Mr. Cai has focused on the marketing management of the Feihe Group and the overall management and business development of Feihe. Before joining the Feihe Group, Mr. Cai worked at Jiangxi Meilu Dairy Co., Ltd. (江西美廬乳業有限公司) from December 2008 to October 2010. Before that, Mr. Cai worked at Yashili Group Co., Ltd. (廣東雅士利集團有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS (THE “INEDS”)

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)

Mr. Meng, aged 43, was appointed as an INED on 28 September 2018. He is the chairman of the audit committee of the Board (the “**Audit Committee**”) and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Meng was awarded a bachelor’s degree in Economics, majoring business administration, and a bachelor’s degree in Accounting by the Beijing Technology and Business University* (北京工商大學) in June 2001 and May 2001, respectively.

Biographical Details of Directors and Senior Management

Mr. Meng has served as an independent director of each of China Customer Relations Centers Inc. (stock symbol: CCRC) and TDH HOLDINGS, INC. (stock symbol: PETZ), both companies being listed on Nasdaq, since September 2014 and February 2019, respectively. Since 2013, Mr. Meng has been the managing director of Beijing Songlin Xinya Financial Consultants, Ltd. From 2007 through 2013, Mr. Meng served as chief representative of Sherb Consulting LLC Beijing Representative Office, and managing director of Sherb & Co, LLP. From 2003 through 2006, Mr. Meng worked as an audit manager for Grant Thornton Beijing. Mr. Meng is a member of The Chinese Institute of Certified Public Accountants (CICPA) and holds a C.P.A. Permit from the State of Delaware in the United States of America, and a Certified Internal Auditor (CIA) of The Institute of Internal Auditors.

Mr. Zhang Yuezhou (張月周)

Mr. Zhang, aged 57, was appointed as an INED on 7 November 2013. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Currently, Mr. Zhang is engaged in the provision of dairy farm management consultancy services in the PRC. He was awarded a bachelor's degree in animal husbandry in July 1987 and a master's degree in agricultural extension in 2006 by the Nanjing Agricultural University (南京農業大學). Mr. Zhang obtained the qualification of an animal husbandry expert in the PRC in May 1995. Mr. Zhang has over 30 years of experience in the dairy products industry and since March 2010, he has been the general manager of Shanghai Yuanfan Farming Technology Co. Ltd.* (上海源凡牧業科技有限公司), responsible for overseeing its overall operations.

Mr. Zhu Zhanbo (朱戰波)

Mr. Zhu, aged 51, was appointed as an INED with effect from 7 November 2013. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Mr. Zhu has over 20 years' experience in teaching and scientific research. He graduated from Bayi University in veterinary science in July 1993, and obtained a master's degree from the Department of Animal Science and Technology of the same university in July 2004. He further obtained a doctorate from the Jilin University (吉林大學) in July 2012.

By profession, he is a university professor. Mr. Zhu started his full-time work in July 1993. Since then, he has served as a working staff at Bayi University.

Ms. Liu Jinping (劉晉萍)

Ms. Liu, aged 49, was appointed as an INED on 3 December 2020. She is a member of the Audit Committee. Ms. Liu is currently an independent non-executive director of Feihe and a deputy director of the Center of Extracorporeal Circulation and the director of the Department of Pediatric Extracorporeal Circulation of Fu Wai Hospital (阜外醫院). She has been a chief physician of the Department of Extracorporeal Circulation in anesthesiology of Fu Wai Hospital since September 2012. Before that, she served in several positions in the Department of Extracorporeal Circulation of Fu Wai Hospital, including an associate chief physician from September 2006 to September 2012, an attending physician from August 2001 to August 2005, and a resident physician from August 1995 to August 2001.

Ms. Liu received a bachelor's degree in medical science from Harbin Medical University (哈爾濱醫科大學) in Heilongjiang, China in September 1995, and a master's degree and then a doctorate degree in anesthesia from Peking Union Medical College (北京協和醫學院) in Beijing, China in September 2002 and 2014, respectively. She was admitted as a practicing physician in May 1999, and was certified as a physician and chief physician in November 2002 and July 2011, respectively, by the Ministry of Health of the PRC.



Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

In addition to Mr. Zhao Hongliang, Mr. Fu Wenguo, Mr. Chen Xiangqing and Mr. Liu Gang, all being EDs, the following individual is also a member of the senior management of the Group:

Mr. Wang Yongxin (王永信)

Mr. Wang, aged 43, is the deputy general manager of the Group. Currently, he is primarily responsible for the health care of cattle of the Company's farms and production and operations management of the Group. He graduated from the Southwest Agricultural University* (西南農業大學) in veterinarian science in 2001. He also obtained a certificate of middle-level veterinary in 2006.

Mr. Wang joined the Group in December 2009 and was then in charge of the supervision and overall management of the Company's Kedong YST Farm. Mr. Wang has over 15 years of experience in the dairy farming industry. During his employment with the Group, Mr. Wang has assumed the following offices and has been in charge of the functions mentioned below:

Period of Time	Office	Principal functions
December 2009 to March 2012	Head of farm	Supervision and overall management of Kedong YST Farm
From March 2012 onwards	Deputy general manager	Monitoring the health of cattle and production and operations management of the operating subsidiaries of the Company

Corporate Governance Report

The Company is committed to fulfilling its responsibilities to the Company's shareholders (the "**Shareholders**") and protecting and enhancing shareholder value through good corporate governance.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "**Board**" and the "**Directors**", respectively) and its management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the businesses of the Company and its subsidiaries (the "**Group**") in a transparent and responsible manner and following good corporate governance practices serve the long-term interests of the Group and those of the Shareholders. The Board considers that the Company complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Rules**", respectively) during the year ended 31 December 2020 (the "**Year**").

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct for dealing in securities of the Company by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code during the Year.

BOARD OF DIRECTORS

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to formulating the Group's business plans and strategies, reviewing the Company's financial results and performance and approving its interim and annual results; approving the appointment, removal or reappointment of the Board members upon the recommendation of the nomination committee of the Board (the "**Nomination Committee**"); approving the remuneration package of the Directors and senior management of the Company upon the recommendation of the remuneration committee established by the Board (the "**Remuneration Committee**"), deciding all significant financial (including major capital expenditure) and operational issues, developing, monitoring and reviewing the Group's corporate governance, risk management and internal control, and all other functions reserved to the Board under the Company's bye-laws (the "**Bye-Laws**"). The Board may from time to time delegate certain functions to the senior management of the Group if and when considered appropriate. The senior management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.



Corporate Governance Report

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

Executive Directors

Mr. Zhao Hongliang (*Chairman*)
Mr. Fu Wenguo (*Chief Executive Officer*)
Mr. Chen Xiangqing (*Chief Financial Officer*)
Mr. Liu Gang

Non-executive Directors

Mr. Leng Youbin (*appointed with effect from 3 December 2020*)
Mr. Liu Hua (*appointed with effect from 3 December 2020*)
Mr. Cai Fangliang (*appointed with effect from 3 December 2020*)

Independent non-executive Directors (the “INEDs”)

Mr. Zhang Yuezhou
Mr. Zhu Zhanbo
Mr. Meng Jingzong (alias Owens Meng)
Ms. Liu Jinping (*appointed with effect from 3 December 2020*)

The biographical details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report. Save as disclosed in the “Biographical Details of Directors and Senior Management”, there was no financial, business, family or other material relationship among the Directors.

The four Executive Directors are responsible for the leadership and control of the Company and overseeing the Group’s businesses, strategic decisions and performances and are collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The three Non-Executive Directors participate in Board meetings to bring in an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts and scrutinize the Company’s performance in achieving agreed corporate goals and objectives.

The four INEDs are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as providing a balance in the Board in order to effectively exercise independent judgment on the corporate actions of the Company so as to protect Shareholders’ interests and the overall interests of the Group.

The Company had four INEDs and at all times met the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members and at least one of the INEDs has appropriate professional qualifications of accounting or related financial management expertise.

Each of the INEDs has made an annual written confirmation of independence by reference to Rule 3.13 of the Listing Rules and the Board is satisfied that all the INEDs were independent and met the independence guidelines set out in the above Rule 3.13.

Directors' Induction and Continuing Professional Development

Each newly appointed Director received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure a proper understanding of the Company's operations and business and full awareness of the Director's responsibilities under the statutes and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

The Company has from time to time provided briefings to all Directors to develop and refresh the Directors' duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors have been required to provide the Company with their training records.

During the Year, all Directors attended briefings by certain professional advisers and/or participated in continuous professional development courses organized by professional bodies/firms on corporate governance or updates on laws, rules and regulations relating to the roles, functions and duties of a Director to develop and refresh their knowledge and skills.

The individual record of each Director who received training for the Year is summarised as follows:

Directors	Type of CPD
Executive Directors	
Mr. Zhao Hongliang	A&B
Mr. Fu Wenguo	A&B
Mr. Chen Xiangqing	A&B
Mr. Liu Gang	A&B
Non-executive Directors	
Mr. Leng Youbin (<i>appointed with effect from 3 December 2020</i>)	B
Mr. Liu Hua (<i>appointed with effect from 3 December 2020</i>)	B
Mr. Cai Fangliang (<i>appointed with effect from 3 December 2020</i>)	B
INEDs	
Mr. Zhang Yuezhou	B
Mr. Zhu Zhanbo	B
Mr. Meng Jingzong (alias Owens Meng)	A&B
Ms. Liu Jinping (<i>appointed with effect from 3 December 2020</i>)	B

Notes:

- A: attending seminars/forums/workshops/conferences relevant to the Group's business or directors' duties
- B: reading seminars materials and studying regulatory updates on laws, rules and regulations relating to directors' roles and functions



Corporate Governance Report

Meetings of Board and Board Committees and Directors' Attendance Records

The Board is scheduled to meet four times a year at approximately quarterly intervals with notice given to the Board members at least 14 days in advance. For additional Board meetings which require discussion and resolution of significant issues arising during the operation of the Company, notice is given in a reasonable time in advance. Before each Board meeting, a draft agenda is sent out to all Directors at least three days or such other period as agreed in advance in order to allow the Directors to include any other matters in the agenda that is required for discussion and resolution in the meeting. To enable the Directors to make informed decisions, Board papers together with all appropriate and relevant information in relation to the matters of the meeting are sent to all Directors three days or such other period as agreed before each Board meeting. The company secretary of the Company (the **"Company Secretary"**) is responsible for keeping all Board meetings minutes. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version thereof is open for the Directors' inspection. According to the Listing Rules, any Directors and their close associates (as defined under the Listing Rules) with a material interest in the transactions to be discussed in the Board meetings will abstain from voting on the resolutions approving such transactions and will not be counted in the quorum for the meetings.

Directors' Competing Business

Each of Mr. Zhao Hongliang, (being the chairman of the Board (the **"Chairman"**) and an executive Director), Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited (collectively, the **"Former Controlling Shareholders"**) executed a deed of non-compete and other undertakings (the **"Former Non-compete Undertakings"**) in favour of the Company (for itself and for the benefit of its subsidiaries) on 7 November 2013, pursuant to which each of the Former Controlling Shareholders has undertaken not to engage in, or be interested in any business which, directly or indirectly, competes or may compete with the Group's business. In order to properly manage any potential or actual conflict of interests between the Company and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertakings, the Company has adopted the following measures:

- (a) all INEDs will review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-compete Undertakings by the Controlling Shareholders;
- (b) the Company will disclose any decisions on matters reviewed by the INEDs relating to the compliance with and enforcement of the Non-compete Undertakings by the Controlling Shareholders either through the annual report or by way of announcement;
- (c) the Company will disclose in the corporate governance report of its annual report on how the terms of the Non-compete Undertakings have been complied with and enforced; and
- (d) in the event that any of the Directors and/or the irrelative associates has a material interest in any matter to be deliberated by the Board in relation to the compliance with and enforcement of the Non-compete Undertakings, he may not vote on the resolutions of the Board approving the matter and will not be counted in the quorum for the voting pursuant to the applicable provisions of the Bye-laws.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders.

With reference to the joint announcement made by the Company and China Feihe Limited (as the Offeror) dated 6 September 2020, the Offeror made voluntary conditional cash offers (i) to acquire all of the outstanding Shares in the issued share capital of the Company; and (ii) to cancel all the outstanding share options of the Company (collectively the “Offers”). The Offers closed at 4:00 p.m. on 2 December 2020, and was not revised or extended, details of which are set out in the joint announcement dated 2 December 2020. As a result of the change of controlling shareholders, the Former Controlling Shareholders ceased to be the controlling shareholders of the Company on 2 December 2020. Accordingly the Former Non-compete Undertakings ceased to have effect on 2 December 2020. The Former Controlling Shareholders have confirmed with the Company their compliance with the Former Non-compete Undertakings for disclosure in this annual report during the period from 1 January 2020 to 2 December 2020.

During the Year, 5 Board meetings and one annual general meeting (the “AGM”) were held. Details of the attendance of the Directors are as follows:

Directors	Attendance of Board meetings Attended/eligible to attend	AGM
Executive Directors		
Mr. Zhao Hongliang	5/5	1/1
Mr. Fu Wenguo	5/5	1/1
Mr. Chen Xiangqing	5/5	1/1
Mr. Liu Gang	5/5	1/1*
Non-executive Directors		
Mr. Leng Youbin (<i>appointed with effect from 3 December 2020</i>) ^(Note 3)	1/1	N/A
Mr. Liu Hua (<i>appointed with effect from 3 December 2020</i>) ^(Note 3)	1/1	N/A
Mr. Cai Fangliang (<i>appointed with effect from 3 December 2020</i>) ^(Note 3)	1/1	N/A
INEDs		
Mr. Zhang Yuezhou	5/5	1/1*
Mr. Zhu Zhanbo	5/5	1/1*
Mr. Meng Jingzong (alias Owens Meng)	5/5	1/1*
Ms. Liu Jinping (<i>appointed with effect from 3 December 2020</i>) ^(Note 3)	1/1	N/A

Notes:

- * The Directors participated in AGM via teleconferencing.
- During the Year, the Board had circulated and passed written resolutions on seven occasions, which were dated 25 February 2020, 3 March 2020, 9 March 2020, 2 April 2020, 5 August 2020, 5 August 2020, and 3 December 2020, respectively, in addition to the physical Board meetings stated above.
- The Directors were appointed during the Year. The attendances of such directors are stated with reference to the number of meetings held during their tenure.



Corporate Governance Report

Board Diversity Policy

The Board has adopted a board diversity policy (the “**Board Diversity Policy**”) on 7 November 2013 and discussed all measurable objectives set for implementing the same.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business. All Board appointments will continue to be made on a merit basis with due regard to the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made up on the merits and contribution that the selected candidates will bring to the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separated and assumed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one member of the Board. Mr. Zhao Hongliang, the Chairman, is responsible for overseeing the functions of the Board while Mr. Fu Wenguo, the Chief Executive Officer, is responsible for managing the Group’s business and overall operations. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

BOARD COMMITTEES

The Board has established, with written terms of reference, three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company’s affairs. The Board committees are provided with sufficient resources to discharge their duties.

The written terms of reference for each Board committee are in line with the Listing Rules and they are posted on the respective websites of the Stock Exchange and the Company.

Audit Committee

The Board has established the Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the four INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Ms. Liu Jinping. Mr. Meng is the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee include, among others:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- reviewing and monitoring the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards;
- discussing with the external auditor the nature and scope of the audit and reporting obligations before the audit commences and ensuring co-ordination where more than one audit firm is engaged before the audit commences;

- developing and implementing a policy on engaging an external auditor to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- monitoring the integrity of the Company's financial statements and annual report, interim report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;
- reviewing the Company's financial controls, and unless expressly addressed by a separate risk committee or the Board itself, reviewing the Company's risk management and internal control systems;
- discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing with in the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
- considering other topics as defined by the Board.

For the Year, the Audit Committee held three meetings to review and supervise the financial reporting process and review the risk management and internal control systems of the Group. It had, in conjunction with Ernst & Young, the independent auditor of the Company, reviewed the Group's audited results for the year ended 31 December 2019 and unaudited interim results for the six months ended 30 June 2020 and recommended the same to the Board for their consideration and approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The Audit Committee also carried out and discharged its other duties as set out in the CG Code.



Corporate Governance Report

Details of the attendance of the Audit Committee meetings are as follows:

Members	No. of attendance/ No. of meetings eligible to attend
Mr. Meng Jingzong (alias Owens Meng) (<i>Chairman</i>)	3/3
Mr. Zhang Yuezhou	3/3
Mr. Zhu Zhanbo	3/3
Ms. Liu Jinping (<i>appointed with effect on 3 December 2020</i>) (<i>Note</i>)	0/0

Note: The director was appointed during the Year. The attendance of such director is stated with reference to the number of meetings hold during her tenure.

The Audit Committee met on 18 March 2021 and, among other matters, reviewed the Group's audited consolidated results for the Year.

Remuneration Committee

The Board has established the Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo and an executive Director, Mr. Zhao Hongliang. Mr. Zhang Yuezhou is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include, among others:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing a remuneration policy;
- reviewing and approving the management's remuneration proposals by reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management and such packages include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of the non-executive Directors;
- considering salaries paid by comparable companies, time commitment, responsibilities and employment conditions else wherein the Group;
- reviewing and approving compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with the contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to the dismissal or removal of the Directors for misconduct to ensure that they are consistent with the contractual terms and are otherwise reasonable and appropriate;

- ensuring that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration; and
- consulting the Chairman and/or Chief Executive Officer (where applicable) about their remuneration proposals for other executive Directors.

During the Year, the Remuneration Committee held one meeting and reviewed the remuneration packages of all the Directors, and made recommendations to the Board on the remuneration proposal for all Directors.

Details of the attendance of the Remuneration Committee meeting are as follows:

Members	No. of attendance/ No. of meetings eligible to attend
Mr. Zhang Yuezhou (<i>Chairman</i>)	1/1
Mr. Meng Jingzong (alias Owens Meng)	1/1
Mr. Zhu Zhanbo	1/1
Mr. Zhao Hongliang	1/1

Note: During the Year, the Remuneration Committee had circulated and passed written resolutions on one occasion, which was dated 3 December 2020, apart from the physical Remuneration Committee meetings stated above.

The Remuneration Committee met on 18 March 2021 and considered certain remuneration-related matters of the Directors and senior management.

Nomination Committee

The Board has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee comprises three INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo and an executive Director, Mr. Fu Wenguo. Mr. Zhu Zhanbo is the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee include, among others:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships in accordance with the nomination policy of the Company (the "**Nomination Policy**"), details of which was set out in this report;
- assessing the independence of the INEDs;
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that the Board has set for implementing such policy, and the progress on achieving the objectives; and making disclosure of its review results in the corporate governance report contained in the Company's annual report; and
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for the Directors, in particular, the Chairman and the chief executives.



Corporate Governance Report

During the Year, the Nomination Committee held one meeting and, among other matters, (i) reviewed the structure, size and composition of the Board; (ii) assessed the independence of the INEDs; and (iii) reviewed and made a recommendation on the re-appointment of the retiring Directors.

Details of the attendance of the Nomination Committee meeting are as follows:

Members	No. of attendance/ No. of meetings eligible to attend
Mr. Zhu Zhanbo (<i>Chairman</i>)	1/1
Mr. Meng Jingzong (alias Owens Meng)	1/1
Mr. Zhang Yuezhou	1/1
Mr. Fu Wenguo	1/1

Note: During the Year, the Nomination Committee had circulated and passed written resolutions on one occasion, which was dated 3 December 2020, apart from the physical Nomination Committee meetings stated above.

The Nomination Committee met on 18 March 2021 and, based on the Nomination Policy, recommended the re-appointment of all the retiring Directors at the forthcoming AGM.

Nomination Policy

The key objectives of the Nomination Policy shall inter-alia include the following:

- to guide the Board in relation to appointment/re-appointment/removal of directors of the Company;
- to devise criteria for performance evaluation of the independent non-executive directors of the Company and the Board as a whole; and
- to devise a policy on the size and composition of the Board taking into account the available and needed diversity and balance in terms of experience, knowledge, skills and judgment of the directors.

The Nomination Committee will evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to the criteria, including but not limited to the following (collectively, the “**Criteria**”):

- Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
- Commitment for responsibilities of the Board in respect of available time and relevant interest;
- Qualifications, both academic and professional, including accomplishment and experience in the relevant industries in which the Company’s business is involved;
- Independence;
- Reputation for integrity;

- Potential contributions that the individual can bring to the Board; and
- Plan(s) in place for the orderly succession of the Board.

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

- The Nomination Committee will, giving due consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort;
- The Nomination Committee may consult any source it considers appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertising, recommendations from a third party agency firm and proposals from shareholders of the Company with due consideration given to the Criteria;
- The Nomination Committee may adopt any process it considers appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third party reference checks;
- The Nomination Committee will consider a broad range of candidates who are in and outside of the Board's circle of contacts;
- Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
- The Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate;
- The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and where a non-executive Director is considered, the Remuneration Committee will make the recommendation to the Board on the proposed remuneration package;
- The Board may arrange for the selected candidate to be interviewed by the members of the Board who are not members of the Nomination Committee and the Board will thereafter deliberate and decide the appointment as the case maybe; and
- All appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the relevant regulatory authorities, if required.

Board's Corporate Governance Functions

The Board is responsible for performing the corporate governance functions of the Company as set out in code provision D.3.1 of the CG Code. The Board has reviewed this corporate governance report in discharge of its corporate governance functions, ensuring compliance with the Listing Rules.



Corporate Governance Report

Appointment and Re-election of Directors

Each of the Directors has entered into a service agreement/letters of appointment with the Company. The service agreements/letters of appointment are for a term of three years and shall automatically renew thereafter until terminated by either party giving to the other not less than three months' prior notice in writing.

Save as disclosed aforesaid, none of the Directors has or is proposed to have a service contract or letter of appointment with the Company or any of its subsidiaries other than the contracts or letters of appointment expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

All the Directors are subject to retirement by rotation and eligible for re-election in accordance with the Bye-Laws. At each AGM, one-third of the Directors for the time being (or if their number is not three (3) or a multiple of three (3), then the number nearest to but not exceeding one-third (1/3)), will retire from office by rotation provided that every Director will be subject to retirement at least once every three (3) years. A retiring Director will be eligible for re-election and will continue to act as a Director throughout the meeting at which he retires. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation will include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire will be those who have been the longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire will (unless they otherwise agree among themselves) be determined by lot.

The Bye-Laws further provide that the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed will hold office only until the next following AGM and will then be eligible for re-election at the meeting but will not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

Any Director appointed by the Board to fill a casual vacancy will hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board will hold office only until the next following AGM and will then be eligible for re-election.

Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for the Year are set out in note 8 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the member of the senior management (other than the Directors) whose particulars are contained in the section headed "Biographical Details of Directors and Senior Management" in this annual report for the Year by band is set out below:

	2020 Number of employees	2019 Number of employees
Nil to HKD1,000,000	1	1
HKD1,000,001 to HKD1,500,000	-	-
	1	1

INDEPENDENT AUDITOR'S REMUNERATION

For the Year, the fees charged by Ernst & Young in respect of the audit and non-audit (primarily review of interim financial information, report on continuing connected transactions and the procedures with regard to the statement of indebtedness as at 31 August 2020) services provided to the Group for the Year amounted to approximate RMB2,550,000 and RMB650,000, respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements for the Year, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and are properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated its reporting responsibility in the independent auditor's report of the Company's consolidated financial statements for the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility for maintaining an adequate and effective risk management and internal control systems of the Group and reviewing their effectiveness. The Company has an established risk framework under which it identifies risks relevant to the operations and activities of the Group, and assesses these risks in relation to their likelihood and potential impacts. Procedures have been setup for, inter alia, safe guarding assets against unauthorised use or disposition, maintaining proper accounting records and ensuring reliability of financial information, ensuring compliance with relevant legislation and regulations and protecting the interests of the Shareholders. Such systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and aims to provide a reasonable, as opposed to an absolute assurance against material misstatement or loss. Under our framework, management is primarily responsible for the design, implementation and maintenance of the risk management and internal control systems, while the Board and the Audit Committee oversee the actions of management and monitor the effectiveness of these systems and to safeguard the Group's assets. This risk management and internal control framework (which include financial, operational and compliance controls) is reviewed annually by the Audit Committee on behalf of the Board.

In order to maintain sound and effective risk management and internal control systems, the Company has established and maintained stringent internal control procedures including the adoption of a corporate governance manual. Internal reporting guidelines have been developed at all department levels of the Company for identifying potential events of non-compliance, and all employees have been encouraged by management to report promptly any potential or actual non-compliance. The Internal Audit Department has been established to carry out annual risk assessment on each audit area and devise a yearly audit plan according to their risk ratings. The Internal Legal Department of the Group is also responsible for coordinating ongoing trainings for the staff by selecting and recommending suitable courses for the Directors, the management level and other employees of the Group. Periodic review of the Company's human resources policies has also been carried out to ensure sufficient manpower for the implementation of internal control measures. The Board has regularly evaluated the internal control procedures in order to prevent and detect any internal control procedural errors.

During the Year, the Company had in place renewed manuals for its risk management system, safety management system, human resources management system and work injury management system. In particular, the internal control department identified the major risks in connection with the information system, the management of construction-in-progress, the procurement process and the management of biological assets. Relevant sampling inspections were conducted and no material deficiencies were identified in the management as well as execution process.



Corporate Governance Report

The Company has also enhanced its internal communication system, ensuring policies formulated by the Board and the management would be effectively communicated to the relevant employees for execution. Internal communication between employees and the management has also been enhanced through conducting weekly or monthly meetings. Employees are encouraged to report potential fraud and suspicious circumstances relating to internal control failure to the management, which would be handled and investigated by a special audit team of the internal audit department, and relevant findings would be communicated to the whistleblower. Reward and management system is in place to encourage employees to streamline the production process and reduce costs. Responsibilities of employees and their internal control responsibilities are communicated through performance management system and face-to-face meetings.

Disclosure of Inside Information

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the “Guidelines on Disclosure of Inside Information” published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorized use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group’s affairs, so that only the executive Directors, the company secretary/joint company secretaries and investor relations officers are authorized to communicate with parties outside the Group.

In respect of the Year, the Company has carried out a review of, and the Board has received a confirmation from the management on, the effectiveness of the risk management and internal control systems of the Group and no significant areas of concern were identified. The Directors are of the view that the systems of internal control and risk management are effective and adequate and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness or adequacy of the Group’s risk management and internal control systems.

JOINT COMPANY SECRETARIES

Ms. Song Miao (“**Ms. Song**”) and Ms. Cheng Lucy (“**Ms. Cheng**”) are the joint company secretaries of the Company (the “**Joint Company Secretaries**”).

Ms. Song was appointed as one of the Joint Company Secretaries on 25 June 2018. She joined the Group in 2011 and is currently the director of investor relations primarily responsible for financial reporting and investor relations of the Group and has been involved in, among others, financial reporting matters and the preparation of the Company’s regulatory announcements, interim/annual reports and circulars. Prior to joining our Group, Ms. Song had 3 years of experience in investment and listing advisory services. She received her bachelor of engineering degree from Harbin University of Science and Technology in the PRC in July 1998 and a master of business administration degree from Renmin University in the PRC in July 2005.

Given the important role of the Company Secretary in the corporate governance of the Company, particularly in assisting the Company as well as the Directors in complying with the Listing Rules and other relevant laws and regulations, the Company appointed Sir Kwok Siu Man (“**Sir Seaman Kwok**”), who meets the requirements under Note 1 to Rule 3.28 of the Listing Rules, as the other Joint Company Secretary to work closely with and provide assistance to Ms. Song in discharge of the latter’s duties and responsibilities as a joint company secretary.

Sir Seaman Kwok resigned as a Joint Company Secretary on 27 March 2020 and Ms. Cheng was appointed as a Joint Company Secretary in place of Sir Seaman Kwok on the same day. Ms. Cheng was nominated by Boardroom Corporate Services (HK) Limited to be a Joint Company Secretary. The primary person at the Company with whom Ms. Cheng has been contacting in respect of company secretarial matters is Ms. Song who is currently also the Director of Investor Relations.

During the Year, each of Ms. Song and Ms. Cheng has undertaken 15 hours of such training in compliance with Rule 3.29 of the Listing Rules.

DIVIDEND POLICY

The Company has adopted a dividend policy, a summary of which is disclosed as below.

Any amount of dividends of the Company will be at the discretion of the Directors and will depend upon the Company’s future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which the Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to the Company’s constitutional documents and the Bermuda Companies Act, including the approval of Shareholders.



Corporate Governance Report

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene a Special General Meeting

Shareholders who hold not less than 10% of the paid-up capital of the Company as at the date of depositing the requisition can convene a special general meeting by serving a written requisition notice to the Board or the Company Secretary for the purpose of requesting for convening a special general meeting. The written requisition shall be deposited to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong and to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for the attention of the Board or the Joint Company Secretaries.

If the requisition is well-founded, the Board will, according to the applicable rules and regulations, issue sufficient notice to all Shareholders for convening the special general meeting. If the requisition is improper, the Company will notify the relevant requesting Shareholders of the objection and no special general meeting will be convened.

Procedures for Shareholders to Send Enquires to the Board

Shareholders can forward their questions about shareholding, share transfer/registration and dividend payment to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited whose contact particulars are as follows:

Email address:	hkinfo@computershare.com.hk
Address:	Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
Tel. No.:	(852) 2862 8555
Fax. No.:	(852) 2865 0990/2529 6087

For enquiries about the Company's information, Shareholders can contact Ms. Song, a Joint Company Secretary, whose contact particulars are as follows:

Email address:	songmiao@ystdfarm.com
Fax. No.:	(86) 1064363988

or direct the enquiries to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong for the attention of the Board.

To put forward proposals at an AGM or a special general meeting, the Shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Company's registered office.

The request will be verified with the Company's branch share registrar in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

Moreover, the notice period concerning the notice to be given to all the Shareholders for consideration of the proposals submitted by the Shareholders concerned varies as follows pursuant to bye-law 66 of the Bye-laws:

- (a) for an AGM, it shall be called by not less than twenty-one (21) clear days' notice and not less than twenty (20) clear business days;
- (b) for any special general meeting at which the passing of a special resolution is to be considered, it shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days; and
- (c) for all other special general meetings, they may be called by not less than fourteen (14) clear days' notice and not less than ten (10) clear business days.

Procedures for Shareholders to Propose a Person for Election as a Director

Shareholders can propose a person for election as a Director at a general meeting in accordance with bye-law 111 of the Bye-Laws. By doing so, the Shareholder should deposit (i) a written notice (the "**Proposal Notice**") of the intention to propose the person (the "**Candidate**") for election as a Director; and (ii) a written notice (the "**Consent Notice**") by the Candidate of his/her willingness to be elected at the address of the Company's (a) principal place of business in Hong Kong; or (b) Hong Kong branch share registrar and transfer office mentioned above at least seven (7) clear days before the date of the general meeting and the period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and shall be at least seven (7) clear days in length.

The Proposal Notice (i) must be accompanied by the information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Shareholder proposing the Candidate for election as a Director.

The Consent Notice (i) must indicate the Candidate's willingness to be elected and consent of the publication of his/her information as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Candidate.

In order to allow the Shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, those Shareholders who wish to make the proposal are urged to submit and lodge the Proposal Notice and the Consent Notice as early as practicable.

To enable the Shareholders to make an informed decision on the relevant election proposal at a general meeting, the Company shall publish an announcement or issue a supplemental circular as soon as practicable after the receipt of the Proposal Notice and the Consent Notice. The Company shall include particulars of the Candidate in the announcement or the supplemental circular. The Company shall assess whether or not it is necessary to adjourn the meeting to give Shareholders at least ten (10) business days to consider the relevant information disclosed in the announcement or the supplemental circular.

The relevant procedures are available on the respective websites of the Company at www.ystdfarm.com and www.ystdairyfarm.com.

For the purpose of the section headed "Shareholders' Rights" in this report, a business day shall mean any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which the Stock Exchange is open for the business of dealing in securities.



Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

The Company adopted a shareholders' communication policy on 7 November 2013 with the objective of ensuring that both individual and institutional Shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance), for the purpose of enabling the Shareholders to exercise their rights in an informed manner, and to allow them and the investment community to engage actively with the Company.

Information about the Company will be communicated to the Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), AGMs and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications on the respective websites of the Stock Exchange and the Company.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the Year.

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its memorandum of association and Bye-Laws on the respective websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

1 INTRODUCTION

1.1 Scope of this Report

This report is prepared in accordance with the Environmental, Social and Governance (“**ESG**”) Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It aims to provide a balanced representation of the efforts made by the Company and its subsidiaries (the “**Group**”) on corporate social responsibility and covers the Group’s operation in the production and sale of raw milk for the year ended 31 December 2020 (the “**Year**”). There are no significant changes in the scope of this report from that of the environment, social and governance report for the year ended 31 December 2019.

1.2 ESG Working Group

To demonstrate our commitment to transparency and accountability, the Company has established an ESG working group, which has clear terms of reference that set out the powers delegated to it by the Board of Directors.

1.3 Corporate Social Responsibility (“**CSR**”) Vision, Policy and Strategy

The Group adopted a CSR Policy in order to commit to the highest standards of corporate governance, and aims to integrate CSR into the Group’s business strategy and management approach.

CSR is viewed as a business philosophy that creates shared sustainable value with its stakeholders in the economic, social and environmental dimensions. The Group’s CSR vision and CSR Policy guide the Group’s business and operational decisions to take into account its responsibility to the CSR cornerstones with pragmatic objectives providing guidance on the application of these principles in its daily operations.

The Group’s CSR Policy describes our long-term approach to specific issues in the four cornerstones: Marketplace, Workplace, Community and Environment, which is instrumental in enabling our business to operate in a sustainable manner. Within each of the cornerstones, core principles and pragmatic objectives provide guidance on practicing CSR in our daily operations.



Environmental, Social and Governance Report

1.4 Sustainability

The sustainable growth of the business of the Group is dependent on two critical aspects, which are, environmental protection and natural resources' exploitation. The need for achieving the harmonious development of society while catering to the increasing demands of resources has been recognized by the Group. Considering the importance of environment and natural resources, the Group has developed and implemented several management policies and conservation strategies in its business operations. To protect the environment and condense the exploitation of natural resources, the Group conforms to the requisite environmental regulations and international general practices, and undertakes measures accordingly. One of the prominent goals of the Group is to improve the efficiency in terms of using natural resources such as energy, water and other non-renewable resources. The actions taken by the Group constitute regular assessments of greenhouse gas ("GHG") emissions, classification and recycling of wastes, and deliberations on conservation strategies with those farms who consume higher levels of energy. Maintaining a balance between the business needs and sustainability of the natural environment has been regarded as eminently essential, for which, the Group emphasizes on offering quality services and products.

1.5 Stakeholders Engagement

The Group endeavours to create sustainable growth and long-term value for its stakeholders, who comprise the Group's employees, investors, customers and the wider community. We continue to interact with our stakeholders on an ongoing basis in order to understand their views and collect their feedback. Our communication channels with our stakeholders include company website, annual general meeting and staff meetings.

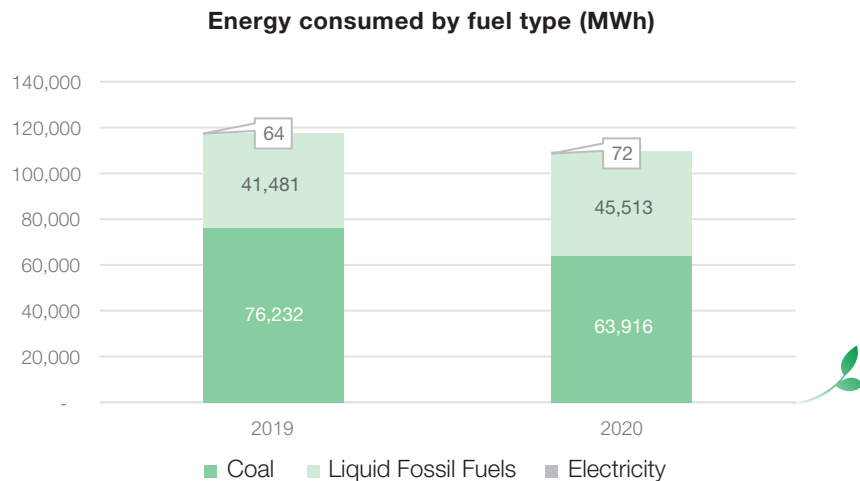
2 ENVIRONMENTAL

2.1 Emissions

The laws and regulations adopted by local authorities, including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例) to curtail the high emissions of greenhouse gas are considered and followed by the Group. No non-compliance with the laws and regulations relating to gas emissions, water discharges and generation of waste that have or may result in significant impact on the Company was identified during the Year. Apart from such conformity, the Group focuses on formulating and implementing needful measures to further the cause of preserving natural environment.

2.1.1 GHG Emissions from Energy Consumed

The majority of the Group's operational greenhouse gas emissions are a result of its energy use. Most of this is from combustion of coal, consumption of liquid fossil fuels and use of electricity for the heating system, vehicles and on-farm equipment, respectively.



	2019 MWh	2020 MWh	Variance Increase/ (decrease)
Energy Consumption			
Coal	76,232	63,916	(16%)
Liquid fossil fuels	41,481	45,513	10%
Electricity	64	72	13%
Total energy consumption	117,777	109,501	(7%)
Energy consumption intensity			
Per cow ¹	1.85	1.58	(15%)
Per milk produced (tonne) ²	0.34	0.30	(12%)

Notes:

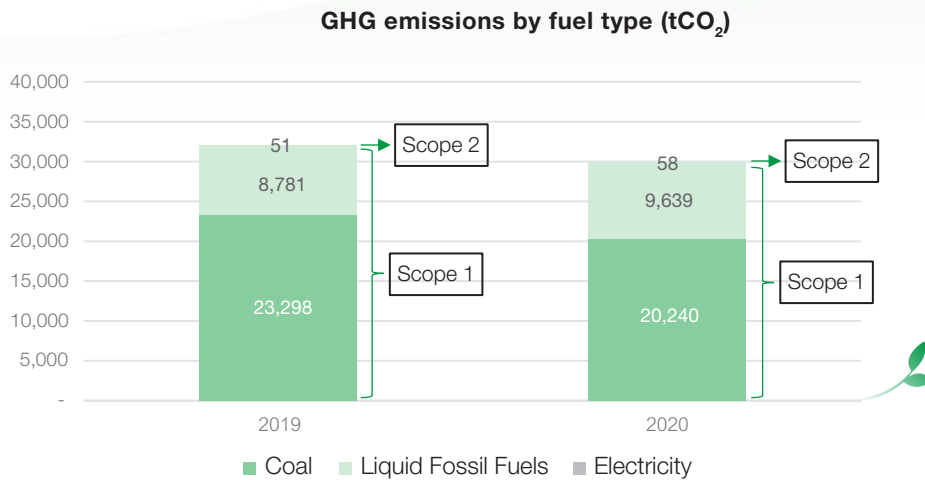
Energy consumption intensity is calculated by dividing the total energy consumption by (1) the number of cows; and (2) total milk produced.

- The number of cows for 2019 and 2020 is approximately 63,640 and 69,398 respectively.
- The total milk produced for 2019 and 2020 is approximately 345,617 tonnes and 368,140 tonnes respectively.



Environmental, Social and Governance Report

The respective GHG emissions by fuel types are analyzed below:



	2019 tCO ₂	2020 tCO ₂	Variance Increase/ (decrease)
GHG emissions			
Scope 1: Direct emissions			
– Carbon dioxide	32,079	29,879	(7%)
Scope 2: Indirect emissions			
– Carbon dioxide	51	58	14%
Total GHG emissions (Scope 1 + 2)	32,130	29,937	(7%)
GHG emissions intensity (Scope 1 + 2)			
Per cow ¹	0.50	0.43	(14%)
Per milk produced (tonne) ²	0.09	0.08	(11%)

Notes:

GHG emissions intensity is calculated by dividing the total GHG emissions by (1) the number of cows; and (2) total milk produced.

Environmental, Social and Governance Report

Total energy consumed by the Group decreased by 7% from 117,777 MWh in 2019 to 109,501 MWh in 2020 and the corresponding GHG emission decreased by 7% from 32,130 tCO₂ in 2019 to 29,937 tCO₂ in 2020, such decrease was mainly due to the Group's effort in energy conservation including the replacement of a 6 ton steam boiler with a 2 ton hot water boiler in our Kedong Yongjin Farm.

Considering the usage of resources, the Group is eminently devoted towards using natural resources efficiently while emphasizing on their conservation. The majority of the Group's energy consumption was contributed by the combustion of coal, in view of this, the Group has already started the transition towards other greener alternatives, where possible and economically viable. For instance, solar panels are gradually placed on the farms to provide heating for the facility, as they are rendered as a sustainable option when comparing with generators. In this manner, carbon dioxide production is reduced while decreasing the power consumption.

The Group strives for continuous energy reduction, for which, implementation plans pertaining to energy consumption and conservation are developed through the assistance of autonomous consultants. One such plan or project is currently implemented, where methane is converted into energy. Doing so decreases energy consumption rate.

As a result of the various efforts on environmental conservation, the Group's GHG emission from energy consumed per milk produced remained in the range of 0.09 to 0.08 tCO₂ per tonne.

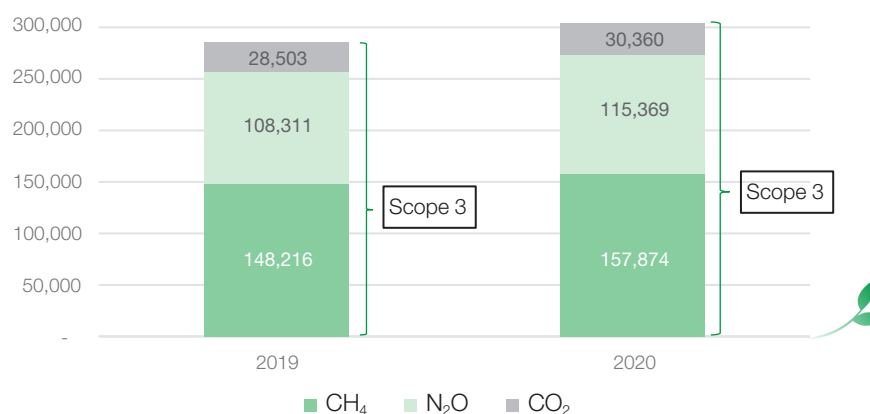


Environmental, Social and Governance Report

2.1.2 On-farm GHG Emissions

Methane (CH₄), nitrous oxide (N₂O) and carbon dioxide (CO₂) are the leading greenhouse gases emitted by the dairy farming. Methane is generated from plant diet of cows and other ruminants, where the animals are unable to digest the intake due to the high content of cellulose. Nonetheless, the methanogens, having interdependent association with ruminants, are the microorganisms residing within their guts. These are responsible for disintegrating the cellulose into carbohydrates, which further instigates a surge of energy within both the ruminant and microbial community. This process generates a by-product, which is methane. When utilizing fertilizers and manures in crop production, nitrous oxide is emanated. Moreover, it can be directly generated from the storage systems and land applications of manures. Lastly, carbon dioxide emissions are generated due to the animal respiration and decomposition of soil organic matter in the dairy farms. There is no identifiable hazardous waste generated from the dairy operation.

On-farm GHG emissions by gas type (tCO_{2e})



	2019 tCO _{2e}	2020 tCO _{2e}	Variance Increase/ (decrease)
On-farm GHG emissions			
Scope 3: Other Indirect emissions			
– Methane	148,216	157,874	
– Nitrous oxide	108,311	115,369	
– Carbon dioxide	28,503	30,360	
Total	285,030	303,603	7%
Total GHG emissions (Scope 1 + 2 + 3)	317,160	333,540	5%
GHG emissions intensity (Scope 1 + 2 + 3)			
Per cow ^{2.1}	4.98	4.81	(3%)
Per milk produced (tonne) ^{2.2}	0.92	0.91	(1%)

Environmental, Social and Governance Report

Notes:

1. The above calculation is based on the reference from Food and Agriculture Organization of the United Nations. <http://www.fao.org/news/story/en/item/41348/icode/>
2. GHG emissions intensity per cow and per tonne of milk produced are calculated by dividing the total GHG emissions by (1) the number of cows; and (2) total milk produced, respectively

The Group's total GHG emissions increased by 5% from 317,160 tCO_{2e} in 2019 to 333,540 tCO_{2e} in 2020 as a result of the increased in the total amount of milk produced from 345,617 tonnes in 2019 to 368,140 tonnes in 2020, owing to the Group's effort in breed improvement and feed optimization.

On farm GHG emissions accounted for 90% and 91% of total GHG emissions in 2019 and 2020, respectively. To reduce CH₄, N₂O and CO₂ emissions arising from dairy farming, the Group has instigated certain initiatives concerned with cow maintenance such as the continuous monitoring of milk yield and review of feeding formula to enhance productivity of cows, thereby reduce GHG emissions intensity, where possible.

2.2 Use of Resources

	2019 tonne	2020 tonne	Variance Increase/ (decrease)
Water consumption	1,993,390	1,848,294	(7%)
Water consumption intensity			
Per cow ¹	31.32	26.63	(15%)
Per milk produced (tonne) ²	5.77	5.02	(13%)

Notes:

Water consumption intensity per cow and per tonne of milk produced are calculated by dividing the total water consumption by (1) the number of cows; and (2) total milk produced, respectively.

The Group recognizes that water management is one of the material aspects of preserving the natural environment. Water management is promoted by recycling the waste water obtained from the farms by executing the operations of filtering, sedimentation and oxygen treatment. Afterwards, the water is used for farm and cow cleaning and irrigation. Hence, the Group does not have any concern in sourcing water that is fit for such purpose. The Group's overall water consumption decreased by 7% from 1,993,390 tonnes in 2019 to 1,848,294 tonnes in 2020, which led to the Group's water consumption intensity per cow to decrease by 15%, such decrease was mainly as a result of the Group's effort and control over water consumption.

The Group currently does not report on the volume of non-hazardous waste generated from dairy farms, however, consistent reduction of potential impacts of its activities on the environment are encouraged. For instance, the Group promotes green information and electronic communication by the use of e-mail and electronic statements, where possible, with an aim to minimize wastes produced from its activities.



Environmental, Social and Governance Report

Except for the Withdrawal Decision received by Baiquan Ruixincheng Farm last year, which was subsequently revoked in the current year, the Group is not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group relating to air and GHG emission, discharges into water and land and generation of hazardous and non-hazardous wastes.

2.3 The Environment and Natural Resources

Another integral aspect that is respected by the Group is environmental protection, for which the Group has developed proactive strategies that attenuates the impact of technology on the environment. Deploying energy efficient equipment for carrying out various stages of production has been a mean to minimize the consumption of fuel, electricity and water. This has also contributed to streamlining the processes for improving the utilization of resources and discovering new domains for conserving the environment.

For ensuring the compliance with the local laws and regulations including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例), the Group has formulated and implemented environmental and waste management plans. For example, the impact of operations, in the three Kedong dairy farms, Zhenlai, Gannan and Keshan dairy farms, on the environment was assessed and only then the concerned production activities were approved.

Cow manure is the major waste product that is obtained from the dairy farms. This manure is treated via the deployment of waste treatment facilities such as biogas recycling. Such facilities are established in the farms, which collect and process the cow manure for fuel. Biogas produced through fermentation is used directly for heating. The residual waste is then recycled and converted into fertilizers, which are distributed to attain soil nutrition.

Apart from the aforementioned actions, the Group aligns its business activities with the local requirements related to natural environment. Moreover, the Group aims at reducing the repercussions of dairy farming on the environment while preserving and minimizing the usage of natural resources. The protection and conservation of natural resources and ecosystems, reduction of negative impacts across the global value chain and incessant improvement of overall business operations are highly encouraged by the Group.

3 SOCIAL

3.1 Employment and Labour Practices

3.1.1 Employment

Employees are an integral part of any organization and the corresponding labour management practices play a requisite role in affecting a company's culture, success and reputation. For attaining a higher position in the competitive business market, it is eminently essential to acquire a positive work culture by ensuring the sustainability of the employees and maintaining their safety. Attracting and retaining the employees are equally important in the quest of promoting an optimal work culture. Considering the work culture of the Group, the local residents residing closer to the farms are provided with enticing employment opportunities. In case the local people are unable to fulfill the demands of a particular job, only then the search of workforce is extended outside the local boundaries. The Group does not differentiate the workforce on the basis of gender, as long as the candidates are equipped with the qualifying experience or skills.

The Group offers salaries above the local minimum wage regulation. No non-compliance with the laws and regulations relating to labour and employment that have resulted or may result in significant impact on the Company was identified during the Year.

In the process of screening and recruitment, the candidates are required to acquire a physical examination certificate, provided by health and epidemic prevention departments. Apart from the recruitment and selection of employees, the skills of the workforce are developed through adequate trainings. Moreover, the employees are subject to regular medical examinations, which are carried out on the basis of job type and the employee position.

3.1.2 Health and Safety

The foremost objective of the Group is to ensure a robust system pertaining to policies while emphasizing on continuous improvements in all the business operations. Health and safety is one such aspect that underlies the success of an organization as it promotes an effective workforce. Therefore, the Group offers hazard identification training to all the employees, in which the individuals are trained to determine the potential health risks and apply preventive measures to resolve such issues. For promoting this cause, all the farms are requested to prepare a safety assessment report and occupational disease hazard assessment report. In addition, in response to the novel coronavirus epidemic (COVID-19), the Group has strengthened daily prevention and control and strengthened emergency response capabilities.

The health and safety measures undertaken by the Group include the following:

- An animal health and epidemic prevention system is put in place to ensure the well-being of the farm herd. The farm's veterinarian is liable to supervise, implement and enhance the epidemic reporting system.
- The farms are regularly patrolled by the security guards, where all the activities in the farms are monitored. This comprises of the registration of personnel and delivery vehicle disinfection prior to entry. Other vehicles are prohibited from entering the facility.



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- The production area is well guarded wherein the non-production workers are not allowed to enter the restricted zone. As a precaution, the staff members and keepers are not allowed in the production area before the sterilization of uniform, which must be disinfected into the locker room. Their uniforms are replaced and are only permitted inside the area after the sterilization.
- Visits to the farm by the general public are declined.
- Regular cleaning and disinfecting of the farm is carried out.
- Any ill cow or dead cow is isolated immediately and transported to either a diagnosis room or isolation zone.
- Feed quality is checked regularly to ensure freshness.
- Vaccination is offered to the cows in a regular manner to minimize the risk of infectious disease.
- Imported cows must pass the national import and export inspection and quarantine bureau's isolation test before admitting to the farm.
- In case a disease erupts among the cows, the animals are immediately isolated for treatment by the Group's veterinarians. Once an infectious disease is confirmed, it is reported directly to the farm and the Group. Infected cows will be separated in the isolation room, individual care including feeding and cleaning is provided until recovery.
- Sick carcasses and their contaminants are either burned or buried.
- Measures on epidemic prevention are implemented and improvement on feed management can reduce sick incident. Our goal is to reduce the numbers of sick cows.

During the Year, no non-compliance with the laws and regulations relating to occupational safety that have resulted or may result in significant impact on the Company was identified.

3.1.3 Development and Training

An effective workforce is only attained through essential development and training programs. The same has been recognized by the Group, which offers development opportunities to build a stronger team. In Hong Kong and Mainland China, a vigorous and appropriate training development framework was developed as per the requirements of different staff members working at different positions. The types of training comprise on the job training, occupational health and safety management, use of personal protection equipment, personal hygiene, technical training, management training and compliance and policies training. The Group emphasizes on staff training, offering room for individual staff's personal growth and long-term career development, so that staff could grow together with the Group. Moreover, the training is conducted in a regular fashion and evaluated timely to comprehend its effectiveness.

3.1.4 Labour Standards

To recruit and motivate the potential employees, the Group offers competitive remuneration and welfare packages. The workforce is retained by the Group by providing promotion opportunities and salary adjustments as per the performance given by the individual employees. The additional benefits given to the employees range from free meal and accommodation, annual leave and medical coverage in accordance with local regulations. With this robust system of motivating the employees with enticing rewards and support, the Group strives to retain talent and envision the development of all the staff members.

Apart from this, an ethical code is followed within the organization, wherein the employees are not differentiated on the basis of gender and racism. All are offered with equal opportunities and any act of misconduct, such as sexual harassment, is seriously prohibited. Grievance mechanisms and disciplinary procedures are also set in place that assist the transparent and adequate governance of the business. The Group abides by all the regulations and laws on terms of employment, and strictly prohibits the use of forced labour or child labour in all the business activities. During the Year, no violation of related laws, rules and regulations on child labour and forced labour was identified.

3.2 Operating Practices

3.2.1 Supply Chain Management

As the quality of feed has a substantial effect on the quality and yield of raw milk, the Group follows a strict review mechanism for choosing the feed suppliers. Only those feed suppliers who are legally approved and can ensure the proper means of importing the feed are selected. Qualified suppliers will be registered under the “Approved List of Suppliers” of the Group. For this purpose, the Group conducts surprise inspection tours to the supplier workshops and reviews the needful aspects of production. While the feed being delivered to the dairy farms are quarantined, the in-house laboratory performs the requisite sampling inspections. The feeds are checked for quality and only after they pass the inspection, they are allowed to be stored in the warehouse.

3.2.2 Product Responsibility

The Group adheres strictly to the local laws and regulations on product safety, including the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (乳品質量安全監督管理條例) and Regulations on the Administration of Livestock and Poultry (種畜禽管理條例). During the Year, no non-compliance with the laws and regulations relating to products and services safety that have resulted or may result in significant impact on the Company was identified.



Environmental, Social and Governance Report

3.2.2.1 Control Over the Quality of Dairy Cows

The safety and quality of the raw milk is highly influenced by the quality of the dairy cows. At present, the Group breeds the high-quality Holstein dairy cows. To achieve high quality of breed, the dairy cows are inseminated with the semen from selected Holstein bulls sourced from Canada and the United States. The frozen semen of selected Holstein bulls is purchased from international suppliers either directly or through third-party domestic trading companies. Before purchasing the semen, the quarantine report of the respective bull is assessed. The semen is assessed on the basis of several factors, including the nutritional content of raw milk produced by the bull's offspring, and the milk yield and health condition of the bull's offspring. This ensures the appropriate mix and quality of the cows.

3.2.2.2 Quality Control During the Milking Process

In all the dairy farms, a standard milking procedure is followed. For ensuring the milk quality and safety of the cows, the milk is produced and extracted in an automated and sanitary environment. The sterilizing fluids are sprayed across the teats of the dairy cows, and are rigorously cleaned with dry towels before attaching the milking cups. The milking cups are also sterilized and only then the milking process is commenced. The first three squeezes of raw milk from the dairy cows are discarded. Moreover, consistent inspection of the complete process is carried out with caution, for which the set milk safety standards are followed. After the milking process is complete, the teats of dairy cows are sanitized again so as to avoid any infection. Therefore, following this rigorous process of milking ensures the optimal quality of the raw milk with low microbe count and low somatic cell count ("**SCC**").

3.2.2.3 Quality Control During Storage and Transportation

After the milking process is completed, the raw milk is further tested and inspected before supplying it to the end user. The milk is tested against veterinary drug residues, SCC, microbe count, protein content and fat content. During this inspection, if any amount of veterinary drug residue that exceeds the safety standards are found, then all the stored raw milk is discarded. However, there has been no such incident during the Year. A quality report is then generated to be stored as an internal record.

3.2.2.4 Anti-epidemic Measures

It is essential to note that the Group has a prominent focus on reducing or avoiding the occurrence of diseases within the farm premises. For this purpose, several general management practices are adopted and implemented for controlling and preventing different types of diseases.

For ensuring good health of animals in the farm, they are subject to regular vaccinations, monitoring and controlling of parasites infestation, and promoting cleanliness for avoiding diseases. The workers are trained on how to care for the herd and protect them from unwanted harm through basic biosecurity measures. Such measure constitutes all the aspects of farm management and thus, aims at minimizing the disease transmission. For example, it involves the management of motor vehicle parking. All new bovines are individually quarantined before coming onto farm for at least two weeks. Cow with any illness is immediately isolated from the quarantine zone for veterinary diagnosis.

3.2.3 Anti-Corruption

The protocols and laws concerned with bribery, privileges, political contributions, medical sales and inducements are closely followed by the Group. During the Year, no violation of related rules and regulations on bribery, extortion, fraud and money laundering was identified. As per the specified policy, the employees are obstructed from offering unaccounted privileges and entertainment to the clients, as it may be viewed as a reward for customer purchase decisions. Therefore, the client entertainment must never surpass the rational and just business practices.

For ensuring an ethical behavior and conduct in the business environment, all the employees are subject to business ethics training, corresponding to their position and are developed by the group's legal advisers. In case any policy is compromised, a severe, earnest and just action is undertaken against the employee violating the rule. A board audit committee is set in place to conduct internal audits that investigate the obedience towards business processes and practices. To furthering the ethical code among all, revisions of the subject matter pertaining to ethical training and auditing are executed annually. Also, the controls and compliance process are examined through the input provided by the legal counsel and external advisers.

3.3 Community

3.3.1 Community Investment

The Group has portrayed immense dedication in furthering the environmental cause by collaborating with the local communities in the project area and offering them the required support. The communities are assisted in determining the development plans, however, the support is only useful if the communities are prepared to help themselves. When considering the complementary support offered by the Group, the Group follows its policy on corporate citizenship, wherein the communities are informed and updated about the several developments carried out in the farms.

The communities are also aware of the manner which the Group operates, thus, allowing them to contribute in decision-making pertaining to essential developments. Such a process, recognized during environmental impact assessment preparation, is followed all the way through the project implementation phase. In addition, the public shows an intrinsic involvement with the complete project and partakes in decision-making for the betterment of the local and wider environment.

Sponsored community activities are arranged and established on the basis of community needs, which demonstrates the commitment of the Group in fulfilling its corporate social responsibility. These activities demonstrate acute care to the elderly, patients, disabled people and local students. Apart from such programs, the Group has been inclusive to the community by contributing through generous donations and formulating plans for environment conservation.



Directors' Report

The directors of the Company (the “**Directors**”) present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 (the “**Year**”).

PRINCIPAL ACTIVITIES

The Company is an investment holding company. During the Year, the Company's subsidiaries were principally engaged in the production and sale of raw milk in the People's Republic of China (the “**PRC**”).

RESULTS

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 31 December 2020 are set out in the consolidated financial statements and their accompanying notes on pages 76 to 147 of this annual report.

DIVIDEND

The board of Directors (the “**Board**”) has resolved not to recommend the payment of a final dividend for the Year (2019: Nil).

ANNUAL GENERAL MEETING (THE “AGM”)

The AGM for the Year is scheduled to be held on Friday, 28 May 2021. A notice convening the AGM will be issued and dispatched to the shareholders of the Company (the “**Shareholders**”) in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May, 2021 (both days inclusive). In order to qualify for attending and voting at the AGM, the non-registered Shareholders should ensure that all transfers documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 24 May 2021.

BUSINESS REVIEW AND PERFORMANCE

Review of our Business and Performance

A discussion and analysis of the Group's performance using financial key performance indicators during the Year and the key factors affecting its results and financial position are set out in the section headed “Management Discussion and Analysis” of this annual report.

Information about a fair review of, and an indication of likely future development in, the Group's business is set out in the “Chairman's Statement” and “Management Discussion and Analysis” of this annual report.

Principal Risks and Uncertainties

The followings are the major risks and uncertainties currently faced or anticipated by the Group.

Operational Risk

Outbreak of animal disease, product contamination and unstable supply of the feed are certain risks distinctive to the dairy farming industry. Additionally, product safety and quality are crucial to the business of the Group as product contamination involving the farms of the Group could affect the Group's reputation and sales.

Competition Risk

The Group faces competition from large scale dairy farming companies in the PRC as well as foreign suppliers that sell substitutes for raw milk, such as raw milk powder. The Group's ability to compete is, to a significant extent, dependent on its ability to distinguish its products from those of the Group's competitors by providing high quality products at reasonable prices.

Regulatory Risk

The Group conducts business in an industry that is subject to stringent PRC environmental laws and regulations. Failures to comply with the PRC environmental laws and regulations may lead to claims, liabilities or the suspension of our operations, and thereby adversely affect our business and results of operations.

Financial Risk

The Group is exposed to a variety of financial risks in the normal course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk. For details of the financial risk, please refer to note 32 to the consolidated financial statements.

The Board is dedicated to ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible.

Particulars of Important Events

Details of important events are set out in the section headed "Management Discussion and Analysis – Particulars of Important Events" of this annual report.

Save as disclosed above, since 31 December 2020, being the end of the financial year under review, no important event has occurred affecting the Group.



Directors' Report

Compliance with Laws and Regulations

During the Year, to the best of the knowledge and information of the Directors, the Group has complied with the relevant laws and regulations that had a significant impact on the business and operation of the Group.

Environmental Policies and Performance

We recognise the importance of environmental protection and place great emphasis on promoting environmental sustainability. In the course of our operation, the Group has inevitably produced considerable amount of cow manure by cows and heifers rearing. While cow manure is not hazardous waste or pollutants that have a significant adverse effect on the environment, in order to promote our own self-sufficiency and the environmental sustainability of our operations, the Group has implemented various waste management measures such as installing cow waste treatment facilities to treat the cow manure at all of our farms and recycling processed waste through internal recycling systems to produce fertilizers. The Group has also made continuous effort in exploring the possibility of generating electricity by processing the collected bio-waste into biogas.

Apart from the measures abovementioned, the Group has implemented a number of environment-friendly measures in its workplaces by implementing energy-saving practices. For instance, the Group opts for energy efficient lighting equipment and has encouraged our employees to reduce printing and, if reasonably practicable, make use of duplex printing for internal documents. We shall broaden the scope of our green agenda and identify energy improvement opportunities in order to uphold our sustainable development and environment friendly attitude in our daily operation. The Group's commitment to protecting the environment is well reflected by its continuous efforts in promoting green measures and awareness in its daily business operations.

Further discussion of our environmental policies and performance is set out in the "Environmental, Social and Governance Report" on pages 41 to 53 of this annual report.

Stakeholders' Engagement

The Group understands the importance of its customers, suppliers and employees to its long-term business development, and therefore has dedicated to maintaining good relationships with these stakeholders.

Recognising the crucial roles of our customers and suppliers in our business operation, the Group has reinforced its relationships with these business partners through ongoing communication in a proactive and effective manner. In particular, the Group has through continuous interaction with its customers to ensure that the quality of our raw milk product has satisfied their needs and requirements and will, therefore, meet up to our customers' expectation. Besides, the Group is also dedicated to developing good relationship with its suppliers to ensure a stable supply of reliable and high-quality feed for the Group's daily operation.

Apart from the above, the Group recognises the importance of human capital in its long-term development. The Group has provided a fair and safe workplace and offered competitive remuneration, benefits and career development opportunities based on the merits and performance of our employees. The Group also places ongoing effort to provide adequate training and development resources to our staff with an aim to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth.

PERMITTED INDEMNITY

Pursuant to the bye-laws of the Company (the "**Bye-laws**"), the Company may take out and pay the premium and other moneys for the maintenance of insurance, bonds and other instruments for the benefit either of the Company or the Directors' indemnity (and/or other officers) or any of them to indemnify the Company and/or the Directors (and/or other officers) for this purpose against any loss, damage, liability and claim which they may suffer or sustain in connection with any breach by the Directors (and/or other officers) or any of them of their duties to the Company. The Company has arranged for an appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities during the Year and the indemnity provision and directors' and officers' liability insurance remained in force as of the date of this report.

FINANCIAL SUMMARY

A summary of the results as well as the assets and liabilities of the Group for the last five financial years is set out on page 148 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 24 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Year are set out in note 26 to the consolidated financial statements and the consolidated statement of changes in equity on pages 136 and 78, respectively.



Directors' Report

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to equity holders, comprising the share premium, share option reserve, exchange fluctuation reserve and retained profits, amounted to approximately RMB2,888.2 million.

Under the Companies Act 1981 of Bermuda (as amended), the share premium account of the Company in the amount of RMB2,977.0 million may be applied for paying distributions or dividends to the Shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

PROPERTY, PLANT AND EQUIPMENT

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

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

MANAGEMENT CONTRACTS

No contracts (except for the executive Directors' service contracts) concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence as at 31 December 2020 or executed during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

Sales attributable to the Group's largest customer and the three largest customers accounted for approximately 83.6% and 99.3%, respectively, of the Group's total revenue for the Year. The purchases made by the Group from its largest supplier and five largest suppliers accounted for approximately 17.2% and 44.3% of the Group's total purchases for the Year, respectively.

None of the Directors or any of their close associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued Shares) had any beneficial interest in the Group's three largest customers or five largest suppliers.

BOARD

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

Executive Directors

Mr. Zhao Hongliang (趙洪亮) (*Chairman*)^R
 Mr. Fu Wenguo (付文國) (*Chief Executive Officer*)^N
 Mr. Chen Xiangqing (陳祥慶) (*Chief Financial Officer*)
 Mr. Liu Gang (劉剛)

Non-executive Directors

Mr. Leng Youbin (冷友斌) (*appointed with effect from 3 December 2020*)
 Mr. Liu Hua (劉華) (*appointed with effect from 3 December 2020*)
 Mr. Cai Fangliang (蔡方良) (*appointed with effect from 3 December 2020*)

Independent Non-executive Directors (the “INEDs”)

Mr. Zhang Yuezhou (張月周)^{A/R/N}
 Mr. Zhu Zhanbo (朱戰波)^{A/R/N}
 Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)^{A/R/N}
 Ms. Liu Jinping (劉晉萍) (*appointed with effect from 3 December 2020*)^A

A: Member of the audit committee
 R: Member of the remuneration committee
 N: Member of the nomination committee

In accordance with bye-laws 108(A) and (B) of the Bye-laws, Messrs. Fu Wenguo, Liu Gang and Meng Jingzong (alias Owens Meng) (“**Mr. Meng**”) will retire from office by rotation at the AGM. Pursuant to bye-law 112 of the Bye-laws, Messrs. Leng Youbin (“**Mr. Leng**”), Liu Hua (“**Mr. Liu**”), Cai Fangliang (“**Mr. Cai**”) and Liu Jinping (“**Ms. Liu**”) will retire from office at the AGM. All of the above retiring Directors, being eligible, have offered themselves for re-election thereat.

CONFIRMATION OF INDEPENDENCE OF INEDS

The Company has received from each of the INEDs, namely Ms. Liu, Mr. Zhang Yuezhou (“**Mr. Zhang**”), Mr. Zhu Zhanbo (“**Mr. Zhu**”) and Mr. Meng, an annual written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. At the date of this report, the Company considers all of them to be independent.



Directors' Report

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical information of the Directors and senior management of the Group are set out on pages 17 to 22 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement/letters of appointment with the Company. The service agreements/letters of appointment are for a term of three years and shall automatically renew thereafter until terminated by either party giving to the other not less than three months' prior notice in writing.

None of the Directors proposed for re-election at the AGM has a service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the executive Directors and the five individuals with the highest emoluments for the Year are set out in notes 8 and 9 to the consolidated financial statements, respectively.

The non-executive Directors are not entitled to any Director's fee. Each of Mr. Zhang, Mr. Zhu and Ms. Liu, being an INED, is entitled to a Director's fee of HK\$125,000 per annum and Mr. Meng, an INED, is entitled to a Director's fee of HK\$200,000 per annum.

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

As at 31 December 2020, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or 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 were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(i) Long Positions in the Shares

Name of Director	Capacity/ Nature of interests	Number of Shares held	Approximate percentage of issued Shares
Mr. Leng Youbin ("Mr. Leng") <i>(Note)</i>	Interest in a controlled corporation and founder of a discretionary trust/ Corporate and other interest	3,342,320,920	71.26%

Note: 3,342,320,920 Shares were beneficially owned by China Feihe Limited ("Feihe") which is owned as to 49.9% by Mr. Leng, a NED. Therefore, Mr. Leng is deemed or taken to be interested in 3,342,320,920 Shares beneficially owned by Feihe by virtue of the SFO.

(ii) Long Positions in the shares of Feihe – an associated corporation of the Company

Name of Directors	Capacity/ Nature of interests	Number of Shares held	Approximate percentage of issued Shares
Mr. Leng <i>(Note 1)</i>	Interest in a controlled corporation and founder of a discretionary trust/ corporate and other interest	4,457,428,339	49.90%
Mr. Liu Hua ("Mr. Lui") <i>(Note 2)</i>	Interest in a controlled corporation and founder of a discretionary trust/ corporate and other interest	933,198,378	10.45%

Notes:

- 587,516,458 shares were held by Mr. Leng through his controlled corporation – Dasheng Limited ("Dasheng"). 33.33% of the equity interests in Dasheng were held directly by Mr. Leng. 3,869,911,881 shares were held by Harneys Trustees Limited ("Harneys") as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited ("LYB"), which in turn holds the entire issued share capital of Garland Glory Holdings Limited ("Garland Glory"). Leng Family Trust was established by Mr. Leng as the settlor and the only discretionary object.



Directors' Report

- 587,516,458 shares were held by Mr. Liu through his controlled corporation – Dasheng. 33.33% of the equity interests in Dasheng were held directly by Mr. Liu. 345,681,920 shares were held by Harneys as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited, LH Family Trust was established by Mr. Liu as the settlor and the only discretionary object.

Save as disclosed above and so far as is known to the Directors, as at 31 December 2020, none of the Directors and the chief executive of the Company had or was deemed to have any other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2020, as far as known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/ Nature of interests	Number of Shares held	Approximate percentage of issued Shares
Feihe ^(Note 1)	Beneficial owner/Personal Interest	3,342,320,920	71.26%
Garland Glory ^(Note 2)	Interest in a controlled corporation/ Corporate Interest	3,342,320,920	71.26%
LYB ^(Note 2)	Interest in a controlled corporations/ Corporate Interest	3,342,320,920	71.26%
Harneys ^(Note 2)	Trustee of a trust/Other interest	3,342,320,920	71.26%

Notes:

- Please refer to note 1 under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
- 3,342,320,920 Shares were held by Harneys as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB, which in turn holds the entire issued share capital of Garland Glory, which in turn holds 43.32% of Feihe. Leng Family Trust is a discretionary trust established by Mr. Leng as the settlor and the only discretionary object. Accordingly, each of Harneys, LYB and Garland Glory was deemed or taken to be interest in 3,342,320,920 Shares directly held by Feihe.

Save as disclosed above, as at 31 December 2020, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interest in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Share Option Scheme for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. Details of the Share Option Scheme are set out in note 25 to the consolidated financial statements.

Under the Share Option Scheme, the Directors may grant share options (the “Options”) to subscribe for ordinary shares of the Company of HK\$0.01 each (the “Shares”) to eligible participants, including without limitation employees of the Group as well as directors of the Company and its subsidiaries. Options comprising a total of 317,350,000 underlying Shares were granted under the Share Option Scheme to certain employees of the Group and the Directors on 22 August 2014 (the “First Grant Date”), 8 December 2015 (the “Second Grant Date”) and 5 June 2018, respectively.

Following the close conditional voluntary general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by Feihe and its concert parties and to make comparable offers to the optionholders for all Options (which confer rights on the optionholders to subscribe for new Shares) by way of cancellation of the Option (the “Option Offer”) on 2 December 2020, valid acceptances in respect of 184,300,000 Options under the Option Offer (including 22,800,000 Options with the exercise price of HK\$0.59 and 161,500,000 Options with the exercise price of HK\$0.24, representing 96.54% of all outstanding Options), representing all of the Options outstanding as the date of the composite document which was issued on 30 October 2020. Accordingly, no Options were outstanding as at 31 December 2020 under the Share Option Scheme. For more details, please refer to the joint announcement issued by the Company and Feihe dated 2 December 2020.

Details of the movements of the Options during the Year are as follows:

Grantees	Outstanding as at 01.01.2020	Number of underlying Shares comprised in Options				Outstanding as at 31.12.2020	Exercise price per Share HK\$	Grant Date	Validity period of the Options
		Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercised during the Year				
Directors									
Mr. Zhao	4,500,000	-	(4,500,000)	-	-	-	0.24	05.06.2018	Note 3
Mr. Fu	20,000,000	-	(20,000,000)	-	-	-	0.24	05.06.2018	Note 3
Mr. Chen	13,500,000	-	(13,500,000)	-	-	-	0.24	05.06.2018	Note 3
Mr. Liu	15,000,000	-	(15,000,000)	-	-	-	0.24	05.06.2018	Note 3
Senior management member									
Mr. Wang Yongxin	7,000,000	-	(7,000,000)	-	-	-	0.24	05.06.2018	Note 3
Employees (in aggregate)									
	6,600,000	-	(6,600,000)	-	-	-	1.462	22.08.2014	Note 1
	22,800,000	-	(22,800,000)	-	-	-	0.59	08.12.2015	Note 2
	102,500,000	-	(101,500,000)	(1,000,000)	-	-	0.24	05.06.2018	Note 3
Total	191,900,000	-	(190,900,000)	(1,000,000)	-	-			



Directors' Report

Notes:

1. The validity period of the Options shall expire on the 7th anniversary of the First Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

Tranche I: beginning on the 1st anniversary of the First Grant Date: 30% of such Options granted;

Tranche II: beginning on the 2nd anniversary of the First Grant Date: 30% of such Options granted; and

Tranche III: beginning on the 3rd anniversary of the First Grant Date: 40% of such Options granted.
2. The validity period of the Options shall expire on the 7th anniversary of the Second Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

Tranche I: beginning on the 1st anniversary of the Second Grant Date: 30% of such Options granted;

Tranche II: beginning on the 2nd anniversary of the Second Grant Date: 30% of such Options granted; and

Tranche III: beginning on the 3rd anniversary of the Second Grant Date: 40% of such Options granted.
3. The validity period of the Options is from 5 June 2018 to 4 June 2025. 60% of the Option granted will be vested and exercisable on or after 5 June 2018 and the remaining 40% of the Option granted will be vested and exercised on or after 5 June 2019.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

Save as disclosed in the paragraph headed "Share Option Scheme" above, at no time during the Year was the Company, its holding company, nor any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares and debentures in the Company or any other body corporate.

CONDITIONAL VOLUNTARY GENERAL OFFER

On 6 September 2020, the Company and China Feihe Limited (the "**Offeror**") an exempted company incorporated in Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6186) jointly announced that CLSA Limited will, on behalf of the Offeror, made a voluntary conditional cash offers (i) to acquire all of the outstanding shares in the issued share capital of the Company (the "**Share Offer**"); and (ii) to cancel all the outstanding share options granted by the Company pursuant to the share option scheme of the Company, whether vested or not (the "**Offers**"). The Offers closed at 4:00 p.m. on 2 December 2020. Taking into account the valid acceptances in respect of 3,342,320,920 shares under the Share Offer, the Offeror and its concert parties would hold an aggregate of 3,342,820,920 shares, representing approximately 71.27% of the entire issued share capital of the Company on 2 December 2020. As a consequence, the Offeror became the controlling shareholder of the Company. For further details, please refer to the announcements of the Company dated 6 September, 11 September, 28 September, 12 October, 28 October, 30 October, 18 November, 2 December 2020 and the circular of the Company dated 30 October 2020.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director or a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries or fellow subsidiaries was a party during the Year or subsisted at the end of the Year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There has been no contract of significance (whether for the provision of services to the Company or not) between the Company or any of its subsidiaries and controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries during the Year or subsisted at the end of the Year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this report, none of the Directors or their respective close associates (as defined in the Listing Rules) are considered to have any interests in a business (apart from the business of the Group) which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest, as required to be disclosed under the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 29 to the consolidated financial statements. Save as disclosed in the paragraph headed "Continuing Connected Transactions" below, none of them constituted a connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group had certain transactions with parties which were connected persons of the Company under the Listing Rules. These transactions are considered to be continuing connected transactions under the Listing Rules, which need to be disclosed herein in compliance with the requirements under Chapter 14A of the Listing Rules.



Directors' Report

Connected Person

Feihe Dairy Group (comprising Heilongjiang Feihe Dairy Co., Ltd. (黑龍江飛鶴乳業有限公司) (“**Feihe Dairy HLJ**”) and its subsidiaries) is not a connected person of the Company for the purpose of the then Rule 14A.11 of the Listing Rules before the closing of the offers on 2 December 2020. However, due to the past relationship and transactions with Feihe Dairy Group, being one of the Group's customers, as disclosed in “Our Relationship with Feihe Dairy Group” paragraph in the section headed “History, Development And Reorganization” of the Prospectus, it has been deemed by the Stock Exchange as the Company's connected person after the Listing pursuant to Rule 14A.19 of the Listing Rules. As such, the Company has agreed to undertake to comply with Chapter 14A of the Listing Rules' requirements in respect of the transactions with the Feihe Dairy Group from the Listing Date.

2017 Feihe Master Agreement and 2020 Feihe Master Agreement

As disclosed in the Prospectus, on 1 November 2013, (a) Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司) (“**Ruixinda**”) and Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司) (“**Ruixincheng**”), both indirect wholly-owned subsidiaries of the Company on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) on the other part entered into a master agreement for the purchase of raw milk which expired on 31 December 2015.

Ruixinda and Ruixincheng (for themselves and on behalf of other members of the Group) and Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) entered into a new master agreement on 14 December 2015 to continue the supply of raw milk to Feihe Dairy Group for a term of three years ended 31 December 2018.

The Company for itself and on behalf of its subsidiaries and China Feihe Limited (for itself and on behalf of its subsidiaries) entered in to a master agreement dated 12 May 2017 (the “**2017 Feihe Master Agreement**”) to confirm the priority arrangement of the Group's supply for a raw milk to Feihe Dairy Group for a term ended on 31 December 2019.

Pursuant to the 2017 Feihe Master Agreement, the Group would supply raw milk to Feihe Dairy Group in the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers. The Shareholders passed a resolution by way of poll at the special general meeting held on 17 July 2017 approving the continuing connected transactions contemplated under the 2017 Feihe Master Agreement and the annual caps relating thereto. Details of the 2017 Feihe Master Agreement are disclosed in the announcement and the circular of the Company dated 12 May 2017 and 30 June 2017, respectively.

The approved annual caps in respect of the transactions contemplated under the 2017 Feihe Master Agreement for each of the three years ended 31 December 2019 were RMB812 million, RMB902 million and RMB1,015 million, respectively. The aggregate value of raw milk supplied to Feihe Dairy Group under the 2017 Feihe Master Agreement for the Year was approximately RMB835.3 million. The connected transactions abovementioned have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the Year.

As the 2017 Feihe Master Agreements expired on 31 December 2019, the Company for itself and on behalf of its subsidiaries and China Feihe Limited (for itself and on behalf of its subsidiaries) entered in to a master agreement (the “**2020 Feihe Master Agreement**”) on 23 September 2019 to confirm the priority arrangement of the Group's supply for a raw milk to Feihe Dairy Group for a term of three years ending on 31 December 2022.

Pursuant to the 2020 Feihe Master Agreement, the Group would supply raw milk to Feihe Dairy Group in the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers. The Shareholders passed a resolution by way of poll at the special general meeting held on 5 November 2019 approving the continuing connected transactions contemplated under the 2020 Feihe Master Agreement and the annual caps relating thereto. Details of the 2020 Feihe Master Agreement are disclosed in the announcement and the circular of the Company dated 23 September 2019 and 16 October 2019, respectively.

The approved annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the three years ending 31 December 2022 are RMB1,300 million, RMB1,400 million and RMB1,500 million, respectively. The connected transactions abovementioned have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the Year.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The INEDs have reviewed the above continuing connected transactions for the Year and confirmed that the above continuing connected transactions were entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. in accordance with the terms of the agreement governing the continuing connected transactions (i.e. the 2020 Feihe Master Agreement) that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ernst & Young, Certified Public Accountants, the Company's independent auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued their unqualified letter to the Board containing their findings and conclusions in respect of the Group's continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that the Company has maintained a sufficient public float (i.e. at least 25% of the issued Shares are held by the public) as required by the Listing Rules during the Year and up to the date of this report.

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

During the Year, the Company did not redeem any of the Company's listed securities nor did the Company or any of its subsidiaries purchase or sell any of such Shares.



Directors' Report

EVENT AFTER REPORTING PERIOD

Save as disclosed elsewhere in this report, the Group did not have any material subsequent event after the Year and up to the date of this report.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or requiring the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Year or subsisted at the end of the Year.

CORPORATE GOVERNANCE

Particulars of the Company's significant corporate governance practices are set out in the Corporate Governance Report on pages 23 to 40 of this annual report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rules 13.51(B) of the Listing Rules, the change in information of the Directors since the date of the 2020 interim report of the Company are set out below:

- Mr. Leng was appointed as a NED with effect from 3 December 2020.
- Mr. Liu was appointed as a NED with effect from 3 December 2020.
- Mr. Cai was appointed as a NED with effect from 3 December 2020.
- Ms. Liu was appointed as an INED and a member of the Audit Committee with effect from 3 December 2020.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all the four INEDs, namely Mr. Meng (committee chairman), Mr. Zhang, Mr. Zhu and Ms. Liu. It has reviewed with management the audited consolidated financial statements of the Company for the Year.

INDEPENDENT AUDITOR

There were no changes of independent auditor in the past three years.

The consolidated financial statements of the Company for the Year have been audited by Ernst & Young which will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having approved by the Board upon the Audit Committee's recommendation, a resolution to re-appoint Ernst & Young as the independent auditor and to authorise the Directors to fix its remuneration will be proposed at the forthcoming AGM.

On behalf of the Board

Zhao Hongliang
Chairman

Hong Kong, 18 March 2021

Independent Auditor's Report



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To the shareholders of YuanShengTai Dairy Farm Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of YuanShengTai Dairy Farm Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 76 to 147, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

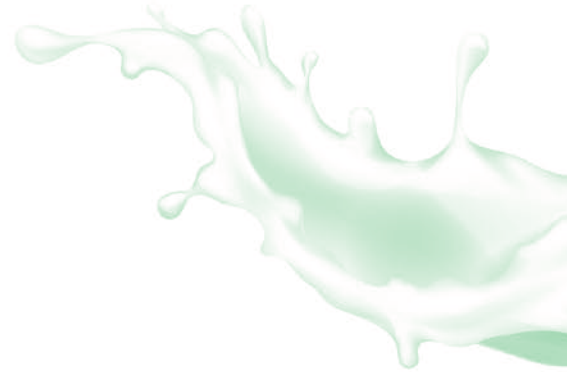
BASIS FOR OPINION

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

KEY AUDIT MATTERS

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





Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
<i>Fair value of biological assets</i>	
<p>As at 31 December 2020, the carrying value of the Group's biological assets, mainly including heifers/calves and milkable cows, amounted to RMB1,441,940,000, representing 25% of the Group's total assets.</p> <p>During the year ended 31 December 2020, the Group recorded a loss of RMB171,299,000 arising from the changes in fair value less costs to sell of biological assets.</p> <p>The Group's biological assets are measured at fair value less costs to sell. The determination of the fair value requires significant management's judgements regarding inter alia, the species, age, culling rates and growing condition of the biological assets; cost incurred and the average milk yield of each cow, the estimated milk price and the discount rate. Management employs an external valuer to facilitate its determination of the fair value of the biological assets.</p> <p>Relevant disclosures are included in notes 3 and 17 to the consolidated financial statements.</p>	<p>Our audit procedures for the year ended 31 December 2020 included stocktaking of biological assets and understanding management's judgements and key assumptions adopted to determine the fair value of the biological assets. In particular, we performed stocktakes of all heifers/calves and milkable cows at the year end, and we compared the valuation inputs to available market data. We considered the objectivity, independence and expertise of the independent valuer. We also involved our internal valuation specialists to assist us in evaluating the valuation models and the judgements and key assumptions adopted, including discount rate and contributory asset charges. In addition, we evaluated the adequacy of the related disclosures of the fair value of biological assets in the consolidated financial statements.</p>



KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Reversal of impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Dairy Farming Co., Ltd.</i></p> <p>Baiquan Ruixincheng Dairy Farming Co., Ltd. ("Baiquan Ruixincheng Farm"), an indirect wholly owned subsidiary of the Company, is operating a farm in Baiquan County, Qiqihar City, Heilongjiang Province, for the production and sale of raw milk. As at 31 December 2020, Baiquan Ruixincheng Farm had 9,361 dairy cows.</p> <p>On 25 February 2019, Baiquan Ruixincheng Farm received a notice from the Department of Ecology and Environment of Heilongjiang Province dated 28 December 2018 which stated that the Department of Ecology and Environment of Heilongjiang Province withdrew the previous approval given to Baiquan Ruixincheng Farm in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm. Without the previous approval given by the Department of Ecology and Environment of Heilongjiang Province, Baiquan Ruixincheng Farm cannot continue the operation of the farm.</p> <p>Management considered these external sources of information as an impairment indicator, recorded an impairment provision of RMB420,694,000 for immovable property, plant and equipment and a prepayment for construction and equipment after netting off related government grants and accrued additional expenses of RMB15,709,000, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee as at 31 December 2019.</p>	<p>We checked all official documents addressed to Baiquan Ruixincheng Farm from governments, inquired with management of its assessment of potential impacts and assessed management's assumptions in calculating the reversal of an impairment loss of property, plant and equipment and a prepayment for construction and equipment and additional accrued expenses. We performed stocktakes of all immovable property, plant and equipment at the year end.</p>



Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="113 434 1402 501"><i>Reversal of impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Dairy Farming Co., Ltd. (Continued)</i></p> <p data-bbox="113 517 759 1099">On 23 October 2020, Baiquan Ruixincheng Farm obtained approval in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm from the Department of Ecology and Environment of Qiqihar City. On 8 December 2020 and 11 December 2020, Baiquan Ruixincheng Farm obtained approvals in relation to the use of grassland and the use of forestland for Baiquan Ruixincheng Farm, respectively, which were previously withdrawn. On 14 December 2020, the Government of Baiquan County issued the third public notice of environmental protection acceptance for the completion of Baiquan Ruixincheng Farm, which shall be effective in 20 working days. Baiquan Ruixincheng Farm was not informed objection against the third public notice during the notice period of 20 working days and resumed operations in January 2021.</p> <p data-bbox="113 1137 759 1379">Management considered these external sources of information as an indicator that a previously recognised impairment loss should be reversed and reversed an impairment provision of RMB412,889,000 for immovable property, plant and equipment and a prepayment for construction and equipment after netting off related government grants as at 31 December 2020.</p> <p data-bbox="113 1417 759 1621">This matter was significant to our audit because the amounts of reversal of provision and reversal of an impairment loss were material to the consolidated financial statements and the assessment involved the determination of the recoverable amounts of the assets which involved significant judgements and estimates.</p> <p data-bbox="113 1659 759 1724">Relevant disclosures are included in notes 3, 6, 13 and 22 to the consolidated financial statements.</p>	

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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





Independent Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young

Certified Public Accountants

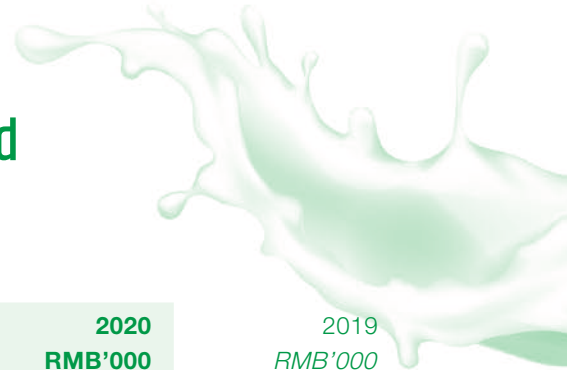
Hong Kong

18 March 2021



Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020



	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	1,554,012	1,389,510
Cost of sales		(1,090,732)	(1,009,800)
Gross profit		463,280	379,710
Other income and gains	5	43,860	35,603
Administrative expenses		(140,100)	(61,938)
Other expenses		(28,026)	(11,588)
Finance costs	7	(2,653)	–
Changes in fair value less costs to sell of biological assets	17	(171,299)	(118,546)
Impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Dairy Farming Co., Ltd.	6	412,889	(161)
PROFIT BEFORE TAX	6	577,951	223,080
Income tax expense	10	–	–
PROFIT FOR THE YEAR		577,951	223,080
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		73	1,058
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		578,024	224,138
Attributable to:			
Owners of the Company		578,024	224,138
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	RMB12.32 cents	RMB4.76 cents



Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,632,948	2,086,440
Investment properties	14	78,134	–
Right-of-use assets	15	82,271	86,574
Prepayments, other receivables and other assets	16	64,482	19,119
Biological assets	17	1,441,940	1,333,438
Total non-current assets		4,299,775	3,525,571
CURRENT ASSETS			
Inventories	18	316,608	295,223
Trade receivables	19	131,084	126,758
Prepayments, other receivables and other assets	16	6,287	3,748
Cash and cash equivalents	20	1,029,583	1,009,782
Total current assets		1,483,562	1,435,511
CURRENT LIABILITIES			
Trade payables	21	194,751	249,938
Other payables and accruals	22	426,224	266,773
Lease liabilities	15	9,466	–
Total current liabilities		630,441	516,711
NET CURRENT ASSETS		853,121	918,800
TOTAL ASSETS LESS CURRENT LIABILITIES		5,152,896	4,444,371
NON-CURRENT LIABILITIES			
Other payables and accruals	22	188,752	125,899
Lease liabilities	15	67,648	–
Total non-current liabilities		256,400	125,899
Net assets		4,896,496	4,318,472
EQUITY			
Issued capital	24	37,674	37,674
Reserves	26	4,858,822	4,280,798
Total equity		4,896,496	4,318,472

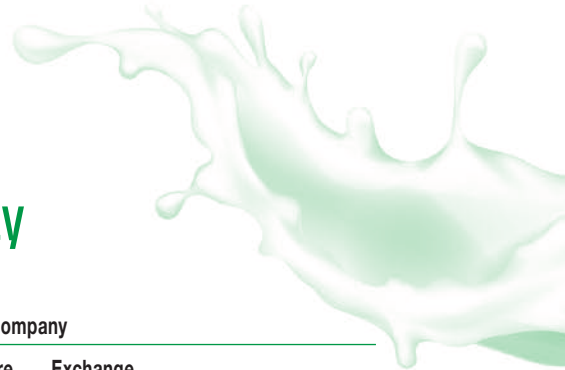
Zhao Hong Liang
Director

Chen Xiang Qing
Director



Consolidated Statement of Changes in Equity

Year ended 31 December 2020



	Attributable to owners of the Company								
		Issued capital	Merger reserve	Share premium	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total equity
	Note	RMB'000	RMB'000 (Note 26)	RMB'000	RMB'000 (Note 26)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019		37,674	186,000	2,956,372	455,505	18,824	8,900	428,654	4,091,929
Profit for the year		-	-	-	-	-	-	223,080	223,080
Other comprehensive income for the year:									
Exchange differences related to foreign operations		-	-	-	-	-	1,058	-	1,058
Total comprehensive income for the year		-	-	-	-	-	1,058	223,080	224,138
Equity-settled share option arrangements	25	-	-	-	-	2,405	-	-	2,405
Transfer of share option reserve upon the forfeiture of share options		-	-	-	-	(496)	-	496	-
At 31 December 2019 and 1 January 2020		37,674	186,000	2,956,372	455,505	20,733	9,958	652,230	4,318,472
Profit for the year		-	-	-	-	-	-	577,951	577,951
Other comprehensive income for the year:									
Exchange differences related to foreign operations		-	-	-	-	-	73	-	73
Total comprehensive income for the year		-	-	-	-	-	73	577,951	578,024
Transfer of share option reserve upon the cancellation of share options		-	-	20,648	-	(20,648)	-	-	-
Transfer of share option reserve upon the forfeiture of share options		-	-	-	-	(85)	-	85	-
At 31 December 2020		37,674	186,000*	2,977,020*	455,505*	-*	10,031*	1,230,266*	4,896,496

* These reserve accounts comprise the consolidated reserves of RMB4,858,822,000 (2019: RMB4,280,798,000) in the consolidated statement of financial position.



Consolidated Statement of Cash Flows

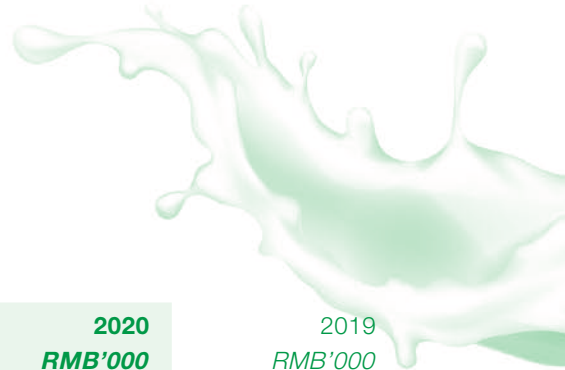
Year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		577,951	223,080
Adjustments for:			
Finance costs	7	2,653	–
Interest income	5	(13,676)	(8,248)
Depreciation of property, plant and equipment	6	76,554	76,114
Depreciation of investment properties	6	8,371	–
Depreciation of right-of-use assets	6	5,137	5,399
Loss on disposal of items of property, plant and equipment	6	2,930	92
Changes in fair value less costs to sell of biological assets	17	171,299	118,546
Equity-settled share option expense	25	–	2,405
Recognition of government grants		(7,413)	(8,574)
(Reversal)/recognition of impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm	6	(412,889)	161
Foreign exchange differences, net	6	61,936	(14,488)
		472,853	394,487
(Increase)/decrease in inventories		(21,385)	7,387
Increase in trade receivables		(4,326)	(68,046)
Decrease in prepayments, other receivables and other assets		87	1,930
Increase/(decrease) in accruals and other payables		178,048	(16,915)
Decrease in trade payables		(55,187)	(35,821)
		570,090	283,022
Cash generated from operations		570,090	283,022
Interest received		11,050	9,730
		581,140	292,752
Net cash flows from operating activities		581,140	292,752



Consolidated Statement of Cash Flows

Year ended 31 December 2020



	Note	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(298,424)	(114,012)
Additions to biological assets		(382,029)	(343,723)
Proceeds from disposal of biological assets		141,866	145,204
Proceeds from disposal of items of property, plant and equipment		47,062	5,500
Receipt of government grants for property, plant and equipment		5,000	–
(Increase)/decrease in time deposits		(137,023)	82,608
Net cash flows used in investing activities		(623,548)	(224,423)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in accruals and other payables		–	30,000
Principal portion of lease payments		(12,878)	–
Net cash flows from/(used in) financing activities		(12,878)	30,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(55,286)	98,329
Cash and cash equivalents at beginning of year		1,009,782	896,965
Effect of foreign exchange rate changes, net		(61,936)	14,488
CASH AND CASH EQUIVALENTS AT END OF YEAR		892,560	1,009,782
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	673,845	254,715
Non-pledged time deposits	20	355,738	755,067
Cash and cash equivalents as stated in the statement of financial position		1,029,583	1,009,782
Less: Non-pledged time deposits with maturity of more than three months when acquired		(137,023)	–
Cash and cash equivalents as stated in the statement of cash flows		892,560	1,009,782



Notes to the Consolidated Financial Statements

31 December 2020

1. CORPORATE AND GROUP INFORMATION

YuanShengTai Dairy Farm Limited (the “**Company**”) is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

During the year, the Company and its subsidiaries (together, the “**Group**”) are principally engaged in the production and sale of milk in the People’s Republic of China (the “**PRC**”).

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company is China Feihe Limited since 2 December 2020, which is incorporated in the Cayman Islands.

Information about subsidiaries

Particulars of the Company’s subsidiaries (all of which are private companies with limited liability) are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Natural Dairy Farm Limited	BVI/ Mainland China	US\$100	100	–	Investment holding
Royal Dairy Farm Limited	Hong Kong/ Mainland China	HKD100	–	100	Investment holding
黑龍江甘南瑞信達原生態牧業有限公司 Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. (“ Ruixinda Gannan ”)**	PRC/ Mainland China	RMB38,000,000	–	100	Production and sale of raw milk
黑龍江克東和平原生態牧業有限公司 Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (“ YST Heping ”)**	PRC/ Mainland China	RMB246,520,000	–	100	Production and sale of raw milk
黑龍江克東瑞信達原生態牧業股份有限公司 Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd. (“ YST Heilongjiang ”)*	PRC/ Mainland China	RMB186,850,000	–	100	Production and sale of raw milk
鎮賚瑞信達原生態牧業有限公司 Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd. **	PRC/ Mainland China	RMB60,000,000	–	100	Production and sale of raw milk
哈爾濱市瑞信達牧業有限公司 Harbin Ruixinda Dairy Farming Co., Ltd. (“ Ruixinda ”)**	PRC/ Mainland China	RMB180,000,000	–	100	Investment holding
哈爾濱市瑞信誠商貿有限公司 Harbin Ruixincheng Trading Co., Ltd. (“ Ruixincheng ”)**	PRC/ Mainland China	RMB550,000,000	–	100	Inactive
克東勇進原生態牧業有限公司 Kedong Yongjin YuanShengTai Dairy Farming Joint Stock Co., Ltd.**	PRC/ Mainland China	RMB1,216,000,000	–	100	Production and sale of raw milk



Notes to the Consolidated Financial Statements

31 December 2020

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
克東瑞信達商貿有限公司 Kedong Ruixinda Commercial Trade Co., Ltd.**	PRC/ Mainland China	RMB430,000,000	-	100	Inactive
甘南瑞信誠商貿有限公司 Gannan Ruixincheng Commercial Trade Co., Ltd.**	PRC/ Mainland China	RMB400,000,000	-	100	Inactive
拜泉瑞信誠牧業有限公司 Baiquan Ruixincheng Dairy Farming Co., Ltd. ("Baiquan Ruixincheng Farm")**	PRC/ Mainland China	RMB534,113,940	-	100	Production and sale of raw milk
克山瑞信誠牧業有限公司 Keshan Ruixincheng Dairy Farming Co., Ltd.**	PRC/ Mainland China	RMB100,000,000	-	100	Production and sale of raw milk

The English names of these companies represent the best effort made by the management of the Company to directly translate their Chinese names as these companies do not register any official English names.

* Registered as limited liability companies under PRC law.

2.1 BASIS OF PRESENTATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PRESENTATION (Continued)

Basis of consolidation (Continued)

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

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

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

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



Notes to the Consolidated Financial Statements

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

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</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) 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.
- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“**RFR**”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (d) 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 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 for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group.
- (e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contracts³</i>
Amendments to IFRS 17	<i>Insurance Contracts^{3, 5}</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i> <i>Disclosure of Accounting Policies³</i>
Amendment to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates³</i>
<i>Annual Improvements to IFRS Standards 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023



Notes to the Consolidated Financial Statements

31 December 2020

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

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

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group’s financial statements.

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

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

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

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

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

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

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



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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

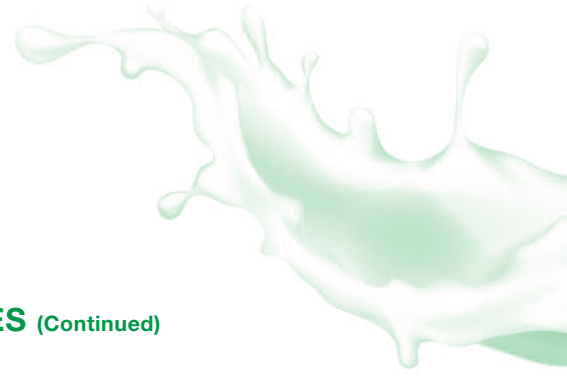
Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and biological assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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





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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	3-4%
Plant and machinery	6-10%
Furniture and fixtures	18-20%
Motor vehicles	11-12%
Other equipment	18-20%

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

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

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



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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Investment properties

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

Depreciation is calculated on the straight-line basis at 12.9% per annum to write off the cost of investment properties over their estimated useful lives.

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

Biological assets

Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation costs and excluding finance costs and income taxes. The fair value of dairy cows is determined based on their present location and condition and is determined independently by professional valuers.

The feeding costs and other related costs including the depreciation charge, utility costs and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Agricultural produce represents raw milk harvested from the Group's biological assets. Milk is recognised at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices quoted in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation costs, excluding finance costs and income tax.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Leases**

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

Group as a lessee

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

(a) Right-of-use assets

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

Prepaid land lease payments	10 to 50 years
Motor vehicles	5 years

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

When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".



Notes to the Consolidated Financial Statements

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

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

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

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

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

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Investments and other financial assets

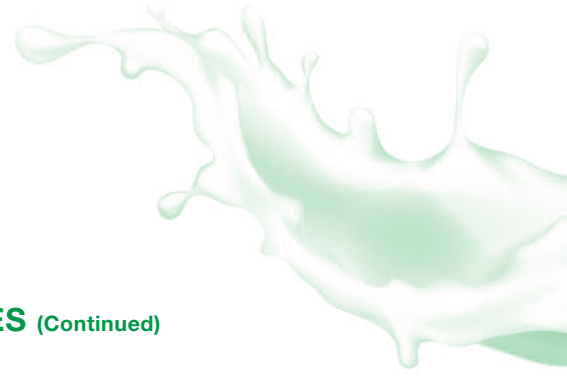
Initial recognition and measurement

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

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

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





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31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Derecognition of financial assets

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

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



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

General approach

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

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

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.



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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables, as appropriate.

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

The Group's financial liabilities include trade payables and other payables and accruals.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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



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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

Provision

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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



Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the consolidated statement of profit or loss and other comprehensive income over the expected useful lives of the relevant assets by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Sale of raw milk

Revenue from the sale of raw milk is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the raw milk.

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from other sources

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

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

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

Contract costs

Other than the costs which are capitalised as inventories, property, plant, and equipment, biological assets, and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the consolidated statement of profit or loss and other comprehensive income on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.



Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 25 to the financial statements.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 16% of their payroll costs to the central pension scheme during the year ended 31 December 2020, except that 8% is applied from February to April due to the impact of Covid-19. The contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Renminbi ("**RMB**"). The Company's functional currency is Hong Kong dollars ("**HKD**"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in consolidated statement of profit or loss and other comprehensive income.

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

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

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

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



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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Estimation uncertainty

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

Provision for expected credit losses on trade receivables

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

Leases – Estimating the incremental borrowing rate

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

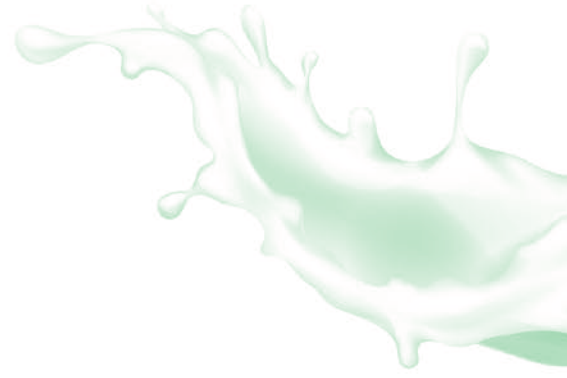
Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of each reporting period adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 17 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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





Notes to the Consolidated Financial Statements

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4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

The Group's revenue from external customers is derived solely from its operations in Mainland China.

All external sales of milk produced by the Group during the year are attributable to customers located in Mainland China.

All non-current assets were located in Mainland China.

During the year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2020 and 2019 is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	1,299,369	835,298
Customer B	196,902	391,332
Others	57,741	162,880
	1,554,012	1,389,510



5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sale of raw milk	1,554,012	1,389,510
	1,554,012	1,389,510

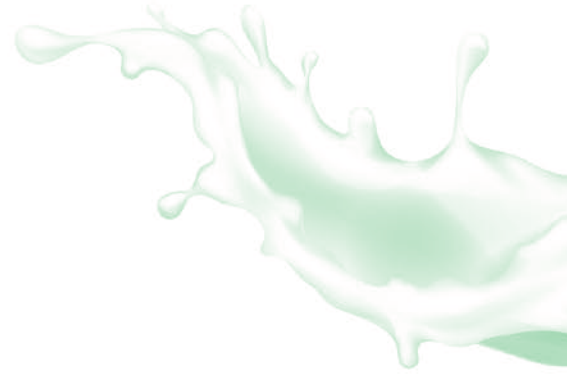
Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December

Segments	2020 Sale of raw milk <i>RMB'000</i>	2019 Sale of raw milk <i>RMB'000</i>
Type of goods		
Sale of raw milk	1,554,012	1,389,510
Total revenue from contracts with customers	1,554,012	1,389,510
Geographical market		
Mainland China	1,554,012	1,389,510
Total revenue from contracts with customers	1,554,012	1,389,510
Timing of revenue recognition		
Goods transferred at a point in time	1,554,012	1,389,510
Total revenue from contracts with customers	1,554,012	1,389,510





Notes to the Consolidated Financial Statements

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5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(b) Performance obligation

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

Sale of raw milk

The performance obligation is satisfied upon delivery of the raw milk and payment is generally due within 30 days from delivery.

	2020 RMB'000	2019 <i>RMB'000</i>
<i>Other income and gains</i>		
Government subsidies	19,899	12,648
Interest income from bank deposits	13,676	8,248
Gross rental income	9,486	–
Foreign exchange gain	–	14,488
Others	799	219
	43,860	35,603

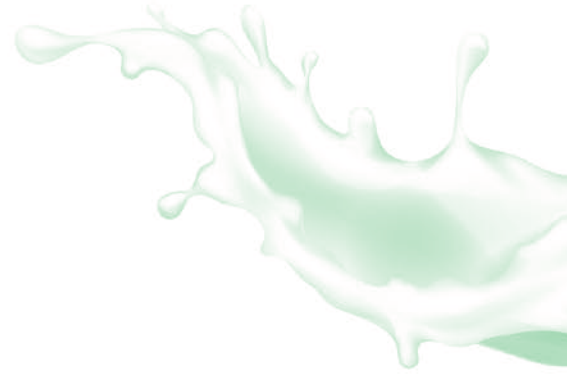


6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
Breeding costs to produce		776,108	703,508
Production costs for raw milk		314,624	306,292
Cost of sales		1,090,732	1,009,800
Depreciation of property, plant and equipment	13	116,192	117,129
Less: Capitalised in biological assets		(39,638)	(41,015)
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income*		76,554	76,114
Depreciation of right-of-use assets	15	5,137	5,399
Depreciation of investment properties	14	8,371	–
Lease payments for short-term leases	15	91	85
Auditors' remuneration		3,200	2,400
Changes in fair value less costs to sell of biological assets	17	171,299	118,546
Employee benefit expenses excluding directors' and chief executive's remuneration (<i>note 8</i>):			
Wages and salaries		96,532	86,875
Equity-settled share option expense		–	1,638
Pension scheme contributions		11,425	20,077
Less: Capitalised in biological assets		(36,002)	(36,210)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the consolidated statement of profit or loss and other comprehensive income**		71,955	72,380
Impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Farm***		(412,889)	161
Loss on disposal of items of property, plant and equipment		2,930	92
Foreign exchange differences, net		61,936	(14,488)





Notes to the Consolidated Financial Statements

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6. PROFIT BEFORE TAX (Continued)

- * Depreciation of approximately RMB75,004,000 (2019: RMB74,868,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020.
- ** Employee benefit expenses of approximately RMB65,291,000 (2019: RMB65,471,000) are included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020.
- *** Approvals granted by the Department of Ecology and Environment of Qiqihar City to Baiquan Ruixincheng Farm for its continuous usage of the farm premises indicate that a previously recognised impairment loss should be reversed. Reversal of impairment provision of RMB432,851,000 for immovable property, plant and equipment, reversal of impairment provision of RMB32,293,000 for a prepayment for construction and equipment, reversal of additional accrued expenses, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee of RMB15,709,000 and reversal of government grants of RMB67,964,000 related to the construction of the farm are charged to the consolidated statement of profit or loss and other comprehensive income for the year.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	2,653	–
	2,653	–



8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2020 RMB'000	2019 RMB'000
Fees	781	846
Other emoluments:		
Salaries, allowances and benefits in kind	2,696	2,546
Equity-settled share option expense	-	767
Pension scheme contributions	295	291
	2,991	3,604
	3,772	4,450

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020						
Mr. Zhang Yuezhou	111	-	-	-	-	111
Mr. Zhu Zhanbo	111	-	-	-	-	111
Mr. Meng Jingzong	178	-	-	-	-	178
Ms. Liu Jinping***	-	-	-	-	-	-
	400	-	-	-	-	400
2019						
Mr. Zhang Yuezhou	83	-	-	-	-	83
Mr. Zhu Zhanbo	83	-	-	-	-	83
Mr. Meng Jingzong	132	-	-	-	-	132
	298	-	-	-	-	298



Notes to the Consolidated Financial Statements

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

(b) Executive directors, non-executive directors and chief executive

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Equity-settled share option expense <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2020						
Executive directors:						
Mr. Fu Wenguo*	-	1,000	-	-	106	1,106
Mr. Zhao Hongliang	-	1,000	-	-	92	1,092
Mr. Chen Xiangqing	-	600	-	-	97	697
Mr. Liu Gang	381	96	-	-	-	477
	381	2,696	-	-	295	3,372
Non-executive directors:						
Mr. Leng Youbin***	-	-	-	-	-	-
Mr. Liu Hua***	-	-	-	-	-	-
Mr. Cai Fangliang***	-	-	-	-	-	-
	-	-	-	-	-	-
	381	2,696	-	-	295	3,372

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Equity-settled share option expense <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2019						
Executive directors:						
Mr. Fu Wenguo*	-	1,000	-	289	126	1,415
Mr. Zhao Hongliang	-	1,000	-	65	42	1,107
Mr. Chen Xiangqing	238	450	-	196	123	1,007
Mr. Liu Gang	310	96	-	217	-	623
	548	2,546	-	767	291	4,152
Non-executive director:						
Mr. Lau Ho Fung**	-	-	-	-	-	-
	-	-	-	-	-	-
	548	2,546	-	767	291	4,152

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)**(b) Executive directors, non-executive directors and chief executive** (Continued)

- * Mr. Fu Wenguo is also the chief executive of the Company.
- ** Mr. Lau Ho Fung resigned as a non-executive director with effect from 3 September 2019.
- *** Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang were appointed as non-executive directors and Ms. Liu Jinping was appointed as an independent non-executive director of the Company with effect from 3 December 2020.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during 2020 and 2019.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors including the chief executive (2019: four directors including the chief executive), details of whose remuneration are set out in note 8 above.

The aggregate of the remuneration in respect of the individuals who are neither a director nor chief executive is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, allowances and benefits in kind	400	400
Equity-settled share option expense	–	101
Pension scheme contributions	44	40
	444	541

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2020 Number of employees	2019 Number of employees
Nil to HKD1,000,000	1	1
HKD1,000,001 to HKD1,500,000	–	–
	1	1



Notes to the Consolidated Financial Statements

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10. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2020 as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

According to the prevailing tax rules and regulations, certain subsidiaries of the Group operating in the agricultural business are exempted from enterprise income tax.

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follows:

2020	Mainland China		Hong Kong		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>642,624</u>		<u>(55,008)</u>		<u>(9,665)</u>		<u>577,951</u>	
Tax at the statutory tax rate	160,656	25.0	(9,076)	16.5	-	0.0	151,580	26.2
Effect of tax exemptions granted to agricultural entities	(160,911)	(25.0)	-	0.0	-	0.0	(160,911)	(27.8)
Income not subject to tax	-	0.0	(1,909)	3.5	-	0.0	(1,909)	(0.3)
Expenses not deductible for tax	55	0.0	10,985	(20.0)	-	0.0	11,040	1.9
Tax losses not recognised	<u>200</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>	<u>200</u>	<u>0.0</u>
Tax charge at the Group's effective rate	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>
2019								
Profit/(loss) before tax	<u>213,054</u>		<u>19,380</u>		<u>(9,354)</u>		<u>223,080</u>	
Tax at the statutory tax rate	53,264	25.0	3,198	16.5	-	0.0	56,462	25.3
Effect of tax exemptions granted to agricultural entities	(53,597)	(25.2)	-	0.0	-	0.0	(53,597)	(24.0)
Income not subject to tax	-	0.0	(3,346)	(17.3)	-	0.0	(3,346)	(1.6)
Expenses not deductible for tax	-	0.0	148	0.8	-	0.0	148	0.1
Tax losses not recognised	<u>333</u>	<u>0.2</u>	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>	<u>333</u>	<u>0.2</u>
Tax charge at the Group's effective rate	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>

11. DIVIDENDS

No dividend was paid or proposed during 2020, nor has any dividend been proposed since the end of the reporting period.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB577,951,000 (2019: RMB223,080,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2019: 4,690,496,400).

No adjustment has been made to the basic earnings per share amounts for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the share options outstanding as at 31 December 2019 had an anti-dilutive effect on the basic earnings per share amount and no share options were outstanding as at 31 December 2020.



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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 31 December 2019 and at 1 January 2020:							
Cost	2,702,737	264,224	32,217	89,213	86,992	54,231	3,229,614
Accumulated depreciation and impairment	(898,512)	(120,450)	(24,069)	(52,088)	(33,898)	(14,157)	(1,143,174)
Net carrying amount	1,804,225	143,774	8,148	37,125	53,094	40,074	2,086,440
At 1 January 2020, net of accumulated depreciation and impairment	1,804,225	143,774	8,148	37,125	53,094	40,074	2,086,440
Additions	-	28,916	12,862	39,214	10,040	188,809	279,841
Disposals	(44,783)	(2,086)	(562)	(1,174)	(1,387)	-	(49,992)
Depreciation provided during the year	(65,255)	(23,880)	(3,082)	(8,385)	(15,590)	-	(116,192)
Reversal of impairment	418,694	-	-	-	-	14,157	432,851
Transfers	107,361	16,343	5,901	-	976	(130,581)	-
At 31 December 2020, net of accumulated depreciation and impairment	2,220,242	163,067	23,267	66,780	47,133	112,459	2,632,948
At 31 December 2020:							
Cost	2,713,219	304,021	39,867	111,281	92,118	112,459	3,372,965
Accumulated depreciation and impairment	(492,977)	(140,954)	(16,600)	(44,501)	(44,985)	-	(740,017)
Net carrying amount	2,220,242	163,067	23,267	66,780	47,133	112,459	2,632,948

Management considered that the indicator of the previously recognised impairment loss had disappeared, and reversed an impairment loss of RMB432,851,000 for immovable property, plant and equipment and construction in progress of Baiquan Ruixincheng Farm as at 31 December 2020.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

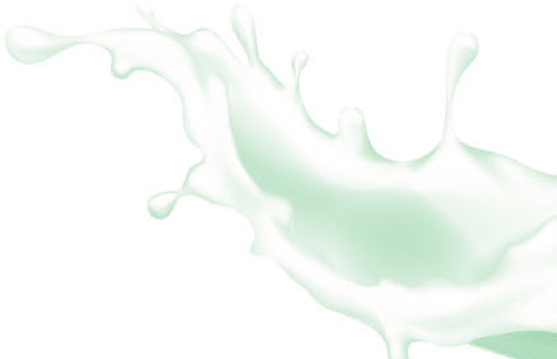
	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 31 December 2018 and at 1 January 2019:							
Cost	2,661,252	248,905	30,116	85,127	64,464	24,199	3,114,063
Accumulated depreciation and impairment	(796,943)	(97,451)	(21,482)	(44,968)	(20,465)	(14,157)	(995,466)
Net carrying amount	1,864,309	151,454	8,634	40,159	43,999	10,042	2,118,597
At 1 January 2019, net of accumulated depreciation and impairment	1,864,309	151,454	8,634	40,159	43,999	10,042	2,118,597
Additions	–	8,993	272	5,098	15,613	60,588	90,564
Disposals	(3,748)	(1,760)	(3)	(51)	(30)	–	(5,592)
Depreciation provided during the year	(69,276)	(23,478)	(2,801)	(8,081)	(13,493)	–	(117,129)
Transfers	12,940	8,565	2,046	–	7,005	(30,556)	–
At 31 December 2019, net of accumulated depreciation and impairment	1,804,225	143,774	8,148	37,125	53,094	40,074	2,086,440
At 31 December 2019:							
Cost	2,702,737	264,224	32,217	89,213	86,992	54,231	3,229,614
Accumulated depreciation and impairment	(898,512)	(120,450)	(24,069)	(52,088)	(33,898)	(14,157)	(1,143,174)
Net carrying amount	1,804,225	143,774	8,148	37,125	53,094	40,074	2,086,440



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14. INVESTMENT PROPERTIES



	2020 <i>RMB'000</i>
At 31 December:	
Cost	86,505
Accumulated depreciation	<i>(8,371)</i>
Net carrying amount	78,134

A reconciliation of the net carrying amount of investment properties at the beginning and end of the year is as follows:

	2020 <i>RMB'000</i>
Net carrying amount at 1 January	–
Additions	86,505
Accumulated depreciation	<i>(8,371)</i>
Net carrying amount at 31 December	78,134

The Group's investment properties are several pieces of leased land in Jilin Province.

The Group's investment properties were revalued on 31 December 2020 based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”), independent professionally qualified valuers, at RMB79,000,000. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

14. INVESTMENT PROPERTIES (Continued)**Fair value hierarchy**

The fair value measurement hierarchy of the Group's investment properties is as follows:

	2020 RMB'000
Significant unobservable inputs:	
Leased land (Level 3)	79,000
	79,000

The investment properties are measured initially at cost less accumulated depreciation and provision for any impairment in value.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs
Leased land	Discounted cash flow method	Discount rate

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.



Notes to the Consolidated Financial Statements

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15. LEASES

The Group as a lessee

The Group has lease contracts for various items of motor vehicles used in its operations and leased land. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 10 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of motor vehicles generally have lease terms between 2 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during years ended 31 December 2019 and 31 December 2020 are as follows:

	Prepaid land lease payments <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2019	91,765	208	91,973
Depreciation charge	(5,230)	(169)	(5,399)
As at 31 December 2019	86,535	39	86,574
Current portion	(5,010)	(39)	(5,049)
Non-current portion	81,525	–	81,525
As at 1 January 2020	86,535	39	86,574
Additions	834	–	834
Depreciation charge	(5,098)	(39)	(5,137)
As at 31 December 2020	82,271	–	82,271
Current portion	(4,792)	–	(4,792)
Non-current portion	77,479	–	77,479

At 31 December 2020, all of the Group's leasehold land located in Mainland China did not have land use right certificates as all the land is leased from various independent third parties.

15. LEASES (Continued)**The Group as a lessee (Continued)****(b) Lease liabilities**

The carrying amount of the Group's lease liabilities and the movement during the year are as follows:

	<i>RMB'000</i>
Carrying amount at 1 January 2020	–
New leases	87,339
Payments	(12,878)
Accretion of interest recognised during the year	2,653
Carrying amount at 31 December 2020	77,114
Current portion	(9,466)
Non-current portion	67,648

The maturity analysis of lease liabilities is disclosed in note 32 to the financial statements.

(c) The amounts recognised in consolidated statement of profit or loss and other comprehensive income in relation to leases are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on lease liabilities	2,653	–
Depreciation charge of right-of-use assets	5,137	5,399
Depreciation charge of investment properties	8,371	–
Expense relating to short-term leases	91	85
Total amount recognised in profit or loss	16,252	5,484

The Group as a lessor

The Group leases its investment properties (note 14) consisting of several pieces of leased land in Jilin Province under operating lease arrangements. The terms of the leases generally require the tenants to make lump sum upfront rental payments. Rental income recognised by the Group during the year was RMB9,486,000 (2019: Nil), details of which are included in note 5 to the consolidated financial statements.



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16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Prepayments	66,834	21,703
Other receivables	3,935	1,164
	70,769	22,867
Impairment allowance	-	-
	70,769	22,867
Non-current portion	(64,482)	(19,119)
Current portion	6,287	3,748

Other receivables mainly represent receivables from purchasers of dairy cows and feeds, and interest receivables. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

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

17. BIOLOGICAL ASSETS

A – Nature of activities

Dairy cows owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group at 31 December 2020 and 2019 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2020 and 2019 are dairy cows that have not had their first calves.

	2020 heads	2019 heads
Dairy cows		
Heifers and calves	34,270	29,924
Milkable cows	35,128	33,716
Total dairy cows	69,398	63,640

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there are no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when they reach approximately 16 months old. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before a resting period of approximately 60 days.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the related proceeds are not included as revenue.

The Group is exposed to a number of risks related to its biological assets as follows:

(i) **Regulatory and environmental risks**

The Group is subject to laws and regulations in the location in which it operates breeding. The Group has established environmental policies and procedures, aiming at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.



Notes to the Consolidated Financial Statements

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17. BIOLOGICAL ASSETS (Continued)

A – Nature of activities (Continued)

(ii) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place, aiming at monitoring and mitigating those risks, including regular inspections and disease controls and surveys and insurance.

The value of dairy cows at the end of the year was:

	2020	2019
	RMB'000	RMB'000
Dairy cows	1,441,940	1,333,438

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2019	530,110	681,540	1,211,650
Increase due to raising (feeding costs and others)	384,738	–	384,738
Transfer (out)/in	(316,235)	316,235	–
Decrease due to sales	(67,749)	(76,655)	(144,404)
Loss arising from changes in fair value less costs to sell	(41,321)	(77,225)	(118,546)
Balance as at 31 December 2019 and 1 January 2020	489,543	843,895	1,333,438
Increase due to raising (feeding costs and others)	421,667	–	421,667
Transfer (out)/in	(346,204)	346,204	–
Decrease due to sales	(54,098)	(87,768)	(141,866)
(Loss)/gain arising from changes in fair value less costs to sell	32,049	(203,348)	(171,299)
Balance as at 31 December 2020	542,957	898,983	1,441,940

17. BIOLOGICAL ASSETS (Continued)**B – Value of dairy cows**

The Group's dairy cows in Mainland China were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent qualified professional valuers not connected with the Group, who has appropriate qualifications and recent experiences in the valuation of biological assets. The fair value less costs to sell of the heifers and calves is determined with reference to the market prices of items with similar age, breed and genetic merit, if the market prices are available. There is no active market for milkable cows in the Mainland China market. An arm's length negotiation price in Mainland China might deviate from an overseas market price because of transportation costs, administrative costs and other factors. Due to the fact that the market prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less costs to sell of these items.

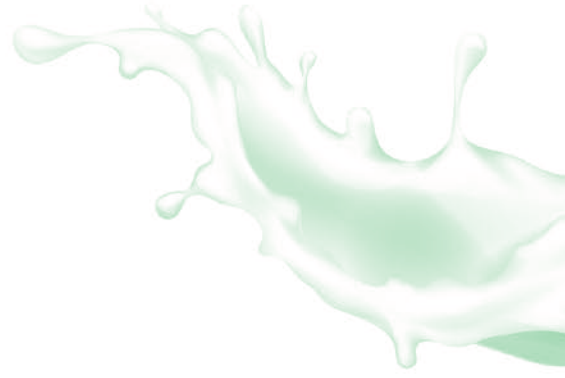
The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the year will reduce at a certain culling rate due to natural or unnatural factors.
- The culling rates adopted are 10%, 13%, 15%, 23%, 35% and 100% for milkable cows in the first to sixth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The average milk yield of each cow per day ranges from 24.25 to 26.21 kg during the projected period of six lactation cycles, which is the estimated amount of milk producible by a cow.
- The expected average prices of milk during the projected period of six lactation cycles, which is the estimated production period of a dairy cow, are estimated after taking into account 3% of growth for each projected year after considering future demand and inflation in Mainland China.
- The *cash* flows for financing the assets and taxation are not included in accordance with IAS 41 *Agriculture*.
- Costs are average costs based on historical cost information and taking into account a 3% growth for each projected year after considering future supply and inflation in Mainland China.
- The discount rate used was 14.0% (2019: 14.0%) for the year ended 31 December 2020.

The principal valuation assumption adopted in measuring the fair value of heifers and calves is as follows:

- The average market price of a heifer of 14 months old was RMB18,000 (2019: RMB18,000) for the year ended 31 December 2020 and the average feeding cost per day of each calf and heifer ranged from RMB32.66 to RMB38.38.





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17. BIOLOGICAL ASSETS (Continued)

C – Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets.

	Fair value measurement using significant unobservable inputs (Level 3)	
	2020 RMB'000	2019 RMB'000
As at 31 December	1,441,940	1,333,438

D – Sensitivity analysis

Feeding costs sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in feeding costs, with all other variables held constant, of the Group's profit before tax (through the impact on changes in the feeding costs).

	Increase/(decrease) in profit before tax	
	2020 RMB'000	2019 RMB'000
Increase in feeding costs of 10%	(169,890)	(158,210)
Decrease in feeding costs of 10%	169,890	158,210



17. BIOLOGICAL ASSETS (Continued)**D – Sensitivity analysis** (Continued)**Milk price sensitivity analysis for milkable cows**

The following table demonstrates the sensitivity to a reasonably possible change in the milk price, with all other variables held constant, of the Group's profit before tax (through the impact on changes in the milk price).

	Increase/(decrease) in profit before tax	
	2020 RMB'000	2019 RMB'000
Increase in milk price of 10%	307,610	285,770
Decrease in milk price of 10%	(307,610)	(285,770)

18. INVENTORIES

	2020 RMB'000	2019 RMB'000
Feeds	295,003	273,512
Others	21,605	21,711
	316,608	295,223

At 31 December 2020, no inventories were pledged.



Notes to the Consolidated Financial Statements

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19. TRADE RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	131,084	126,758

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a few numbers of customers, there is a concentration of credit risk as disclosed in note 32 to the financial statements. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	131,084	125,498
1 to 2 months	-	238
Over 2 months	-	1,022
	131,084	126,758

No loss allowance for impairment of trade receivables for each of the reporting periods was made.

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

20. CASH AND CASH EQUIVALENTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cash and bank balances	673,845	254,715
Time deposits	355,738	755,067
Cash and cash equivalents	1,029,583	1,009,782

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB133,327,000 (2019: RMB103,757,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and a year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 2 months	162,035	181,684
2 to 6 months	24,049	54,386
6 to 12 months	4,068	8,698
Over 1 year	4,599	5,170
	194,751	249,938

Trade payables are non-interest-bearing and are normally settled on terms of two to six months.



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22. OTHER PAYABLES AND ACCRUALS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Deferred income	202,142	136,661
Other payables – construction	129,251	145,821
Other payables – equipment and materials	23,591	12,535
Accrued expenses related to the removal of Baiquan Ruixincheng Farm	–	15,709
Others	259,992	81,946
	614,976	392,672
Non-current portion		
Deferred income	(188,752)	(125,899)
	426,224	266,773

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

Deferred income represented government grants received by the Group as financial subsidies for the purchases of feed and the construction of farms. Government grants are recognised as income over the period necessary to match the grant on a systematic basis to the costs and expenses that they are intended to compensate on over the weighted average of the expected useful life of the relevant property, plant and equipment.

Accrued expenses related to the removal of Baiquan Ruixincheng Farm of nil (2019: RMB15,709,000) represented accrued transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee. As the indicator of impairment had disappeared as at 31 December 2020, accrued expenses related to the removal of Baiquan Ruixincheng Farm were reversed.

23. DEFERRED TAX

The Group has tax losses arising in Mainland China of RMB43,987,000 (2019: RMB43,187,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB139,975,000 at 31 December 2020 (2019: RMB75,713,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. SHARE CAPITAL

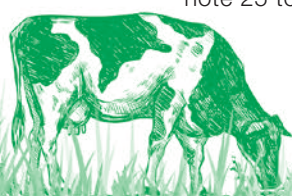
Shares

	2020 RMB'000	2019 RMB'000
Authorised:		
50,000,000,000 ordinary shares of HKD0.01 each	406,897	406,897
Issued and fully paid:		
4,690,496,400 (2019: 4,690,496,400) ordinary shares of HKD0.01 each	37,674	37,674

China Feihe Limited acquired 71.26% of issued shares of the Group from existing shareholders, obtained control over the Group and became the controlling shareholder of the Group on 2 December 2020.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 25 to the financial statements.



Notes to the Consolidated Financial Statements

31 December 2020

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the “**Scheme**”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme, at the discretion of the Company’s directors, include, amongst others, the Company’s directors, covering the non-executive directors and independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, service providers rendering research, development or other technological support services to the Group, the Group’s shareholders, advisors or consultants of the Group and any other participants who have contributed to the development and growth of the Group. The Scheme became effective on 7 November 2013 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HKD1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commence from the date of grant of the option is made, but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the Company’s shares on the date of the offer for the grant, which must be a business day; (ii) the average of the closing prices of Company’s shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

25. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	2020		2019	
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000
At 1 January	0.324	191,900	0.321	197,900
Granted during the year	–	–	–	–
Exercised during the year	–	–	–	–
Cancelled during the year	0.324	(190,900)	–	–
Forfeited during the year	0.240	(1,000)	0.240	(6,000)
At 31 December	–	–	0.324	191,900

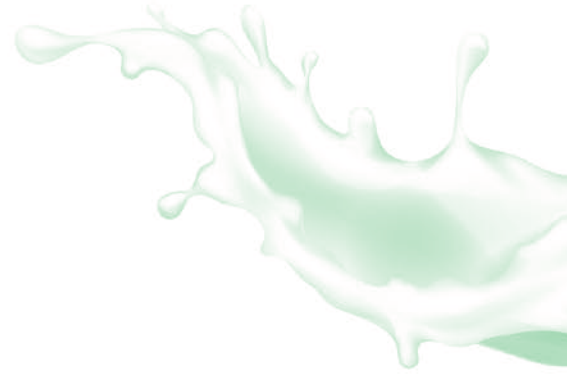
The Group recognised a share option expense of nil (2019: RMB2,405,000) during the year ended 31 December 2020.

No share options were granted during the year ended 31 December 2020 (2019: Nil).

On 5 June 2018, the 102,750,000 share options (the “**Old Options**”) previously granted to directors and employees, 35,650,000 of which were granted in 2014 at the exercise price of HKD1.462 while 67,100,000 of which were granted in 2015 at the exercise price of HKD0.59, were cancelled and replaced by 168,500,000 share options (the “**New Options**”). On the date of grant, 26,840,000 of the Old Options were not vested while 75,910,000 of the Old Options were vested. The exercise price of the New Options was HKD0.24 per share, which was equal to the market price of the shares on the date of grant. 60% of the New Options (“**Tranche I**”) were vested and exercisable on or after 5 June 2018 and the remaining 40% of the New Options (“**Tranche II**”) will be vested and exercisable on or after 5 June 2019. The fair value of the New Options at the grant date is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is seven years. There is no cash settlement of the options. The fair value of options granted during the period ended 31 December 2018 was estimated on the date of grant using the following assumptions:

	Tranche I	Tranche II
Dividend yield (%)	–	–
Expected volatility (%)	50.0110	49.2340
Risk-free interest rate (%)	1.9960	2.0400
Expected life of share options (years)	3.5	4
Weighted average share price (HKD)	0.0919	0.0968





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25. SHARE OPTION SCHEME (Continued)

The expected life of the options is based on the assumption that each tranche of options will be exercised in the middle point between the vesting date and the last exercise date and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

On 2 December 2020, China Feihe Limited acquired 71.26% of issued shares of the Group from existing shareholders and obtained control over the Group with consideration of HKD2,105,662,000 by cash. In addition, China Feihe Limited paid compensation to existing option holders of the Group with consideration of HKD63,897,000 by cash. The Group received no cash consideration. As all outstanding options were cancelled upon completion of the acquisition and the outstanding share option reserves amounting to RMB20,648,000 were transferred to share premium. On 3 December 2020, Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang, directors of China Feihe Limited, were appointed as non-executive directors of the Company and Ms. Liu Jinping, a director of China Feihe Limited, was appointed as an independent non-executive director of the Company. Senior management of the Group did not change after the acquisition.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 78 of the financial statements.

The Group's merger reserve represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

The capital reserve represents the amount of a capital contribution from Ms. Li Shuxia, the spouse of Mr. Zhao Hongliang, to YST Heilongjiang for repayment of the total indebtedness.



27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**(a) Major non-cash transactions**

During the year, the Group had non-cash additions to investment properties, right-of-use assets and lease liabilities of RMB86,505,000 (2019: Nil), RMB834,000 (2019: Nil) and RMB87,339,000 (2019: Nil), respectively, in respect of lease arrangements for leased land.

(b) Changes in liabilities arising from financing activities**2020**

	Lease liabilities RMB'000
At 1 January 2020	–
New leases	87,339
Payments	(12,878)
Accretion of interest recognised during the year	2,653
At 31 December 2020	77,114

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	RMB'000
Within operating activities	91
Within financing activities	12,878
	12,969

28. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 <i>RMB'000</i>
Contracted, but not provided for:		
Plant and machinery	61,030	13,276



Notes to the Consolidated Financial Statements

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29. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Sale of raw milk	122,219	–

The above-mentioned transactions refer to those with China Feihe Limited after China Feihe Limited obtained control over the Group in December 2020.

The Group had an outstanding balance due from China Feihe Limited (included in trade receivables) amounting to RMB119,219,000 as at 31 December 2020.

- (b) Compensation of key management personnel of the Group is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Short term employee benefits	3,937	3,852
Post-employment benefits	339	331
Equity-settled share option expense	–	1,042
Total compensation paid to key management personnel	4,276	5,225

Further details of directors' and the chief executive's remuneration are included in note 8 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

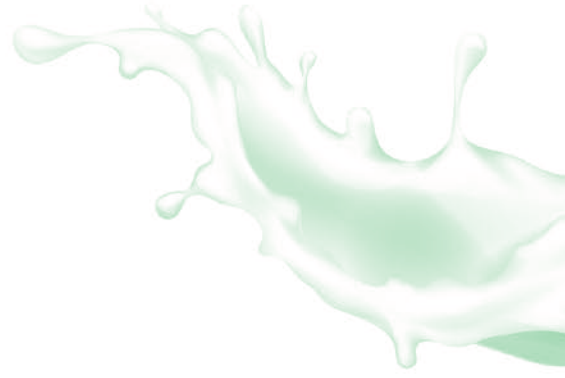
Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	131,084
Financial assets included in prepayments, other receivables and other assets	3,935
Cash and cash equivalents	1,029,583
	1,164,602

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	194,751
Financial liabilities included in other payables and accruals	379,405
Lease liabilities	77,114
	651,270





Notes to the Consolidated Financial Statements

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30. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2019

Financial assets

	Financial assets at amortised cost <i>RMB'000</i>
Trade receivables	126,758
Financial assets included in prepayments, other receivables and other assets	1,164
Cash and cash equivalents	<u>1,009,782</u>
	<u>1,137,704</u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade payables	249,938
Financial liabilities included in other payables and accruals	<u>214,497</u>
	<u>464,435</u>

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group did not have any financial assets or financial liabilities measured at fair value as at 31 December 2020 (2019: nil).



32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and time deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances with floating interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	2020		2019	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
RMB	100	1,333	100	1,038
HKD	100	615	100	217
USD	100	4,790	100	8,844
RMB	(100)	(1,333)	(100)	(1,038)
HKD	(100)	(615)	(100)	(217)
USD	(100)	(4,790)	(100)	(8,844)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from cash and cash equivalents and time deposits held by operating units in currencies other than the units' functional currencies. Approximately 81% (2019: 87%) of the Group's cash and cash equivalents and time deposits were denominated in currencies other than the functional currency of the operating units.



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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD and US\$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets).

	2020		2019	
	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax <i>RMB'000</i>	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax <i>RMB'000</i>
If RMB weakens against HKD	3%	23	3%	22
If RMB strengthens against HKD	(3%)	(23)	(3%)	(22)
If RMB weakens against US\$	3%	12,130	3%	26,531
If RMB strengthens against US\$	(3%)	(12,130)	(3%)	(26,531)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Maximum exposure and year-end staging (Continued)**

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	131,084	131,084
Financial assets included in prepayments, other receivables and other assets					
– Normal**	3,935	-	-	-	3,935
Cash and cash equivalents – Not yet past due	1,029,583	-	-	-	1,029,583
	1,033,518	-	-	131,084	1,164,602

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	126,758	126,758
Financial assets included in prepayments, other receivables and other assets					
– Normal**	1,164	-	-	-	1,164
Cash and cash equivalents – Not yet past due	1,009,782	-	-	-	1,009,782
	1,010,946	-	-	126,758	1,137,704

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.



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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging (Continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At the end of the reporting period, the Group had certain concentrations of credit risk as 91% (2019: 67%) and 96% (2019: 88%) of the Group's trade receivables were due from the Group's largest customer and the two largest customers, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines that there are minimal concentrations of credit risk within the Group as the customers of the Group's trade receivables are recognised and creditworthy.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	2020			Total RMB'000
	On demand or no later than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade payables	194,751	–	–	194,751
Financial liabilities included in other payables and accruals	379,405	–	–	379,405
Lease liabilities	12,648	50,824	26,216	89,688
	586,804	50,824	26,216	663,844

	2019 On demand or no later than 1 year RMB'000
Trade payables	249,938
Financial liabilities included in other payables and accruals	214,497
Lease liabilities	–
	464,435

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade, other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	194,751	249,938
Other payables and accruals	379,405	214,497
Less: Cash and cash equivalents	(1,029,583)	(1,009,782)
Net asset	(455,427)	(545,347)
Equity attributable to owners of the parent	4,896,496	4,318,450
Capital and net debt	4,441,069	3,773,103
Gearing ratio	N/A	N/A

33. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period as at the date of approval of these financial statements.



Notes to the Consolidated Financial Statements

31 December 2020

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NON-CURRENT ASSETS		
Due from subsidiaries	2,925,288	3,115,816
Investments in subsidiaries	1	1
Total non-current assets	2,925,289	3,115,817
CURRENT ASSETS		
Prepayments, other receivables and other assets	582	474
Cash and cash equivalents	65,053	23,940
Total current assets	65,635	24,414
CURRENT LIABILITIES		
Due to subsidiaries	7,665	8,158
Other payables and accruals	57,392	3,914
Total current liabilities	65,057	12,072
NET CURRENT ASSETS	578	12,342
Net assets	2,925,867	3,128,159
EQUITY		
Issued capital	37,674	37,674
Reserves (<i>note</i>)	2,888,193	3,090,485
Total equity	2,925,687	3,128,159

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2019	2,956,372	18,824	254,280	(133,387)	3,096,089
Total comprehensive income/(loss) for the year	-	-	1,319	(9,328)	(8,009)
Equity-settled share option arrangements	-	2,405	-	-	2,405
Transfer of share option reserve upon the forfeiture of share options	-	(496)	-	496	-
At 31 December 2019 and 1 January 2020	2,956,372	20,733	255,599	(142,219)	3,090,485
Total comprehensive loss for the year	-	-	(192,652)	(9,640)	(202,292)
Transfer of share option reserve upon the cancellation of share options	20,648	(20,648)	-	-	-
Transfer of share option reserve upon the forfeiture of share options	-	(85)	-	85	-
At 31 December 2020	2,977,020	-	62,947	(151,774)	2,888,193

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2021.



Financial Summary



A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements for the years ended 31 December 2016, 2017, 2018, 2019 and 2020 as follows:

RESULTS

	Year ended 31 December				
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue	1,554,012	1,389,510	1,099,547	1,014,128	1,029,232
Profit/(loss) for the year	577,951	223,080	(556,313)	(67,907)	(88,569)

ASSETS AND LIABILITIES

	As at 31 December				
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Total assets	5,783,337	4,961,082	4,790,399	5,466,166	5,043,579
Total liabilities	(886,841)	(642,610)	(698,470)	(854,113)	(687,866)
Total equity	4,896,496	4,318,472	4,091,929	4,612,053	4,355,713



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