2020
ANNUAL REPORT

CHINA SHENGMU ORGANIC MILK LIMITED
中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1432

Provide the highest quality desert organic milk in the world


ORGANIC
圣牧有机
kids milk
圣牧全程有机
有机儿童奶
有机纯牛奶

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. YAO Tongshan
Mr. ZHANG Jiawang *(Chief Executive Officer)*

Non-executive Directors

Mr. SHAO Genhuo *(Chairman)*
Mr. ZHAO Jiejun
Mr. SUN Qian
Mr. ZHANG Ping

Independent Non-executive Directors

Mr. FU Wenge
Mr. WANG Liyan
Mr. WU Liang

COMPANY SECRETARY

Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. ZHANG Jiawang
Mr. AU Wai Keung

AUDIT COMMITTEE

Mr. WANG Liyan *(Chairman)*
Mr. FU Wenge
Mr. WU Liang

REMUNERATION COMMITTEE

Mr. FU Wenge *(Chairman)*
Mr. SUN Qian
Mr. WU Liang

NOMINATION COMMITTEE

Mr. FU Wenge *(Chairman)*
Mr. SHAO Genhuo
Mr. WANG Liyan

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1303, 13/F,
Hua Fu Commercial Building
111 Queen's Road West
Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Food Industry Park, Deng Kou County
Bayannur City
Inner Mongolia Autonomous Region
PRC

STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited
1432

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1112
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China Limited (Hohhot Zhongshan Sub-branch)
Agricultural Bank of China Limited
(Hohhot Horinger Sub-branch)
Industrial and Commercial Bank of China Limited
(Hohhot Branch)
Industrial Bank Co., Ltd. (Hohhot Xilin Sub-branch)
Bank of Communications Co., Ltd. (Hohhot Ulan Sub-branch)

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law

Linklaters

As to Cayman Islands Law

Maples and Calder

WEBSITE

http://www.youjimilk.com

LOCATION MAP OF ORGANIC PRODUCTION BASE

CHAIRMAN'S STATEMENT

Dear Shareholders,

I, hereby on behalf of the board of directors of the Company, present the annual report of the Company and its subsidiaries for the year ended 31 December 2020 to the shareholders.

2020 was a very extraordinary year. The sudden outbreak of COVID-19 pandemic brought tough challenges to all industries. Against this backdrop, China Shengmu worked hard with unremitting efforts. It realized all-around high-quality growth, recording revenue of RMB2,660.8 million and net profit of RMB461.0 million, representing a year-on-year increase of 4.8% and 239.7%, respectively, indicating it is returning to the right track of high-speed development and revenue growth.

In 2020, led by the new management, all employees of China Shengmu worked together to overcome challenges. Through internal management upgrade, our production efficiency was improved, realizing a record-high output per milkable cow and double-digit growth in the organic raw milk sales. With increasing operating cash flows, the external financing environment showed continuous improvement. The Company repaid all the entrusted loans from Mengniu of RMB1.37 billion ahead of schedule, which reduced its interest-bearing liabilities to a reasonable level, significantly decreased the capital cost and further improved the asset-liability structure. In particular, with the increased holdings of the new shares of China Shengmu by Mengniu, the construction of the ecological industrial park for sand prevention and control in the Ulan Buh Desert, the cooperation with SPA for the construction of smart farms, the establishment of Shengmu Research Institute with Li Shengli, the chief scientist of the National Dairy Industry and Technology System, the approval of Shengmu High-tech's "three-year action implementation plan", and the implementation of a series of other major events, China Shengmu further consolidated its significant position and values, and showed its strong presence and strengths.

Looking forward, 2021 is the first year of the "14th Five-Year Plan" of China and the year to fully promote the modernization of agriculture and animal husbandry. Despite various difficulties ahead, we will stay true to our mission and vision. We will be well-positioned to implement lean operation for a cost-effective purpose; improve the health condition of cows to extend life-span and improve lifetime milk production volume; optimize debt structure to reduce capital cost; take a market-oriented way, overcome the challenge of industry cycle, close to the market development trend and focus on the organic raw milk business to enhance profitability; promote scientific research and innovation, focus on raw milk branding and improve the mechanism of co-development.

As one of the Top 20 in the dairy industry of China and with a focus on the overall goal of driving the whole industry chain to achieve leapfrog development, China Shengmu will endeavor to build its 28 dairy farms into S-level farms by 2023. It will systematically promote genealogy management, efficiently improve the reproduction of superior cow breeds, further expand the population of cows and adopts a cyclical pattern of breeding and farming, i.e. "3-mu land for 1 cow and 1 cow returning 3-mu land" (三畝地養一頭牛,一頭牛還三畝地), to support the quality upgrade of China's dairy industry and create a purely natural, pollution-free, desert-based organic raw milk industry with international competitiveness. It strives to achieve green, low-carbon and sustainable development in line of the "culture and platform strategy", "smart farm strategy" and "innovative development strategy", promote the coordinated development of industrial upgrading and ecological construction, and determines to become a positive example in respect of ecological protection and high-quality development in the Yellow River basin.

Hard work makes the history and creates the future. Pooling the wisdom, strength and passion of all parties to form a strong driving force for the high-quality development of the Company, China Shengmu will have sufficient courage and determination to fully implement each task under the strategy of the Company with unremitting efforts. We will make outstanding performance to reward our shareholders and investors for their great kindness and provide strong supports for the rejuvenation of the dairy industry of China, for the realization of a moderately prosperous society in all respects of China, and for a better life of the wide public in China.

Meanwhile, on behalf of the Board, I'd like to express our sincere gratitude to all employees of the Company for their loyalty and contribution, as well as to all shareholders, clients and business partners for their trust and support. We are convinced that with your care, support, love and recognition, China Shengmu will always stay true to its mission and vision, ride the wind and waves to start a new voyage, and achieve remarkable performance in 2021 with the strongest will, the fastest speed and the highest efficiency!

INDUSTRIAL OVERVIEW

In 2020, China made remarkable achievements in overcoming the impact of COVID-19, coordinating epidemic prevention and control, and realizing economic and social development. Following the successful conclusion of the 13th Five-Year Plan, the 14th Five-Year Plan has been comprehensively rolled out. China witnessed accelerated establishment of a new development pattern, and implemented high-quality development. China took the lead in achieving positive growth among major economies in the world.

COVID-19 has not only brought challenges to the dairy industry, but also quietly changed the public's awareness of drinking milk. On the eve of the World Milk Day 2020, FrieslandCampina, China Dairy Industry Association and China International Exchange and Promotion Association for Medical and Healthcare jointly organized an online live forum on health protection in China, and published the "Chinese Milk Quotient Report 2020". The report showed that Chinese Milk Quotient (the "**Milk Quotient**") in 2020 was 62.7 points, 2 points higher than the previous year, and the improvement of people's milk drinking behavior contributed the most to the improvement of the Milk Quotient. The National Health Commission has issued dietary guidelines for COVID-19, suggesting that the general population should drink and eat 300g of dairy products every day.

On 21 February 2021, Document No. 1 of the Central Committee, *Certain Opinions of Central Committee of the Communist Party of China and the State Council on Comprehensively Promoting Rural Revitalization and Accelerating Agricultural and Rural Modernization*, was published. The document again emphasized "actively developing the cattle and sheep industry and continuing to implement the revitalization action of the dairy industry". Dairy industry is an important industry to implement "Healthy China" initiative, a representative industry of food safety, and a landmark industry of agricultural modernization. It can play a leading role in industrial integration and development. Inner Mongolia, located in 45 degrees north latitude, which is a high-quality golden milk source belt, is the country's largest dairy production area, with advantaged resources to develop diary industry.

To promote the national strategy of dairy industry revitalization, Inner Mongolia Autonomous Region made a target of reaching 3.5 million dairy stocks and 10 million tonnes of dairy production by 2025. Therefore, the Inner Mongolia Autonomous Region Government introduced relevant supporting policies, including increasing support for the combination of planting and breeding, increasing subsidies for dairy and livestock breeding facilities and equipment, strengthening the construction of milk source bases, promoting the transformation and upgrading of small and medium-sized farms, supporting dairy food processing with ethnic characteristics, providing land use policy support, and strengthening financial policy support to provide a strong boost to the development of the dairy industry.

At the 2020 CHINA DAIRY 20 SUMMIT, China Shengmu launched the three-year action plan of "Enabling Industrial Chain, Supply Chain Stability and Competitiveness". In the future, the dairy enterprises will continue to improve the industry through strong and practical actions, leading the development of the dairy industry to facilitate the revitalization of the dairy industry throughout the country, deliver the social responsibility of dairy enterprises and make efforts to protect the nutrition and health of the people in our country.

PERFORMANCE OVERVIEW

As of 31 December 2020, the principal business of the Group was dairy farming business, production and sales of high-end desert-based organic raw milk and quality non-organic raw milk. The Group has committed to concentrating its resources on the production and sales of desert-based organic milk. At the same time, based on the diversified demand of customers for quality raw milk, the Company continued to develop functional raw milk to improve the profitability of the Company.

The Group adopted lean operation, had an insight into market demand, and timely transformed the conventional farms to organic ones to increasing the sales volume of organic milk. By implementing several management measures, such as enhancing per unit yield, decreasing cost and increasing efficiency, and expanding moderately, during the reporting period, the Group recorded after-tax profits of about RMB461.0 million (2019: RMB 135.7 million), an increase of RMB325.3 million over the last year. The Company ranked second in terms of market value growth rate among the 26 listed dairy enterprises in China in 2020.

On 31 July 2020, Start Great Holdings Limited (a wholly-owned subsidiary of China Mengniu) exercised its warrants and became the largest shareholder of the Company. In the future, the Group will further deepen the cooperation with China Mengniu and its subsidiaries (the "**Mengniu Group**"), optimize the layout of quality raw milk, strengthen the coordination of supply chain management, and achieve better operating results.

BUSINESS REVIEW

As at 31 December 2020, the Group had 14 organic farms and 19 non-organic farms, including a fattening cattle farm. The Group had a total of 110,735 cows, including 58,889 organic cows and 51,846 non-organic cows. The Group continued to optimize the structure of cows by eliminating inefficient and ineffective cows, and improving the efficiency and self-reproduction rate of cows. The Company's cow structure is more reasonable, the reserve of cows is sufficient, and the size of cows has shown positive growth for the first time in the past three years.

Size of Herd
Unit: Head

	As at 31 December									
	2020					2019				
	Number of Farms	Milkable Cows	Calves and Heifers	Fattening Cattle (1)	Subtotal	Number of Farms	Milkable Cows	Calves and Heifers	Fattening Cattle (1)	Sub-total
Organic	14	32,309	26,580	–	58,889	11	24,459	20,343	–	44,802
Non-organic	19	25,349	24,036	2,461	51,846	23	34,966	26,306	–	61,272
Total	33	57,658	50,616	2,461	110,735	34	59,425	46,649	–	106,074

(1) For the data in this table for the current and previous years, the number of fattening cattle refers only to the cattle raised on a fattening cattle farm.

In 2020, the Group's key operating objectives were achieved better than expected. The annualized milk yield per milkable cow increased by 0.72 tonnes to 10.34 tonnes (2019: 9.62 tonnes), and the sales volume of organic milk was 285,000 tonnes, increasing by 10.4% over the previous year. The average external selling price of raw milk was RMB4,513/tonne (2019: RMB4,183/tonne), with a year-on-year increase of 7.9%. The gross profit of the dairy business amounted to RMB1,025.1 million (2019: RMB885.5 million), and the gross profit rate was 38.5% (2019: 35.5%).

ORGANIC FORAGE

Through many years of dedicated investment in the Ulan Buh Desert, Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("**Shengmu Forage**") has currently built an organic forage base of over 220,000 mu. Shengmu Forage has built an organic fertilizer processing plant with an annual capacity of 70,000 tonnes and 7 liquid fertilizer plants. It has installed 328 fertilizing systems of organic liquid fertilizer for the planting base and built 9 cow dung processing plants with annual capacity of 250,000 cubic meters for the farms. Shengmu Forage is currently capable of satisfying the demand of organic forage planting for fertilizer. It has established a complete management system for planting organic forage, paving solid foundation for the development model of organic industry chain.

Shengmu Forage has established and fully implemented the corporate standard quality management systems of "Organic Forage" and "Organic Grass" to further establish an industrial standard. Through standardization of planting management, grass-to-glass organic tracking and organic product quality, Shengmu Forage has passed organic certification from authorized institutions within and outside the country for ten years consecutively and become the demonstration base for domestic large-scale organic planting industry.

ORGANIC FARMING

In September 2020, Shengmu won the three-year "Demonstration Base of Asian Organic Agriculture Research and Development Center" jointly presented by Asia Organic Agriculture Research and Development Center and Beijing Continental Hengtong Certification Co., Ltd. (CHTC) for its unique organic breeding mode and excellent operation ability, which enhanced the brand influence of Shengmu.

NUTRITION AND FEEDING WITH SCIENTIFIC FORMULATION

In respect of nutrition and feeding, the Group improved the production performance of dairy cows mainly through planting silage corn, alfalfa and other high-quality roughage in its own forage bases, and enhanced feed conversion efficiency through internally produced biological fermented forage. All kinds of premium feedstuff were fed through the "TMR Watch", a TMR monitoring system, to ensure balanced ration nutrition and healthy and high-yield dairy cows. At the same time, the Group introduced the world's latest feeding concept, established the Shengmu Research Institute with the team led by Li Shengli, the chief scientist of the National Dairy Industry and Technology System, and published the "three-year action implementation plan" of Shengmu High-Tech. The Group enhanced its core competitiveness by introducing the advanced feeding technology and feeding concept.

SCIENTIFIC BREEDING AND HEALTHCARE

In respect of breeding, the Group conducted strategic cooperation with top three cow genetic breeding companies in the world. By selecting genetic materials of premium cows and applying genome detection techniques, the Group wanted to complete a 3-5 year herd genetic improvement plan, accelerate genetic progress, shorten generation interval, and breed Holstein cows with high quality and output. The Group built two national core breeding farms, in which it optimized the breeding process, introduced industry senior experts, strengthened the training of breeding technology, and improved the breeding index.

The Group joined the Calf and Heifer Organization, established an external think tank, closely connected with senior experts in the industry, and raised calves with the latest technology and the highest standard. In this year, the Group attached great importance to improving the welfare of calves and strengthening the comfort construction of calves, by providing sunshade and ventilation in summer, preventing wind and keeping warm in winter, and adding warm vests to each calf, which significantly increased the survival rate of calves, and dramatically strengthened the reserve of calves and heifers.

In respect of healthcare, the Group adopted many measures, such as optimization of daily food formula for dairy cows, emphasis on adjustment of rumen health, improvement of comfort of cowsheds, and enhancement of healthcare management process of dairy farms. Meanwhile, the Group worked together with top five global animal protection companies and top two domestic vaccine companies to make the animal benefit plan with the highest standard and the prevention and control of epidemic plan for dairy farms. As such, the Group can improve the positive immunity mechanism of herds and enhance the self immunity of dairy cows so as to control the culling rate of the dairy farms. Through cooperation with excellent animal protection companies, the Group actively carried out training and on site practical study and formulated a special subject on control of mastitis and a plan for prevention and control of limping disease, enhancing the healthcare effect and decreasing disease occurring rate, and effectively improving the body health of dairy cows and decreasing the culling rate. In 2020, the passive culling rate of the Group decreased by 6.0% over last year.

CLIENT-ORINTED AND PRODUCT INNOVATION

In terms of product research and development, to meet the demand of domestic market consumption upgrade and dairy industry customers, the Group conducted independent research and development in the field of production, constantly broke through technology bottlenecks, and improved the fine forage processing and feeding technology. The Group has successfully developed DHA raw milk by self-transformation and metabolism of dairy cows fed DHA forage. The content of DHA in raw milk was above 15mg/100g. The DHA content of milk produced by biological enrichment is stable, which is easier for the absorption by human body. Innovations in the development of DHA natural functional milk have further improved the profitability of the Company.

QUALITY AND SAFETY MANAGEMENT

Based on the concept of "providing globally most premium desert-based organic milk" as its mission, making reference to ten international and domestic standards such as AQ, Arlagarden, ISO9000, ISO22000 and ISO22002 as well as 52 laws and regulations and standards related to animal husbandry and breeding, China Shengmu has formulated a standard of "Shengmu Quality and Safety Management System for Dairy Industry and Farms" to cover dairy farm management and key parts in entirety. The standard involves management of 93 key control points in 4 categories including quality management of source of raw and auxiliary materials, health benefit of dairy cows, guarantee of milk quality and operating support, realizing an improving total quality management model based on clients with all staff engaged.

In respect of raw milk quality management, leveraging on the unique farming environment in the Ulan Buh Desert and the hardware configuration and management level in the dairy farms with large size, the Group formulated QP, QA, QC and QS management standards. With reference to GB13078 forage hygiene standard, the Group strictly assessed the source suppliers and checked for every batch of raw and auxiliary materials in dairy farms in order to guarantee the quality and prohibited entry of unqualified raw and auxiliary materials, ensuring that premium forage is supplied for dairy cows and improving the comfort of dairy cows to produce healthy and premium raw milk. The Group placed an emphasis on improving central inspection room in 2020, while increasing the frequency and tightening the standards of inspection, the Group had fully complied with the comprehensive internal risk investigation and prevention plan to completely eliminate quality risk and guarantee the quality of raw milk. The Group set an internal target to achieve the best quality of raw milk, improving quality of raw milk to Level S qualification rate (TBC≤30,000, SCC≤200,000)>92%. In 2020, with the average TBC of 10,000 and the average SCC of 150,000, the annual qualification rate reached 95%, far higher than the current EU standard and ranking a leading position at home and abroad.

DIGITAL-BASED DEVELOPMENT AND INTERNAL MANAGEMENT UPGRADE

In July 2020, the Company concluded a cooperation agreement with UniDairy on the herd management system, and officially launched the UniDairy herd information system in September, which further upgraded the digital management of herd and improved the level of information management of the farms. In September 2020, the Company inked a strategic agreement with SAP, the world's top software service provider, to jointly build a digital platform for the whole industry chain of animal husbandry. After 119 days, SAP-ERP project of China Shengmu has been fully put into operation at the end of the year. The successful launch of the SAP-ERP project has improved the Company's overall management and control ability, process standardization ability, fine management ability and industrial collaboration ability, and opened a new digital chapter of building intelligent farms and enabling China's organic dairy industry.

PRACTICE GOING GREEN AND ENVIRONMENTAL PROTECTION TO SUPPORT CIRCULAR AND ECOLOGICAL DEVELOPMENT

In 2020, the Group took initiative to conduct energy saving, consumption reduction and environmental protection. It replaced the fuel of heating boilers from coal to electricity to reduce carbon dioxide emissions, and removed original coal-fired boilers in 16 farms and used air source heat pumps for heating instead. By heat source transformation, the Group has reduced coal consumption by around 1,800 tonnes and carbon dioxide emissions by around 3,200 tonnes each year. In addition, the Group cooperated with suppliers of silage corn in terms of cow dung processing of farms. The cow dungs were supplied to its own organic fertilizer farms and silage corn suppliers. The Group adopted various cooperation modes to form a reasonable and sustainable planting-feeding integration agricultural production system with cow dung returning to the farm and forage grass feeding cows.

FINANCIAL REVIEW

Immediately after the battle against COVID-19 began, the Group established a pandemic prevention and control group led by the senior management team, forming an internal top-down & bottom-up system characterized by timely decision making and rapid response. Combined with relevant government policies, the Group made full use of the advantages of centralized farms for materials dispatch and allocation and operational efficiency adjustment. As such, apart from the slight initial impact on transport and logistics, the Group's dairy farms generally maintained normal operation, with stable raw milk production and sales. The Group's cows, employees and operating results were not materially affected.

In 2020, the Group's revenue amounted to RMB2,660.8 million. The Group's gross profit margin increased by 1.9% from 36.6% in 2019 to 38.5% in 2020. The Group's profit after income tax increased by RMB325.3 million from RMB135.7 million in 2019 to RMB461.0 million in 2020, among which, profit attributable to owners of the parent company increased from RMB27.7 million in 2019 to RMB406.7 million in 2020, representing a net increase of RMB379.0 million or a growth rate of 1,365.9%.

ANALYSIS ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Unit: RMB in thousands, except percentages

	Dairy farming business				Liquid milk business[2]				
For the year ended 31 December	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	Total revenue
2020	2,660,823	–	2,660,823	100.0%	–	–	–	–	2,660,823
2019	2,609,337	111,577	2,497,760	90.5%	261,609	–	261,609	9.5%	2,759,369

(1) Liquid milk business from January to April is included in the previous year in this table and tables below and related analysis throughout this section. Such presentation can reflect and analyze the operating condition and changes of the Group for the previous year more reasonably;

(2) Liquid milk business includes the discontinued liquid milk business. The figures for the previous year include figures of January to April before disposal of the liquid milk business.

In 2020, the Company's operating results were generally improved leveraging on the Group's well-stablished strategic partnership with Mengniu Group during the outbreak of pandemic, as well as various measures taken by the Group after the pandemic was alleviated, such as raising the raw milk price and adjusting the weight of the sales of organic milk upon a rapid recovery of dairy products market. The external sales of raw milk business of the Group increased from RMB2,497.8 million in 2019 to RMB2,660.8 million in 2020, representing an increase of 6.5% as compared to last year.

Dairy Farming Business

	For the year ended 31 December							
	2020				2019			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/ Tonne)	Revenue as % of Dairy farming segment revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/ Tonne)	Revenue as % of Dairy farming segment revenue
Organic raw milk								
External sales	1,459,267	285,073	5,119	54.8%	1,151,442	239,177	4,814	44.1%
Inter-segment sales[1]	–	–	–	–	98,291	19,024	5,167	3.8%
Subtotal	1,459,267	285,073	5,119	54.8%	1,249,733	258,201	4,840	47.9%
Premium non-organic raw milk[2]								
External sales	1,201,556	304,548	3,945	45.2%	1,346,318	362,072	3,718	51.6%
Inter-segment sales[3]	–	–	–	–	13,286	3,585	3,706	0.5%
Subtotal	1,201,556	304,548	3,945	45.2%	1,359,604	365,657	3,718	52.1%
Dairy farming segment								
External sales	2,660,823	589,621	4,513	100.0%	2,497,760	601,249	4,154	95.7%
Inter-segment sales	–	–	–	–	111,577	22,609	4,935	4.3%
Total	2,660,823	589,621	4,513	100.0%	2,609,337	623,858	4,183	100.0%

(1) Represents self-produced organic raw milk sold to the Group's organic liquid milk business during the period from January to April 2019.

(2) The average selling price includes natively functional DHA milk.

(3) Represents self-produced premium non-organic raw milk sold to the Group's high-end non-organic liquid milk business during the period from January to April 2019.

In 2020, following the market development trend, the Group focused on its organic milk business and changed three dairy farms into organic farms during the year. Sales volume of raw milk increased from 258,201 tonnes in 2019 to 285,073 tonnes in 2020, representing an increase of 10.4%. Sales volume of non-organic milk in 2020 was 304,548 tonnes, including natively functional DHA milk of 12,784 tonnes.

In 2020, the average selling price of the Group's raw milk was RMB4,513/tonne, representing an increase of 7.9% as compared to that of last year. The average selling price of organic raw milk was RMB5,119/tonne, increasing by 5.8% as compared to last year; the average selling price of non-organic raw milk was RMB3,945/tonne, increasing by 6.1% as compared to last year.

Cost of Sales, Gross Profit and Gross Profit Margin

Unit: RMB in thousands, except percentages

	For the year ended 31 December					
	2020			2019		
	Cost of sales Amount	Gross profit Amount	Gross profit margin	Cost of sales Amount	Gross profit Amount	Gross profit margin
Dairy farming business						
Organic raw milk						
Before elimination	800,699	658,568	45.1%	718,645	531,088	42.5%
After elimination (1)	800,699	658,568	45.1%	665,391	486,051	42.2%
Premium non-organic raw milk						
Before elimination	835,006	366,550	30.5%	956,036	403,568	29.7%
After elimination (3)	835,006	366,550	30.5%	946,866	399,452	29.7%
Subtotal						
Before elimination	1,635,705	1,025,118	38.5%	1,674,681	934,656	35.8%
After elimination	1,635,705	1,025,118	38.5%	1,612,257	885,503	35.5%
Liquid milk business						
Organic liquid milk						
Before elimination	–	–	–	167,728	71,339	29.8%
After elimination (2)	–	–	–	120,868	118,199	49.4%
Premium non-organic liquid milk						
Before elimination	–	–	–	20,405	2,137	9.5%
After elimination(3)	–	–	–	16,276	6,266	27.8%
Subtotal						
Before elimination	–	–	–	188,133	73,476	28.1%
After elimination	–	–	–	137,144	124,465	47.6%
Total after elimination	1,635,705	1,025,118	38.5%	1,749,401	1,009,968	36.6%

(1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk, calculated as the product of (a) total cost of sales of organic raw milk and (b) the volume of organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.

(2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in this segment and (ii) the production costs for such organic raw milk, as calculated using the formula in note (1) above.

(3) Premium non-organic raw milk after elimination is calculated using the formula in note (1) above, and the premium non-organic liquid milk after elimination is calculated using the formula in note (2) above.

In 2020, the gross profit margin of the Group's dairy farming business after elimination increased from 35.5% in 2019 to 38.5% in 2020, of which, the gross profit margin of organic raw milk business was 45.1%, increasing by 2.9% as compared to last year, and the gross profit margin of non-organic raw milk business was 30.5%, increasing by 0.8% as compared to last year. The increase was primarily due to: (1) the increase in the sales volume and adjustment to the structure of organic milk; and (2) the higher selling price of raw milk as compared to last year.

Other Gains and Losses, Net

In 2020, net losses generating from the Group's other gains and losses amounted to RMB44.5 million (2019: net gains of RMB69.3 million), mainly due to the inclusion of investment income of RMB85.8 million from the disposal of Shengmu Dairy in 2019.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily include logistics and transportation expenses and employees' remunerations. In 2020 and 2019, the Group's selling and distribution expenses amounted to RMB32.1 million and RMB131.1 million, respective. The significant decrease in 2020 as compared to 2019 was mainly due to the inclusion of January to April figures of the dairy company disposed of in previous year figures.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees, as well as administrative expenses including attorney and audit fees. In 2020 and 2019, the Group's administrative expenses amounted to RMB111.7 million and RMB141.3 million, representing a decrease of approximately 20.9% as compared to last year, mainly due to the inclusion of audit and other intermediary fees incurred in respect of the disposal of dairy company last year and the administrative expenses incurred by the dairy company disposed of from January to April last year. In 2020 and 2019, administrative expenses accounted for 4.2% and 5.1% of revenue, respectively.

Finance Costs

In 2020, the Group's finance costs amounted to RMB116.8 million (2019: RMB229.2 million), the decrease was mainly attributable to the facts that the Company repaid the entrusted loans of RMB1,370.0 million from Mengniu while further optimizing its debt structure by obtaining loans with low interest rates, which has led to a reduction in both the interest-bearing liabilities and the interest rates.

Loss Arising from Changes in Fair Value Less Costs to Sell of Biological Assets

Loss arising from changes in fair value less costs to sell of biological assets represents fair value changes in the dairy cows, due to the changes in physical attributes and market prices of the dairy cows and discounted future cash flow to be generated by those cows. In general, the value of a heifer increases when it grows up to a milkable cow, as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is ousted and sold, its value decreases.

In 2020 and 2019, the Group's loss arising from changes in fair value less costs to sell of biological assets were RMB224.2 million and RMB284.9 million, respectively. Loss arising from changes in fair value less costs to sell of biological assets of the Group decreased in 2020 as compared to 2019, which was mainly due to the facts that great achievements have been made in the efforts of pandemic prevention and healthcare for herbs during the year, that the culling rate decreased as compared to last year and that some of the non-organic farms were changed to organic farms.

Share of Losses of Associates

The Group's associates include (a) Inner Mongolia Mengniu Shengmu High-tech Dairy Products Co., Ltd. (內蒙古蒙牛聖牧高科乳品有限公司) ("**Mengniu Dairy Company**") invested and owned as to 49% by the Group, which is primarily engaged in the operating and selling of Shengmu organic liquid milk brand; (b) Shengmu Forage in which the Group invested and held minority interests, and its subsidiary; (c) Food Union Shengmu and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) in which the Group invested and held minority interests, producing dairy products with the raw milk purchased from the Group; and (d) Inner Mongolia Yiyingmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司) ("**Yiyingmei**"), in which the Group invested and held minority interests, producing high-end organic infant milk powder with the raw milk purchased from the Group in the future. It was originally a wholly-owned subsidiary of the Group and was owned as to a minority interest of 20% to the Group subsequent to the entering into of an equity transfer and unilateral capital increase agreement with Dabeinong Group on 11 September 2020. The Group recorded a share of the losses of the abovementioned associates for 2020 and 2019 of RMB35.6 million and RMB65.2 million, respectively.

Income Tax Expense

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

The Group had no income tax expense in 2020, and the income tax expense in 2019 was RMB0.6 million.

Profit Attributable to Owners of the Parent Company and Profit Attributable to Non-Controlling Interests

In 2020, profit attributable to owners of the parent company of the Group was RMB406.7 million, representing a net increase of RMB379.0 million or a growth rate of 1,365.9% from a profit of RMB27.7 million in 2019, which was mainly attributable to (1) the stable increase in the selling price of the Group's raw milk as compared to last year; (2) the increase in the sales volume of organic milk as compared to last year due to the adjustment made to the structure of organic milk; (3) the significantly improved profitability of the Company through internal management upgrade and improvement of operating effectiveness; and (4) the Group completed the acquisition of minority interests in 12 joint venture farms by the end of 2019.

Profit attributable to non-controlling interests mainly represents the profit for the period attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In 2020 and 2019, profit attributable to non-controlling interests was RMB54.3 million and RMB108.0 million, respectively.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 31 December 2020, total current assets of the Group were RMB2,196.4 million (as at 31 December 2019: RMB1,783.3 million), primarily consisting of inventory of RMB715.1 million (as at 31 December 2019: RMB678.1 million), trade and bills receivables of RMB136.6 million (as at 31 December 2019: RMB167.1 million), prepayments, deposits and other receivables of RMB614.6 million (as at 31 December 2019: RMB614.1 million), cash and bank balances of RMB715.1 million (as at 31 December 2019: RMB310.2 million), and consumable biological assets of RMB15.0 million (as at 31 December 2019: RMB13.8 million). There was an increase in the Group's current assets as at 31 December 2020 as compared with that of 31 December 2019, which was mainly attributable to the increase of RMB404.9 million in the Group's cash and bank balances as compared with that at the beginning of the year due to the continued improvement of the Company's operating results.

Current Liabilities

As at 31 December 2020, total current liabilities of the Group amounted to RMB3,275.3 million (as at 31 December 2019: RMB4,121.0 million), primarily consisting of trade and bills payables of RMB1,699.4 million (as at 31 December 2019: RMB1,365.8 million), other payables and accruals of RMB240.0 million (as at 31 December 2019: RMB574.8 million), interest-bearing bank and other borrowings and lease liabilities of RMB1,335.9 million (as at 31 December 2019: RMB2,177.1 million), and derivative financial instruments of nil (as at 31 December 2019: RMB3.3 million). The significant decrease in the Group's current liabilities as at 31 December 2020 compared to that as at 31 December 2019, was mainly due to the repayment of entrusted loans of RMB1,370.0 million from Mengniu in 2020, the decrease in interest-bearing liabilities as compared to last year and the receipt of a short-term borrowing (equivalent to RMB228.4 million) from J.P. Morgan at the end of the year.

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and most transactions are conducted in RMB. As at 31 December 2020, the Group did not have significant foreign currency exposure from its operations, except for cash balances equivalent to approximately RMB228.4 million, RMB2.5 million and RMB0.1 million which were denominated in United States dollars, Hong Kong dollars and Euro, respectively. As at 31 December 2020, the Group did not enter into any arrangements to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized 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. Credit risk related to the Group's other financial assets arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Charge on Assets

As at 31 December 2020, the Group had pledged deposits of approximately RMB387.5 million (as at 31 December 2019: RMB177.5 million) in total to banks as deposits for the issuance of letters of credit and bank drafts. As at 31 December 2020, there was no pledge with the Group's entrusted loans (as at 31 December 2019: biological assets with fair value of approximately RMB945.7 million and partial interests in 13 wholly-owned subsidiaries and 2 non-wholly-owned subsidiaries with an aggregate net assets of RMB2,393.9 million were used as collaterals for the entrusted loans of the Group amounting to RMB1,370.0 million).

Liquidity, Financial Resources and Capital Structure

In 2020, the Group financed its daily operations mainly from internally generated cash flows and bank borrowings. In 2020, the Group had (a) cash and bank balances of RMB327.7 million (as at 31 December 2019: RMB132.6 million), and (b) interest-bearing bank and other borrowings of RMB1,366.3 million (as at 31 December 2019: RMB2,184.3 million), all denominated in RMB, of which, RMB30.4 million were repayable within one to five years, while the remaining interest-bearing bank and other borrowings were repayable within one year. Except bank and other borrowings equivalent to RMB41.7 million which are denominated in Euros, RMB228.4 million which are denominated in United State dollars and bear fixed interest rates, the Group's remaining bank and other borrowings are denominated in RMB and bear fixed interest rates. For the year ended 31 December 2020, the annual interest rate of bank loans ranged from 1.55% to 6.53% (for the year ended 31 December 2019: 1.55% to 12.97%).

Interest-Bearing Borrowings

	As at 31 December			
	2020		2019	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current				
Bank loans – unsecured	2.90-5.22	1,324,561	4.35-6.26	763,650
Bank loans – secured	—	—	5.66-6.09	1,370,000
Current portion of long term bank and other borrowings – unsecured	1.55	11,312	1.55	11,182
		1,335,873		2,144,832
Non-current				
Bank loans – unsecured	1.55	30,398	1.55	39,443
		1,366,271		2,184,275

In 2020, with the constantly improved operating results, the increasingly adequate operating cash flow and the continuously improved external financing environment, the Company has proactively conducted debt restructuring and prepaid its entrusted loans of RMB1,370.0 million during the year. As a result, the Group's interest-bearing liabilities decreased to a reasonable level with significant reduction in the cost of fund seen, and the debt-to-asset ratio decreased from 63.5% in 2019 to 49.2% in 2020, thus bettering the assets and liabilities structure.

ENVIRONMENTAL POLICIES AND PERFORMANCE

In 2020, the Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group has no capital commitments in respect of the acquisition of property, plant and equipment (as at 31 December 2019: RMB81.1 million), which was mainly due to the inclusion of the data of the disposed Yiyingmei in that of 2019.

HUMAN RESOURCES

As at 31 December 2020, the Group had a total of 2,589 employees (as at 31 December 2019: 2,668 employees). Total staff costs in 2020 (including the emoluments of Directors and senior management of the Company) amounted to RMB263.6 million (2019: RMB270.5 million).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation and efficiency incentive based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group provided guarantees with amount of RMB94.6 million (31 December 2019: RMB80.0 million) and RMB14.5 million (31 December 2019: RMB65.4 million) for the bank borrowings of Shengmu Forage and Food Union Shengmu, respectively. The external guarantees provided by the Group were recognised in the financial statements on the basis of the valuation of the guarantees provided by the independent professional valuer regarded as the best estimates required to pay for the performance of the relevant current obligations in accordance with the requirements of IFRSs.

Material Acquisitions and Disposals

In 2020, (1) Shengmu Dairy, an associate in which the Group held a 49% equity interest, split its dairy product sales business into a newly established entity named Mengniu Dairy Company, which was owned as to 51% by the Mengniu Group and 49% by the Group. The Group has disposed of all its 49% equity interests (excluding the sales business) held in Shengmu Dairy, the original joint venture, to Mengniu Group; (2) the Group disposed of the 5.38% equity interest held in Food Union Shengmu to Food Union (Dairy) Hong Kong Limited; (3) on 29 May 2020, the Group completed the issuance of 688,705,234 shares at an issue price of HK$0.33 to pay the non-cash consideration for the acquisition of minority interests in 12 joint venture farms; and (4) on 11 September 2020 (after trading hours), the Group and Dabeinong Group entered into an equity transfer and capital increase agreement, pursuant to which, the Group would own 20% passively diluted minority interests in Yiyingmei upon its disposed of 70% equity interests in Yiyingmei, a wholly-owned subsidiary, to Dabeinong Group and upon Dabeinong Group unilaterally contributed additional capital to Yiyingmei. Except the above, the Company did not have any other significant acquisition and disposal of subsidiaries and associates.

The Group received the exercise notices from Start Great Holdings Limited (a wholly-owned subsidiary of China Mengniu) and Greenbelt Global Limited on 27 July and 31 July 2020, respectively, to subscribe for 1,197,327,890 shares and 140,862,105 shares at an exercise price of HK$0.33 per share. Upon subscription and issuance of the above-mentioned share, the total number of issued shares of the Company was 8,381,295,229. China Mengniu, through Star Great Holdings Limited, became the largest shareholder of the Company, holding 17.51% of issued shares of the Company.

Future Plans for Material Investments or Acquisition of Capital Assets and Expected Source of Funding

Save as disclosed above in "Capital Commitments" and in the prospectus under the section headed "Future Plans and Use of Proceeds", the Group does not have any plan for material investments or acquisition of capital assets as at the date of this annual report.

OUTLOOK

Focus on Core Businesses to Realize Innovation-Driven Development

The Company will grasp the market opportunity, follow the consumption upgrading trend, and actively expand the overseas organic forage grass cooperation and certification business. It will bring together the global high-quality resources, strengthen its organic control ability, combine its own unique desert environment advantages, focus on the development of organic dairy industry, and continue to increase the output of high-end desert-based organic milk. In 2021, The Company plans to build 4 more organic farms to consolidate the absolute leading position of the Group in the organic field. According to the market demand, it will increase the input and conversion of DHA in farms, and plan to build 3 more DHA natural functional milk farms in 2021. At the same time, the Company will continue to develop and innovate functional milk through cutting-edge technology to meet customers' growing demand for high-end functional milk. The Company will plan to produce A2 milk containing rich A2-β-casein through genomic screening of herd through A2-β-casein gene, and further increase the profit contribution from scientific innovation.

Continue to Adopt Lean Operation and Comprehensively Improve Efficiency

Upholding the management philosophy of "Cows First", and leveraging on the prenium resources of the Ulan Buh Desert, the Company will comprehensively improve the comfort level of dairy cows, improve the health level of dairy cows at all stages, and effectively extend the life of natural lactation of dairy cows. Through precise nutrition and feeding, the Company will strenghten fine welfare of dairy cows, and continue to improve the parity yield of dairy cows, thus, realizing increase in both the annual per unit yield and gross production.

The Company will continue to attach importance to the genetic improvement, and optimize the breeding system. By implementing the 3-5 year genetic improvement plan, the Company will breed core and high-quality herds, and realize the high-quality growth of the herd size.

Build Intelligent Farms and Upgrade Production Efficiency

The Company will continue to promote the Intelligent Shengmu strategy. Through SAP system and company information construction, the Company will improve the overall risk control ability, process standardization ability, fine management ability and industrial collaboration ability. It will establish the whole-process intelligent dairy farming system of the animal husbandry industry chain, and realize the standardized, data-oriented, informationized and intelligent management of the production process of dairy farming through digital information technologies, such as sharing and co-construction, interconnection and ecological development of animal husbandry, so as to improve the efficiency of cows, the production capacity of farms and the profitability of the Group.

Realize Branding of Raw Milk and Take "Shengmu inside" as a Proud

Leveraging on the innate advantages of "Being Natural, Pure and Healthy", the Group launched landmark certification and GAP certification, to create a strong brand value of "Desert-Based Organic Milk", and to make domestic high-end dairy products using Shengmu organic raw milk proud of "Shengmu Inside".

Promote the Culture Platform Strategy and Stimulate the Endogenous Driving Force of Enterprise

The Group makes constant efforts to promote the construction of corporate culture, consolidate the cultural foundation, sublimate the promotion and implementation of culture, and effectively promote the implementation of cultural values. In addition, the Group further promotes the three-level (the company, system and department) talent training system. The Group will continue to build a talent training platform and carry out high-quality training projects. It will improve the joint development mechanism, provide a solid talent guarantee for the fulfillment of corporate vision and strategic goals, and dig out the endogenous driving force for enterprise development.

Establish Cooperation and Partnership to Boost Sustainable Development

In 2020, the Group submitted an application for its accession to The United Nations Global Compact (UNGC). In high recognition of the ten principles initiated by the UNGC covering issues such as human rights, labor standards, environment and anti-corruption, Shengmu has undertaken to fully response to the Sustainable Development Goals (SDG) of the United Nations during the process of strategy making and operation, so as to contribute to sustainable development worldwide in an cooperative, creative and innovative manner.

The Board has the pleasure in submitting its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020. Save as stated otherwise in this report, the defined terms herein shall have the same meaning as in the prospectus (the "**Prospectus**") dated 30 June 2014.

BUSINESSES REVIEW

The Group's principal businesses consist of dairy farming business. For details of the principal subsidiaries of the Group, please refer to note 1 to the financial statements.

The Group's income is mainly derived from its business activities in the PRC. Further details of the Group's business review of the financial year are set out in the section headed "Management Discussion and Analysis" of this annual report.

The Group is exposed to a variety of business risks, including financial risk, regulatory and environmental risks, climate, disease and other natural risks in the ordinary course of business.

Further details of the Group's principal risks, please refer to note 17 and note 40 to the financial statements.

RESULTS

The Group's consolidated results for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income in the financial statements.

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" in this annual report.

PROPERTY, PLANT AND EQUIPMENT

For details of the changes in the properties, plant and equipment of the Group during the year, please refer to note 13 to the financial statements.

DONATIONS

The Group made donations with a total amount of RMB997,000 during the year of 2020 (2019: RMB163,000).

DIVIDEND POLICY AND DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended 31 December 2020 (2019: nil). The Board intends to consider dividend distribution upon receiving profit contribution from the principal business of the Group.

DISTRIBUTABLE RESERVES

The Company's distributable reserves amounted to RMB3,591.6 million as at 31 December 2020. For details of the changes in the Company's reserves in 2020, please refer to note 41 to the financial statements.

SHARE CAPITAL

For details of the changes in the Company's share capital in 2020, please refer to the consolidated statement of changes in equity in the financial statements and note 30 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

There were no significant subsequent events for disclosure since the end of reporting period of the Group and up to the latest practicable date prior to the publication of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on 28 June 2021. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 23 June 2021 to 28 June 2021, both days inclusive. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 June 2021.

The notice of annual general meeting and related circular will be despatched to the shareholders in due course.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the laws of the Cayman Islands, where the Company is incorporated, contains any provisions relating to pre-emptive rights.

MAJOR CUSTOMERS AND SUPPLIERS

In 2020, the five largest customers of the Group in aggregate accounted for 98.5% of the Group's total revenue and the largest customer accounted for 94.1% of the Group's total income. In 2020, the five largest suppliers of the Group accounted for 25.6% of the Group's total amount of purchases and the largest supplier accounted for 7.7% of the Group's total amount of purchases.

In 2020, to the knowledge of the Directors, none of any of shareholders or any of Directors or any of their close associates who owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers of the Group.

In 2020, we did not experience any material disputes with our customers or suppliers.

DIRECTORS

For the year ended 31 December 2020, the Company's Directors were as follows:

Executive Directors

Mr. YAO Tongshan (re-elected on 19 June 2020)
Mr. ZHANG Jiawang

Mr. WU Jianye resigned as an executive director and a joint company secretary with effect from 30 March 2020 due to his other business commitments.

Non-executive Directors

Mr. SHAO Genhuo (Chairman) (re-elected on 19 June 2020)
Mr. SUN Qian
Mr. ZHAO Jiejun (re-elected on 19 June 2020)
Mr. ZHANG Ping (appointed on 25 August 2020)

Mr. WEN Yongping resigned with effect from 30 March 2020 due to his other business commitments. Mr. LU Boxiang was appointed as non-executive Director on 30 March 2020 and resigned on 25 August 2020 due to his other business commitments.

Independent Non-executive Directors

Mr. FU Wenge
Mr. WANG Liyan
Mr. WU Liang (appointed on 22 December 2020)

Mr. LI Xuan resigned as an independent non-executive Director with effect from 22 December 2020 due to his other business commitments.

BIOGRAPHICAL DETAILS OF DIRECTORS AND MEMBERS OF OUR SENIOR MANAGEMENT

Biographical details of Directors and members of our senior management are set out in the section headed "Directors and Senior Management" in this annual report.

PERMITTED INDEMNITY PROVISION

During the financial year, the Company has maintained adequate liability insurances cover in respect of potential legal actions against its Directors.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years starting from the respective appointment date and shall retire by rotation at the general meeting according to the requirements of the Articles of Association of the Company. The Board may appoint any person as a Director from time to time and at any time either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. None of our Directors has entered into any service contract or appointment letter which cannot be terminated within one year without payment of compensation (other than statutory compensation) with the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the financial year.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Mr. WANG Liyan and Mr. FU Wenge, independent non-executive Directors of the Company, and Mr. LI Xuan, a former independent non-executive Director of the Company have been appointed as the independent directors of Beijing Dabeinong Technology Group Co., Ltd. (北京大北農科技集團股份有限公司) ("**Dabeinong Group**"), a company listed on the SME Board of the Shenzhen Stock Exchange (stock code: 002385), since 20 March 2020.

Mr. SUN Qian, a non-executive Director of the Company, has been appointed as a director of Guangdong Dongpeng Holdings Co., Ltd., a company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange and is primarily engaged in the developing ceramic products since 19 October 2020.

Save as disclosed herein, as at 31 December 2020, there was no change to the information required to be disclosed by the Directors pursuant to paragraph (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Zhao Jiejun, a non-executive Director of the Company, has been appointed as the vice president and the general manager of milk sources and group supply chain of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司) ("**Inner Mongolia Mengniu**"), a subsidiary of China Mengniu Dairy Company Limited ("China Mengniu") since November 2019. He is also currently a non-executive Director and a member of the strategy and development committee of China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司) ("China Modern Dairy"). Mr. Zhang Ping, a non-executive Director of the Company (appointed from 25 August 2020), is currently a non-executive director and a member of the remuneration committee of China Modern Dairy.

For further information on the businesses of China Mengniu and the potential competition between those businesses with the business of the Group, please refer to the section headed "Relationship with Mengniu Group – Competition" in the Prospectus.

The principal activities of China Modern Dairy are (i) production and sale of raw milk to customers for processing into dairy products; and (ii) production and sale of liquid milk products. The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, has acted and will continue to act in the best interests of the Group.

Save as disclosed above, all Directors have confirmed that for the year ended 31 December 2020 and as at the date of this report, they and their close associates have not engaged in or held any interest in any business which is or may be, directly or indirectly, in competition with our business.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the criteria set out in Rule 3.13 of the Listing Rules, the Company considers that Mr. FU Wenge, Mr. WANG Liyan and Mr. WU Liang are independent parties and has received from them written confirmations on their independence.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Completion of the Acquisition of Minority Interest in the 12 Farming Companies

1 On 21 December 2018, the Company and Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司) ("**Shengmu High-tech**"), an indirect wholly-owned subsidiary of the Company, entered into a reorganisation memorandum with 12 individual shareholders (the "12 Individual Shareholders") of Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. (內蒙古聖牧沙草業有限公司) ("**Shengmu Sand and Grass**"), pursuant to which the 12 Individual Shareholders agreed to complete a reorganisation (the "**Reorganisation I**") for the purpose of implementation of the Acquisition (as defined hereunder).

Upon completion of the Reorganisation I, the 12 Individual Shareholders will directly hold 60% equity interest in Shengmu Sand and Grass and will hold 100% equity interests in 12 holding companies to be established by the 12 Individual Shareholders in the BVI respectively (the "**BVI Companies I**") which in turns hold 100% equity interests together in a holding company to be established in the BVI (the "**BVI Company II**") which will hold 100% equity interests in a holding company to be established in Hong Kong (the "**HK Company**"). The HK Company will hold the other 40% equity interests in Shengmu Sand and Grass.

On 21 December 2018, the Company and Shengmu High-tech entered into an equity transfer framework agreement (the "**Equity Transfer Framework Agreement**") with the 12 Individual Shareholders, pursuant to which (i) Shengmu High-tech agreed to acquire 60% equity interests in Shengmu Sand and Grass (which holds the minority interests in the 12 farming companies, the "**12 Farming Companies**") from the 12 Individual Shareholders upon completion of the Reorganisation by cash in the amount of RMB300.0 million (the "**Cash Consideration**"); and (ii) the Company agreed to issue a total of 688,705,234 new shares (the "**Consideration Shares**") of the Company at an issue price of HK$0.33 per share to the BVI Companies I to acquire 100% equity interest in BVI Company II which in turn indirectly hold the other 40% equity interests in Shengmu Sand and Grass upon completion of the Reorganisation I (the "**Acquisition**").

The Consideration Shares represent (i) approximately 10.84% of the existing issued share capital of the Company as at 21 December 2018 (the date when the Equity Transfer Framework Agreement was entered into) and (ii) approximately 9.78% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares.

Immediately upon completion of the Acquisition, Shengmu Sand and Grass and the 12 Farming Companies will become indirect wholly-owned subsidiaries of the Company. The financial results of Shengmu Sand and Grass and the 12 Farming Companies will be fully consolidated into the consolidated financial statements of the Group upon completion of the Acquisition.

Completion of the Equity Transfer Framework Agreement is conditional upon the fulfilment or waiver of the conditions set out in the section headed "The Equity Transfer Framework Agreement – Conditions Precedent" in the announcement of the Company dated 21 December 2018.

On 8 March 2019, the Company, Shengmu High-tech and the 12 Individual Shareholders entered into the first supplemental agreement to the Equity Transfer Framework Agreement (the "**First Supplemental Agreement**"), pursuant to which Shengmu High-tech shall pay the Cash Consideration to the 12 Individual Shareholders according to a revised payment schedule.

On 25 December 2019, the Company and Shengmu High-tech entered into the second supplemental agreement to the Equity Transfer Framework Agreement ("**Second Supplemental Agreement**") with the 12 Individual Shareholders, pursuant to which the 12 Individual Shareholders agreed to transfer the 60% equity interests in Shengmu Sand and Grass to Shengmu High-tech within 10 days from 25 December 2019 and implement the reorganisation with respect to the remaining 40% equity interests in Shengmu Sand and Grass before 10 June 2020 (the "**Reorganisation II**"), upon which the 12 Individual Shareholders will indirectly hold 40% equity interests in Shengmu Sand and Grass through the BVI Companies I and the BVI Company II. The 12 Individual Shareholders shall then transfer the 100% equity interests in BVI Company II to the Company within 5 days upon the completion of the Reorganisation II, in return for the Consideration Shares to be issued by the Company to the BVI Companies I (the "**Transfer**"). The 12 Individual Shareholders also agreed that the Company will be entrusted with the voting rights associated with the 40% equity interests in Shengmu Sand and Grass held by the 12 Individual Shareholders from the same date to the date on which the Transfer is completed or to the date on which all parties agree in writing to terminate the Second Supplemental Agreement.

On 29 May 2020, all conditions precedent in respect of the Acquisition as set out in the sub-section headed "Conditions Precedent" in the "Letter from the Board" of the circular of the Company dated 13 March 2019 have been fulfilled and the completion of the Acquisition took place (the "Completion"). Upon the Completion, 688,705,234 new shares, representing 9.78% of the issued share capital of the Company as at 29 May 2020 (as enlarged by the issue of the Consideration Shares), have been duly allotted and issued as full paid to the BVI Companies I at the issue price of HK $0.33 per Consideration Share under the specific mandate.

Details of the Equity Transfer Framework Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the Completion are set out in the announcements of the Company dated 21 December 2018, 8 March 2019, 25 December 2019 and 29 May 2020, and the circular of the Company dated 13 March 2019, respectively.

Disposal of Inner Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd.

2 On 22 January 2020, Shengmu High-tech, Inner Mongolia Mengniu and Inner Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd. (內蒙古蒙牛聖牧高科奶業有限公司) (the "**Target Company**") entered into a share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which Shengmu High-tech agreed to sell to Inner Mongolia Mengniu the remaining 49% equity interests in the Target Company (the "**Disposal**"). The consideration for the sale of the shares under the Share Purchase Agreement was RMB8,000,000 (equivalent to approximately HK$9,026,798.30), subject to an adjustment based on the difference in appraised value of the net assets of the Target Company between November and December 2019 (if applicable). As part of the Disposal, Shengmu High-tech, Inner Mongolia Mengniu and the Target Company agreed that the Target Company shall split its dairy products sales business. The Target Company has established Inner Mongolia Mengniu Shengmu High-tech Dairy Products Co., Ltd. (內蒙古蒙牛聖牧高科乳品有限公司) (the "**New Company**") and is in the process of injecting the assets and liabilities of the dairy products sales business which had been conducted by the Target Company as at 30 November 2019 into the New Company. Inner Mongolia Mengniu and Shengmu High-tech will hold 51% and 49% interests in the New Company, respectively. The dairy products manufacturing and processing business which has been conducted by the Target Company will remain in the Target Company.

Upon completion of the Disposal in January 2020, Inner Mongolia Mengniu held 100% equity interests in the Target Company. The Target Company ceased to be recognized as an investment in the consolidated financial statements of the Company and will be recognized as a wholly-owned subsidiary of Inner Mongolia Mengniu in its consolidated financial statements.

Details of the Share Purchase Agreement are set out in the announcement of the Company dated 22 January 2020.

Disposal of Equity Interests and Increase of Registered Capital of Inner Mongolia Yiyingmei Dairy Co., Ltd.

3 On 11 September 2020, Shengmu High-tech, Dabeinong Group and Inner Mongolia Yiyingmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司) ("**Yiyingmei**") entered into an equity transfer and capital increase agreement (the "**Equity Transfer and Capital Increase Agreement**") pursuant to which (i) Shengmu High-tech agreed to sell, and Dabeinong Group agreed to purchase 70% equity interests in the Yiyingmei (before taking into account the Capital Increase, as defined below) held by Shengmu High-tech (the "**Equity Transfer**") and (ii) the registered capital of the Yiyingmei will be increased by RMB50 million, all of which will be contributed by Dabeinong Group (the "**Capital Increase**"). The consideration for the Equity Transfer under the Equity Transfer and Capital Increase Agreement is RMB57,822,865.25 (equivalent to approximately HK$65,529,086), among which the first instalment in the amount of RMB45,000,000 shall be paid by Dabeinong Group within five business days after the effective date of the Equity Transfer and Capital Increase Agreement. Subject to the confirmation that there are no other liabilities save for those provided in the latest management accounts of the Yiyingmei available before the date when the handover of the document and assets of the Yiyingmei is completed, and no other contingent liabilities or other matters that are detrimental to the interests of the Yiyingmei and Dabeinong Group, the second instalment in the amount of RMB12,822,865.25 shall be paid within 15 business days from the completion date of the registration of the Yiyingmei in respect of the change of share capital, shareholding, director(s), supervisors(s), general manager(s) and legal representative with the relevant authority of market regulation pursuant to the Equity Transfer and Capital Increase Agreement ("**Registration**"). The contribution of RMB50 million for the Capital Increase shall be paid by Dabeinong Group within five business days from the date of submission of materials by the Yiyingmei to the relevant market regulation authority for Registration.

Upon completion of the Equity Transfer and Capital Increase, Dabeinong Group held 80% equity interests in the Yiyingmei. Yiyingmei ceased to be recognized as a subsidiary of Shengmu High-tech and the Company will be recognized as an investment in the consolidated financial statements of the Company.

Details of the Equity Transfer and Capital Increase Agreement are set out in the announcement of the Company dated 11 September 2020.

Save as disclosed above, for the year ended 31 December 2020 and as at the date of this report, there was no material acquisition or disposal of subsidiaries or associated companies of the Company by the Group.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2020, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of 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 to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or the interests or short positions which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or the interests or short positions which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be immediately notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
SHAO Genhuo	Interest of a controlled corporation[1]	1,301,651,000[1]	15.53%
YAO Tongshan	Beneficial owner	409,092,700	4.88%
ZHANG Jiawang	Beneficial owner	138,130,000	1.65%

(1) Mr. SHAO Genhuo (邵根夥) holds the entire equity interests of Beijing Zhi Nong Investment Co., Ltd. ("**Beijing Zhi Nong**"), which in turn holds the entire equity interests of Nong You Co., Ltd ("**Nong You**"). Therefore, Mr. Shao is deemed to be interested in the Shares held by Nong You.

(ii) Long position in the shares of associated corporation

Name	Name of associated corporation	Percentage of interest
YAO Tongshan (姚同山)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	1.45%

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2020, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in the section headed "Share Option Scheme" in this report, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2020, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested or deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
Start Great Holdings Limited	Beneficial owner	1,467,193,490 (L)	17.51% (L)
China Mengniu	Interest of a controlled corporation	1,467,193,490 (L)	17.51% (L)
Nong You Co., Ltd.	Beneficial owner	1,301,651,000 (L)	15.53% (L)
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	1,301,651,000 (L)	15.53% (L)
Greenbelt Global Limited	Beneficial owner	536,097,305 (L)	6.40% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
Salata Jean	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
ZHANG Junli (張軍力)	Interest of the spouse	409,092,700 (L)	4.88% (L)
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial owner	378,320,000 (L)	4.51% (L)
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SC China Holding Limited	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
Sequoia Capital China Advisors Limited	Investment manager	378,320,000 (L)	4.51% (L)
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SHEN Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
The Goldman Sachs Group, Inc.	Interest of a controlled corporation	396,960,506 (L)	4.74% (L)
		1,723,000 (S)	0.02% (S)

INTERESTS OF THE SUBSTANTIAL SHAREHOLDER OF ANY MEMBER OF THE GROUP (OTHER THAN THE COMPANY)

Name	Name of member company	Percentage of interest
Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司)	Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司)	30.00%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as at 31 December 2020, was interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

ISSUE OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

On 10 December 2018 and 23 December 2018, Shengmu High-tech and Inner Mongolia Mengniu entered into two entrusted loan agreements respectively, where term loan facilities in the aggregated amount of RMB1.3 billion (the "**Loan Facilities**") were granted, via the Horinger County Branch of Agricultural Bank of China Limited, to Shengmu High-tech. The Company considers that the terms of the Loan Facilities are more favourable than the terms available to the Group from independent third parties.

On 23 December 2018, the Company entered into a warrant subscription agreement (the "**Warrant Subscription Agreement A**") with Start Great Holdings Limited (the "**Subscriber A**") in relation to the subscription of a total of 1,197,327,890 unlisted warrants (the "**Warrants A**") by the Subscriber A in consideration of the grant of the Loan Facilities by Inner Mongolia Mengniu to Shengmu High-tech at more favourable terms than available from independent third parties. Upon the exercise of the subscription rights attaching to the Warrants A in full, a maximum of 1,197,327,890 new ordinary shares (the "**Warrant Shares A**") of par value HK$0.00001 each in the issued share capital of the Company (with an aggregate nominal value of HK$11,973.2789), will be issued and allotted by the Company at a subscription price of HK$0.33 per Warrant Share A. Completion of tranche 1 of Warrants A in relation to 1,080,248,000 Warrant Shares A took place on 29 January 2019.

On the same day, the Company entered into a warrant subscription agreement (the "**Warrant Subscription Agreement B**", together with Warrant Subscription Agreement A, the "**Warrant Subscription Agreements**") with Greenbelt Global Limited (the "**Subscriber B**") in relation to the subscription of a total of 140,862,105 unlisted warrants (the "**Warrants B**") by the Subscriber B at the warrant issue price of HK$0.0427 per Warrant B. Upon the exercise of the subscription rights attaching to the Warrants B in full, a maximum of 140,862,105 new ordinary shares (the "**Warrant Shares B**") of par value HK$0.00001 each in the issued share capital of the Company (with an aggregate nominal value of HK$1,408.62105), will be issued and allotted by the Company at a subscription price of HK$0.33 per Warrant Share B. Completion of tranche 1 of Warrants B in relation to 127,088,000 Warrant Shares B took place on 1 February 2019. The net proceeds from tranche 1 of Warrants B were approximately HK$5.4 million. Based on the intention as disclosed in the Company's circular dated 7 January 2019, the net proceeds from tranche 1 of Warrants B has been fully utilized in the purchase of grass feed by the end of June 2019.

Pursuant to the Warrant Subscription Agreement B, completion of the subscription of the second tranche of Warrants B is subject to the fulfillment or waiver of conditions set out in the Warrant Subscription Agreement B on or before 31 December 2019.

As additional time is required for the fulfillment of certain condition(s) under the Warrant Subscription Agreement B, on 25 December 2019 the parties to the Warrant Subscription Agreement B agreed in writing to extend the date for fulfillment of the conditions set out in the Warrant Subscription Agreement B to 31 July 2020 (or such other date as may be agreed between the Company and the Subscriber B in writing).

On 27 July 2020, the Company received the exercise notice (the "**Subscriber A Exercise Notice**") from Subscriber A to exercise all 1,197,327,890 unlisted warrants to subscribe for Warrant Shares A at the exercise price of HK$0.33 per Warrant Share A. The allotment and issuance of 1,197,327,890 Warrant Shares A to Subscriber A was completed on 31 July 2020. The Company received the sum of HK$395,118,203.70 (the "**Warrant Shares A Subscription Monies**") from the allotment and issuance of Warrant Shares A and the Company shall apply the Warrant Shares A Subscription Monies to repay the outstanding entrusted loans under the financial assistance framework agreement dated 30 December 2019 between Shengmu High-tech, an indirect wholly-owned subsidiary of the Company, and Inner Mongolia Mengniu, a wholly-owned subsidiary of China Mengniu which is a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2319), in accordance with the Warrant Subscription Agreement A and the Subscriber A Exercise Notice. The Warrant Shares A shall rank pari passu in all aspects among themselves and with all the shares of the Company in issue as at the date of allotment and issue of such Warrant Shares A, and will represents around 14.53% of the issued share capital of the Company as enlarged by the allotment and issue of 1,197,327,890 Warrant Shares A. After the exercise of the subscription rights of Warrants A, there are no outstanding subscription rights of Warrants A for the Subscriber A.

The Company received HK$395,118,203.70 for the allotment and issue of Warrant Shares A, all of which have been utilized to repay the outstanding entrusted loans from Inner Mongolia Mengniu.

On 31 July 2020, the Company received the exercise notice (the "**Subscriber B Exercise Notice**") from the Subscriber B to exercise all Warrants B to subscribe for 140,862,105 Warrant Shares B at the exercise price of HK0.33 per Warrant Share B. The allotment and issuances of 140,862,105 Warrant Shares B to the Subscriber B was completed on 6 August 2020. The Company received the sum of HK$46,484,494.65 (the "**Warrant Shares B Subscription Monies**") from the allotment and issuances of Warrant Shares B and the Company shall use the Warrant Shares B Subscription Monies for the purchase of grass feed and other general working capital purposes according to the intention disclosed in the circular of the Company dated 7 January 2019. The Warrant Shares B shall rank pari passu in all aspects among themselves and with all the shares of the Company in issue as at the date of allotment and issue of such Warrant Shares B, and will represent approximately 1.68% of the issued share capital of the Company as enlarged by the allotment and issue of 140,862,105 Warrant Shares B. After the exercise of the subscription rights of Warrants B, there are no outstanding subscription rights of Warrants B for the Subscriber B. Please refer to the announcement of the Company dated 3 August 2020 for further information.

The Company received HK$46,484,494.65 for the allotment and issue of Warrant Shares B. All the Warrant Shares B Subscription Monies have been utilized for the purchase of grass feed and other general working capital purposes. As of 31 December 2020, the proceeds have been utilized in full pursuant to the schedule disclosed previously.

SHARE OPTION SCHEME

On 18 June 2014, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. The participants of the Share Option Scheme are any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group. The basis of eligibility of any of the class of the participants to the grant of any options under the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group and any invested entity.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares of the Company in issue on the Listing Date, being a total of 635,440,000 Shares, which also represents 10% of the issued share capital of the Company as at the date of this annual report.

The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options to an eligible participant under the Share Option Scheme which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the above said limit shall be subject to our Shareholders' approval in general meeting with such participant and his associates (as defined under the Listing Rules) abstaining from voting.

The amount of HK$1.00 is payable as consideration for each grant of options under the Share Option Scheme, upon acceptance of such grant. The subscription price in respect of Shares upon exercise of options under the Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant, and (c) the nominal value of a Share.

An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme.

No option has been granted under the Share Option Scheme since the adoption date of the Share Option Scheme and up to the latest practicable date prior to the publication of this annual report. A summary of the terms of the Share Option Scheme has been set out in the section headed "Appendix IV – Statutory and General Information – E. Share Option Scheme" in the Prospectus.

The Share Option Scheme was approved by shareholders' resolutions of the Company passed on 18 June 2014 and will remain in force for a period of 10 years following such date.

EQUITY-LINKED AGREEMENTS

Save as disclosed in sections headed "Material Acquisition and Disposal of Subsidiaries and Associated Companies", "Issue of Unlisted Warrants under Specific Mandate" and "Share Option Scheme" of this report, during the year ended 31 December 2020, the Company has not entered into any equity-linked agreement (as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company were approximately RMB801.2 million. The relevant net proceeds are intended to be or have been used in accordance with the proposed usages as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus of the Company dated 30 June 2014.

As at 31 December 2020, the net proceeds were applied as follows:

	Planned use of the net proceeds from the initial public offering RMB million	Actual use of the net proceeds from the initial public offering from the Listing Date to 1 January 2020 RMB million	Actual use of the net proceeds from the initial public offering from the Listing Date to 31 December 2020 RMB million	Unutilised net proceeds from the initial public offering as of 1 January 2020 RMB million	Unutilised net proceeds from the initial public offering as of 31 December 2020 RMB million
Constructing six additional organic dairy farms	200.1	182.5	200.1	17.6	–
Acquiring dairy cows domestically and from overseas	240.2	145.6	145.6	94.6	94.6
Sales and marketing activities and expansion of distribution network	40.1	40.1	40.1	–	–
Expanding the Group's liquid milk production capacity	120.3	120.3	120.3	–	–
Repayment of loans	120.3	120.3	120.3	–	–
Additional working capital and general corporate purposes	80.2	80.2	80.2	–	–
Total	801.2	689.0	706.6	112.2	94.6

The amount of the unutilised net proceeds from the initial public offering was approximately RMB94.6 million as of 31 December 2020. Due to the unfavourable conditions of the PRC dairy market in previous financial years and the sustained high price of imported cows in recent years, the Group has cancelled its plan of acquiring dairy cows. Nevertheless, to guarantee growth in the size of herds, the Group plans to use the unutilised net proceeds from the initial public offering of approximately RMB94.6 million to better the well-being of herds such as improving the bedding environment of herds and purchasing grass feed, thus achieving high-quality growth in herds.

CONTRACT OF SIGNIFICANCE WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as the related party disclosures set out in Note 37 to the financial statements and as disclosed in the section headed "Connected and Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company, an entity connected with a Director of the Company or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted for the year ended 31 December 2020.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

The Company's connected and continuing connected transactions during the year of 2020 are as follows:

1. Pursuant to the Equity Transfer Framework Agreement, the First Supplemental Agreement and the Second Supplemental Agreement set out in the section headed "Material Acquisition and Disposal of Subsidiaries and Associated Companies" in this annual report, immediately after the Reorganisation I and Reorganisation II but prior to the Acquisition, the 12 Individual Shareholders will indirectly hold 40% equity interest in Shengmu Sand and Grass. Therefore, the 12 Individual Shareholders are connected persons at the subsidiary level as defined under Rule 14A.06(9) of the Listing Rules. Accordingly, the Acquisition contemplated under the Equity Transfer Framework Agreement constitutes a connected transaction of the Company as defined under Chapter 14A of the Listing Rules. The Acquisition is in the interests of the Company and the shareholders as a whole as it aligns to the national policies encouraged by the Chinese government and the needs of consumers for food safety, and contributes to the stability of prices of unpasteurised milk.

2. On 20 March 2018, Shengmu High-tech (for itself and on behalf of the Group) and Dabeinong Group entered into a framework agreement in relation to purchase of feed by the Group from Dabeinong Group (the "**Dabeinong Group Feed Supply Framework Agreement**"). As Mr. SHAO Genhuo, a non-executive Director of the Company, holds more than 30% equity interest in Dabeinong Group, Dabeinong Group is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the Dabeinong Group Feed Supply Framework Agreement constitute continuing connected transactions of the Company. The term of the Dabeinong Group Feed Supply Framework Agreement is from 20 March 2018 to 31 December 2020. Pursuant to such agreement, the total annual purchase amount by the Group from Dabeinong Group under the Dabeinong Group Feed Supply Framework Agreement shall not exceed RMB60.0 million for each of the three years ending 31 December 2018, 2019 and 2020, respectively. For the year ended 31 December 2020, the total annual purchase amount of feed by the Group from Dabeinong Group was RMB30.9 million. Reasons and benefits of the transactions under the Dabeinong Group Feed Supply Framework Agreement are that as a leading feed provider in the PRC, the products of Dabeinong Group accord to very high technological and quality and safety assurance levels. Details of the Dabeinong Group Feed Supply Framework Agreement are set out in the announcement of the Company dated 20 March 2018.

3. On 23 April 2019, Inner Mongolia Shengmu Holding Co., Ltd (內蒙古聖牧控股有限公司) ("**Shengmu Holding**"), a company incorporated in the PRC and a wholly owned subsidiary of the Company (for itself and on behalf of the Group (excluding Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾聖牧盤古牧業有限責任公司) ("**Shengmu Pangu**")) and Shengmu Pangu entered into a framework agreement in relation to the sale and purchase of cows between the Group (excluding Shengmu Pangu) and Shengmu Pangu (the "**Framework Agreement for Sale and Purchase of Cows**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Pursuant to the Framework Agreement for Sale and Purchase of Cows, the parties thereto will sell and purchase cows from the other, such that the calves and heifers of the parties will be raised on a centralised basis and separately from milkable cows. The term of the agreement is from 23 April 2019 to 31 December 2021. For each of the years ending 31 December 2019, 2020 and 2021, under the Framework Agreement for Sale and Purchase of Cows, (i) the total annual amount of purchases of cows made by the Company (excluding Shengmu Pangu) from Shengmu Pangu shall not exceed RMB16.0 million, RMB13.6 million and RMB14.2 million, respectively; and (ii) the total annual sales of cows made by the Group (excluding Shengmu Pangu) to Shengmu Pangu shall not exceed RMB29.4 million, RMB45.8 million and RMB35.7 million, respectively. For the year ended 31 December 2020, the total annual purchase amount of cows by the Group (excluding Shengmu Pangu) from Shengmu Pangu was RMB0.1 million and the total annual sale amount of cows by the Group to Shengmu Pangu was nil. Reasons for and benefits of the transactions under the Framework Agreement for Sale and Purchase of Cows are that the Group manages the dairy farming business on a centralised basis and as a subsidiary of the Group, Shengmu Pangu is also subject to such centralised management. Details of the Framework Agreement for Sale and Purchase of Cows are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

4. On 23 April 2019, Shengmu High-tech (for itself and on behalf of the Group (excluding Shengmu Pangu)) and Shengmu Pangu entered into a framework agreement in relation to the provision of financial assistance (in the form of guarantees) by the Group (excluding Shengmu Pangu) to Shengmu Pangu for the commercial loans and borrowings of Shengmu Pangu on normal commercial terms, based on the requests of Shengmu Pangu from time to time (the "**Shengmu Pangu Financial Assistance Framework Agreement**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. The term of the Shengmu Pangu Financial Assistance Framework Agreement is from 23 April 2019 to 31 December 2021. Pursuant to such agreement, the Group will provide financial assistance (in the form of guarantees) to Shengmu Pangu on normal commercial terms. The maximum daily balance of financial assistance (in the form of guarantees) to be provided by the Group (excluding Shengmu Pangu) to Shengmu Pangu under the Shengmu Pangu Financial Assistance Framework Agreement may not exceed RMB60.0 million for each of the three years ending 31 December 2019, 2020 and 2021, respectively. For the year ended 31 December 2020, no financial assistance in the form of guarantees was provided by the Group (excluding Shengmu Pangu) to Shengmu Pangu. Reasons for and benefits of the transactions under the Shengmu Pangu Financial Assistance Framework Agreement are the fact that Shengmu Pangu, as a subsidiary of the Group, has been obtaining commercial loans and borrowings with the guarantees provided by the other more established subsidiaries of the Group, such as Shengmu Holding and Shengmu High-tech. Without such guarantees, it would incur higher financial costs to obtain such commercial loans and borrowings. As such, it is commercially beneficial to the Group to continue to provide financial assistances to Shengmu Pangu, which will also lower the overall financial costs of the Group. Details of the Shengmu Pangu Financial Assistance Framework Agreement are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

5. On 23 April 2019, Shengmu Holding (for itself and on behalf of the Group (excluding Shengmu Pangu)) and Shengmu Pangu entered into a framework agreement in relation to the purchase of feed by Shengmu Pangu from the Group (excluding Shengmu Pangu) (the "**Feed Supply Framework Agreement**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the Feed Supply Framework Agreement constitute continuing connected transactions of the Company. The term of the Feed Supply Framework Agreement is from 23 April 2019 to 31 December 2021. Pursuant to such agreement, the total purchase amount by Shengmu Pangu from the Group (excluding Shengmu Pangu) under the Feed Supply Framework Agreement may not exceed RMB84.1 million, RMB93.4 million, RMB93.0 million for the three years ending 31 December 2019, 2020 and 2021, respectively. For the year ended 31 December 2020, the total annual purchase amount of feed by Shengmu Pangu from the Group was RMB92.5 million. Reasons for and benefits of the transactions under the Feed Supply Framework Agreement are to facilitate the Group in managing the production and use of feed on a centralised basis, that is, all feed is produced by Shengmu Holding and subsequently sold to the cattle farming subsidiaries of the Group (including Shengmu Pangu) at a price referred to the market price. Details of the Feed Supply Framework Agreement are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

6. On 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Dairy Company Limited ("**China Mengniu**") and its subsidiaries (together, the "**China Mengniu Group**")) entered into a framework agreement in relation to the sale of raw fresh milk from the Group (the "**Raw Fresh Milk Supply Framework Agreement**"). As China Mengniu holds approximately 17.51% equity interest in the Company through Subscriber A and is therefore a connected person of the Company as defined under the Listing Rules and Inner Mongolia Mengniu is therefore an associate of Mengniu Dairy and also a connected person of the Company. The term of the Raw Fresh Milk Supply Framework Agreement is from 1 January 2020 to 31 December 2022. Pursuant to such agreement, the total annual sale amount by the Group to China Mengniu Group may not exceed RMB3,300.0 million, RMB3,700.0 million and RMB4,200.0 million for the three years ending 31 December 2020, 2021 and 2022, respectively. For the period from 31 July 2020 to 31 December 2020, the total annual sale amount by the Group to China Mengniu Group was RMB1,069.2 million. Reasons for and the benefits of the transactions under the Raw Fresh Milk Supply Framework Agreement include (i) the close proximity between the dairy farms of the Group and the manufacturing facilities of China Mengniu Group would help to maintain freshness and lower transportation and preservation cost in the sale of raw fresh milk to China Mengniu Group; and (ii) the sales will ensure stable revenue and cash flow for the Group. Details of the Raw Fresh Milk Supply Framework Agreement are set out in the announcement of the Company dated 30 December 2019 and the circular of the Company dated 6 March 2020 with respect to continuing connected transactions of the Company.

7. On 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) entered into a framework agreement in relation to the provision of entrusted loans by the China Mengniu Group to the Group (the "**Financial Assistance Framework Agreement**"). China Mengniu holds approximately 17.51% equity interest in the Company through Subscriber A and is a connected person of the Company as defined under the Listing Rules and Inner Mongolia Mengniu is therefore be an associate of Mengniu Dairy and also a connected person of the Company. The term of the Financial Assistance Framework Agreement is from 1 January 2020 to 31 December 2022. Pursuant to such agreement, the maximum daily balance of entrusted loans provided by the China Mengniu Group may not exceed RMB1,600.0 million for each of the three years ending 31 December 2020, 2021 and 2022. For the period from 31 July 2020 to 31 December 2020, the maximum daily balance of financial assistance in the form of entrusted loans provided by the China Mengniu Group to the Company was RMB340.0 million. As of 31 December 2020, the Company has fully settled the entrusted loans provided by the China Mengniu Group.

   Reasons for and the benefits of the transactions under the Financial Assistance Framework Agreement are the fact that the China Mengniu Group is an important business partner of the Group and has a strong capital base and financing capabilities. The financial assistance provided by the China Mengniu Group to the Group will lower the overall financial risk of the Group. Details of the Financial Assistance Framework Agreement are set out in the announcement of the Company dated 30 December 2019 and the circular of the Company dated 6 March 2020 with respect to continuing connected transactions of the Company.

8. On 5 August 2020, Shengmu High-tech entered into a materials supply framework agreement in relation to the supply of materials by Inner Mongolia Aiyangniu Technology Co., Ltd (內蒙古愛養牛科技有限公司) ("**Aiyangniu Technology**") to Shengmu High-tech (the "**Materials Supply Framework Agreement**"). As China Mengniu holds approximately 17.51% equity interest in the Company and is therefore a substantial shareholder of the Company. As a result, China Mengniu is a connected person of the Company, Aiyangniu Technology is an associate of China Mengniu and therefore also a connected person of the Company. Accordingly, the entering into of the Materials Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The term of the Materials Supply Framework Agreement is from 5 August 2020 to 31 December 2022. Pursuant to such agreement, the total annual purchase amount by Shengmu High-tech from Aiyangniu Technology under the Materials Supply Framework Agreement shall not exceed RMB30.0 million, RMB30.0 million and RMB30.0 million for the three years ending 31 December 2020, 2021 and 2022, respectively. For the period from 5 August 2020 to 31 December 2020, the total annual purchase amount by Shengmu High-tech from Aiyangniu Technology was RMB11.8 million. Reasons for and benefits of the transactions under the Materials Supply Framework Agreement are to closely follow the market trend of materials that the Group frequently uses and lower the Group's procurement costs. Details of the Materials Supply Framework Agreement are set out in the announcement of the Company dated 5 August 2020 with respect to the continuing connected transaction of the Company.

   In addition, the total purchase amount of continuing transactions by Shengmu High-tech from Aiyangniu Technology from 31 July 2020 to 4 August 2020 conducted under the pre-existing agreements was RMB1.0 million.

9. Pursuant to the Equity Transfer and Capital Increase Agreement set out in the section headed "Material Acquisition and Disposal of Subsidiaries and Associated Companies" in this annual report, (i) Shengmu High-tech agree to sell, and Dabeinong Group agreed to purchase 70% equity interests in Yiyingmei (before taking into account the Capital Increase) held by Shengmu High-tech; and (ii) the registered capital of Yiyinmei will be increased by RMB50 million, all of which will be contributed by Dabeinong Group. Mr. Shao Genhuo, a non-executive Director, holds more than 30% equity interests in Dabeinong Group. Mr. Shao also holds the entire equity interests of Beijing Zhi Nong, which in turn holds the entire equity interests of Nong You, a substantial shareholder of the Company. Mr. Shao is therefore a connected person of the Company and Dabeinong Group is an associate of Mr. Shao and therefore also a connected person of the Company as defined under the Listing Rules. Accordingly, the Equity Transfer contemplated under the Equity Transfer and Capital Increase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Capital Increase contemplated under the Equity Transfer and Capital Increase Agreement constitutes a deemed disposal of the Company's equity interest in the Target Company under rule 14.29 of the Listing Rules and a connected transaction of the Company under Chapter 14A of the Listing Rules.

10. On 21 November 2020, Shengmu High-tech and Inner Mongolia Fuyuan International Industrial (Group) Co., Limited (內蒙古富源國際實業 (集團) 有限公司) ("**Fuyuan International**") (for itself and on behalf of its subsidiaries) entered into a materials supply framework agreement in relation to the supply of materials by Fuyaun International and its subsidiaries ("**Fuyuan International Group**") to Shengmu High-tech (the "**Fuyuan International Materials Supply Framework Agreement**"). As Shengmu High-tech is an indirectly wholly-owned subsidiary of the Company; and approximately 43.35% equity interest in Fuyuan International is held by Inner Mongolia Mengniu, which in turn is a wholly-owned subsidiary of China Mengniu. China Mengniu indirectly holds approximately 17.51% equity interest in the Company and hence is a substantial shareholder of the Company. As a result, China Mengniu is a connected person of the Company. Accordingly, the entering into of the Fuyuan International Materials Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The term of the Fuyuan International Materials Supply Framework Agreement is from 21 November 2020 to 31 December 2022. Pursuant to such agreement the total annual purchase amount by Shengmu High-tech from Fuyuan International Group under the Fuyuan International Materials Supply Framework Agreement shall not exceed RMB30.0 million, RMB30.0 million and RMB30.0 million for the three years ending 31 December 2020, 2021 and 2022, respectively. For the period from 22 November 2020 to 31 December 2020, the total annual purchase amount by Shengmu High-tech from Fuyuan International Group was RMB5.9 million. Reasons for and benefits of the transactions under the Fuyuan International Materials Supply Framework Agreement are to ensure the high quality and safety of materials supplied to the Group which are essential to the production of high quality and fresh raw milk by the Group. Details of the Fuyuan International Materials Supply Framework Agreement are set out in the announcement of the Company dated 22 November 2020 with respect to the continuing connected transaction of the Company.

    In addition, the total purchase amount by Shengmu High-tech from Fuyuan International Group from 31 July 2020 to 21 November 2020 conducted under the pre-existing agreements was RMB10.2 million.

11. Reference is made to the announcement of the Company dated 20 March 2018 in relation to the entering of a feed supply framework agreement regarding the purchase of feed by the Group from Dabeinong Group, entered into between Shengmu High-tech (for itself and on behalf of the Group) with Dabeinong Group (the "**2018 Dabeinong Group Feed Supply Framework Agreement**"). As the 2018 Dabeinong Group Feed Supply Framework would expire after 31 December 2020, a materials supply framework agreement in relation to the purchase of feed, additives and medicines by Shengmu High-tech and its subsidiaries from Dabeinong Group and its subsidiaries was entered into between Shengmu High-tech (for itself and on behalf of its subsidiaries) and Dabeinong Group (for itself and on behalf of its subsidiaries) (the "**2021 Dabeinong Group Materials Supply Framework Agreement**"). As Shengmu High-tech is an indirectly wholly-owned subsidiary of the Company. Mr. Shao Genhuo, a non-executive Director, holds more than 30% equity interests in Dabeinong Group. Mr. Shao also holds the entire equity interests of Beijing Zhi Nong, which in turn holds the entire equity interests of Nong You, a substantial shareholder of the Company. Mr. Shao is therefore a connected person of the Company and Dabeinong Group is an associate of Mr. Shao and therefore also a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of the 2021 Dabeinong Group Materials Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The term of the 2021 Dabeinong Group Materials Supply Framework Agreement is from 1 January 2021 to 31 December 2023. Pursuant to such agreement the total annual purchase amount by Shengmu High-tech and its subsidiaries from Dabeinong Group and its subsidiaries under the 2021 Dabeinong Group Materials Supply Framework Agreement shall not exceed RMB50.0 million, RMB50.0 million and RMB50.0 million for the three years ending 31 December 2021, 2022 and 2023, respectively. Reasons for and benefits of the transactions under the 2021 Dabeinong Group Materials Supply Framework Agreement are to ensure the quality and safety of materials supplied to the Group which are essential to the production of high quality raw milk by the Group. Details of the 2021 Dabeinong Group Materials Supply Framework Agreement are set out in the announcement of the Company dated 30 December 2020 with respect to the continuing connected transaction of the Company.

The Directors (including the independent non-executive Directors) are of the view that the connected and continuing connected transactions referred to above are entered into during the ordinary course of the Group's business on normal or better commercial terms and under agreements of such transactions, the terms of which are fair and reasonable and in the interests of the Shareholders of listed companies as a whole. The Company's auditor has confirmed that: (i) nothing has come to their attention that causes them to believe that the disclosed connected and continuing connected transactions have not been approved by the Company's board of Directors; (ii) nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the connected and continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed connected and continuing connected transactions have exceeded the maximum annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 37 to the financial statements. During the year, the related party transactions mainly comprised: (1) sale of products to certain associates (such associates constitute associates under the accounting standards as the Group holds certain shares in them. However, such associates do not constitute connected persons under the Listing Rules as none of the connected persons of the Company hold shares in or position with them); (2) purchase of forage from Shengmu Forage; (3) purchase of feed from Dabeinong Group in accordance with the Dabeinong Group Feed Supply Framework Agreement; (4) sale of raw fresh milk to Mengniu Group; (5) purchase of materials from Aiyangniu Technology in accordance with the Materials Supply Framework Agreement; (6) purchase of materials in accordance with the Fuyuan International Materials Supply Framework Agreement; and (7) payment of emoluments to key management of the Group.

EMPLOYEES

As at 31 December 2020, the Group had a total of 2,589 employees (2,668 employees in total as at 31 December 2019). Total staff costs for 2020 (including the emoluments of Directors and senior management of the Company) amounted to RMB263.6 million (RMB270.5 million in 2019). The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

The Group has also approved and adopted the Share Option Scheme. The purpose of the Share Option Scheme is to attract, retain and motivate the Directors, senior management and employees of the Group and other participants.

RETIREMENT BENEFIT PLANS

The Group has participated in a number of fixed contribution retirement plans for eligible employees within the Group in accordance with applicable laws and regulations.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

The remunerations of Directors and senior management are determined based on their working experience, industry expertise, educational background and skills as well as the Group's performance and operating results and with reference to the remuneration policies of other companies in the industry and prevailing market rates. Directors and employees also participate in performance incentive arrangements relating to the performance of the Group and individuals.

For the year of 2020, no emoluments were paid by the Group to any Director or any of the five highest paid individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

For details of remuneration paid to the Directors and the five highest paid individuals which are required to be disclosed pursuant to Appendix 16 of the Listing Rules, please refer to notes 7 and 8 to the financial statements.

SUFFICIENT PUBLIC FLOAT

Based on the public information available to the Company and so far as all Directors are aware, the Company had maintained the public float as required by the Listing Rules throughout the period up to the latest practicable date prior to the publication of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For details of the Company's corporate governance practices, please refer to the section headed Report on Corporate Governance Practices in this annual report.

AUDITORS

Ernst & Young has audited the financial statements for the year ended 31 December 2020. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

All references in this part of the annual report (Report of the Directors) to other parts, sections of or notes in the annual report, form part of the Report of the Directors.

By Order of the Board of
China Shengmu Organic Milk Limited
Shao Genhuo
Chairman

Hong Kong, 22 March 2021

EXECUTIVE DIRECTORS

Mr. YAO Tongshan (姚同山), aged 64, is the founder and executive Director of the Group. He is also a member of the nomination committee of the Company. Mr. YAO was appointed to the Board in February 2014. He has over 16 years of experience in the dairy industry, with extensive industry and management experiences.

Mr. YAO was the chief financial officer and executive director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司), a company listed on the Stock Exchange (stock code: 2319), from July 2008 to March 2010. Mr. YAO served as the chief financial officer, financial vice president and director of Inner Mongolia Mengniu, a subsidiary of China Mengniu Dairy Company Limited and which is principally engaged in the manufacturing of liquid milk, ice cream and other dairy products, between October 2001 and January 2010.

Mr. YAO graduated from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) with a bachelor's degree in power engineering in August 1982 and Tianjin University (天津大學) with a master's degree in engineering in June 1988. Mr. YAO was awarded as a senior economist (高級經濟師) by the People's Construction Bank of China (formerly known as China People's Construction Bank) in December 1995.

Save as disclosed above, Mr. YAO did not hold any directorship in any public listed companies in the last three years.

Mr. ZHANG Jiawang (張家旺), aged 42, is the chief executive officer and an executive Director of the Company. He was appointed to the Board on 25 January 2019.

Mr. ZHANG Jiawang was a vice president and manager of strategy and development of Dabeinong Group, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (stock code: 2385) before he was appointed as the chief executive officer of the Company. Mr. ZHANG joined Dabeinong Group in August 2001 and has held various positions, including outreach director, development and investment manager and president's assistant since then.

Mr. ZHANG received a bachelor's degree in horticulture from Inner Mongolia Agricultural University (內蒙古農業大學) in July 2001 and an EMBA degree from Renmin University of China (中國人民大學) in January 2010.

Save as disclosed above, Mr. ZHANG did not hold any directorship in any public listed companies in the last three years.

NON-EXECUTIVE DIRECTORS

Mr. SHAO Genhuo (邵根夥), aged 55, is the chairman of the Board and non-executive director of the Company. He is also a member of the nomination committee of the Company. He was appointed to the Board on 26 September 2016.

Mr. SHAO Genhuo is currently the chairman of the board of directors of Dabeinong Group, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (stock code: 2385). Mr. SHAO is primarily responsible for the strategic planning and overall management of Dabeinong Group. Mr. SHAO founded Dabeinong Group in October 1994 and has served as its chairman and general manager since then.

Mr. SHAO received his bachelor's degree from Zhejiang University (浙江大學) (formerly known as Zhejiang Agricultural University (浙江農業大學)) in 1986. Mr. SHAO received his master's and doctoral degree from China Agricultural University (中國農業大學) (formerly known as Beijing Agricultural University (北京農業大學)) in 1988 and 1991, respectively.

Save as disclosed above, Mr. SHAO did not hold any directorship in any public listed companies in the last three years.

Mr. SUN Qian (孫謙), aged 47, is a non-executive Director of the Company. He was appointed to the Board on March 26, 2014 and he is a member of the remuneration committee. Mr. SUN currently is a partner of Sequoia Capital China.

Mr. SUN received a bachelor's degree in applied mathematics from Harvard University in the United States in June 1997, and a master's degree in business administration from Harvard University and a juris doctor's degree from Harvard Law School in the United States both in June 2003.

Mr. SUN was a director of Bona Film Group Limited (principally engaged in film distribution business), a company listed on NASDAQ, from 2007 to 2011 and a director of 500.com Limited (principally engaged in online sports lottery services) since October 2013. Mr. SUN was a director of COOTEK (NASDAQ: CTK), a company with input method being its core business, in September 2018. From December 2013 to June 2016, Mr. SUN was a non-executive director of Dongpeng Holdings Company Limited, a company listed on the Stock Exchange (stock code: 3386, delisted from the Stock Exchange at 4:00 p.m. on 22 June 2016) and since October 2020, he has been a director of Dongpeng Holdings Company Limited listed on the Shenzhen Stock Exchange (SZ.003012).

Save as disclosed above, Mr. SUN did not hold any directorship in any public listed companies in the last three years.

Mr. ZHAO Jiejun (趙傑軍), aged 44, is a non-executive director of the Company. He was appointed to the Board on 30 March 2020. Mr. ZHAO is currently a vice president and the general manager of milk sources and group supply chain of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司), a subsidiary of China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2319). Mr. ZHAO is also currently a non-executive Director and a member of the strategy and development committee of China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117).

Mr. ZHAO joined Mengniu in December 2000 and has held various positions, including general manager of supply chain center of normal temperature products business, assistant vice president and general manager of milk source business of Mengniu. Mr. ZHAO has been the associate director of the International Committee of China Dairy Association and the executive vice president of Inner Mongolia Dairy Association since January 2019.

Mr. ZHAO received his bachelor's degree majoring in business administration from China University of Geosciences, Wuhan (中國地質大學(武漢)) in 2009 and his master's degree in software engineering from Beihang University (北京航空航天大學) in 2013.

Save as disclosed above, Mr. ZHAO did not hold any directorship in any public listed companies in the last three years.

Mr. ZHANG Ping (張平), aged 56, is a non-executive director of the Company. He was appointed to the Board on 25 August 2020. Mr. ZHANG graduated from Beijing Information Science and Technology University (北京信息科技大學) with a master's degree in management engineering. He joined Mengniu Group in 2014 and is currently a vice president and chief financial officer of Mengniu Group. He has over 24 years of experience in the fast-moving consumer goods industry, specialising in management of operation, finance and audit as well as risk control. Mr. ZHANG successively worked as manager of internal audit and system development and finance director at Swire Beverages Co., Ltd., general manager of its bottler manufacturing company and chief executive officer of Coca-Cola Bottlers Manufacturing Holdings Limited. Mr. ZHANG is also a non-executive director of Yashili (a Hong Kong-listed company) and China Modern Dairy respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. FU Wenge (付文革), aged 54, is an independent non-executive Director of the Company. He was appointed to the Board on September 26, 2016. He is the chairman of the Nomination Committee and the chairman of the Remuneration Committee.

Mr. FU Wenge is currently a professor and doctoral supervisor at the Economic Management School of China Agricultural University (中國農業大學) (formerly known as Beijing Agricultural University (北京農業大學)). Mr. FU has been working in China Agricultural University since July 1997 and held various positions including associate professor and the director of MBA education center.

Mr. FU worked in Kaifeng Education College (開封師範高等專科學校), now known as Henan University (河南大學), as a lecturer from July 1986 to September 1994. Mr. Fu received an associate degree in English from Kaifeng Education College in June 1986 and master's degree in economics from Henan University in June 1997. Mr. Fu received his doctor's degree in economics in Renmin University of China in June 2004.

Since 20 March 2020, Mr. FU has served as an independent director of Beijing Dabeinong Technology Group Co., Ltd. (北京大北農科技集團股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002385).

Save as disclosed above, Mr. FU did not hold any directorship in any public listed companies in the last three years.

Mr. WANG Liyan (王立彥), aged 63, was appointed as an independent non-executive director of the Company on 28 June 2017. He is also a member of the audit committee and nomination committee. He is currently a professor of the Department of Accounting, a doctoral advisor, and a director of Center for Responsibility and Social Value, of Guanghua School of Management in Peking University and a certified public accountant in the PRC. He obtained his doctor's degree from Peking University, and is a visiting scholar at University of Hertfordshire in England and Hong Kong University of Science and Technology, a visiting professor at Menlo College in California, US. and a visiting scholar at the World Resources Institute. His major research area lies in accounting information and corporate value, overseas listing, dual financial report and corporate governance system. He also serves as the chief editor of China Accounting Review and China Management Accounting. Mr. WANG has been an independent director of Huaxin Cement Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600801), since 23 April 2015 and an independent director of Unigroup Guoxin Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002049), since 23 March 2017. Mr. WANG has been an independent director of the Gettop Acoustic Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002655), since 12 April 2018. Mr. WANG has been appointed as an independent non-executive director of Jinshang Bank Co., Ltd., a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Stock Exchange (stock code: 2558), since 5 November 2019. Since 20 March 2020, he has served as an independent director of Beijing Dabeinong Technology Group Co., Ltd (北京大北農科技集團股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002385).

Save as disclosed above, Mr. WANG did not hold any directorship in any public listed companies in the last three years.

Mr. WU Liang (吳亮), aged 50, was appointed as an independent non-executive director of the Company on 22 December 2020 and also a member of each of the Audit Committee and the Remuneration Committee. He is currently a distinguished professor of Tongji University and the executive dean of the National Research Institute of Modernization of Tongji University (同濟大學國家現代化研究院).

Mr. WU joined Xinhua News Agency (新華社) in 1993 and served in various entities of Xinhua News Agency for over 25 years. He successively worked as the chief of the economic segment and a member of the editorial board of the Outlook Weekly of Xinhua News Agency (新華社瞭望週刊社), the executive vice chief editor and the executive chief editor of the Financial National Weekly (財經國家週刊), the chairman and the chief executive officer of Outlook Think Tank (瞭望智庫) between 2006 and 2018. Mr. WU graduated from Shandong University (山東大學) with a bachelor's degree in chemistry in 1993 and also obtained his bachelor's degree in journalism from China Journalism Academy (中國新聞學院) in 1998.

Save as disclosed above, Mr. WU did not hold any directorship in any public listed companies in the last three years.

SENIOR MANAGEMENT

Mr. SHAO Genhuo (邵根夥), aged 55, is chairman and non-executive Director of the Company. His biographical details are set out under the section "Non-Executive Directors" above.

Mr. ZHANG Jiawang (張家旺), aged 42, is the chief executive officer and executive Director of the Company. His biographical details are set out under the section "Executive Directors" above.

Mr. AU Wai Keung (區偉強), aged 49, is Secretary of the Company. Mr. AU was appointed on March 27, 2014. Mr. AU has more than 18 years of experience in the area of accounting. Currently, Mr. AU is a director of Arion & Associated Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He is now also the company secretary of Honworld Group Limited (老恒和釀造有限公司) (stock code: 2226), Xin Point Holdings Limited (stock code: 1571), China Digital Video Holdings Limited (stock code: 8280), and SDM Group Holdings Limited (stock code: 8363). Mr. AU obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong in December 1993 and a master's degree in business administration from the City University of Hong Kong in November 1999. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales.

For details of Directors' interests (as defined in Part XV of the Securities and Futures Ordinance) in shares of the Company, please refer to the section headed "Report of the Directors – Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company" in this annual report.

Save as disclosed above, no further information of our Directors or senior management is required to be disclosed pursuant to Rules 13.51(2) (h) to (v) under the Listing Rules.

OVERVIEW

The Company ensures that the Company and its subsidiaries are committed to achieving and maintaining high standards of corporate governance. The Board understands the influence and importance of high standards of corporate governance on the value of the Company, and that good corporate governance is in the interest of the Group and shareholders as a whole.

We have adopted, applied and complied with the code provisions contained in the Code on Corporate Governance and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) for the year ended 31 December 2020.

BOARD OF DIRECTORS

The Board is the decision-making body of the Company, and is responsible for formulating overall strategies and policies of the Group and approving its implementation plans to ensure that the Group achieves its goal swiftly. For the year ended 31 December 2020, the responsibilities performed by the Board include: formulation of strategies of the Company; formulation of development goals, guidelines and policies and implementation plans of the Company; control of and assessment on the fulfillment of the Company's financial and operating goals; review and approval of annual financial budgets, final accounts plans, profit distribution plans and compensation plans of the Company; establishment of effective internal control systems for risks assessment; and review and approval of the Company's material contracts and transactions, information disclosure, connected transactions and other matters required to be handled by the Board.

Moreover, the functions of corporate governance of the Board include: formulation and review of corporate governance policies and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and senior management; review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements; formulation, review and monitoring of the code of conducts for staff and the Directors; and review of the Company's compliance with other provisions contained in the Listing Rules from time to time and disclosure in the Corporate Governance Report.

Delegation by the Board

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to several committees under the Board (including the Audit Committee, Remuneration Committee and Nomination Committee) and senior management. All Board committees perform respective functions and duties within their terms of reference (which are available for inspection by the public on the websites of the Company and the Stock Exchange).

With the leadership of the chief executive officer, the senior management is delegated by the Board with authorities and duties on the daily operation and management of the Group. The delegated functions and work progress will be reviewed regularly. Approval from the Board shall be obtained by the Company before entering into of any material transactions.

Composition of the Board

As at the date of this report, the Board was comprised of nine Directors, including two executive Directors (Mr. YAO Tongshan and Mr. ZHANG Jiawang); four non-executive Directors (Mr. SHAO Genhuo, Mr. ZHAO Jiejun, Mr. SUN Qian and Mr. ZHANG Ping); and three independent non-executive Directors (Mr. FU Wenge, Mr. WANG Liyan and Mr. WU Liang). The Chairman of the Board of the Company is Mr. SHAO Genhuo. Mr. ZHAO Jiejun and Mr. LU Boxiang were appointed as non-executive Directors of the Company on 30 March 2020. Mr. WU Jianye, an executive Director, and Mr. WEN Yongping, a non-executive Director resigned with effect from 30 March 2020 due to their other business commitments. Mr. ZHANG Ping was appointed as a non-executive Director of the Company on 25 August 2020. Mr. LU Boxiang, a non-executive Director resigned with effect from 25 August 2020, due to his other business commitments. Mr. WU Liang was appointed as an independent non-executive Director of the Company on 22 December 2020. Mr. LI Xuan, an independent non-executive Director resigned with effect from 22 December 2020 due to his other business commitments.

There was no financial, business, family or other material relationship between the Directors of the Company and in particular, between the Chairman of the Board of the Company and the chief executive officer.

Biographical details of the existing Directors are set out in the section headed "Directors and Senior Management" in this annual report.

Appointment, Re-election and Dismissal of Directors

Each of the Directors (including independent non-executive Directors) has signed a service agreement or an appointment letter with the Company for a term of three years. The Directors shall be subject to retirement from office by rotation or re-election at the forthcoming annual general meeting of the Company pursuant to Article 16 of the Articles of Association of the Company.

Pursuant to Article 16.2 of the Articles, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for the re-election. Pursuant to Article 16.3 of the Articles, any Director appointed by ordinary resolution to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

According to Article 16.18 of the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Board Diversity Policy

The Board implements a policy of diversified composition of the Board. For the purpose of sustained and balanced development, the Company recognises that the Board diversity is critical for facilitating its strategic goals and maintaining its sustainable development. All appointments to the Board are made in accordance with the principle of talents priority, together with the benefits of the diversified Board composition being taken into account. The selection of Board members is initially based on multiple factors from the point of the Board diversity, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and terms of service. Then, we will make decisions according to our specific requirements for talents at different stages of business development and strategic planning.

Independent Non-executive Directors

During the reporting period, the Company complied with Rule 3.10(1) and 3.10(2) of the Listing Rules which requires the Company to maintain at least three independent non-executive Directors and have an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. Mr. WANG Liyan, one of the independent non-executive Directors of the Company is a certified public accountant in the PRC.

The Company has received the letter of confirmation issued by each of the independent non-executive Directors as to his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent.

Board Meeting

The Board convenes a meeting on a regular basis and at least four meetings each year. In 2020, the Board held seven meetings at which the operating results, investment issues, etc. of the Company were considered and discussed.

Attendance record is below:

Members	Meetings attended/ meetings held since respective appointment date	Attendance
Executive Directors		
Mr. YAO Tongshan	7/7	100%
Mr. WU Jianye (Note 1)	2/2	100%
Mr. ZHANG Jiawang	7/7	100%
Non-executive Directors		
Mr. SHAO Genhuo *(Chairman)*	6/7	86%
Mr. WEN Yongping (Note 2)	0/2	0%
Mr. SUN Qian	7/7	100%
Mr. ZHAO Jiejun (Note 3)	5/5	100%
Mr. LU Boxiang (Note 4)	0/2	0%
Mr. ZHANG Ping (Note 5)	3/3	100%
Independent non-executive Directors		
Mr. FU Wenge	6/7	86%
Mr. WANG Liyan	5/7	71%
Mr. LI Xuan (Note 6)	6/7	86%
Mr. WU Liang (Note 7)	0/0	N/A

Notes:

(1) Mr. WU Jianye resigned on 30 March 2020.

(2) Mr. WEN Yongping resigned on 30 March 2020.

(3) Mr. ZHAO Jiejun was appointed on 30 March 2020. He was entitled to attend the relevant Board meetings convened after his appointment.

(4) Mr. LU Boxiang was appointed on 30 March 2020 and resigned on 25 August 2020. He was entitled to attend the relevant Board meetings convened between 30 March 2020 and 25 August 2020.

(5) Mr. ZHANG Ping was appointed on 25 August 2020. He was entitled to attend the relevant Board meetings convened after his appointment.

(6) Mr. LI Xuan resigned on 22 December 2020.

(7) Mr. WU Liang was appointed on 22 December 2020. He was entitled to attend the relevant Board meetings convened after his appointment.

DIRECTOR TRAINING

The Company provides an introduction and related documents necessary for all new Directors upon joining the Board to ensure a broad understanding of the Company's business and operation model as well as the laws, regulations and various rules pertaining to the Company.

The Company encourages and supports all the Directors (i.e. Mr. YAO Tongshan, Mr. ZHANG Jiawang, Mr. SHAO Genhuo, Mr. ZHAO Jiejun, Mr. SUN Qian, Mr. ZHANG Ping, Mr. FU Wenge, Mr. WANG Liyan and Mr. WU Liang) to receive training and encourages their continuous professional development, so as to develop and keep abreast of their knowledge and skills better and serve the Company more efficiently. The Company offers training opportunities for all the Directors from time to time.

BOARD COMMITTEES

The Company has three Board committees, namely the Remuneration Committee, the Nomination Committee and the Audit Committee. Each committee performs its work in accordance with the terms of reference approved by the Board.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for the Directors and senior management members. As at 31 December 2020, the Remuneration Committee comprised two independent non-executive Directors (Mr. FU Wenge and Mr. WU Liang) and one non-executive Director (Mr. SUN Qian) and was chaired by Mr. FU Wenge. Mr. LI Xuan resigned as the chairman of the remuneration committee of the Company with effect from 22 December 2020. Mr. WU Liang was appointed as a member of the remuneration committee of the Company with effect from 22 December 2020. Mr. FU Wenge was re-designated as the chairman of the remuneration committee of the Company with effect from 22 December 2020.

According to the terms of reference of the Remuneration Committee of the Company, the Remuneration Committee convenes at least one meeting in each year. In 2020, the Remuneration Committee convened three meetings, whereby the remuneration for the Company's Directors newly appointed in 2020, the overall remuneration policy and structure for the Company's Directors and senior management members and proposals on the establishment of standard and transparent procedures for the formulation of remuneration policies were reviewed.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. As at 31 December 2020, the Nomination Committee comprised two independent non-executive Directors (Mr. FU Wenge, Mr. WANG Liyan) and one non-executive Director (Mr. SHAO Genhuo) and was chaired by Mr. FU Wenge. Mr. LI Xuan and Mr. YAO Tongshan resigned as members of the nomination committee of the Company with effect from 22 December 2020.

The Nomination Committee recommends potential candidates to appointments on the Board based on merits of such candidates, having regard for the benefits of diversity of the members of the Board and the necessity of ensuring a balanced composition of expertise appropriate for the businesses of the Group. The selection of potential candidates is based on a range of diverse factors, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills, knowledge, and leadership qualities, and ultimately, the contribution that such candidates will be able to bring to the Board, to complement the abilities of existing Directors.

According to the terms of reference of the Nomination Committee of the Company, the Nomination Committee convenes at least one meeting in each year. In 2020, the Nomination Committee convened three meetings, whereby the members discussed the structure and composition of the Board of the Company, performed qualification review on preliminary candidates recommended by the management of the Company and identified suitable candidates, advised on the proposed changes to the Board for the purpose of the Company's corporate strategies and assessed the independence of independent non-executive Directors. Prior to election of a new Director, the chairman of the Nomination Committee submitted recommendations and relevant materials of the directorial candidates to the Board of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on 1 January 2016. As at 31 December 2020, the Audit Committee comprised three independent non-executive Directors (Mr. FU Wenge, Mr. WANG Liyan and Mr. WU Liang) and was chaired by Mr. WANG Liyan. Mr. LI Xuan resigned as a member of the audit committee of the Company with effect from 22 December 2020. Mr. WU Liang was appointed as a member of the audit committee of the Company with effect from 22 December 2020.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the annual results and interim results for 2020.

According to the terms of reference of the Audit Committee of the Company, the Audit Committee convenes at least two meetings in each year. In 2020, the Audit Committee convened a total of two meetings, whereby the members discussed various matters, including the 2019 annual results and 2020 interim results of the Company and its subsidiaries.

The attendance record of Directors at meetings of the Audit Committee, the Remuneration Committee and the Nomination Committee is as follows:

Directors	Remuneration Committee	Nomination Committee	Audit Committee
	Number of attendances/meetings		
SHAO Genhuo	NA	3/3	NA
YAO Tongshan (Note 1)	NA	3/3	NA
WANG Liyan	NA	3/3	2/2
SUN Qian	3/3	NA	NA
LI Xuan (Note 2)	3/3	3/3	2/2
FU Wenge	3/3	3/3	2/2
WU Liang (Note 3)	0/0	NA	0/0

Notes:

(1) Mr. YAO Tongshan resigned as a member of the nomination committee of the Company with effect from 22 December 2020.

(2) Mr. LI Xuan resigned as the chairman of the remuneration committee of the Company and a member of the audit committee and the nomination committee of the Company with effect from 22 December 2020.

(3) Mr. WU Liang was appointed as a member of the audit committee and remuneration committee of the Company with effect from 22 December 2020. He was entitled to attend the relevant audit committee and remuneration committee meetings convened after his appointment.

GENERAL MEETINGS

For the year ended 31 December 2020, the attendance record of each Director at General Meetings is as follows:

Directors	Number of attendances/meetings Annual General Meeting and Extraordinary General Meetings
YAO Tongshan	0/2
WU Jianye (Note 1)	0/1
ZHANG Jiawang	2/2
SHAO Genhuo	0/2
WEN Yongping (Note 2)	0/1
SUN Qian	0/2
ZHAO Jiejun (Note 3)	0/1
LU Boxiang (Note 4)	0/1
ZHANG Ping (Note 5)	0/0
FU Wenge	0/2
WANG Liyan	0/2
LI Xuan (Note 6)	0/2
WU Liang (Note 7)	0/0

Notes:

(1) Mr. WU Jianye resigned on 30 March 2020, which was after the date of the extraordinary general meeting held on 27 March 2020 and before the date of the annual general meeting held on 19 June 2020.

(2) Mr. WEN Yongping resigned on 30 March 2020, which was after the date of the extraordinary general meeting held on 27 March 2020 and before the date of the annual general meeting held on 19 June 2020.

(3) Mr. ZHAO Jiejun was appointed on 30 March 2020, which was after the date of the extraordinary general meeting held on 27 March 2020 and before the date of the annual general meeting held on 19 June 2020.

(4) Mr. LU Boxiang was appointed on 30 March 2020, which was after the date of the extraordinary general meeting held on 27 March 2020 and resigned on 25 August 2020, which was after the date of the annual general meeting held on 19 June 2020.

(5) Mr. ZHANG Ping was appointed on 25 August 2020, which was after the date of the annual general meeting held on 19 June 2020.

(6) Mr. LI Xuan resigned on 22 December 2020, which was after the date of the annual general meeting held on 19 June 2020.

(7) Mr. WU Liang was appointed on 22 December 2020, which was after the date of the annual general meeting held on 19 June 2020.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the year ended 31 December 2020.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's accounts and other financial disclosures required under the Listing Rules, meanwhile, the senior management should provide relevant and sufficient information and explanation to the Board to enable it to make informed assessment of the financial and other decisions.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2020 is set out in the "Independent Auditor's Report" contained in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Group has complied and implemented relevant necessary risk management and internal control in accordance with the Corporate Governance Code during the year.

The Board acknowledges its responsibility to maintain sound and effective risk management and internal control systems of the Company, which are designed to provide reasonable but not absolute assurance against material misstatement or loss, and to manage rather than eliminate risks of failure to achieve business objectives.

The Board is also responsible for monitoring our risk management and internal control systems of the Group and reviewing the effectiveness of such systems. The Board also ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Board conducts review of the risk management and internal control systems of the Group once every year. The Board conducted a review of the effectiveness of the Group's risk management and internal control systems, including all material controls, including financial, operational and compliance controls in 2020 and the Company considers them effective and adequate.

The internal control management center of the Group is established to act as the management institution of risk management and internal control, responsible for the evaluation of the establishment, optimization and implementation of internal control system throughout the industrial chain of the Group as to whether the internal control system of the Group is reasonably designed, free from risk and implemented effectively, as well as providing management support for the improvement and refinement of such defects and risks identified, if any, in the progress of evaluation. Meanwhile, the internal control management center is also responsible for diagnosing material risk control matters in each segment throughout the industrial chain of the Group, analysing, assessing and selecting risk management object for review so as to provide solutions to risk control and related requirements, and tracking the progress and result of risk control for acceptance for the purpose of effective risk management and control.

During the year, each operating and management department of the Group continued to work in system improvement and process optimization to realise the management goal in a more effective and consistent way.

The Group conducts risk management and internal control in different aspects in line with different level of corporate governance, and aims to provide necessary adjustment, restriction, assessment and control measures for the economics, efficiency and effectiveness of the implementation of the Group's operational goals, to keep the assets of the Group safe and intact and to ensure the correctness and reasonableness of accounting data, the compliance with relevant laws, regulations and rules, and such that all operational procedures are free from fraud or error, as it is reasonably able to. All employees are committed to continually enhancing the risk management and internal control systems of the Company, linking such systems to our corporate strategies as well as integrating such systems into our day-to-day operation.

With respect to the dissemination of inside information, the Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Listing Rules and the overriding principle (that inside information should be announced as soon as possible when it is the subject of a decision). 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. Unauthorised use of confidential or inside information is strictly prohibited by the internal policies of the Group, and the Group has also established and implemented procedures for responding to external enquiries about the Group's affairs.

The Group maintains an internal audit function. Internal audit reports are presented to and reviewed by the Audit Committee, who reports the findings to the Board. Based on the assessment by the Audit Committee, senior management members and the internal audit department, we did not identify any material internal control flaw or deficit, nor was any major issue raised for improvement, as at 31 December 2020.

JOINT COMPANY SECRETARIES

Mr. WU Jianye (武建鄴) ("**Mr. WU**"), one of our joint company secretaries, is a full-time employee of the Company. Mr. WU does not possess the qualification as stipulated in Rule 3.28 of the Listing Rules. We have appointed and engaged Mr. AU Wai Keung (區偉強) ("**Mr. AU**"), who possesses the qualification required under Rule 3.28, to act as another joint company secretary.

Mr. AU and Mr. WU cooperate with each other to jointly discharge the duties and responsibilities of company secretaries. Meanwhile, Mr. WU joins relevant training and familiarises himself with the Listing Rules and the duties required for a company secretary of a company listed on the Stock Exchange.

Mr. WU resigned as the Company's joint company secretary on 30 March 2020 due to his other business commitments.

Mr. ZHANG Jiawang, the executive Director of the Company, is the usual contact person to liaise with Mr. AU.

Mr. AU confirmed that he had complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules by taking at least 15 hours of relevant professional training for the year 2020.

EXTERNAL AUDITOR AND ITS EMOLUMENTS

The Group's external auditor is Ernst & Young. For the year ended 31 December 2020, the emoluments paid or payable for the audit and non-audit services provided by Ernst & Young was as follows:

	Amount (RMB)
Audit Services	2,680,000
Non-audit Services	250,000
Total	2,930,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

We adopt active policies to welcome shareholders and investors to put forward valuable advice and suggestions. We assign dedicated staff members to maintain investor relations and regularly or occasionally communicate or coordinate with institutional investors, with an aim to enhance communication and mutual understanding in a timely manner. We will also update the investor relations website in a timely manner, so as to ensure that the shareholders and investors can have timely access to and understand the Company's latest data, information and reports.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Shareholders can also send enquiries and proposals to be put forward at general meetings for shareholders' consideration to the Board or senior management by email at zgsm@smorganic.cn or by mail to the principal place of business of the Company in Hong Kong at Unit 1303, 13/F, Hua Fu Commercial Building, 111 Queen's Road West, Hong Kong Special Administrative Region.

PROCEDURES FOR THE CONVENING OF EXTRAORDINARY GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to the provisions set out in the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2020, there was no change in or amendment to the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the shareholders of China Shengmu Organic Milk Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 151, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of 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.

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
Valuation of dairy cows	
Biological assets of the Group, which represent dairy cows and beef cattle, were measured at fair value less costs to sell of amounting to RMB2,587,110,000 as of 31 December 2020. Dairy cows of the Group included milkable cows, heifers and calves, which were raised for the purpose of producing raw milk. Beef cattle were raised to three to six months old and then for sale. The fair value of biological assets as assessed by management was significant to the Company's consolidated financial statements since (i) the carrying values of such biological assets accounted for approximately 38.47% of the total assets of the Group; and (ii) significant estimates were involved in management's fair value assessment. Management engaged an external valuation expert to assist in the valuation of the biological assets as at 31 December 2020. The accounting policies and disclosures for biological assets are included in note 2.4 summary of significant accounting policies, note 3 significant accounting judgements and estimates and note 17 biological assets to the consolidated financial statements.	We assessed the objectivity, independence and competence of the external valuation expert employed by the Group. We evaluated the underlying basis and assumptions used by management. In particular, we assessed the assumptions applied to which the outcome of the valuation is most sensitive, including the estimated local market selling price of the relevant dairy cows, feed costs per kilogram of raw milk production, daily milk yield at each lactation cycle and local future market prices for raw milk. We checked the computation of the fair value of biological assets. We also assessed the adequacy of the Group's disclosures relating to the fair value measurement of biological assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

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

As part of an audit in accordance with ISAs, 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 Mr. Yee Chung Man.

Ernst & Young
Certified Public Accountants

Hong Kong
22 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CONTINUING OPERATIONS			
REVENUE	4	2,660,823	2,539,567
Cost of sales		(1,635,705)	(1,602,418)
Gross profit		1,025,118	937,149
Loss arising from changes in fair value less costs to sell of biological assets	17	(224,237)	(284,896)
Other income and gains/(losses)	4	(44,457)	2,999
Selling and distribution expenses		(32,084)	(30,704)
Administrative expenses		(111,718)	(131,257)
Impairment losses on financial and contract assets, net		1,683	(13,622)
Other expenses		(997)	(163)
Finance costs	6	(116,788)	(225,239)
Share of losses of associates		(35,551)	(64,953)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	5	460,969	189,314
Income tax expense	9	–	(410)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		460,969	188,904
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	10	–	(53,208)
PROFIT FOR THE YEAR		460,969	135,696
Profit attributable to:			
Owners of the parent		406,680	27,742
Non-controlling interests		54,289	107,954
		460,969	135,696
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
– For profit for the year		RMB 0.0535	RMB 0.0044
– For profit from continuing operations		RMB 0.0535	RMB 0.0127
Diluted			
– For profit for the year		RMB 0.0535	RMB 0.0044
– For profit from continuing operations		RMB 0.0535	RMB 0.0127

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR	460,969	135,696
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	2,013	(2,598)
Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods	2,013	(2,598)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	2,013	(2,598)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	462,982	133,098
Attributable to:		
Owners of the parent	408,693	25,144
Non-controlling interests	54,289	107,954
	462,982	133,098

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,772,651	2,043,525
Right-of-use assets	14(a)	45,100	54,272
Other intangible assets	15	6,242	11,254
Investments in associates	16	122,255	150,413
Biological assets	17	2,572,102	2,531,188
Long term receivables	19	10,498	14,505
Other non-current assets	20	–	11,843
Total non-current assets		4,528,848	4,817,000
CURRENT ASSETS			
Inventories	21	715,078	678,054
Biological assets	17	15,008	13,799
Trade and bills receivables	22	136,611	167,118
Prepayments, other receivables and other assets	18	614,578	614,130
Pledged deposits	23	387,452	177,516
Cash and bank balances	23	327,651	132,636
Total current assets		2,196,378	1,783,253
CURRENT LIABILITIES			
Trade and bills payables	24	1,699,448	1,365,884
Other payables and accruals	25	239,981	574,772
Derivative financial instruments	26	–	3,267
Interest-bearing bank and other borrowings	27	1,335,873	2,144,832
Lease liabilities	27	–	32,287
Total current liabilities		3,275,302	4,121,042
NET CURRENT LIABILITIES		(1,078,924)	(2,337,789)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,449,924	2,479,211

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	30,398	39,443
Long term payables	28	–	28,940
Total non-current liabilities		30,398	68,383
Net assets		3,419,526	2,410,828
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	69	50
Reserves	31	3,196,663	2,186,371
		3,196,732	2,186,421
Non-controlling interests		222,794	224,407
Total equity		3,419,526	2,410,828

Zhang Jiawang
Director

Yao Tongshan
Director

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	50	1,757,767	423,317	95,558	464,561	17,551	(740,891)	2,017,913	860,974	2,878,887
Profit for the year	–	–	–	–	–	–	27,742	27,742	107,954	135,696
Exchange differences related to foreign operations	–	–	–	–	–	(2,598)	–	(2,598)	–	(2,598)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(2,598)	27,742	25,144	107,954	133,098
Acquisition of non-controlling interests (note 25(b))	–	–	67,760	–	–	–	–	67,760	(572,618)	(504,858)
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(171,903)	(171,903)
Equity-settled warrant arrangements (note 26)	–	–	75,604	–	–	–	–	75,604	–	75,604
Transfer from retained profits	–	–	–	–	18,853	–	(18,853)	–	–	–
At 31 December 2019	50	1,757,767#	566,681#	95,558#	483,414#	14,953#	(732,002)#	2,186,421	224,407	2,410,828

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	50	1,757,767	566,681	95,558	483,414	14,953	(732,002)	2,186,421	224,407	2,410,828
Profit for the year	–	–	–	–	–	–	406,680	406,680	54,289	460,969
Exchange differences related to foreign operations	–	–	–	–	–	2,013	–	2,013	–	2,013
Total comprehensive income for the year	–	–	–	–	–	2,013	406,680	408,693	54,289	462,982
Issue of shares (note 25(b)	7	199,993	–	–	–	–	–	200,000	–	200,000
Warrants exercised (note 26)	12	398,265	–	–	–	–	–	398,277	–	398,277
Capital injection	–	–	–	–	–	–	–	–	14,150	14,150
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(70,052)	(70,052)
Equity-settled warrant arrangements (note 26)	–	78,945	(75,604)	–	–	–	–	3,341	–	3,341
Transfer from retained profits	–	–	–	–	58,357	–	(58,357)	–	–	–
At 31 December 2020	69	2,434,970#	491,077#	95,558#	541,771#	16,966#	(383,679)#	3,196,732	222,794	3,419,526

These reserve accounts comprise the consolidated reserves of RMB3,196,663,000 (2019: RMB2,186,371,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		460,969	189,314
From a discontinued operation		–	(52,991)
Adjustments for:			
Change in fair value of biological assets	17	224,237	284,896
Finance costs	6,10	116,788	229,184
Share of losses of associates		35,551	65,161
Interest income		(7,651)	(6,157)
Loss on disposal of items of property, plant and equipment		11,947	22,415
Gain on disposal of subsidiaries	33	(845)	(85,751)
Gain on partial disposal of an associate	4	(23,144)	–
Fair value gains, net:			
Derivative financial instruments	26	–	(849)
Depreciation of property, plant and equipment		108,478	133,450
Depreciation of right-of-use assets		2,045	1,057
Amortisation of other intangible assets		687	1,430
Impairment of items of property, plant and equipment	4	60,470	–
Impairment of intangible assets	4	8,250	–
Foreign exchange differences, net	4	4,966	1,952
		1,002,748	783,111
Increase in inventories		(27,744)	(66,298)
Increase/(decrease) in trade and bills receivables		30,034	(55,300)
Increase in deposits and other receivables		(19,157)	(256,474)
(Increase)/decrease in pledged deposits		(209,936)	40,585
(Increase)/decrease in other non-current assets		(11,841)	1,915
Increase in trade and bills payables		311,902	545,752
Increase/(decrease) in other payables and accruals		8,220	(123,463)
Cash generated from operations		1,084,226	869,828
Interest received		6,173	5,384
Net cash flows from operating activities		1,090,399	875,212

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(135,697)	(135,631)
Additions to right-of-use assets		(180)	–
Additions to other intangible assets		(4,619)	(4)
Purchases of biological assets		(1,205)	(815)
Reversal of prepayment for biological assets		–	1,014
Payments for breeding calves and heifers		(559,931)	(502,379)
Proceeds from disposal of biological assets		336,494	401,188
Proceeds from disposal of items of property, plant and equipment		2,410	22,549
Purchases of time deposits with original maturity of more than three months		(28,404)	–
Proceeds from disposal of time deposits with original maturity of more than three months		100	–
Acquisition of a subsidiary		(19,020)	1
Disposal of subsidiaries		72,784	104,966
Proceeds from partial disposal of associates		41,909	–
Net cash flows used in investing activities		(295,359)	(109,111)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of shares		398,277	–
Dividends paid to non-controlling interests		(70,052)	(171,903)
New bank loans and other borrowings	35	2,533,791	1,443,650
Derivative financial instruments		–	5,427
Capital injection by non-controlling interests		14,150	–
Repayment of corporate bonds	35	–	(600,000)
Repayment of bank loans	35	(3,351,795)	(950,831)
Principal portion of lease payments		(32,287)	–
Acquisition of non-controlling interests		–	(305,000)
Interest paid		(117,535)	(131,310)
Net cash flows used in financing activities		(625,451)	(709,967)
NET INCREASE IN CASH AND CASH EQUIVALENTS		169,589	56,134
Cash and cash equivalents at beginning of year		132,436	77,083
Effect of foreign exchange rate changes, net		(2,878)	(781)
CASH AND CASH EQUIVALENTS AT END OF YEAR		299,147	132,436
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	327,651	132,636
Time deposits with original maturity of more than three months	23	(28,504)	(200)
CASH AND CASH EQUIVALENTS AT END OF YEAR		299,147	132,436

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk in the People's Republic of China (the "PRC").

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech Farming Co., Ltd. ("Shengmu High-tech")# (note (i))	PRC/ Mainland China	RMB 888,700,000	–	100	Production and distribution of raw milk
內蒙古聖牧控股有限公司 Inner Mongolia Shengmu Holding Co., Ltd. ("Shengmu Holding")# (note (i))	PRC/ Mainland China	RMB 280,000,000	–	100	Production and distribution of raw milk
巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu Pangu Farming Co., Ltd. ("Shengmu Pangu")# (note (i))	PRC/ Mainland China	RMB 80,000,000	–	55	Production and distribution 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 did not register any official English names.

Note:

(i) The entity was registered as a foreign investment enterprise under PRC law.

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

2.1 BASIS OF PREPARATION

The 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 ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain biological assets, agriculture produce and derivative financial liabilities. 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).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern

The Group had net current liabilities of RMB1,078,924,000 as at 31 December 2020 (2019: net current liabilities of RMB2,337,789,000). In view of the net current liabilities position, the board of directors has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB1,949,798,000 as at the date of this report, the unutilised entrusted loan facility of RMB1,600,000,000 granted by China Mengniu Dairy Co., Ltd and cash flow projections for the year ending 31 December 2021 directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors have prepared the consolidated financial statements on a going concern basis.

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

The nature and the 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(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.

(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.

During the year ended 31 December 2020, no leases of the Group have been reduced or waived by the lessors as a result of the covid-19 pandemic. 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	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform– Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3,5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contract – Cost of Fulfilling a Contract*[2]
Annual Improvements to *IFRSs 2018-2020*	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 insures to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting issued in 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 IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to IFRS 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.

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.

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.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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

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

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

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

Business combinations and goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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

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, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the assets' recoverable amount is estimated. An assets' 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

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; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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:

	Useful lives	Residual values
Buildings	20 years	5%
Machinery and equipment	5-10 years	5%
Office and other equipment	5 years	5%
Motor vehicles	5 years	5%

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 statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowings 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.

Biological assets

Biological assets comprise dairy cows and beef cattle. Dairy cows include milkable cows, heifers and calves which are raised by the Group for the purposes of producing raw milk. Beef cattle are raised by the Group for sale.

Biological assets are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in profit or loss for the year 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 biological assets is determined based on its 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. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax.

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.

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Technical know-how

Technical know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over their estimated useful life of 10 to 20 years.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

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

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:

	Useful lives
Leasehold land	8 to 50 years

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

(b) Lease liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

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

Group as a lessor

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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.

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

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

Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Simplified approach

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

For trade receivables and contract assets and that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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,associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

Government grants

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

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

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 statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of products

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

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.

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.

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

Contract 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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.

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 statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-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 awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate has been applied to the expenditure on the individual assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

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

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in 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 statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

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

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

Withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgements on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiary. As at 31 December 2020, the deferred tax liabilities recognised thereon amounted to nil (2019: Nil).

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.

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell. The fair value of biological assets is determined based on either the market-determined prices as at each year end 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 biological assets; or the present value of expected net cash flows from the biological assets 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 biological assets significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of biological assets. Further details are given in note 17 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Fair value of financial guarantee contracts

The financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The fair value of a financial guarantee contract is determined based on either the credit rating of the warrantee and the risk-free interest rate. The determination of each warrantee and the risk-free interest rate of each guarantee contract involves significant estimate. Any changes in the estimates may affect the fair value of the financial guarantee contracts significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of financial guarantee contracts. Further details are given in note 25 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. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue, other income and gains/(losses) from continuing operations is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	2,660,823	2,539,567

Disaggregated revenue information for revenue from contracts with customers

	2020 RMB'000	2019 RMB'000
Type of goods		
Sale of products	2,660,823	2,539,567
Geographical market		
Mainland China	2,660,823	2,539,567
Timing of revenue recognition		
Goods transferred at a point in time	2,660,823	2,539,567

Revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period amounted to RMB49,131,000 (2019: RMB114,387,000).

4. REVENUE, OTHER INCOME AND GAINS/(LOSSES) (CONTINUED)

Information about a major customer

Revenue from continuing operations of approximately RMB 2,504,619,000 (2019: RMB 2,350,989,000) was derived from sales of raw milk to a single customer, including sales to a group of entities which are known to be under common control of that customer.

	2020 RMB'000	2019 RMB'000
Other income and gains/(losses)		
Other income		
Beef cattle	113,080	98,723
Raw materials	5,245	2,630
	118,325	101,353
Other costs		
Beef cattle	(113,080)	(98,723)
Raw materials	(3,889)	(7,027)
	(116,969)	(105,750)
Government grants*	4,088	17,678
Bank interest income	7,651	5,735
Foreign exchange differences, net	(4,966)	(1,952)
Loss on disposal of items of property, plant and equipment	(11,947)	(7,561)
Impairment loss of investment in an associate	–	(5,111)
Impairment loss of items of property, plant and equipment	(60,470)	–
Impairment loss of intangible assets	(8,250)	–
Gain on partial disposal of an associate	23,144	–
Gain on disposal of a subsidiary	845	–
Fair value gains, net:		
Derivative financial instruments	–	849
Others	4,092	(2,242)
	(44,457)	2,999

* The government grants have been received for the Group's contribution to the development of the local farming industry. There are no unfulfilled conditions or contingencies attaching to these grants.

5. PROFIT BEFORE TAX

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

	2020 RMB'000	2019 RMB'000
Cost of inventories sold	1,635,705	1,602,418
Loss arising from changes in fair value less costs to sell of biological assets	224,237	284,896
Depreciation of property, plant and equipment	154,715	153,412
Less: Capitalised in biological assets	46,237	41,948
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	108,478	111,464
Depreciation of right-of-use assets	3,061	1,741
Less: Capitalised in biological assets	1,016	476
Depreciation recognised in the consolidated statement of profit or loss and other comprehensive income	2,045	1,265
Amortisation of other intangible assets	1,028	1,285
Less: Capitalised in biological assets	341	354
Amortisation recognised in the consolidated statement of profit or loss and other comprehensive income	687	931
Research and development costs	5,696	4,791
Lease payments not included in the lease	8,035	7,370
Auditor's remuneration	2,680	3,060
Impairment on financial and contract assets, net	(1,683)	13,622
Write-down of inventories to net realisable value	1,458	2,849
Gain on partial disposal of an associate	(23,144)	–
Gain on disposal of a subsidiary	(845)	–
Loss on disposal of items of property, plant and equipment	11,947	7,561
Employee benefit expense (including directors' and chief executive's remuneration (note 7)):		
Wages, salaries, bonuses and allowances	251,574	227,918
Other social insurances and benefits	7,424	13,327
Pension scheme contributions	4,590	9,565
	263,588	250,810

6. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank loans and other loans	115,436	209,933
Interest on corporate bonds	–	12,665
Interest on long term payables	1,352	2,641
	116,788	225,239

7. 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	382	340
Other emoluments:		
Salaries, allowances and benefits in kind	1,240	1,466
Pension scheme contributions	–	12
	1,240	1,478
	1,622	1,818

(a) Independent non-executive directors

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

	2020 RMB'000	2019 RMB'000
Mr. WU Liang	–	–
Mr. WANG Liyan	100	100
Mr. LI Xuan	100	100
Mr. Fu Wenge	100	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020				
Executive directors:				
Mr. YAO Tongshan^	20	334	–	354
Mr. WU Jianye	–	–	–	–
Mr. ZHANG Jiawang#	20	906	–	926
	40	1,240	–	1,280
Non-executive directors:				
Mr. ZHAO Jiejun	–	–	–	–
Mr. ZHANG Ping	–	–	–	–
Mr. LU Boxiang	42	–	–	42
Mr. SUN Qian	–	–	–	–
Mr. SHAO Genhuo	–	–	–	–
	82	1,240	–	1,322
2019				
Executive directors:				
Mr. YAO Tongshan^	20	320	–	340
Mr. WU Jianye	20	346	12	378
Mr. WANG Yuehua	–	–	–	–
Mr. ZHANG Jiawang#	–	800	–	800
	40	1,466	12	1,518
Non-executive directors:				
Mr. WEN Yongping	–	–	–	–
Mr. SUN Qian	–	–	–	–
Mr. SHAO Genhuo	–	–	–	–
	40	1,466	12	1,518

^ As Mr. YAO Tongshan has already reached the statutory retirement age in January 2018, he did not make pension scheme contributions during the year ended 31 December 2020 (2019: Nil).

Mr. ZHANG Jiawang was appointed as an executive director of the Group on 25 January 2019. As the pension scheme contributions of Mr. ZHANG Jiawang has been borne by Beijing Dabeinong Technology Group Co., Ltd ("Dabeinong"), one of the Group's shareholders, Mr. ZHANG Jiawang agreed to waive pension scheme contributions for 2019 in the Group. The Group was not required to make the pension scheme contributions of Mr. ZHANG Jiawang as it entitled to the pension reduction and exemption policy in 2020.

Save as disclosed above, there was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2019: one), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees, who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	3,274	2,556
Pension scheme contributions	10	71
	3,284	2,627

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

	Number of employees	
	2020	2019
Nil to RMB1,000,000	4	4

9. INCOME TAX

	2020 RMB'000	2019 RMB'000
Current - PRC	–	–
Deferred (note 29)	–	410
Total tax charge/(credit) for the year from continuing operations	–	410
Current – PRC	–	–
Deferred (note 29)	–	217
Total tax charge for the year from a discontinued operation (note 10)	–	217
	–	627

9. INCOME TAX (CONTINUED)

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

	2020 RMB'000	2019 RMB'000
Profit before tax from continuing operations	460,969	189,314
Loss before tax from a discontinued operation	–	(52,991)
	460,969	136,323
Tax at the statutory tax rate (note (i))	115,242	34,081
Lower tax rate for specific provinces or enacted by local authority (note (iii))	1,533	1,836
Income not subject to tax (note (ii))	(121,661)	(63,559)
Expenses not deductible for tax	–	28,189
Tax losses not recognised	4,886	80
Tax charge at the Group's effective rate	–	627
Tax charge from continuing operations at the effective rate	–	410
Tax charge from a discontinued operation at the effective rate	–	217

Notes:

(i) The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Hong Kong profits tax has not been provided as there were no assessable profits arising in Hong Kong during the year. Entities in the PRC were generally subject to the PRC enterprise income tax rate of 25% for the year ended 31 December 2020 (2019: 25%).

(ii) According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the Group's income arising from agricultural activities, such as dairy farming and the processing of raw agricultural products, is exempt from income tax.

(iii) In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家税務總局《關於深入實施西部大開發戰略有關税收政策問題的通知》), the Group's taxable income arising from the processing of non-raw agricultural products is subject to a preferential tax rate of 15% from 2013 to 2020.

10. DISCONTINUED OPERATION

On 23 December 2018, the Company announced the decision of its board of directors to dispose of 51% of the equity interests of Inner Mongolia Shengmu High-tech Dairy Co., Ltd. ("Shengmu Dairy") and Hohhot Shengmu High-tech Dairy Co., Ltd. ("Hohhot Dairy") to Inner Mongolia Mengniu Dairy (Group) Co., Ltd. ("Inner Mongolia Mengniu"), a subsidiary of China Mengniu Dairy Limited ("China Mengniu"). Shengmu Dairy and Hohhot Dairy are engaged in producing and distributing liquid milk products. As at 31 December 2018, Shengmu Dairy and Hohhot Dairy were classified as a disposal group held for sale and as a discontinued operation. The disposal was completed by the end of April 2019.

With Shengmu Dairy and Hohhot Dairy, which comprised the majority of the liquid milk business, being classified as a discontinued operation, presenting information by operating segment information is no longer required as the Group only has the dairy farming business retained upon the disposal of the liquid milk business.

The results of Shengmu Dairy and Hohhot Dairy for the year are presented below:

	2019 RMB'000
Revenue	219,802
Cost of sales	(146,983)
Gross profit from the discontinued operation	72,819
Other income and (losses)/gains	(19,402)
Selling and distribution expenses	(100,364)
Administrative expenses	(10,038)
Finance costs	(3,945)
Other expenses	–
Share of losses of associates	(208)
Impairment losses on financial and contract assets	(77,604)
Loss from the discontinued operation	(138,742)
Gain on disposal of a subsidiary	85,751
Loss before tax from the discontinued operation	(52,991)
Income tax expense (note 9)	(217)
Loss for the year from the discontinued operation	(53,208)

10. DISCONTINUED OPERATION (CONTINUED)

The net cash flows incurred by Shengmu Dairy and Hohhot Dairy are as follows:

	2019 RMB'000
Operating activities	(53,979)
Investing activities	(34,158)
Financing activities	85,427
Net cash outflows	(2,710)
Loss per share:	
Basic, from the discontinued operation	(RMB0.0083)
Diluted, from the discontinued operation	(RMB0.0083)

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	2019 RMB'000
Loss attributable to ordinary equity holders of the parent from the discontinued operation	52,991,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 12)	6,354,400,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 12)	6,354,400,000

11. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

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

The basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 7,605,396,000 (2019: 6,354,400,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB406,680,000 (2019: RMB27,742,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation of 7,605,396,000(2019: 6,354,400,000) shares, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of warrants and dilutive potential ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2020 in respect of a dilution because the impact of the warrants and dilutive potential ordinary shares had an anti-dilutive effect on the basic earnings per share amounts presented.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2020 (2019: Nil).

	Number of shares	
	2020	2019
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	7,605,396,000	6,354,400,000
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	7,605,396,000	6,354,400,000

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020						
At 1 January 2020						
Cost	2,027,768	480,596	37,607	4,178	153,996	2,704,145
Accumulated depreciation	(408,968)	(222,771)	(25,859)	(3,022)	–	(660,620)
Net carrying amount	1,618,800	257,825	11,748	1,156	153,996	2,043,525
At 1 January 2020, net of accumulated depreciation	1,618,800	257,825	11,748	1,156	153,996	2,043,525
Additions	6,970	19,640	8,427	618	74,857	110,512
Reclassification	–	(16,178)	16,178	–	–	–
Transfers	53,539	21,789	1,433	–	(76,761)	–
Disposals	(4,163)	(9,198)	(571)	(71)	–	(14,003)
Depreciation provided during the year	(101,358)	(46,477)	(6,632)	(248)	–	(154,715)
Disposal of a subsidiary (note 33)	(127)	(26)	(13)	–	(152,032)	(152,198)
Impairment	(56,346)	(4,094)	(30)	–	–	(60,470)
At 31 December 2020, net of accumulated depreciation and impairment	1,517,315	223,281	30,540	1,455	60	1,772,651
At 31 December 2020						
Cost	2,083,195	465,496	76,314	4,113	60	2,629,178
Accumulated depreciation and impairment	(565,880)	(242,215)	(45,774)	(2,658)	–	(856,527)
Net carrying amount	1,517,315	223,281	30,540	1,455	60	1,772,651

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 1 January 2019						
Cost	1,939,985	503,744	37,271	8,459	147,848	2,637,307
Accumulated depreciation	(314,803)	(207,181)	(22,522)	(5,756)	–	(550,262)
Net carrying amount	1,625,182	296,563	14,749	2,703	147,848	2,087,045
Net carrying amount included in a discontinued operation	203,746	362,796	7,351	534	14,388	588,815
	1,828,928	659,359	22,100	3,237	162,236	2,675,860
At 1 January 2019, net of accumulated depreciation	1,828,928	659,359	22,100	3,237	162,236	2,675,860
Additions	–	31,774	2,801	827	83,851	119,253
Acquisition of a subsidiary (note 34)	–	383	11	–	26,352	26,746
Reclassification	(581)	71	510	–	–	–
Transfers	101,297	2,175	483	–	(103,955)	–
Disposals	(10,006)	(22,101)	(1,313)	(1,652)	–	(35,072)
Disposal of a subsidiary	(200,094)	(346,027)	(6,829)	(473)	(14,488)	(567,911)
Depreciation provided during the year	(100,744)	(67,809)	(6,015)	(783)	–	(175,351)
At 31 December 2019, net of accumulated depreciation	1,618,800	257,825	11,748	1,156	153,996	2,043,525
At 31 December 2019						
Cost	2,027,768	480,596	37,607	4,178	153,996	2,704,145
Accumulated depreciation	(408,968)	(222,771)	(25,859)	(3,022)	–	(660,620)
Net carrying amount	1,618,800	257,825	11,748	1,156	153,996	2,043,525

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 8 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery, motor vehicles and other equipment generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Leasehold land RMB'000
Carrying amount at 1 January 2019	20,163
Carrying amount at 1 January 2019 included in a discontinued operation	17,965
	38,128
Additions	33,086
Additions as a result of acquisition of a subsidiary	2,960
Right-of-use assets included in a discontinued operation	(18,080)
Depreciation charge	(1,822)
As at 31 December 2019 and I January 2020	54,272
Additions	180
Depreciation charge	(3,061)
Right-of-use assets included in the disposal of a subsidiary (note 33)	(6,291)
As at 31 December 2020	45,100

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	32,287	–
Addition	–	32,287
Payments	(32,287)	–
Carrying amount at 31 December	–	32,287

As disclosed in note 2.2. to the financial statements, the Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

14. LEASES (CONTINUED)

The Group as a lessee (continued)

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

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets	2,045	1,822
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	5,888	6,226
Expense relating to leases of low-value assets (included in administrative expenses)	2,147	1,144
Total amount recognised in profit or loss	10,080	9,192

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 35 to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	8,629	2,625	11,254
Additions	–	4,619	4,619
Disposal	–	(353)	(353)
Amortisation provided during the year	(377)	(651)	(1,028)
Impairment during the year	(8,250)	–	(8,250)
At 31 December 2020	2	6,240	6,242
At 31 December 2020			
Cost	15,004	8,528	23,532
Accumulated amortisation	(6,752)	(2,288)	(9,040)
Impairment during the year	(8,250)	–	(8,250)
Net carrying amount	2	6,240	6,242

15. OTHER INTANGIBLE ASSETS (CONTINUED)

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	9,379	2,084	11,463
Cost at 1 January 2019, net of accumulated amortisation from a discontinued operation	–	4,975	4,975
	9,379	7,059	16,438
Additions	–	1,055	1,055
Disposal of a subsidiary	–	(4,643)	(4,643)
Amortisation provided during the year	(750)	(846)	(1,596)
At 31 December 2019	8,629	2,625	11,254
At 31 December 2019			
Cost	15,004	4,947	19,951
Accumulated amortisation	(6,375)	(2,322)	(8,697)
Net carrying amount	8,629	2,625	11,254

16. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	122,255	150,413

The Group's trade receivable and payable balances with the associates are disclosed in note 37 to the financial statements.

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the material associates are as follows:

Name	Registered capital	Place of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Principal activities
Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (note (a))	RMB 273,180,000	PRC/ Mainland China	9.12%	Grass planting
Food Union Shengmu Dairy Co., Ltd. (note (b))	USD 103,000,000	PRC/ Mainland China	6.36%	Dairy processing
Inner-Mongolia Mengniu Shengmu High-tech Dairy Products Co., Ltd.	RMB 300,000,000	PRC/ Mainland China	49%	Dairy products sales
Inner-Mongolia Yiyingmei Dairy Co., Ltd. ("Yiyingmei")	RMB 150,000,000	PRC/ Mainland China	20%	Dairy processing

Notes:

(a) Although the Group only held a 9.12% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") as at 31 December 2020, two directors out of a total of seven representing the Company were appointed to the board of directors of Shengmu Forage. As such, the Group has determined that it has significant influence in Shengmu Forage. Shengmu Forage, which is considered a material associate of the Group, is a strategic partner of the Group and is engaged in grass planting.

(b) Although the Group only held a 6.36% equity interest in Food Union Shengmu Dairy Co., Ltd. (" Food Union Shengmu") as at 31 December 2020, one director out of a total of three representing the Company was appointed to the board of directors of Food Union Shengmu. As such, the Group has determined that it has significant influence in Food Union Shengmu. Food Union Shengmu, which is considered a material associate of the Group, is a strategic partner of the Group and is engaged in dairy processing.

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of Shengmu Forage, Food Union Shengmu, Shengmu Dairy and Yiyingmei adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

Shengmu Forage	2020 RMB'000	2019 RMB'000
Current assets	803,410	699,297
Non-current assets	622,566	625,322
Current liabilities	(906,886)	(844,702)
Non-current liabilities	(34,050)	–
Net assets	485,040	479,917
Net assets attributable to owners of the parent	485,844	479,265
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	9.12%	9.12%
Group's share of net assets of the associate, excluding goodwill	44,309	43,709
Goodwill included in the investment	947	947
Adjustments	(1,019)	(1,019)
Carrying amount of the investment	44,237	43,637
Revenue	276,611	277,517
Profit for the year	6,579	36,828
Total comprehensive income for the year	6,579	36,828
Dividend received	–	–

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Food Union Shengmu	2020 RMB'000	2019 RMB'000
Current assets	35,929	176,104
Non-current assets	752,591	693,515
Current liabilities	(97,544)	(97,923)
Non-current liabilities	(441,778)	(519,490)
Net assets	249,198	252,206
Reconciliation to the Group's interest in the associate:		
Unpaid capital contribution of other shareholders	–	28,952
Proportion of the Group's ownership	6.36%	12.42%
Group's share of net assets of the associate, excluding goodwill	15,849	34,920
Carrying amount of the investment	15,849	34,920
Revenue	21,496	26,281
Loss for the year	(95,400)	(156,659)
Total comprehensive loss for the year	(95,400)	(156,659)
Dividend received	–	–

Shengmu Dairy	2020 RMB'000	2019 RMB'000
Current assets	147,707	187,659
Non-current assets	41,264	850,075
Current liabilities	(114,276)	(858,017)
Non-current liabilities	–	(22,641)
Net assets	74,695	157,076
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	49%	49%
Group's share of net assets of the associate, excluding goodwill	36,601	76,967
Impairment loss	–	(5,111)
Carrying amount of the investment	36,601	71,856
Revenue	819,095	634,036
Loss for the year	(55,623)	(247,865)
Total comprehensive loss for the year	(55,623)	(247,865)
Dividend received	–	–

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Yiyingmei	2020 RMB'000
Current assets	20,564
Non-current assets	155,557
Current liabilities	(48,281)
Net assets	127,840
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	20%
Group's share of net assets of the associate, excluding goodwill	25,568
Carrying amount of the investment	25,568
Revenue	891
Loss for the year	(6,938)
Total comprehensive loss for the year	(6,938)
Dividend received	–

The Group's shareholdings in the associates comprise all the equity shares held by the subsidiaries of the Company.

All the above associates have been accounted for using the equity method in these financial statements. The Group has discontinued the recognition of its share of losses of certain associates because the share of losses of the associates exceeded the Group's interests in the associates. The amount of the Group's total unrecognised share of losses of these associates cumulatively was RMB1,532,000 (2019:RMB2,271,000), respectively.

17. BIOLOGICAL ASSETS

(A) Nature of activities

The biological assets of the Group comprise primarily dairy cows held to produce raw milk and beef cattle raised for sale.

The quantity of biological assets owned by the Group as at 31 December 2020 and 31 December 2019 is shown below.

	2020 Head	2019 Head
Milkable cows	57,658	59,425
Heifers, calves and beef cattle	53,077	46,649
Total	110,735	106,074

The Group's biological assets include heifers and calves, milkable cows and beef cattle. Heifers and calves are dairy cows that have not had their first calves. In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately 9 months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before a dry period of approximately 60 days. The male calves will be sold when born while the female calves will be bred for six months and then transferred to heifers. Beef cattle will be bred for three to six months and then sold for profits. The sale of biological assets is not the Group's principal activity and the proceeds net of cost of sales are recorded as other gains or losses.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risks disclosed in note 40, the Group is exposed to the following operational risks:

(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 which aim at complying with local environmental and other laws. Management performs regular reviews to identify environmental risks to ensure that the systems in place are adequate to manage these risks.

(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 which aim at monitoring and mitigating those risks, including regular inspections, disease control, surveys and insurance.

The Group is exposed to fair value risks arising from changes in the price of the dairy products. The directors of the Company are of the opinion that there are no available derivatives or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

17. BIOLOGICAL ASSETS (CONTINUED)

(B) Value of biological assets

The values of the Group's biological assets at the year end were as follows:

	Milkable cows RMB'000	Heifers, calves and beef cattle RMB'000	Total RMB'000
31 December 2020			
At 1 January 2020	1,761,300	783,687	2,544,987
Increase due to raising (feeding costs and others)	–	710,503	710,503
Transfer	436,080	(436,080)	–
Decrease due to sales	(293,977)	(150,166)	(444,143)
Loss arising from changes in fair value less costs to sell	(139,940)	(84,297)	(224,237)
At 31 December 2020	1,763,463	823,647	2,587,110

	Milkable cows RMB'000	Heifers, calves and beef cattle RMB'000	Total RMB'000
31 December 2019			
At 1 January 2019	2,025,336	649,583	2,674,919
Purchase	–	748	748
Increase due to raising (feeding costs and others)	–	650,333	650,333
Transfer	331,286	(331,286)	–
Decrease due to sales	(351,960)	(144,157)	(496,117)
Loss arising from changes in fair value less costs to sell	(243,362)	(41,534)	(284,896)
At 31 December 2019	1,761,300	783,687	2,544,987

At 31 December 2020, no biological assets of the Group (2019: RMB945,666,000) were pledged for the entrusted loans of the Group (2019: RMB1,370,000,000) (note 27).

The Group's biological assets in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent professional qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the valuation of biological assets.

17. BIOLOGICAL ASSETS (CONTINUED)

(C) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

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

Level 2 – based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 – based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2020	–	–	2,587,110	2,587,110
As at 31 December 2019	–	–	2,544,987	2,544,987

(D) Description of valuation techniques used and key inputs to valuation on biological assets

The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of the heifers purchased within 6 months prior to each reporting date is determined with adjustment by adding the feeding costs from the purchase date to the reporting date. For the calves and the rest of the heifers, the fair value of 14-month-old heifers is determined by referring to the market price of the actively traded market.	Average market price of the heifers of 14 months of age: RMB18,000 to RMB18,500 for the year ended 31 December 2020 (2019: RMB19,000 to RMB19,500).	The estimated fair value increases when the market price increases.

17. BIOLOGICAL ASSETS (CONTINUED)

(D) Description of valuation techniques used and key inputs to valuation on biological assets (continued)

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
	The fair values of the heifers over 14 months of age are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers under 14 months of age and the fair values of the calves are determined by subtracting the breeding costs required to raise the heifers or calves from the respective specific ages to 14 months old and the margins that would be required by a raiser.		
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year end will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or completion of all lactation periods, the estimated overall culling rate ranges from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rate increases.

17. BIOLOGICAL ASSETS (CONTINUED)

(D) Description of valuation techniques used and key inputs to valuation on biological assets (continued)

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
	The calving interval (including the dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days). This 400-day period is one lactation cycle in this valuation exercise.	A milkable cow could have as many as six to seven lactation periods. The estimated average raw milk production volume per head for the lactation period ranged from 9.5 tonnes to 11.3 tonnes for the year ended 31 December 2020 (2019: 9.5 tonnes to 11.3 tonnes) depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		The estimated feed costs per kilogram of raw milk for the year ended 31 December 2020 ranged from RMB2.05 to RMB2.60 (2019: RMB1.95 to RMB2.60).	The estimated fair value decreases when the estimated feed costs per kilogram of raw milk increase.
		The estimated future local market prices for raw milk per tonne for the year ended 31 December 2020 ranged from RMB3,902 to RMB4,916 per tonne (2019: RMB3,691 to RMB4,624 per tonne).	The estimated fair value increases when the estimated future local market price for raw milk increases.
		The discount rate was 14.00% for the year ended 31 December 2020 (2019: 14.00%), calculated by using the capital asset pricing model.	The estimated fair value decreases when the discount rate increases.

17. BIOLOGICAL ASSETS (CONTINUED)

(E) Quantity of the agricultural produce produced by the Group's biological assets

	2020 Tonne	2019 Tonne
Raw milk	609,746	642,166

(F) Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

	2020 RMB'000	2019 RMB'000
Raw milk	2,631,913	2,582,250

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments	563,784	543,885
Deposits and other receivables	39,521	60,582
Prepaid expenses	11,273	9,663
	614,578	614,130
Non-current prepayments	–	–
Current portion	614,578	614,130

Deposits and other receivables mainly represent receivables from sales of biological assets, employee loans and financial support to distributors. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. After applying IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. ECLs 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.

19. LONG TERM RECEIVABLES

	Contract amounts of long term receivables		Present value of long term receivables	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Within 1 year	4,640	4,640	3,979	3,850
1 to 2 years	4,640	4,640	4,115	3,980
2 to 5 years	7,026	10,720	6,383	9,696
Over 5 years	–	946	–	829
	16,306	20,946	14,477	18,355
Less: Unearned finance income	(1,829)	(2,591)	–	–
Present value of long term receivables	14,477	18,355	14,477	18,355
Portion classified as current assets under other receivables	(3,979)	(3,850)	(3,979)	(3,850)
Non-current portion	10,498	14,505	10,498	14,505

20. OTHER NON-CURRENT ASSETS

Other non-current assets mainly include deductible value-added tax expected to be deducted after one year.

21. INVENTORIES

	2020 RMB'000	2019 RMB'000
Consumables	33,424	34,012
Raw materials	681,654	644,042
Total	715,078	678,054

22. TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Bills receivable	–	450
Trade receivables	136,611	167,840
	136,611	168,290
Impairment	–	(1,172)
Total	136,611	167,118

The Group's trading terms with its customers are mainly on credit. In 2020, the credit period is generally one month, extending up to three months for major customers. However, the Group normally allows a credit limit or offer to its customers credit terms which are adjustable in certain circumstances and closely monitors overdue balances.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The trade and bills receivables are non-interest-bearing.

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

	2020 RMB'000	2019 RMB'000
Within 3 months	136,611	164,346
4 to 6 months	–	185
7 months to 1 year	–	1,718
Over 1 year	–	869
Total	136,611	167,118

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit losses separately. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by 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.

No loss allowance for impairment of trade and bills receivables for each of the reporting period was made.

23. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	299,147	132,436
Time deposits with original maturity of more than three months	28,504	200
Pledged deposits	387,452	177,516
	715,103	310,152
Less: Pledged deposits	(387,452)	(177,516)
Cash and bank balances	327,651	132,636

The Group's cash and bank balances and pledged deposits were denominated in the following currencies as follows:

	2020 RMB'000	2019 RMB'000
Euro	96	1,287
United States dollars	228,424	552
Hong Kong dollars	2,544	3
RMB	484,039	308,310
	715,103	310,152

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

Cash at banks earns interest at the prevailing market interest rates. Time deposits are made for varying periods depending on the cash requirements of the Group and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

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

	2020 RMB'000	2019 RMB'000
Within 3 months	1,014,154	1,008,135
4 to 6 months	512,573	294,595
7 to 12 months	157,604	49,967
1 to 2 years	9,466	5,961
2 to 3 years	1,501	2,409
Over 3 years	4,150	4,817
	1,699,448	1,365,884

The trade payables are non-interest-bearing and are normally settled within 90-day terms.

During the year, the Group assisted certain external forage and transportation suppliers in entering into bank loan agreements. Under the agreements, the banks issue loans to these suppliers provided that the Group grant guarantees to the corresponding banks that any outstanding loans due for repayment can be settled by using the cash payment made by the Group to these suppliers into an escrow bank account for the purchase of products and services from these suppliers. As at 31 December 2020, the trade payables in association with the executed guarantee arrangement amounted to nil (2019: RMB75,166,000).

25. OTHER PAYABLES AND ACCRUALS

	Notes	2020 RMB'000	2019 RMB'000
Payables for purchases of dairy cows	(a)	105	873
Payables for taxes other than corporate income tax	(a)	7,271	7,908
Payables for third parties' deposits	(a)	16,264	22,732
Long term payables due within one year		28,940	27,588
Salary and welfare payables	(a)	62,955	49,733
Payables for acquisition of items of property, plant and equipment	(a)	107,718	144,081
Payables for acquisition of non-controlling interests	(b)	–	200,000
Payables for acquisition of Bayannur Shengmu High-tech Ecological Food Co., Ltd ("Ecological Food Shengmu")	(c)	5,000	24,020
Contract liabilities	(d)	904	50,256
Financial guarantee contracts	(e)	322	2,635
Others	(a)	10,502	44,946
		239,981	574,772

25. OTHER PAYABLES AND ACCRUALS (CONTINUED)

(a) These payables are non-interest-bearing and have an average term of 90 days.

(b) On 21 December 2018, the Company and Shengmu High-tech entered into an equity transfer framework agreement with twelve individual shareholders of Shengmu Sand and Grass (the "Individual Shareholders") to acquire the equity interests held by the Individual Shareholders in Shengmu Sand and Grass at a cash consideration of RMB300,000,000 by instalments from March 2019 to November 2019 and a non-cash consideration of RMB200,000,000 by issuance of shares of the Company. On 30 November 2019, the Group completed the acquisition of the equity interests held by the Individual Shareholders and a consideration of RMB300,000,000 had been settled in cash as at 31 December 2019.

On 29 May 2020, the Company successfully issued 688,705,234 shares at an issue price of per share HK$0.33 to settle such non-cash consideration of RMB200,000,000.

(c) Details of payables for acquisition of Ecological Food Shengmu as at 31 December 2020 are included in note 34 to the financial statements.

(d) Details of contract liabilities as at 31 December 2020 and 31 December 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Short-term advances received from customers		
Sale of goods	904	50,256

Contract liabilities include short-term advances received in relation to the supply of raw milk in the following year. The balances bear interest at 4.8% per annum (2019: 4.8%). The decrease in contract liabilities in 2020 was mainly due to the sale of products from contracts with customers.

(e) The financial guarantee contracts represent guarantees given to banks in connection with facilities granted to associates. As at 31 December 2020, the associates' banking facilities guaranteed by the company were RMB273,000,000 (2019: RMB571,000,000), out of which RMB109,055,000 (2019: RMB343,410,000) was utilised by the associates. The Group has no consideration received from guarantee contracts.

The Group does not provide financial guarantees except for limited circumstances.

The financial guarantee contracts are measured at the higher of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders (i.e., the banks) for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor (i.e., the associates and external distributors).

The credit exposure of the financial guarantee contracts is classified as stage 1. During the year, there were no transfers between stages (2019: Nil).

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 RMB'000	2019 RMB'000
Subscription right of warrants	–	3,267

On 23 December 2018, the Company entered into agreements with Start Great Holdings Limited, a wholly-owned subsidiary of China Mengniu, and Greenbelt Global Limited, who is two independent investors of the company, for the issuance of warrants. In accordance with the agreements, the two investors would be entitled to subscribe the warrants after certain precedent conditions were met.

On 24 January 2019, the first batch issuance of 1,080,248,000 and 127,088,000 warrants to Start Great Holdings Limited and Greenbelt Global Limited, respectively, was approved by the shareholders' meeting of the Group. The warrants may be exercised at HKD0.33 per warrant share, in whole or in part, at the discretion of the relevant warrant holder at any time during the eighteen-month period commencing from the date of issuance of the respective warrants. Upon issue of the warrants, a maximum of 1,207,336,000 new shares could fall to be issued, which represent approximately 15.97% of the total number of shares in issue as at that date. Accordingly, the fair value of the warrants of RMB75,604,000 as at the approval date was transferred from derivative financial liabilities to contributed surplus.

On 5 June 2020, the second batch of 117,079,890 and 13,774,105 warrants to Start Great Holdings Limited and Greenbelt Global Limited, respectively, was approved by the shareholders' meeting of the Group. The warrants may be exercised at HKD0.33 per warrant share, in whole or in part, at the discretion of the relevant warrant holder at any time during the eighteen-month period commencing from the date of issuance of the respective warrants. Upon issue of the warrants, a maximum of 130,853,995 new shares could fall to be issued, which represent approximately 1.56% of the total number of shares in issue as at that date. Accordingly, the fair value of the warrants of RMB3,341,000 as at the approval date was transferred from derivative financial liabilities to contributed surplus.

On 27 July 2020, Start Great Holdings Limited, a wholly-owned subsidiary of China Mengniu, exercised all the 1,197,327,890 warrants to subscribe for 1,197,327,890 shares at the exercise price of HK$0.33 per share. Immediately after the subscription of shares, China Mengniu became the largest shareholder of the Company.

On 31 July 2020, Greenbelt Global Limited exercised all the 140,862,105 warrants to subscribe for 140,862,105 shares at the exercise price of HK$0.33 per share.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	RMB '000	Effective interest rate (%)	Maturity	RMB '000
Current						
Lease liabilities (note 14)	–	–	–	–	2020	32,287
Bank loans – unsecured	2.90-5.22	2021	1,324,561	4.35-6.26	2020	763,650
Bank loans – secured	–	–	–	5.66-6.09	2020	1,370,000
Current portion of long term bank loans – unsecured	1.55	2021	11,312	1.55	2020	11,182
			1,335,873			2,177,119
Non-current						
Bank loans – unsecured	1.55	2022-2024	30,398	1.55	2021-2024	39,443
			1,366,271			2,216,562

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,335,873	2,144,832
In the second year	–	–
In the third to fifth years, inclusive	30,398	39,443
Beyond five years	–	–
	1,366,271	2,184,275
Other borrowings repayable:		
Within one year	–	32,287
	1,366,271	2,216,562

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(i) As at 31 December 2020, substantially all of the Group's bank and other borrowings were denominated in RMB except for the interest-bearing bank loans of RMB 41,710,000 (2019: RMB50,625,000) which were denominated in Euro and RMB 228,372,000 (2019:Nill) which were denominated in USD.

(ii) On 30 December 2019, Shengmu Hi-tech and Inner Mongolia Mengniu (on behalf of China Mengniu) entered into a financial assistance framework agreement under which China Mengniu agrees to provide the Group with an entrusted loan with a daily cap balance of RMB1,600,000,000 for three years ending 31 December 2022. As at 31 December 2019, Inner Mongolia Mengniu had provided the Group with an entrusted loan of RMB1,370,000,000.

As at 31 December 2019, entrusted bank loan of RMB370,000,000 was secured by biological assets of Shengmu High-tech and Shengmu Holding with fair value of RMB603,327,000 in total and a corporate guarantee provided by the Company. The entrusted bank loan facility of RMB1,000,000,000 was secured by biological assets of Shengmu High-tech and Shengmu Holding with fair value of RMB342,339,000 in total and the partial interest of fifteen subsidiaries of the Group with net assets amounting to RMB2,393,939,000) in total. As at 31 December 2020, all the entrusted bank loans were repaid.

28. LONG TERM PAYABLES

	Contract amounts of long term payments		Present value of long term payments	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Within 1 year	28,940	28,940	28,940	27,588
1 to 2 years	–	28,940	–	28,940
2 to 5 years	–	–	–	–
	28,940	57,880	28,940	56,528
Future finance charges	–	(1,352)	–	–
Present value of long term payables	28,940	56,528	28,940	56,528
Portion classified as current liabilities included in other payables	(28,940)	(27,588)	(28,940)	(27,588)
Non-current portion	–	28,940	–	28,940

29. DEFERRED TAX

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 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.

At 31 December 2020, no (2019: nil) 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 RMB1,471,664,000 at 31 December 2020 (2019: RMB1,071,679,000).

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

The Group also has tax losses arising in Mainland China of RMB11,727,000, (2019: RMB8,808,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of the losses of RMB11,727,000 (2019: RMB8,808,000) 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.

30. SHARE CAPITAL

Shares

	2020 RMB'000	2019 RMB'000
Authorised:		
30,000,000,000 ordinary shares of HKD0.00001 each (2019: 30,000,000,000 ordinary shares HKD0.00001 each)	236	236
Issued and fully paid:		
8,381,295,229 (2019: 6,354,400,000) ordinary shares	69	50

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2019	6,354,400,000	50
At 31 December 2019 and 1 January 2020	6,354,400,000	50
Issue of shares (note 25(b))	688,705,234	7
Warrants exercised (note 26)	1,338,189,995	12
At 31 December 2020	8,381,295,229	69

31. RESERVES

(i) Movements in components of equity

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 in the financial statements.

(ii) Contributed surplus

The Group's contributed surplus represents the excess of the net asset value of the subsidiaries acquired by the Company over the nominal amount of the shares issued by the Company as consideration pursuant to the Reorganisation and the warrants exercised as set out in note 26.

(iii) Reserve fund

In accordance with the relevant PRC laws and the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The PRC statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

32. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

Shengmu Pangu	2020	2019
Percentage of equity interest held by non-controlling interests	45%	45%
Profit for the year allocated to non-controlling interests	52,606	39,018
Dividends paid to non-controlling interests	(70,052)	(81,000)
Accumulated balances of non-controlling interests at the end of the reporting period	181,870	199,316

The following tables illustrate the summarised financial information of Shengmu Pangu. The amounts disclosed are before any inter-company eliminations:

	2020 RMB'000	2019 RMB'000
Revenue	261,216	249,586
Profit for the year	116,902	86,303
Total comprehensive income for the year	116,902	86,303
Current assets	104,912	130,358
Biological assets	255,469	236,034
Other non-current assets	115,196	124,183
Current liabilities	(69,959)	(46,188)
Net cash flows from operating activities	197,694	81,281
Net cash flows used in investing activities	(25,052)	(21,561)
Net cash flows used in financing activities	(167,868)	(57,414)
Net increase in cash and cash equivalents	4,774	2,306

33. DISPOSAL OF A SUBSIDIARY

On 11 September 2020, the Group disposal of 80% interests in equity of Yiyingmei to Dabeinong.

	Notes	2020 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	152,198
Right-of-use assets	14(a)	6,291
Other intangible assets		–
Cash and bank balances		39
Trade receivables		473
Prepayments and other receivables		3,821
Inventories		1,096
Trade payables		(1,179)
Other payables and accruals		(78,805)
		83,934
Fair value of the remaining equity interest		(26,956)
Gain on disposal of a subsidiary	4	845
Consideration		57,823
Satisfied by:		
Cash		57,823

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2020 RMB'000
Cash consideration	57,823
Cash and bank balances disposed of	(39)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	57,784

34. BUSINESS COMBINATION

On 31 July 2019, the Group acquired a 100% interest in Ecological Food Shengmu from Shengmu Forage at a cash consideration of RMB24,020,000. Ecological Food Shengmu is engaged in the manufacture of feed. The acquisition was made as part of the Group's strategy to further expand organic feed manufacturing and processing.

The fair values of the identifiable assets and liabilities of Ecological Food Shengmu as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	26,746
Right-of-use assets	14(a)	2,960
Cash and bank balances		1
Trade receivables		296
Inventories		98
Prepayments, other receivables and other assets		2,150
Trade payables		(601)
Other payables and accruals		(7,630)
Total identifiable net assets at fair value		24,020
Satisfied by cash		24,020

The Group incurred no transaction costs for this acquisition.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(24,020)
Cash and bank balances acquired	1
Net outflow of cash and cash equivalents included in cash flows from investing activities	(24,019)
Transaction costs of the acquisition included in cash flows from operating activities	–
	(24,019)

Since the acquisition, Ecological Food Shengmu was under construction and contributed nil and RMB161,000 to the Group's revenue and the consolidated loss, respectively, for the year ended 31 December 2019.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of nil (2019: RMB32,287,000) and nil (2019: RMB32,287,000), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities:

	Bank and other loans RMB'000	Lease liabilities RMB'000	Derivative financial instruments RMB'000
At 1 January 2020	2,184,275	32,287	3,267
Changes from financing cash flows	(818,004)	(32,287)	–
Foreign exchange movement	–	–	74
Transfer to equity	–	–	(3,341)
At 31 December 2020	1,366,271	–	–

	Bank and other loans RMB'000	Lease liabilities RMB'000	Domestic corporate bonds RMB'000	Super short-term notes RMB'000	Derivative financial instruments RMB'000
At 1 January 2019	1,771,013	–	599,209	–	81,238
Changes from financing cash flows	492,819	–	(600,000)	–	–
Foreign exchange movement	–	–	–	–	(1,518)
Fair value gain	–	–	–	–	(849)
Disposal of a subsidiary	(145,000)	–	–	–	–
New lease	–	32,287	–	–	–
Issue of warrants	–	–	–	–	(75,604)
Interest expense	–	–	791	–	–
Finance charges	65,443	–	–	–	–
At 31 December 2019	2,184,275	32,287	–	–	3,267

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

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

	2020 RMB'000	2019 RMB'000
Within operating activities	(8,035)	(7,370)
Within financing activities	(32,287)	–
	(40,322)	(7,370)

36. COMMITMENTS

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

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Plant and machinery	–	54,411
Buildings	–	26,675
	–	81,086

37. RELATED PARTY DISCLOSURES

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

	Note	2020 RMB'000	2019 RMB'000
Associates:			
Sales of products	(i)	42,107	216,585
Purchases of raw materials	(i)	165,455	276,727
Purchases of property, plant and equipment	(i)	84	2,022
Purchases of right-of-use assets	(i)	–	32,287
Affiliates of substantial shareholders:			
Purchases of raw materials	(i) (ii)	43,661	12,423
Sales of products	(i) (ii)	1,069,211	–

Note:

(i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

(ii) The related party transactiions also constitute continuing connected transactions as defined in chapter 14A of the Listing Rules.

37. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Other transactions with related parties:

During the year, Shengmu Forage provided bio-waste (i.e., cow dung) collecting services to the Group's dairy farms for free. Such services included collecting unprocessed bio-waste and cleaning the Group's farms. In return, Shengmu Forage obtained unprocessed bio-waste for free from the Group's farms.

During the year ended and as of 31 December 2020, the Group provided guarantees to banks in respect of the bank loans of the following related parties:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Shengmu Forage	94,600	80,000
Food Union Shengmu	14,455	65,410
Shengmu Dairy	–	198,000

During the year ended 31 December 2020, the Group has paid nil (2019: RMB20,814,000) and nil (2019: Nil) for the purpose of fulfilling the guarantees for the associate distributors and Shengmu Forage, respectively. Details of the guarantees granted were disclosed in note 25(e) to the financial statements.

During the year ended and as at 31 December 2020, no directors of the Company provided guarantees for the bank loans of the Group (2019: two).

(c) Compensation of key management personnel of the Group:

	2020 RMB'000	2019 RMB'000
Short term employee benefits	5,639	4,749
Pension scheme contributions	12	90
	5,651	4,839

Further details of directors' and the chief executive's emoluments are included in note 7 to the financial statements.

37. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Outstanding balances with related parties

	2020 RMB'000	2019 RMB'000
Amounts owed by/(owed to) associates included in:		
Trade and bills receivables	9,460	49,414
Trade and bills payables	(142,565)	(49,083)
Prepayments, deposits and other receivables	534,102	526,492
Contract liabilities	–	(21,901)
Lease liabilities	–	(32,287)
Other payables and accruals	(9,863)	(22,085)
Affiliates of substantial shareholders:		
Trade and bills receivables	114,083	–
Trade and bills payables	(16,771)	(2,358)
Prepayments, deposits and other receivable	17,233	2,023
Other payables and accruals	(28,940)	–

As at 31 December 2020, included in the Group's prepayments, deposits and other receivables were the prepayment to Shengmu Forage for the purchase of raw materials of RMB513,834,000 (2019: RMB515,622,000), which were secured by right-of-use assets (prepaid land lease payments) owned by Shengmu Forage with a fair value of RMB521,428,000.

Except for the ECLs arising from the working capital financing provided to associate distributors which had been fully provided as at 31 December 2019, there was no recent history of default and past due amounts for the outstanding balances with associates and the loan allowance was assessed to be minimal as at 31 December 2020 and 2019.

Other than those balances included in trade receivables and trade payables and the secured prepayment balances as disclosed above, the above balances with related parties are unsecured, interest-free and have no fixed terms of repayment. Trade receivables and trade payables with related parties have similar credit terms to those offered by/to third parties.

As at 31 December 2019, the Group acquired right-of-use assets (prepaid land lease payments) from Shengmu Forage at a consideration of RMB32,287,000. The corresponding land, on which certain farms have been built and operated by the Group, was rented for free by Shengmu Forage to the Group in prior years.

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

2020

Financial assets

	Financial assets at amortised cost RMB'000
Long term receivables	10,498
Financial assets included in prepayments, other receivables and other assets	43,501
Pledged deposits	387,452
Cash and bank balances	327,651
Trade and bills receivables	136,611
	905,713

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	
	Designated as such upon initial recognition RMB'000	RMB'000	Total RMB'000
Long term payables	–	–	–
Financial liabilities included in other payables and accruals	–	168,530	168,530
Trade and bills payables	–	1,699,448	1,699,448
Interest-bearing bank and other borrowings	–	1,366,271	1,366,271
Lease liabilities	–	–	–
Financial guarantee contracts included in other payables and accruals	322	–	322
	322	3,234,249	3,234,571

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2019

Financial assets

	Financial assets at amortised cost RMB'000
Long term receivables	14,505
Financial assets included in prepayments, other receivables and other assets	64,432
Pledged deposits	177,516
Cash and bank balances	132,636
Trade and bills receivables	167,118
	556,207

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	
	Designated as such upon initial recognition RMB'000	RMB'000	Total RMB'000
Long term payables	–	28,940	28,940
Financial liabilities included in other payables and accruals	–	464,240	464,240
Trade and bills payables	–	1,365,884	1,365,884
Interest-bearing bank and other borrowings	–	2,184,275	2,184,275
Lease liabilities	–	32,287	32,287
Financial guarantee contracts included in other payables and accruals	2,635	–	2,635
Derivative financial instruments	3,267	–	3,267
	5,902	4,075,626	4,081,528

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to the fair values, are as follows:

	Carrying amounts As at 31 December		Fair values As at 31 December	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Financial assets				
Long term receivables	10,498	14,505	10,188	14,042
Financial liabilities				
Derivative financial instruments	–	3,267	–	3,267
Financial guarantee contracts	322	2,635	322	2,635
Long term payables	–	28,940	–	27,149
Interest-bearing bank and other borrowings (other than lease liabilities)	1,366,271	2,184,275	1,360,920	2,199,527

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and guarantees given to banks in connection with facilities granted to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of long term receivables, the non-current portion of interest-bearing bank loans and long term payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair value of derivative financial instruments with two counterparties, as disclosed in note 26, are measured using the binomial option pricing model. The carrying amounts of derivative financial instruments are the same as their fair values.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	2020 RMB'000	2019 RMB'000
Derivative financial instruments	–	3,267
Financial guarantee contracts	322	2,635
	322	5,902

Asset and liabilities for which fair values are disclosed:

	Fair value measurement using significant observable inputs (Level 2)	
	2020 RMB'000	2019 RMB'000
Long term receivables	10,188	14,042
Long term payables	–	27,149
Interest-bearing bank and other borrowings (other than lease liabilities)	1,360,920	2,199,527
	1,371,108	2,240,718

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, pledged deposits and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's fair value interest rate risk relates primarily to variable-rate bank and other borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile is set out in note 27.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating-rate borrowings and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2020			
RMB	50	(516)	(516)
RMB	(50)	516	516
2019			
RMB	50	(966)	(966)
RMB	(50)	966	966

* Excluding retained profits

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the year, substantially all of the Group's assets and liabilities were denominated in RMB except that as at 31 December 2020, cash and bank balances of approximately RMB96,000 (2019: RMB1,287,000), RMB228,424,000 (2019: RMB552,000) and RMB2,544,000 (2019: RMB4,000) were denominated in Euro ("EUR"), United States dollars ("USD") and Hong Kong dollars ("HKD"), respectively, and the interest-bearing bank and other borrowings of approximately RMB41,710,000 (2019: RMB50,625,000) and RMB228,372,000 (2019:Nil) were denominated in EUR and USD. The fluctuations of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate (2019: EUR 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 and liabilities):

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
2020	5	9,263
	(5)	(9,263)
2019	5	53,884
	(5)	(53,884)

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging

The tables below show 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. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2020	12-month ECLs	Lifetime ECLs			Total
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade and bills receivables*	–	–	–	136,611	136,611
Long term receivables**					
– Normal**	10,498	–	–	–	10,498
– Doubtful**	–	–	–	–	–
Financial assets included in prepayments, other receivables and other assets*					
– Normal*	–	–	–	43,501	43,501
– Doubtful*	–	–	–	–	–
Pledged deposits					
– Not yet past due	387,452	–	–	–	387,452
Cash and cash equivalents					
– Not yet past due	327,651	–	–	–	327,651
Guarantees given to banks in connection with facilities granted to associates	–	–	–	–	–
– Not yet past due	109,055	–	–	–	109,055
	834,656	–	–	180,112	1,014,768

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2019	12-month ECLs	Lifetime ECLs			Total
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade and bills receivables*	–	–	–	167,118	167,118
Long term receivables**					
– Normal**	14,505	–	–	–	14,505
– Doubtful**	–	–	–	–	–
Financial assets included in prepayments, other receivables and other assets**					
– Normal**	–	–	–	64,432	64,432
– Doubtful**	–	–	–	–	–
Pledged deposits					
– Not yet past due	177,516	–	–	–	177,516
Cash and cash equivalents					
– Not yet past due	132,636	–	–	–	132,636
Guarantees given to banks in connection with facilities granted to associates	–	–	–	–	–
– Not yet past due	343,410	–	–	–	343,410
	668,067	–	–	231,550	899,617

* For trade and bills receivables, prepayments, deposits and other receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 18 and 22 to the financial statements, respectively.

** The credit quality of long term receivables and the financial assets included in prepayments, other receivables and other assets are 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".

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 22 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings and projected cash flows from operations.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments.

	On demand RMB'000	Less than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
2020				
Financial liabilities included in other payables and accruals	168,530	–	–	168,530
Trade and bills payables	1,699,448	–	–	1,699,448
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	1,364,493	32,216	1,396,709
Guarantees given to banks in connection with facilities granted to associates	109,055	–	–	109,055
	1,977,033	1,364,493	32,216	3,373,742
2019				
Long term payables	–	–	28,940	28,940
Financial liabilities included in other payables and accruals	435,300	28,940	–	464,240
Trade and bills payables	1,365,884	–	–	1,365,884
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	2,229,303	42,350	2,271,653
Derivative financial instruments	3,267	–	–	3,267
Guarantees given to banks in connection with facilities granted to associates and external distribution	–	278,000	65,410	343,410
	1,804,451	2,536,243	136,700	4,477,394

40. 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 dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes interest-bearing bank and other borrowings and lease liabilities. Total capital is the equity as shown in the consolidated statement of financial position. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios at the end of the reporting periods were as follows:

	2020 RMB'000	2019 RMB'000
Interest-bearing bank and other borrowings and lease liabilities	1,366,271	2,216,562
Total equity	3,419,526	2,410,828
Gearing ratio	40.0%	91.9%

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31 December 2020 RMB'000	31 December 2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	491,304	522,907
Due from subsidiaries	2,960,116	3,157,437
Total non-current assets	3,451,420	3,680,344
CURRENT ASSETS		
Prepayments, other receivables and other assets	1,164	847
Cash and cash equivalents	2,592	1,242
Due from subsidiaries	595,040	28,935
Total current assets	598,796	31,024
CURRENT LIABILITIES		
Interest-bearing bank loans	239,683	11,182
Derivative financial instruments	–	3,267
Other payables and accruals	4,257	203,903
Total current liabilities	243,940	218,352
NET CURRENT ASSETS/(LIABILITIES)	354,856	(187,328)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,806,276	3,493,016
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	30,398	39,444
Total non-current liabilities	30,398	39,444
Net assets	3,775,878	3,453,572
EQUITY		
Share capital	69	50
Reserves (note 31)	3,775,809	3,453,522
Total equity	3,775,878	3,453,572

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium account RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2020	3,100,541	57,265	(96,700)	392,416	3,453,522
Loss for the year	–	–	(13,893)	–	(13,893)
Other comprehensive income	–	–	–	(265,419)	(265,419)
Total comprehensive income for the year	–	–	(13,893)	(265,419)	(279,312)
Equity-settled warrant arrangements	3,341	–	–	–	3,341
Issue of shares	199,993	–	–	–	199,993
Warrants exercised	398,265	–	–	–	398,265
At 31 December 2020	3,702,140	57,265	(110,593)	126,997	3,775,809
At 1 January 2019	3,024,937	57,265	(84,100)	316,674	3,314,776
Loss for the year	–	–	(12,600)	–	(12,600)
Other comprehensive income	–	–	–	75,742	75,742
Total comprehensive income for the year	–	–	(12,600)	75,742	63,142
Equity-settled warrant arrangements	75,604	–	–	–	75,604
At 31 December 2019	3,100,541	57,265	(96,700)	392,416	3,453,522

The share option reserve comprises the fair value of share options granted which are yet to be exercised. 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.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2021.

FINANCIAL SUMMARY

Below is the summary of audited financial statement of the Group for the relevant years:

Unit: RMB in thousand	For the year ended December 31,				
	2020	2019	2018	2017	2016
Revenue	2,660,823	2,759,369	2,887,167	2,706,842	3,466,544
(Loss)/profit for the year	460,969	135,696	(2,311,217)	(853,790)	956,808
Of which: (loss)/profits attributable to the owners of the parent	406,680	227,742	(2,225,200)	(1,015,266)	680,615
(Loss)/earnings per share attributable to ordinary equity holders of the parent:					
Basic	RMB0.0535	RMB0.0044	(RMB0.350)	(RMB0.160)	RMB0.107
Diluted	RMB0.0535	RMB0.0044	(RMB0.350)	(RMB0.160)	RMB0.106

	As at December 31,				
	2020	2019	2018	2017	2016
Total assets	6,725,226	6,600,253	7,558,361	10,519,695	10,499,295
Total liabilities	3,305,700	4,189,425	4,679,474	5,144,582	4,163,360
Net assets	3,419,526	2,410,828	2,878,887	5,375,113	6,335,935
Of which: equity attributable to the owner of the parent:	3,196,732	2,186,421	2,017,913	4,315,662	5,327,847