



優然牧業
YOURAN DAIRY

China Youran Dairy Group Limited
中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9858

2021 Interim Report



Contents

2	CORPORATE INFORMATION
4	HIGHLIGHTS
5	MANAGEMENT DISCUSSION AND ANALYSIS
20	OTHER INFORMATION
24	REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENT
25	CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
26	CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
28	CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
29	CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
30	NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
55	DEFINITIONS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Xiaodong (張小東) (*President*)

Mr. Dong Jiping (董計平)

Non-Executive Directors

Mr. Zhang Yujun (張玉軍) (*Chairman*)

Mr. Xu Jun (徐軍)

Mr. Xu, Zhan Kevin (許湛)

Mr. Qiu Zhongwei (邱中偉)

Independent Non-Executive Directors

Ms. Xie Xiaoyan (謝曉燕)

Mr. Yao Feng (姚峰)

Mr. Shen Jianzhong (沈建忠)

AUDIT COMMITTEE

Ms. Xie Xiaoyan (謝曉燕) (*Chairman*)

Mr. Yao Feng (姚峰)

Mr. Qiu Zhongwei (邱中偉)

REMUNERATION COMMITTEE

Mr. Shen Jianzhong (沈建忠) (*Chairman*)

Ms. Xie Xiaoyan (謝曉燕)

Mr. Xu Jun (徐軍)

NOMINATION COMMITTEE

Mr. Yao Feng (姚峰) (*Chairman*)

Mr. Shen Jianzhong (沈建忠)

Mr. Xu, Zhan Kevin (許湛)

COMPANY SECRETARY

Ms. Yu Wing Sze (余詠詩)

AUTHORISED REPRESENTATIVES

Mr. Dong Jiping (董計平)

Ms. Yu Wing Sze (余詠詩)

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

Registered Public Interest Entity Auditor

REGISTERED OFFICE

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Camana Bay, Grand Cayman

KY1-9009, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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LEGAL ADVISORS

As to Hong Kong law and United States law
Skadden, Arps, Slate, Meagher & Flom and affiliates

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG SHARE REGISTRAR

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COMPLIANCE ADVISER

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PRINCIPAL BANKERS

Bank of Communications Inner Mongolia
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China

STOCK CODE

9858

COMPANY WEBSITE

<https://www.yourandairy.com>

Highlights

	Six months ended June 30,		Period-on-period change (%)
	2021 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i> (unaudited)	
Revenue	7,291,767	5,344,427	36.4
Including: revenue from raw milk business	4,351,943	3,192,968	36.3
revenue from comprehensive ruminant farming solutions	2,939,824	2,151,459	36.6
Gross profit	2,138,881	1,607,315	33.1
Profit before income tax	1,216,671	770,547	57.9
Profit for the period	1,187,518	744,059	59.6
Profit attributable to owners of the Company	935,275	731,249	27.9
Non-IFRSs measure:			
Adjusted profit attributable to owners of the Company ⁽¹⁾	1,142,013	741,577	54.0
	<i>Heads</i>	<i>Heads</i>	
Herd size of dairy cows	375,654	287,045	30.9

Note:

- (1) Adjusted profit attributable to owners of the Company represents profit, adding back (i) the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate (being RMB101,070,000 for the six months ended June 30, 2021); (ii) the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate (being RMB87,820,000 for the six months ended June 30, 2021); and (iii) the Listing expenses (being RMB17,848,000 for the six months ended June 30, 2021 and RMB10,328,000 for the six months ended June 30, 2020, respectively) (items (i) and (ii) are not applicable for the six months ended June 30, 2020). Shareholders and potential investors of the Company should note that the adjusted profit attributable to owners of the Company is not a measure required by or presented in accordance with the IFRSs.

Management Discussion and Analysis

Industry Review

With respect to the dairy industry, continuous consumption upgrade in China and rising health awareness of Chinese consumers have been driving the demand for dairy products, and the industry as a whole has shown steady growth. The retail sales volume of dairy products in China is expected to grow from 31.1 million tons in 2020 to 33.3 million tons in 2021, and is expected to further increase to 41.0 million tons in 2025, representing a compound annual growth rate (“CAGR”) of 5.7% from 2020 to 2025.

Based on the consumption trend in 2021, the continuous consumption upgrade in the PRC market and the COVID-19 pandemic have greatly changed Chinese consumers’ consumption consciousness, making them more rational and focused on health. With the pandemic prevention and control becoming regular, dairy consumption has rapidly recovered, which has driven up the demand for dairy products, in particular personalised and high-end dairy products with rich nutrients. During the Reporting Period, the retailing sales of liquid dairy products in the domestic market increased by approximately 9% as compared with the six months ended June 30, 2020. Driven by the downstream market demand for dairy products, the average raw milk price in 10 major production provinces in China during the Reporting Period achieved double-digit growth as compared with the average raw milk price for the six months ended June 30, 2020.

In terms of ruminant feed, with the development of dairy industry in China, the herd size of cows has continued to grow, which will drive the steady growth of the feed market. In particular, the expansion of the herd size of cows and the improvement of farming pose higher requirements on the quality of feed and technical services, and are more conducive to the development of feed production enterprises with high-quality feed research and development capabilities and outstanding technical service capabilities. In addition, the Five-year Action Plan on Promoting the Development of Beef Cattle and Sheep Production 《推進肉牛肉羊生產發展五年行動方案》 released by the Ministry of Agriculture and Rural Affairs in April 2021 aims to promote the high-quality and efficient development of beef and mutton production and will facilitate the long-term development of ruminant feed. In particular, the increasing prevalence of scale farming of ruminants has also driven the consumption of and demand for concentrated feed, which contributed to the market growth of concentrated feed for ruminants. The production volume of concentrated feed for ruminants is expected to grow from 13.2 million tons in 2020 to 14.4 million tons in 2021, and is expected to further increase to 17.6 million tons in 2025, representing a CAGR of 6.0% from 2020 to 2025.

With the recovery of the raw milk supply market and the expansion of herd size in China, the frozen bovine semen for dairy cattle market has been on an upward trend. In particular, to effectively grow herds, sex-sorted frozen bovine semen for dairy cattle is expected to enjoy growing popularity among dairy farms in China.

Business Review

The Group is the largest provider of comprehensive products and services along the upstream dairy industry chain in China with a full-service business chain extending from breeding, feed to raw milk production. The Group has achieved synergies across businesses in the industry chain through its leading advantage in size to seize the opportunities of development in the dairy industry, while witnessing a steady growth of all business segments.

During the Reporting Period, through technological innovation and wide implementation of refined operation via TPM system, the Group recorded a significant continuous increase of average yield as evidenced by a year-on-year increase of over 5% in annualised average milk yield per milkable cow (excluding Jerseys) and that daily average milk yield per milking cow in certain farms exceeded 41kg. With our advanced operations and management as well as standardised replication and promotion capabilities, we integrated the operation of the acquired business to improve the operating efficiency of the acquired enterprise while realizing economies of scale. During the Reporting Period, annualised average milk yield per milkable cow of SKX increased by over 8% period on period and the improvement of the operation of Fonterra China Farms Group has also been realised to some extent, driving a decrease in the proportion of selling and distribution expenses and administrative expenses in revenue of the Group during the Reporting Period, which has further enhanced the profitability of the Group. Relying on our strong technical R&D strength and product innovation ability, the Group also launched specialty raw milk, such as organic A2 milk and selenium-rich milk, and other new feed products, such as exclusive pasture nutrients with an average yield target of more than 40kg during the Reporting Period. The research team of SKX led and made major achievements in the research of new bovine stem cells, which is expected to break a new path for the basic research and industrial application of dairy biological breeding in the future.

Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms:

Business Segments	Business Lines	Business Introduction
Raw milk	Raw milk business	The Group provides premium raw milk and specialty raw milk to large-scale dairy manufacturers. Specialty raw milk mainly includes Jersey milk, DHA milk, A2 milk, organic milk, organic A2 milk and selenium-rich milk.
Comprehensive ruminant farming solutions	Feed business	The Group provides nutrition-concentrated feed and forage grass for dairy farms that meet the demands of ruminants for their growth and production, and offers ancillary ruminant farming support services, such as ruminant nutrition, breeding techniques, and ruminant healthcare free of charge.
	Breeding business	The Group provides dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas through its subsidiary, SKX.
	Ruminant farming products marketplace business	The Group provides ruminant farming products purchased from selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, through its online retail platform, <i>Jumuc.com</i> , and offline pick-up stores, to diversify its product offerings and further address its customers' business needs.

Leveraging its leading market position, the comprehensive business coverage along the upstream dairy industry chain and compelling synergies across its business lines, the Group continuously benefits from the rapid growth of China's dairy industry. The number of the Group's dairy cows grew from 287,045 as of June 30, 2020 to 375,654 as of June 30, 2021, and its raw milk sales volume increased by 23.1% from 753,586 tons for the six months ended June 30, 2020 to 927,832 tons in the Reporting Period.

All business segments of the Group recorded satisfactory financial performance during the Reporting Period. The Group's revenue grew by 36.4% from RMB5,344 million for the six months ended June 30, 2020 to RMB7,292 million in the Reporting Period. The revenue from the raw milk business increased by 36.3% from RMB3,193 million for the six months ended June 30, 2020 to RMB4,352 million in the Reporting Period, accounting for 59.7% of the total revenue of the Group for the corresponding period. The revenue from the comprehensive ruminant farming solutions business grew by 36.6% from RMB2,151 million for the six months ended June 30, 2020 to RMB2,940 million in the Reporting Period, accounting for 40.3% of the total revenue of the Group for the corresponding period. Thanks to the significant growth in the revenue and the continuous improvement of the Company's operational efficiency, the Group recorded a net profit of RMB1,188 million in the Reporting Period, representing an increase of 59.6% from RMB744 million for the six months ended June 30, 2020.

Major sources of performance growth of the Group

Continuous improvement of average milk yield

Raw milk production volume of the Group increased by 23.2% from 769,260 tons for the six months ended June 30, 2020 to 947,764 tons in the Reporting Period, which was mainly due to the increase in the annualised average milk yield per milkable cow of the Group (excluding Jerseys) by 5.7% from 10.6 tons for the six months ended June 30, 2020 to 11.2 tons in the Reporting Period. Annualised average milk yield per milkable cow of Youran (excluding Jerseys) in the Reporting Period increased by 2.7% as compared with the six months ended June 30, 2020 and the average milk yield per milkable cow of SKX in the Reporting Period increased by 8.1% as compared with the six months ended June 30, 2020. During the Reporting Period, the daily average milk yield of milking cows at certain farms of the Group exceeded 41kg.

The Group has adopted various measures to improve the average milk yield, including continuously improving and upgrading standard operation processes; adopting precision spraying and concentrated cooling to improve effects of heatstroke prevention and cooling; improving the comfort of the environment for herds and enhancing the welfare of cows; upgrading and improving automation equipment and information systems to improve the management efficiency; improving the quality of forage grass; establishing core herds and conducting genomic testing on reserve cows with genetic testing and breeding technologies. During the Reporting Period, the Group conducted testing on 8.8% of the herd size of heifers and calves as of June 30, 2021. It adopted different breeding strategies on different cows based on the testing results to improve the overall production performance of the herds.

Integration of M&A business to expand business size and improve operational efficiency

The Group completed the acquisition of 58.36% of the equity interest in SKX on January 8, 2020 and completed the acquisition of Fonterra China Farms Group on April 1, 2021. The acquisition of businesses expanded the size of the Group's raw milk business. Meanwhile, it significantly improved the operational efficiency of the businesses acquired. Among them, raw milk production volume of SKX increased by 9.1% from 350,226 tons for the six months ended June 30, 2020 to 381,964 tons in the Reporting Period. Annualised average milk yield per milkable cow of SKX increased by 8.1% from 9.9 tons for the six months ended June 30, 2020 to 10.7 tons in the Reporting Period.

Innovation and development of specialty raw milk and development of high-technology feed products

The Group continues to develop and expand our specialty raw milk offerings through a variety of advanced and practical techniques and means to meet customers' growing demand for specialty raw milk. During the Reporting Period, the Group newly introduced specialty raw milk, such as organic A2 milk containing A2 β -casein which is easier to digest and absorb, and selenium-rich milk to solve selenium deficiency in daily meals and improve immunity.

The Group put an organic dairy farm into operation with a capacity of 10,000 herds at the end of 2020, which contributed to the large sales volume of specialty raw milk of the Group during the Reporting Period and the specialty raw milk business maintained rapid growth.

Leveraging its in-house research and development team, the Group continued to enrich its comprehensive ruminant farming solutions. Through the upgrading and updating of formulas, equipment and processes during the Reporting Period, the Group launched exclusive nourishments for dairy farms with a target average milk yield of over 40kg, antibiotic-free upgraded feed for calves, nutritious products for postpartum care of cows, upgraded products for transition cows against heat stress, dairy goats, breeding rams and other new products.

Continuous and stable growth of average unit price of raw milk

The average unit price of raw milk of the Group grew by 10.7% from RMB4.24/kg for the six months ended June 30, 2020 to RMB4.69/kg in the Reporting Period. The revenue of the raw milk business of the Group increased significantly as a result of the continuous and stable growth of average unit price of raw milk.

Significant growth of sales volume of feed

Benefiting from the significant increase in the sales volume of the feed business, the revenue from the Group's feed business increased by 37.2% from RMB1,977 million for the six months ended June 30, 2020 to RMB2,712 million in the Reporting Period, accounting for 37.2% of the Group's total revenue.

Business segments

Raw milk

By adopting industry-leading management system and technologies, the Group has achieved long-term and stable growth in the raw milk business. The sales volume of the Group's raw milk increased from 769,260 tons for the six months ended June 30, 2020 to 947,764 tons for the Reporting Period.

As of June 30, 2021, the Group operated 73 modern dairy farms across 15 provinces in China, including 48 dairy farms with a designed herd size of over 5,000 heads, accounting for approximately 65.8% of its dairy farms in total.

The following table sets forth certain key operating data with respect to our raw milk business for the periods and as of the dates indicated:

	For the six months ended/ As of June 30,	
	2021	2020
Number of dairy farms	73	65
Number of dairy cows (in heads)	375,654	287,045
Raw milk production volume (in tons)	947,764	769,260
Raw milk sales volume (in tons)	927,832	753,586
Average price of raw milk (RMB/Kg)	4.69	4.24
Annualised average milk yield per milkable cow (excluding Jerseys) (in tons)	11.2	10.6
Including: Annualised average milk yield per milkable cow of Youran (excluding Jerseys) (in tons)	11.6	11.3
Annualised average milk yield per milkable cow of SKX (in tons)	10.7	9.9

Herd structure is crucial for raw milk production. The Group has an optimal herd structure that is ideal for stable milk yields and sustainable herd expansion. As of June 30, 2021, the Group had 189,720 milkable cows and 185,934 calves and heifers, accounting for 50.5% and 49.5% of the total heads of the Group's dairy cows, respectively. The following table presents a breakdown of the Group's dairy cows:

	As of June 30,	
	2021 Heads	2020 Heads
Calves and heifers	185,934	136,685
Milkable cows	189,720	150,360
Total	375,654	287,045

The Group continued to expand the scale of raw milk business and build new dairy farms. As of June 30, 2021, the Group had commenced the construction of new dairy farms in Inner Mongolia, Henan, Gansu, Shandong, Anhui, Xinjiang and other provinces.

Comprehensive ruminant farming solutions

Through nearly 40 years of unwavering focus on ruminant studies, the Group has gained invaluable nutrition research experience and profound industry insights. Leveraging its years of dairy experience and profound insights, the Group can accurately identify the demands and pain points in all key links in the ordinary course of business of its customers. The Group customises comprehensive ruminant farming solutions for its customers based on their actual operational demands and pain points and matches the sales of its ruminant farming products accordingly. As of June 30, 2021, the Group provided leading comprehensive ruminant farming solutions to over 500 dairy farms in China, serving over 1 million ruminants. Through the comprehensive solutions provided, the average yield rate of demonstration dairy farms across China in the Reporting Period increased by 4.4% as compared with the six months ended June 30, 2020, achieving win-win results between the Group and its customers.

The revenue from the Group's comprehensive ruminant farming solutions business segment increased by 36.6% from RMB2,151 million for the six months ended June 30, 2020 to RMB2,940 million in the Reporting Period.

Feed business

The revenue from the Group's feed business increased by 37.2% from RMB1,977 million for the six months ended June 30, 2020 to RMB2,712 million in the Reporting Period, accounting for 37.2% of the Group's total revenue. The growth in the Group's feed business was mainly due to the vigorous expansion by the Group of the markets in Xinjiang, Gansu and Henan with a huge overall herd size during the Reporting Period. The sales volume of concentrated feed during the Reporting Period in such areas increased by 124.1% as compared with the six months ended June 30, 2020. With the technical services and products as well as the four near-infrared spectroscopy laboratories built during the Reporting Period, the Group provided customers with accurate formulas and customised nutrition strategies, established customer reliance and loyalty and promoted the development of new customers. The number of partners in the concentrated feed business during the Reporting Period increased by 13.3% as compared with the six months ended June 30, 2020. The Group was first in the industry to establish standard farming and technical service plans for beef cattle and sheep during the Reporting Period. The sales volume of beef cattle and sheep during the Reporting Period increased by 209.9% as compared with the six months ended June 30, 2020. During the Reporting Period, the Group put a new feed mill into operation, which introduced the most advanced automatic production equipment from Switzerland and Japan with an annual designed capacity of 240,000 tons, serving customers in Shandong, Hebei and Jiangsu.

The Group also supplies cost effective forage grass, mainly alfalfa hay and oat grass, to dairy farm customers through large-scale forage grass growing and trading. In addition, the Group imported 132,129 tons of alfalfa hay during the Reporting Period.

The Group consistently expands the scale of the feed business and constructs new feed mills. As at June 30, 2021, the Group had commenced the construction of a feed mill in Heilongjiang with an annual designed capacity of 400,000 tons, which is expected to be put into operation in 2022.

Breeding business

The Group's breeding business focuses primarily on the production, import trade and sales of frozen bovine semen and embryos. The Group provides its customers with high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas and the sources of frozen bovine semen cover North America, Europe and other regions. In the first half of 2021, SKX offered frozen bovine semen from 20 sires that are among the Top 100 TPI International Bulls. In addition, SKX also cultivates top sires in China through selective breeding. In the first half of 2021, SKX cultivated a sire that ranked the first in the national genetic groups. At the same time, SKX had a total of 13 sires ranking among the top 20 in China, six of which ranked among the top 10. According to the bull list released by the Holstein Association USA in April 2021, SKX has top ranked frozen semen for proven bulls and genomic bulls. With world-class breeds and world-leading core technologies and products, the Group is dedicated to improving the genetic quality of dairy herds in China, thereby empowering the dairy farming industry.

The Group enjoys outstanding advantages in breeding technologies. During the Reporting Period, the research team of SKX's research institute, the team led by Professor Liu Pengtao from Li Ka Shing Faculty of Medicine of the University of Hong Kong and the team of the Inner Mongolia University jointly published the latest research results in novel bovine stem cells. The research achieved breakthroughs in induction of livestock stem cells, a world-class research difficulty in the industry, developed a new path for creating big livestock genome editing and biological breeding in the future and is a milestone achievement in the research on stem cells of grass-feeding livestock. The development of such stem cells can achieve specific functional gene targeting, efficient knock-out and knock-in and can realize the breeding of new sire with "rich lactoferrin, no lactose, OMEGA-3, etc." and other special traits. The promotion and application of the research results are expected to further optimise the genetic genes of cows of the Group and the entire industry and continue to improve the overall genetic quality of cows in the whole industry, and therefore will greatly enhance the sustainable core competitiveness of the Group's breeding business.

The Group consistently expands the scale of the breeding business. As of June 30, 2021, the Group had commenced the construction of a world-class core breeding farm in Inner Mongolia. The base has a designed capacity of 3,500 heads and is expected to be put into use in 2022.

Ruminant farming products marketplace business

Through its online retail platform, *Jumuc.com*, and an extensive network of 27 offline pick-up stores across China, the Group is mainly engaged in the sales of ruminant farming products, including veterinary drugs, husbandry equipment and other ruminant farming products.

Through the introduction of the corresponding technical services, the Group developed large-scale customers with relatively larger consumption and drove up the sales volume of key products, such as products for improving rumen conditions, substitute milk powder and fat powder. The revenue from the ruminant farming products marketplace business increased by approximately 36.5% from RMB146 million for the six months ended June 30, 2020 to RMB200 million in the Reporting Period, accounting for 2.7% of the Group's total revenue.

Enhancing operation assurance through improvement of quality and environmental protection

Quality control

The Group has passed various international standards for certification on food safety and quality management, including the SQF (Safe Quality Food), ISO9001 (the quality management system), ISO22000 (the food safety management system), GLOBAL-GAP (Global Good Agricultural Practice) and China GAP (China Good Agricultural Practice). Based on the abovementioned certifications, the Group has established a comprehensive quality management system and structure and formed a quality management system with full staff, full processes and full dimensions. We have become the first comprehensive enterprise on dairy farming and feed processing in China to pass the review of the SQF food quality safety management system, which further enhanced the Group's capability on product quality and safety control.

The Group maintains a dedicated quality control department at each of our business lines, which is responsible for designing, managing and supervising the implementation of the quality control system of the Group. As of June 30, 2021, we had 350 quality control specialists, substantially all of whom have professional qualifications with respect to food inspection, dairy product inspection and disease inspection.

The Group conducted overall GMP upgrading and transformation on the feed process plants based on general health standards on food enterprises and improved the sanitation management of products. We introduced the QACP system in the processing procedure. During the Reporting Period, the Group had up to 182 key quality control points and a total of approximately over 160 testing items with approximately over 200 methods before the launching of products, which provided strong support to the quality control and management of products.

The Group strictly implements whole-process monitoring on milk sources, selects high-quality and nutritious raw materials nationwide to ensure the high quality and safety of each drop of raw milk produced. The entire process from milking, storage to transportation is sealed to avoid direct contact with the outside. The milk is cooled to below 4°C within 20 minutes after milking and is transported in strict compliance with requirements on cold chain transportation. During the process, each milk truck strictly implements the requirements on "one can, one opening and one lead seal" and applies the GPS (global positioning system) to achieve an online rate of 100% on GPS and 24-hour online monitoring to ensure the high quality and safety of milk.

The Group assesses the quality of its raw milk primarily with four indicators commonly recognised in the industry, namely protein content, fat content, aerobic plate count and somatic cell count. Based on the data in the Reporting Period, our raw milk has average aerobic plate count and somatic cell count as low as 13,000 CFU/ml and 170,000 CFU/ml, significantly lower than the EU Standards, which is among the highest industry standards for raw milk safety in the world. In addition, our raw milk has high nutritional value, with average protein content and fat content as high as 3.3% and 3.9%, respectively, exceeding the standards set forth in China's Premium Milk Initiative (中國國家優質乳工程) and the United States, Japan and the European Union standards.

Environmental protection

The Group improves the economic benefits of production and operation through an “integrated farming” model on dairy farming and ancillary forage grass plantation. Meanwhile, it also promotes environmental protection and pursues green and sustainable development. i) During the Reporting Period, the Group and its suppliers jointly developed intelligent integrated feces treatment equipment and achieved breakthroughs. The equipment significantly improved the efficiency in the recycling of feces. With mature technology, stable operation and low cost, the equipment has been widely applied in new dairy farms of the Group. It will be fully promoted for use after the Group’s dairy farms currently under construction are put into operation in the future; ii) During the Reporting Period, the Group, the South China Institute of Environmental Science and the Institute of Soil Science applied for the project on Revitalizing Inner Mongolia with Technology to study technologies on soil testing and fertilization with liquid fertilizers. Currently, it has selected bases for conducting planting experiment for the project; iii) The Group leased over 30,000 mu of land for integrated farming during the Reporting Period; and iv) The Group invested RMB16 million in upgrading environmental facilities.

Prospects

The Group will seize market opportunities and adopt the following measures to safeguard the sustainable growth of the Group’s businesses: i) The Group will continue to expand the scale and coverage of the raw milk business and replicate its standardised feed mills to continuously expand the market share of various businesses and maintain the leading position in the industry. As of June 30, 2021, the Group had commenced the construction of new dairy farms, one feed mill and one world-class core breeding farm in Inner Mongolia, Henan, Gansu, Shandong, Anhui, Xinjiang and Heilongjiang. ii) Leveraging its strong technical research and development capability, the Group will continue to develop specialty raw milk that caters to consumers’ demands and focus on the development of functional feed and other high-tech products. iii) The Group will widely implement refined operation, cultivate efficient talents and improve standardised process management and control to consistently enhance the organisational capability. Leveraging its advantages in its full-service industry chain and the advanced management and operation capability, the Group will constantly improve the operational efficiency and rapidly consolidate the acquired businesses through the introduction of TPM and other advanced management practice and standards and feeding cows with tailored premium feed based on their demands to improve the operation results and promote the Group to further achieve the results of economies of scale. iv) The Group will set up world-class dairy breeding technology systems and platforms and produce high-quality sex-sorting embryos with new technologies to improve the genetic quality of dairy cows. The Group produced more than 2,000 usable sex-sorting embryos during the Reporting Period. The annualised average milk yield of milkable cows with embryos in the future is expected to improve significantly.

FINANCIAL REVIEW

Revenue

Our revenue increased by 36.4% from RMB5,344 million for the six months ended June 30, 2020 to RMB7,292 million for the Reporting Period.

The following table sets forth a breakdown of our revenue by our product types for the periods indicated:

	For the six months ended June 30,	
	2021	2020
	RMB'000 (unaudited)	
Raw milk	4,351,943	3,192,968
Comprehensive ruminant farming solutions	2,939,824	2,151,459
Total	7,291,767	5,344,427

The increase in our total revenue was primarily due to the growth of raw milk business and comprehensive ruminant farming solutions business. Our revenue generated from raw milk increased by 36.3% from RMB3,193 million for the six months ended June 30, 2020 to RMB4,352 million for the Reporting Period, which was mainly due to the acquisition of Fonterra China Farms Group and the steady increase in raw milk sales and milk prices. Our revenue generated from comprehensive ruminant farming solutions increased by 36.6% from RMB2,151 million for the six months ended June 30, 2020 to RMB2,940 million for the Reporting Period, which was mainly due to the growth of feed business and ruminant farming products marketplace business.

Cost of sales

Our cost of sales increased by 36.3% from RMB4,975 million for the six months ended June 30, 2020 to RMB6,779 million for the Reporting Period.

The following table sets forth a breakdown of our cost of sales before fair value adjustments by our product types for the periods indicated:

	For the six months ended June 30,	
	2021	2020
	RMB'000 (unaudited)	
Raw milk	2,594,678	1,894,056
Comprehensive ruminant farming solutions	2,558,208	1,843,056
Total	5,152,886	3,737,112

The increase was primarily due to the acquisition of Fonterra China Farms Group, the growth of raw milk business and ruminant feed solutions business and the effect of agricultural produce fair value adjustments.

Cost of sales for raw milk business before raw milk fair value adjustments increased by 37.0% from RMB1,894 million for the six months ended June 30, 2020 to RMB2,595 million for the Reporting Period, which was primarily due to the acquisition of Fonterra China Farms Group, the growth of raw milk business, new dairy farms put into production, the increase in the number of dairy cows and the increase in raw material prices.

Cost of sales of comprehensive ruminant farming solutions business before forage grass fair value adjustments increased by 38.8% from RMB1,843 million for the six months ended June 30, 2020 to RMB2,558 million for the Reporting Period, which was primarily due to the increase in sales of concentrated feed and ruminant farming products.

Fair value adjustments for agricultural produce included in cost of sales increased by 31.4% from RMB1,238 million for the six months ended June 30, 2020 to RMB1,626 million for the Reporting Period.

Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest were RMB1,238 million for the six months ended June 30, 2020 and RMB1,626 million for the Reporting Period, respectively. The change reflects the adjustment to the fair value of agricultural produce. Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest was offset against the agricultural produce fair value adjustments included in cost of sales.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB1,607 million for the six months ended June 30, 2020, representing a gross profit margin of 30.1%, and a gross profit of RMB2,139 million for the Reporting Period, representing a gross profit margin of 29.3%.

The following table sets forth a breakdown of our gross profit and gross profit margin by raw milk business and comprehensive ruminant farming solutions business for the periods indicated:

	For the six months ended June 30,			
	2021	2020		
	RMB'000, except for percentage (unaudited)			
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Gross profit				
Raw milk	1,757,265	40.4%	1,298,912	40.7%
Comprehensive ruminant farming solutions	381,616	13.0%	308,403	14.3%
Total	2,138,881	29.3%	1,607,315	30.1%

The decrease in the gross profit margin was primarily due to the increase in raw material price.

The gross profit of the raw milk business increased from RMB1,299 million for the six months ended June 30, 2020 to RMB1,757 million for the Reporting Period. The gross profit margin of the raw milk business decreased from 40.7% for the six months ended June 30, 2020 to 40.4% for the Reporting Period, mainly because of the acquisition of Fonterra China Farms Group and the increase in raw material price.

The gross profit of the comprehensive ruminant farming solutions business increased from RMB308 million for the six months ended June 30, 2020 to RMB382 million for the Reporting Period. The gross profit margin of the comprehensive ruminant farming solutions business decreased from 14.3% for the six months ended June 30, 2020 to 13.0% for the Reporting Period, mainly because of the increase in raw material price.

Gain/loss arising from changes in fair value less costs to sell of biological assets

Our gain/loss arising from changes in fair value less costs to sell of biological assets increased from the fair value loss of RMB218 million for the six months ended June 30, 2020 to the fair value gain of RMB98 million for the Reporting Period, which was primarily due to an increase in the valuation of dairy cows as a result of the improvement of the management level of SKX's dairy farms and Fonterra China Farms Group and the increase in market price of reserve cows.

Other income

Our other income increased by 45% from RMB38 million for the six months ended June 30, 2020 to RMB55 million for the Reporting Period, which was primarily due to the increase of (i) government grants issued with deferred income from RMB13 million for the six months ended June 30, 2020 to RMB26 million for the Reporting Period; and (ii) bank interest income from RMB6 million for the six months ended June 30, 2020 to RMB8 million for the Reporting Period.

Impairment loss under expected credit loss model, net of reversal

Our impairment loss under expected credit loss model, net of reversal increased by 61.6% from RMB12 million for the six months ended June 30, 2020 to RMB19 million for the Reporting Period, which was primarily due to certain receivables recoverability issues with respect to a few clients in the new markets.

Other gains and losses

Our other gains and losses increased by 882.9% from a gain of RMB0.5 million for the six months ended June 30, 2020 to a gain of RMB5 million for the Reporting Period, which was primarily due to the increase in the net differences of foreign exchange gains related to our cash position in USD.

Fair value loss on convertible notes

The Group recorded fair value loss on convertible notes of RMB130 million for the Reporting Period due to the underlying features of the outstanding convertible notes.

Selling and distribution expenses

Our selling and distribution expenses increased by 28.8% from RMB206 million for the six months ended June 30, 2020 to RMB266 million for the Reporting Period, which was primarily due to the increase in the sales volume and the increase in loading, unloading and transportation costs. The proportion of selling and distribution expenses in our revenue decreased from 3.9% for the six months ended June 30, 2020 to 3.6% for the Reporting Period.

Administrative expenses

Our administrative expenses increased by 28.1% from RMB270 million for the six months ended June 30, 2020 to RMB346 million for the Reporting Period, which was primarily due to the acquisition of Fonterra China Farms Group and the increased staff salaries. The proportion of administrative expenses in our revenue decreased from 5.1% for the six months ended June 30, 2020 to 4.7% for the Reporting Period.

Other expenses

Our other expenses decreased by 62.2% from RMB6 million for the six months ended June 30, 2020 to RMB2 million for the Reporting Period, which was primarily due to the estimated litigation compensation in relation to a SKX litigation of RMB5.2 million on June 30, 2020, which was not incurred during the Reporting Period.

Finance costs

Our finance costs increased by 95.1% from RMB153 million for the six months ended June 30, 2020 to RMB298 million for the Reporting Period, which was primarily due to the increased interests recognised for convertible notes at amortised cost and increased bank borrowings.

Profit before tax

As a result of the foregoing, we had a profit before tax of RMB771 million for the six months ended June 30, 2020, compared with a profit before tax of RMB1,217 million for the Reporting Period.

Income tax expense

We recorded a 10.1% increase in income tax expense from RMB26 million for the six months ended June 30, 2020 to RMB29 million for the Reporting Period, which was primarily attributable to the increase in taxable income of the Group.

Profit for the period

As a result of the foregoing, we generated a profit of RMB744 million for the six months ended June 30, 2020 and generated a profit of RMB1,188 million for the Reporting Period, primarily due to the advantages of the effective synergy between the Group's entire upstream industry chain in the dairy industry and various business segments that led to the rapid growth of the overall business scale of the Group, which is reflected in (i) the increase in sales volume and unit price of raw milk; (ii) the completion of the acquisition of Fonterra China Farms Group on April 1, 2021; and (iii) the increase in revenue from our comprehensive ruminant farming solutions business compared with the same period in 2020.

Adjusted profit attributable to owners of the Company

To supplement our consolidated financial information which are presented in accordance with IFRSs, we also use adjusted profit attributable to owners of the Company which is not required by, or presented in accordance with, IFRSs. We believe that this non-IFRSs measure provides useful information to investors and others in understanding and evaluating our consolidated financial results in the same manner as our management.

Adjusted profit attributable to owners of the Company represents profit, adding back (i) the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate (being RMB101,070,000 for the Reporting Period); (ii) the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate (being RMB87,820,000 for the Reporting Period); and (iii) the listing expenses (being RMB17,848,000 for the Reporting Period and RMB10,328,000 for the six months ended June 30, 2020, respectively) (items (i) and (ii) are not applicable for the six months ended June 30, 2020).

The use of this non-IFRSs measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Group's results of operations or financial condition as reported under IFRSs. The Company's presentation of such adjusted figure may not be comparable to a similar measure presented by other companies. However, the Company believes that this measure is a reflection of the Group's normal operating results by adjusting for the potential impacts of certain non-recurring items, and thus facilitate comparisons of operating performance from period to period and company to company to the extent applicable.

The following table reconciles adjusted profit attributable to owners of the Company from the most directly comparable financial measure calculated and presented in accordance with IFRSs (profit attributable to owners of the Company).

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit attributable to owners of the Company	935,275	731,249
Add: the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate	101,070	–
Add: the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate	87,820	–
Add: the listing expenses	17,848	10,328
Non-IFRSs measure: Adjusted profit attributable to owners of the Company	1,142,013	741,577

Liquidity and Capital Resources

During the Reporting Period, the Group funded its cash requirements principally through a combination of cash generated from operating activities, bank borrowings and net proceeds from the Global Offering.

The following table sets forth our cash flows for the periods indicated:

	For the six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Net cash generated from operating activities	1,594,270	1,237,633
Net cash used in investing activities	(4,792,354)	(2,729,006)
Net cash generated from financing activities	4,338,447	2,515,402
Net increase in cash and cash equivalents	1,140,363	1,024,029
Effect of foreign exchange rate changes	17,126	–
Cash and cash equivalents at the beginning of the period	2,619,113	570,476
Cash and cash equivalents at the end of the period	3,776,602	1,594,505

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities was RMB1,594 million. For the six months ended June 30, 2020, net cash generated from operating activities was RMB1,238 million.

Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities was RMB4,792 million, which was mainly attributable to (i) payments for biological assets of RMB1,759 million, (ii) payments for acquisition of subsidiaries of RMB2,490 million, and (iii) payments for property, plant and equipment of RMB1,008 million, partially offset by the proceeds from the disposal of biological assets of RMB598 million.

For the six months ended June 30, 2020, net cash used in investing activities was RMB2,729 million, which was mainly attributable to (i) payments for biological assets of RMB958 million, (ii) payments for acquisition of subsidiaries of RMB1,546 million, and (iii) payments for property, plant and equipment of RMB622 million, partially offset by the proceeds from the disposal of biological assets of RMB409 million.

Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities was RMB4,338 million, which was mainly attributable to (i) proceeds from the Global Offering of RMB2,855 million; and (ii) new bank and other borrowings of RMB7,503 million, partially offset by repayment of bank and other borrowings of RMB5,634 million.

For the six months ended June 30, 2020, net cash generated from financing activities was RMB2,515 million, which was mainly attributable to (i) new bank and other borrowings of RMB3,994 million; and (ii) capital contribution by the then holding company of RMB2,279 million, partially offset by repayment of bank and other borrowings of RMB3,548 million.

Net Gearing Ratio

As of June 30, 2021, the Group's net gearing ratio was 46.2%, which was calculated as net debt (which equalled bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits under current assets) divided by total equity and multiplied by 100%.

Significant Investments Held

Save as disclosed in this interim report, the Group did not make or hold any significant investments (including any investment in an investee company representing 5%, or more of the Company's total assets as at June 30, 2021) during the Reporting Period.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this interim report, as of June 30, 2021, the Group did not have other plans for material investments and capital assets.

Material Acquisitions and/or Disposals of Subsidiaries, Associates and Joint Ventures

On April 1, 2021, the Group completed the acquisition of 100% equity interest in Fonterra China Farms Group including Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.) and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.) at a consideration of RMB2,530,566,000 (subject to final completion audit). Save as disclosed above, as of June 30, 2021, the Group did not have any other material acquisitions and/or disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

The following table sets forth the numbers of full-time staff dedicated to our business and operations by function as of June 30, 2021.

Function	Number of Staff	% of Total
Management personnel	1,147	12.3%
Administrative personnel ⁽¹⁾	1,236	13.2%
Technicians	1,965	21.0%
Salespersons	259	2.8%
Skilled workers ⁽²⁾	3,848	41.2%
Housekeepers ⁽³⁾	895	9.5%
Total	9,350	100%

Notes:

- (1) Administrative personnel primarily include staff who are responsible for human resources, finance and other corporate administrative functions.
- (2) Skilled workers primarily include electricians, maintenance workers, vehicle drivers in connection with our dairy farming activities and chefs that support our daily operations.
- (3) Housekeepers primarily include cleaning operatives.

Our success depends on our ability to attract, retain and motivate qualified employees. To this end, as part of our human resource strategy, we are committed to building the most competitive talent team in our industry. In addition to offering employees competitive salaries, performance-based bonuses and other incentives, we also cultivate elite employees through a variety of channels such as job rotation, online classes, offline professional courses, talent cooperation and overseas study on the basis of the Group's well-established talent cultivating system. Moreover, we also provide our employees with a multi-dimensional and comprehensive promotion path. Therefore, we are able to attract and retain qualified employees and maintain stable core management and technical teams.

We primarily recruit our employees through on-campus job fairs, recruitment agencies and online channels. We are devoted to fostering our expert team to continuously improve modern production levels and keep up with the industry trends. We provide trainings to our employees regularly and conduct reviews to enhance their performance. Every year we select and dispatch outstanding employees to modern, large-scale dairy farms in the United States for advanced studies, which we believe has contributed to the overall improvement of our dairy farm management and productivity.

The total remuneration expenses, excluding share-based payments expenses, for the Reporting Period were RMB536 million, as compared to RMB404 million for the six months ended June 30, 2020, representing a year-on-year increase of 32.7%.

Indebtedness

	As of June 30, 2021 RMB'000 (unaudited)	As of December 31, 2020 RMB'000 (audited)
Bank borrowings	8,067,491	6,196,133
Unsecured	6,500,041	4,862,089
Secured	1,567,450	1,305,041
Other borrowings	–	29,003
	8,067,491	6,196,133
The carrying amounts of the above borrowings are repayable		
Within one year	4,647,571	4,224,527
More than one year but within two years	1,826,963	939,903
More than two years but within five years	1,234,864	933,648
More than five years	358,093	98,055
	8,067,491	6,196,133
Less: Amount due within one year shown under current liabilities	(4,647,571)	(4,224,527)
Amount shown under non-current liabilities	3,419,920	1,971,606
Lease liabilities	950,185	967,489
Less: Amount due for settlement within 12 months shown under current liabilities	(48,879)	(38,684)
Amount due for settlement after 12 months shown under non-current liabilities	901,306	928,805
Other liabilities at amortised cost	20,309	27,106
Portion classified under current liabilities	(6,261)	(6,261)
Portion classified under non-current liabilities	14,048	20,845

Contingent Liabilities

Save as disclosed in this interim report, as at the end of the Reporting Period, the Group had no significant contingent liability.

Capital Commitment

As at June 30, 2021, the Group's capital commitment for the acquisition of property, plant and equipment was RMB2,435 million (as at December 31, 2020: RMB1,682 million), representing an increase compared with that of December 31, 2020, which was mainly due to the purchase of assets for new construction by the Group.

Significant Events After the Reporting Period

Save as disclosed in this interim report, there were no other significant events that might affect the Group since June 30, 2021.

Pledge of Assets

As at June 30, 2021, certain of the Group's bank and other borrowings had been secured by the pledge of the Group's assets, including 39.8% shares of SKX held by a wholly-owned subsidiary of the Company for a loan of the Group, biological assets in the carrying amount of RMB1,922 million and pledged and restricted bank deposits in the carrying amount of RMB62.5 million.

Foreign Exchange Risk

The Group operates mainly in the PRC and majority of revenue and costs of goods sold and operations are denominated in RMB. Almost all of the revenue and costs are denominated in the Group entities respective functional currency.

We are exposed to foreign currency risk primarily with respect to the changes of exchange rate of the USD against the RMB, which is the functional currency of most of the Group's operating entities. General subsidiaries of the Company have foreign currency bank balances which expose the Group to foreign currency risk.

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at June 30, 2021, none of the Directors or chief executive of our Company had any interests or short positions in our Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2021, the persons other than the Directors, who had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of Interest	Number of Shares	Approximate percentage of holding (assuming the Convertible Notes are not converted) ⁽²⁾ (%)	Approximate percentage of holding (assuming the Convertible Notes are fully converted at the conversion price of US\$0.44605) ⁽³⁾ (%)
PAG Holdings Limited ⁽⁴⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)	42.64(L)
		107,315,000(S)	2.83(S)	2.37(S)
Pacific Alliance Group Limited ⁽⁴⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)	42.64(L)
		107,315,000(S)	2.83(S)	2.37(S)
Shan Weijian ⁽⁴⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)	42.64(L)
		107,315,000(S)	2.83(S)	2.37(S)
PAG Capital Limited ⁽⁴⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)	42.64(L)
		107,315,000(S)	2.83(S)	2.37(S)
PAG Dairy GP I Limited ⁽⁴⁾	Interest in controlled corporations	1,562,429,904(L)	41.17(L)	34.45(L)
		5,688,000(S)	0.15(S)	0.13(S)
PAG Dairy I LP ⁽⁴⁾	Interest in controlled corporations	1,562,429,904(L)	41.17(L)	34.45(L)
		5,688,000(S)	0.15(S)	0.13(S)
Yili ⁽⁵⁾	Interest in controlled corporations	1,320,800,000(L)	34.80(L)	29.12(L)
PAG II ⁽⁴⁾	Beneficial interest	822,602,530(L)	21.67(L)	18.14(L)
		5,688,000(S)	0.15(S)	0.13(S)
China Youran Dairy Holding Limited ⁽⁵⁾	Beneficial interest	800,000,000(L)	21.08(L)	17.64(L)

Name of Shareholder	Nature of Interest	Number of Shares	Approximate percentage of holding (assuming the Convertible Notes are not converted) ⁽²⁾ (%)	Approximate percentage of holding (assuming the Convertible Notes are fully converted at the conversion price of US\$0.44605) ⁽³⁾ (%)
PAG III ⁽⁴⁾	Beneficial interest	739,827,374(L)	19.49(L)	16.31(L)
Meadowland ⁽⁶⁾	Beneficial interest	564,982,819(L)	14.89(L)	12.46(L)
Jingang Holding ⁽⁵⁾	Beneficial interest	520,800,000(L)	13.72(L)	11.48(L)
PAG Asia Capital GP I Limited ⁽⁴⁾	Interest in controlled corporations	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)	8.19(L) 2.24(S)
PAG Asia I LP ⁽⁴⁾	Interest in controlled corporations	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)	8.19(L) 2.24(S)
PAG I ⁽⁴⁾	Beneficial interest	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)	8.19(L) 2.24(S)
Credit Suisse Group AG ⁽⁷⁾	Interest in controlled corporations	192,938,000(L) 107,315,000(S)	5.08(L) 2.83(S)	4.25(L) 2.37(S)

Notes:

- (1) The letter "L" denotes the Shareholder's long position in the share capital, while the letter "S" denotes the Shareholder's short position.
- (2) The percentages are calculated on the basis of 3,795,404,000 Shares in issue as at June 30, 2021.
- (3) Assuming no other changes in the issued share capital of the Company, there will be a total of 4,535,231,374 Shares upon full conversion of the Convertible Notes at the conversion price of US\$0.44605.
- (4) PAG I directly held 371,583,651 Shares in the long position and 101,627,000 Shares in the short position and PAG II held 822,602,530 Shares in the long position and 5,688,000 Shares in the short position. In addition, PAG III was interested in 739,827,374 Shares by way of subscription of convertible notes in the amount of US\$330 million at a conversion price of US\$0.44605 (the "Convertible Notes"). As at the date of this interim report, none of the Convertible Notes had been converted. PAG I, PAG II and PAG III are each wholly-owned subsidiaries of funds managed by PAG Capital Limited. PAG I is a wholly-owned subsidiary of PAG Asia I LP, whose general partner is PAG Asia Capital GP I Limited. Accordingly, PAG Asia I LP and PAG Asia Capital GP I Limited were deemed to be interested in 371,583,651 Shares. PAG II and PAG III are each wholly-owned subsidiaries of PAG Dairy I LP, whose general partner is PAG Dairy GP I Limited. Accordingly, PAG Dairy I LP and PAG Dairy GP I Limited were deemed to be interested in an aggregate of 1,562,429,904 Shares. PAG Capital Limited is held as to 55% by Pacific Alliance Group Limited and 45% by Mr. Shan Weijian. Pacific Alliance Group Limited is in turn held as to 99.17% by PAG Holdings Limited. Accordingly, PAG Capital Limited, Pacific Alliance Group Limited, Mr. Shan Weijian and PAG Holdings Limited were deemed to be interested in an aggregate of 1,934,013,555 Shares in the long position and 107,315,000 Shares in the short position.
- (5) China Youran Dairy Holding Limited directly held 800,000,000 Shares and Jingang Holding directly held 520,800,000 Shares. Each of China Youran Dairy Holding Limited and Jingang Holding is a wholly-owned subsidiary of Yili. Accordingly, Yili was deemed to be interested in an aggregate of 1,320,800,000 Shares.
- (6) Meadowland is an exempted limited partnership established under the laws of the Cayman Islands.
- (7) According to the disclosure of interest form filed by Credit Suisse Group AG on June 24, 2021, Credit Suisse (Hong Kong) Limited directly held 192,938,000 Shares in the long position and 107,315,000 Shares in the short position. Credit Suisse (Hong Kong) Limited is wholly owned by Credit Suisse AG Limited, which is in turn wholly owned by Credit Suisse Group AG. Accordingly, Credit Suisse Group AG was deemed to be interested in 192,938,000 Shares in the long position and 107,315,000 Shares in the short position.

Save as disclosed herein, as at June 30, 2021, the Directors are not aware of any other person who had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

USE OF NET PROCEEDS FROM LISTING

The Shares were listed on the Main Board of the Stock Exchange on June 18, 2021. The net proceeds from the Global Offering (following the full exercise of the Over-allotment Option, as defined in the Prospectus), was approximately HK\$3,271 million, after deducting the underwriting commissions and offering expenses paid or payable, which will be gradually utilised for the following purposes as set out in the Prospectus:

- Approximately HK\$2,453 million, or 75.0% of our total net proceeds, will be used for funding our investment projects over the next two years, including building our dairy farms under construction, new dairy farms and a feed mill and purchasing necessary facilities and equipment, to meet our increasing business demands and achieve sustainable growth through economies of scale.
- Approximately HK\$491 million, or 15.0% of our total net proceeds, will be used for purchasing dairy cows for our dairy farms. We plan to import a total of approximately 20,000 Holsteins primarily from Australia and New Zealand over the next two years. Such number was determined with reference to the designed capacity of the relevant dairy farms, the natural breeding cycle of dairy cows and our target for production volume of raw milk in the next two years. Based on an estimated price of RMB24,000 per head of dairy cow, we expect to incur total costs of RMB480 million in connection with the purchase of dairy cows for our dairy farms.
- Approximately HK\$327 million, or 10.0% of our total net proceeds, is intended to be used for working capital and general corporate purposes.

As at June 30, 2021, the Group had not utilized the net proceeds from the Global Offering.

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

During the six months ended June 30, 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company was incorporated in the Cayman Islands on August 21, 2020 with limited liability, and the Shares were listed on the Main Board of the Stock Exchange on June 18, 2021.

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all Shareholders. Throughout the six months ended June 30, 2021, the Company had complied with all the applicable code provisions as set out in the Corporate Governance Code.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code for the Reporting Period.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group. The Audit Committee comprises three members, namely Ms. Xie Xiaoyan (謝曉燕), Mr. Yao Feng (姚峰) and Mr. Qiu Zhongwei (邱中偉), with Ms. Xie Xiaoyan (謝曉燕) (being our independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise) as chairperson of the Audit Committee.

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the Reporting Period and discussed matters with respect to the accounting policies and practices as well as internal control adopted by the Company with senior management members and the Auditor of the Company.

The condensed consolidated financial statements for the six months ended June 30, 2021 have been reviewed by the Auditor, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

OTHER BOARD COMMITTEES

In addition to the Audit Committee, the Company has also established a nomination committee and a remuneration committee.

INTERIM DIVIDEND

The Board did not recommend the distribution of an interim dividend for the six months ended June 30, 2021.

CHANGES IN INFORMATION OF DIRECTORS

As at the date of this interim report, there were no changes in information of Directors required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

德勤

To the Board of Directors of China Youran Dairy Group Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of China Youran Dairy Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 25 to 54, which comprise the condensed consolidated statement of financial position as of June 30, 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“ISRE 2410”) issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other matter

The comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended June 30, 2020 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with ISRE 2410.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

August 27, 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2021

	NOTES	Six months ended June 30,	
		2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Revenue	4	7,291,767	5,344,427
Cost of sales	5	(6,779,340)	(4,975,241)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		1,626,454	1,238,129
Gross profit		2,138,881	1,607,315
Gain/(loss) arising from changes in fair value less costs to sell of biological assets		97,625	(217,637)
Other income	6	54,848	37,835
Impairment loss under expected credit loss model, net of reversal	17	(19,009)	(11,762)
Other gains and losses	7	4,600	468
Fair value loss on convertible notes		(130,298)	–
Selling and distribution expenses		(265,765)	(206,302)
Administrative expenses		(346,357)	(270,333)
Other expenses		(2,351)	(6,224)
Listing expenses		(17,848)	(10,328)
Share of profit of a joint venture		6	69
Finance costs	8	(297,661)	(152,554)
Profit before tax		1,216,671	770,547
Income tax expense	9	(29,153)	(26,488)
Profit for the period	10	1,187,518	744,059
Other comprehensive income/(expense), net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value (loss)/gain on investments in equity instruments at fair value through other comprehensive income		(9,736)	8,825
Exchange differences arising on translation from functional currency to reporting currency		(83,692)	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		135,424	12
Other comprehensive income for the period, net of income tax		41,996	8,837
Total comprehensive income for the period		1,229,514	752,896
Profit for the period attributable to:			
Owners of the Company		935,275	731,249
Non-controlling interests		252,243	12,810
		1,187,518	744,059
Total comprehensive income for the period attributable to:			
Owners of the Company		981,371	736,406
Non-controlling interests		248,143	16,490
		1,229,514	752,896
		RMB	RMB
Earnings per share	11		
Basic		0.28	0.23
Diluted		0.27	N/A

Condensed Consolidated Statement of Financial Position

At June 30, 2021

	NOTES	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	13	7,930,242	6,183,940
Investment properties		28,730	29,853
Right-of-use assets	13	1,695,354	1,321,296
Goodwill	14	792,980	762,741
Intangible assets		4,607	4,934
Biological assets	15	9,262,607	7,038,112
Deferred tax assets		21,723	11,382
Interest in a joint venture		701	808
Equity instruments at fair value through other comprehensive income		62,304	72,040
Pledged and restricted bank deposits		8,215	21,282
Deposits paid for purchase of property, plant and equipment		182,840	140,352
Deposits paid for purchase of biological assets		452,650	208,907
Prepaid lease payment		51,508	–
		20,494,461	15,795,647
Current assets			
Inventories		1,591,058	1,972,145
Trade receivables	16	1,162,252	834,521
Bills receivables at fair value through other comprehensive income ("FVTOCI")		3,385	27,080
Contract assets		11,805	12,139
Biological assets	15	9,720	9,564
Prepayments, deposits and other receivables	18	309,302	246,691
Amounts due from related parties	16 & 26	655,182	555,676
Pledged and restricted bank deposits		54,318	128,367
Bank balances and cash		3,776,602	2,619,113
		7,573,624	6,405,296
Current liabilities			
Trade and bills payables	19	1,263,732	1,438,505
Other payables and accruals	20	1,031,089	1,149,490
Contract liabilities		59,067	34,770
Amounts due to related parties	26	2,128	14,257
Bank and other borrowings	21	4,647,571	4,224,527
Lease liabilities		48,879	38,684
Convertible notes	22	2,234,477	–
Other liabilities		6,261	6,261
Other provisions		13,346	18,546
Income tax payable		25,952	19,068
		9,332,502	6,944,108
Net current liabilities		(1,758,878)	(538,812)
Total assets less current liabilities		18,735,583	15,256,835

	NOTES	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Non-current liabilities			
Bank and other borrowings	21	3,419,920	1,971,606
Convertible notes	22	–	3,043,648
Deferred tax liabilities		6,551	6,667
Deferred income		368,106	216,968
Lease liabilities		901,306	928,805
Other liabilities		14,048	20,845
Other provisions		8,416	6,760
		4,718,347	6,195,299
Net assets			
		14,017,236	9,061,536
Capital and reserves			
Share capital	23	251	219
Reserves		12,527,514	7,819,989
Equity attributable to owners of the Company		12,527,765	7,820,208
Non-controlling interests		1,489,471	1,241,328
Total equity		14,017,236	9,061,536

The consolidated financial statements on pages 25 to 54 were approved and authorised for issue by the board of directors on August 27, 2021 and are signed on its behalf by:

Zhang Xiaodong
Director

Dong Jiping
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2021

	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Convertible notes equity reserve	Capital reserve	Investment revaluation reserve	Translation reserve	Statutory reserve	Retained earnings	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2021 (audited)	219	4,579,533	188,567	-	(4,922)	14,795	29	162,538	2,879,449	7,820,208	1,241,328	9,061,536
Profit and total comprehensive income/(expense) for the period	-	-	-	-	-	(5,682)	51,778	-	935,275	981,371	248,143	1,229,514
Shares issued pursuant to Initial Public Offering ("IPO") (Note 23)	32	2,854,769	-	-	-	-	-	-	-	2,854,801	-	2,854,801
Share issuance cost (Note 23)	-	(91,999)	-	-	-	-	-	-	-	(91,999)	-	(91,999)
Recognition of equity component of convertible notes (Note 22)	-	-	-	963,384	-	-	-	-	-	963,384	-	963,384
At June 30, 2021 (unaudited)	251	7,342,303	188,567	963,384	(4,922)	9,113	51,807	162,538	3,814,724	12,527,765	1,489,471	14,017,236
At January 1, 2020 (audited)	-	-	3,688,567	-	-	-	-	111,797	1,589,455	5,389,819	-	5,389,819
Profit and total comprehensive income for the period	-	-	-	-	-	5,151	6	-	731,249	736,406	16,490	752,896
Capital contributions	-	-	2,278,500	-	-	-	-	-	-	2,278,500	-	2,278,500
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	1,037,932	1,037,932
Acquisition of additional interests in subsidiaries	-	-	-	-	(4,922)	-	-	-	-	(4,922)	(7,076)	(11,998)
At June 30, 2020 (unaudited)	-	-	5,967,067	-	(4,922)	5,151	6	111,797	2,320,704	8,399,803	1,047,346	9,447,149

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2021

	NOTES	Six months ended June 30,	
		2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
OPERATING ACTIVITIES			
Cash generated from operations		1,619,087	1,269,885
Interest received		7,909	5,837
Income taxes paid		(32,726)	(38,089)
Net cash from operating activities		1,594,270	1,237,633
INVESTING ACTIVITIES			
Payments for property, plant and equipment		(1,007,611)	(622,010)
Payments for right-of-use assets		(345,842)	(7,841)
Proceeds from disposal of property, plant and equipment		25,118	3,689
Payments for biological assets		(1,758,944)	(957,944)
Proceeds from disposal of biological assets		598,060	408,758
Prepaid lease payment		(51,508)	–
Acquisitions of subsidiaries		(2,489,988)	(1,546,430)
Placement of pledged and restricted bank deposits		(31,750)	(91,029)
Withdrawal of pledged and restricted bank deposits		118,866	62,724
Receipt of government grants for assets		151,245	21,077
Net cash used in investing activities		(4,792,354)	(2,729,006)
FINANCING ACTIVITIES			
New bank and other borrowings raised		7,503,400	3,993,968
Repayments of bank and other borrowings		(5,634,030)	(3,547,945)
Interest paid for bank borrowings		(156,525)	(131,214)
Repayment of lease liabilities		(36,045)	(32,062)
Interest paid for lease liabilities		(23,465)	(23,290)
Repayment of other liabilities		(7,500)	(11,755)
Net proceeds from issuance of ordinary shares		2,854,801	–
Payments of share issue cost for IPO		(78,041)	–
Payments of interest for convertible notes	22	(59,367)	–
Capital contribution by the then holding company		–	2,278,500
Acquisition of additional interests in subsidiaries		(24,781)	(10,800)
Net cash from financing activities		4,338,447	2,515,402
Net increase in cash and cash equivalents		1,140,363	1,024,029
Cash and cash equivalents at beginning of the period		2,619,113	570,476
Effect of foreign exchange rate changes		17,126	–
Cash and cash equivalents at end of the period, represented by bank balances and cash		3,776,602	1,594,505

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

1. General Information

China Youran Dairy Group Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since June 18, 2021. The address of the Company’s registered office is at the offices of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands. The principal place of business of the Company is No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, the People’s Republic of China (the “PRC”).

In preparation for the listing of the shares of the Company on the Stock Exchange, the Group underwent a group reorganisation, which has been described in Note 2 of Historical Financial Information included in the prospectus of the Company. The Group comprising the Company and its subsidiaries resulting from the reorganisation is regarded as a continuing entity, accordingly, the comparative financial information for the six months ended June 30, 2020 have been prepared as if the Company had always been the holding company of the Group.

The Company and its subsidiaries (together, the “Group”) is primarily engaged in the production and sale of raw milk, and the trading, production and sale of feeds, ruminant farming products and breeding products in the PRC.

During the current interim period, the functional currency of the Company was changed from Renminbi (“RMB”) to United States Dollar (“USD”) as the Company commenced trading business from the first quarter of 2021, with sales and purchases denominated and settled in USD. Accordingly, the functional currency of the Company was changed prospectively from March 31, 2021.

The condensed consolidated financial statements are presented in RMB, which is different from the Company’s functional currency of USD. The directors of the Company adopted RMB as presentation currency because the Group primarily conducts its business in the PRC.

Significant events and transactions in the current interim period:

On April 1, 2021, the Group completed the acquisition of 100% equity interest in Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. (collectively as “Fonterra China Farms Group”). Further details of the acquisition is set out in Note 24.

2. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Going concern assessment

As at June 30, 2021, the Group had net current liabilities of RMB1,758,878,000. The condensed consolidated financial statements have been prepared on a going concern basis, because the directors of the Company are of the opinion that based on a cash flow forecast of the Group for the 12 months ending June 30, 2022 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due for at least 12 months from June 30, 2021. Based on the forecast, the sufficiency of the Group’s working capital for the next 12 months depends on the Group’s ability to obtain the anticipated cash flows from the Group’s operating activities, the available unutilised bank loan facilities obtained and the successful renewal of 12% of the existing bank facilities as at June 30, 2021.

3. Principal Accounting Policies

The condensed consolidated financial statements has been prepared on the historical cost basis except for (i) the biological assets, which are measured at fair value less costs to sell; and (ii) certain financial instruments that are measured at fair value at the end of the Reporting Period.

Except as described below, the accounting policies applied are consistent with those of the Historical Financial Information of the Company for the years ended December 31, 2018, 2019 and 2020, as described in the accountant's report included in prospectus of the Company dated June 7, 2021.

Application of amendments to International Financial Reporting Standards ("IFRSs")

In the current interim period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board, for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions</i>
Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>

The application of the amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. Revenue and Segment Information

Disaggregation of revenue from contracts with customers

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Types of goods:		
Sales of raw milk	4,351,943	3,192,968
Sales of feeds	2,711,981	1,977,149
Sales of ruminant farming products	199,844	146,377
Sales of breeding products	27,999	27,933
	7,291,767	5,344,427
Timing of revenue recognition:		
A point in time	7,291,767	5,344,427

4. Revenue and Segment Information *(continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the six months ended June 30, 2021 (unaudited)

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue					
External customers	4,351,943	2,939,824	7,291,767	–	7,291,767
Inter-segment revenue	–	827,093	827,093	(827,093)	–
	4,351,943	3,766,917	8,118,860	(827,093)	7,291,767
Segment results	1,381,423	148,562	1,529,985		1,529,985
Gain arising from changes in fair value less costs to sell of biological assets					97,625
Fair value loss on convertible notes					(130,298)
Share of profit of a joint venture					6
Unallocated other income and expenses					(84,158)
Unallocated finance costs					(196,489)
Profit before tax					1,216,671

For the six months ended June 30, 2020 (unaudited)

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue					
External customers	3,192,968	2,151,459	5,344,427	–	5,344,427
Inter-segment revenue	–	342,545	342,545	(342,545)	–
	3,192,968	2,494,004	5,686,972	(342,545)	5,344,427
Segment results	989,863	134,560	1,124,423		1,124,423
Loss arising from changes in fair value less costs to sell of biological assets					(217,637)
Share of profit of a joint venture					69
Unallocated other income and expenses					(62,043)
Unallocated finance costs					(74,265)
Profit before tax					770,547

Segment assets and liabilities

The chief operating decision maker (the "CODM") makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

4. Revenue and Segment Information *(continued)*

Other segment information

Amounts included in the measure of segment results:

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
For the six months ended June 30, 2021 (unaudited)					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation charged to profit or loss	163,300	25,158	188,458	6,935	195,393
Impairment loss/(reversal of impairment) of trade and other receivables under expected credit loss model	(1,295)	20,304	19,009	–	19,009
Gain on termination of a lease agreement	(2,386)	–	(2,386)	–	(2,386)
Loss on disposal of property, plant and equipment	2,243	1,445	3,688	–	3,688
Write-down of inventories	–	1,526	1,526	–	1,526
Bank interest income	(5,796)	(2,091)	(7,887)	(22)	(7,909)
Finance costs	99,851	1,321	101,172	196,489	297,661
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	2,517,641	76,443	2,594,084	31	2,594,115
Investment in a joint venture	–	–	–	701	701
Share of profit of a joint venture	–	–	–	6	6

4. Revenue and Segment Information *(continued)*

Other segment information *(continued)*

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
For the six months ended June 30, 2020 (unaudited)					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation charged to profit or loss	123,111	26,126	149,237	7,359	156,596
Impairment loss of trade and other receivables under expected credit loss model, net of reversal	2,110	9,652	11,762	–	11,762
Impairment loss of property, plant and equipment	63	–	63	–	63
Loss/(gain) on disposal of property, plant and equipment	97	(182)	(85)	–	(85)
Write-down of inventories	–	3,994	3,994	–	3,994
Bank interest income	(3,442)	(1,681)	(5,123)	(714)	(5,837)
Finance costs	77,147	1,142	78,289	74,265	152,554
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	1,742,663	43,649	1,786,312	254	1,786,566
Investment in a joint venture	–	–	–	811	811
Share of profit of a joint venture	–	–	–	69	69

Note: Non-current assets excluded goodwill, equity instruments at FVTOCI, pledged and restricted bank deposits, interest in a joint venture, deferred tax assets and non-current assets acquired through business combination (Note 24).

Geographic information

Since all revenue from external customers is derived from the customers located in Mainland China and all of the non-current assets are located in Mainland China and all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, no geographic information by segment is presented.

Revenue from major customers

Revenue from the customer individually contributing over 10% of the total revenue of the Group is as follows:

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Customer A:		
Revenue from sales of raw milk	3,989,538	3,067,087
Revenue from sales of feeds	46,266	–

5. Cost of Sales

An analysis of cost of sales is as follows:

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Cost of raw milk sold before fair value adjustments	2,594,678	1,894,056
Raw milk fair value adjustments	1,622,384	1,233,408
Cost of raw milk sold after fair value adjustments	4,217,062	3,127,464
Cost of feeds sold before forage grass fair value adjustments	2,371,737	1,700,265
Forage grass fair value adjustments	4,070	4,721
Cost of feeds sold after fair value adjustments	2,375,807	1,704,986
Cost of ruminant farming products sold	171,398	126,226
Cost of breeding products	15,073	16,565
Total cost of sales	6,779,340	4,975,241

6. Other Income

An analysis of other income is as follows:

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Government grants released from deferred income	25,891	13,046
Incentive subsidies	11,505	9,826
Rental income	2,903	3,405
Bank interest income	7,909	5,837
Income from sale of scrap materials	2,674	1,626
Compensation income	1,074	1,076
Write-back of other payables	556	2,178
Others	2,336	841
	54,848	37,835

7. Other Gains and Losses

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Foreign exchange differences, net	4,268	–
(Loss)/gain on disposal of property, plant and equipment, net	(3,688)	85
Impairment loss on property, plant and equipment	–	(63)
Fair value gain on derivative financial instruments (Note (i))	75	487
Gain on termination of a lease agreement	2,386	–
Others	1,559	(41)
	4,600	468

Note:

- (i) The fair value changes represent gain/loss on commodity forward contracts entered for the purpose of hedging the market price fluctuations on soybean meal. The Group did not have open positions as at interim period end. The Group did not formally designate or document the hedging transactions with respect to the commodity forward contracts.

8. Finance Costs

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Bank and other borrowings	158,491	128,160
Other liabilities	703	995
Lease liabilities	23,465	23,290
Unwind of interest of other provisions	235	334
Effective interest expense on convertible notes	118,001	–
	300,895	152,779
Less: Amounts capitalised to construction in progress	(3,234)	(225)
	297,661	152,554

Borrowing costs capitalised to qualifying assets were based on actual borrowing costs incurred for specific borrowings.

9. Income Tax Expense

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	41,581	30,363
(Overprovision)/underprovision in prior periods:		
PRC EIT	(1,971)	1,608
Deferred tax	(10,457)	(5,483)
	29,153	26,488

The Company is incorporated as an exempted company and as such is not subject to Cayman Islands taxation.

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of the Company are exempted from PRC EIT for taxable profit from the operation of agricultural business in the PRC. In addition, certain subsidiaries operating in the PRC, including Inner Mongolia Muquan Yuanxing Feeds Co., Ltd., Ningxia Yikangyuan Bio-Technology Co., Ltd., Wulanchabu Bio-Technology Co., Ltd. and Bayinnaoer Bio-Technology Co., Ltd. are eligible for preferential tax rate of 15% under relevant preferential tax policy in relation to PRC western development. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa [2012] No. 97), Ningxia Yikangyuan Bio-Technology Co., Ltd. is eligible for 40% EIT reduction from 2018 to 2020 and 20% EIT reduction from 2021 on the basis of 15% tax rate.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, except for the preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group operating in the PRC are subject to EIT at the statutory rate of 25%.

10. Profit for the Period

The Group's profit for the period is arrived at after charging/(crediting):

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Depreciation of:		
Property, plant and equipment	269,065	224,462
Investment properties	1,123	1,445
Right-of-use assets	51,575	39,042
Amortisation of intangible assets	327	201
Total depreciation and amortisation	322,090	265,150
Less: Capitalised in biological assets	(100,681)	(90,219)
Capitalised in construction in progress	(7,321)	(400)
Capitalised in inventories	(18,695)	(17,935)
Depreciation and amortisation charged directly to profit or loss	195,393	156,596
Research and development costs recognised in profit or loss included in administrative expenses	7,755	7,952
Employee benefits expense:		
Salaries and allowances	535,561	403,577
Retirement benefit scheme contributions	38,399	16,265
Total staff costs	573,960	419,842
Less: Capitalised in biological assets	(128,551)	(94,553)
	445,409	325,289

10. Profit for the Period *(continued)*

An analysis of the Group's results before biological assets fair value adjustments is as follows:

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Profit for the period before biological assets fair value adjustments	1,089,893	961,696
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	97,625	(217,637)
Profit for the period	1,187,518	744,059

11. Earnings per share

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Earnings for the purpose of basic earning per share	935,275	731,249
Effect of dilutive potential ordinary shares: Convertible notes	248,299	–
Earnings for the purpose of diluted earnings per share	1,183,574	731,249

	30/06/2021	30/06/2020
	'000 (unaudited)	'000 (unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating earnings per share	3,334,712	3,208,486*
Effect of dilutive potential ordinary shares: Convertible notes	1,031,275	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,365,987	3,208,486

No diluted earnings per share for the period ended June 30, 2020 was presented as there was no potential ordinary shares in issue for that period.

* The weighted average number of ordinary shares for the purpose of calculating basic earnings per share at June 30, 2020 has been determined on the assumption that the reorganisation as described in Note 2 of Historical Financial Information had been in existence at January 1, 2020.

12. Dividend

No dividends were paid, declared or proposed during the current interim period (six months ended June 30, 2020:nil). The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

13. Property, Plant and Equipment and Right-of-Use Assets

During the current interim period, the Group acquired certain plant and machinery with an aggregate amount of RMB1,079,746,000 and certain right-of-use assets with an aggregate amount of RMB96,844,000 from the acquisition of Fonterra China Farms Group (as defined in Note 24).

During the current interim period, construction in progress of the Group increased with an aggregate amount of RMB849,644,000 (six months ended June 30, 2020: RMB291,404,000) for the expansion of dairy farming operations.

During the current interim period, the Group entered into several new lease agreements with lease terms ranged from 2.5 to 33 years. On lease commencement, the Group recognised right-of-use assets of RMB420,304,000 (six months ended June 30, 2020: RMB367,615,000) and lease liabilities of RMB73,019,000 (six months ended June 30, 2020: RMB354,745,000).

14. Goodwill

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
CARRYING AMOUNT:		
At beginning of the period	762,741	–
Acquisition of subsidiaries (Note 24)	30,239	762,741
At the end of the period	792,980	762,741

For the purpose of impairment testing, goodwill has been allocated to two individual cash-generating units (“CGUs”). The Group’s goodwill of RMB762,741,000 arose from acquisition of Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技术(集團)股份有限公司) (“SKX”, together with its subsidiaries, collectively “SKX Group”) in 2020, and RMB30,239,000 arose from acquisition of Fonterra China Farms Group in 2021. SKX Group and Fonterra China Farms Group mainly engaged in dairy farming business.

Based on management’s assessment, there is no indication that the above goodwill has suffered an impairment since the acquisition. The management will assess the impairment of goodwill at least annually.

15. Biological Assets

The fair value of biological assets at the end of the reporting period is set out below:

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Dairy cows:		
Calves and heifers	3,397,624	2,432,082
Milkable cows	5,817,897	4,564,233
Feeder cattle	9,720	9,564
Breeding stock	47,086	41,797
Total	9,272,327	7,047,676
Less: current portion classified under current assets	(9,720)	(9,564)
Non-current portion classified under non-current assets	9,262,607	7,038,112

The Group has engaged an independent valuer, Jones Lang LaSalle, independent qualified professional valuers which are not connected to the Group, to assist the Group in assessing the fair values of Group’s biological assets. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note 25.

16. Trade Receivables

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Trade receivables	1,243,346	900,956
Less: Allowance for credit loss	(81,094)	(66,435)
	1,162,252	834,521
Trade receivables from related parties	655,182	555,676

The following is the aged analysis of trade receivables, net of allowance for credit losses, presented based on the delivery dates:

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Within 90 days	953,166	740,925
91 days to 180 days	190,620	83,832
181 days to 1 year	15,100	5,889
Over 1 year	3,366	3,875
	1,162,252	834,521

As at June 30, 2021, trade receivables from related parties are aged within 3 months based on the month of delivery.

The following is the past due analysis of the carrying amount of trade receivables:

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Not yet past due	870,599	535,788
Past due less than 30 days	103,527	100,238
Past due more than 30 days but less than 90 days	131,350	153,371
Past due more than 90 days	56,776	45,124
	1,162,252	834,521

The above trade receivables which have been past due more than 90 days are not considered as in default because these trade receivables relate to a number of independent customers for whom there was no recent history of default and they have a good track record with the Group.

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

17. Impairment Assessment on Financial Assets Subject to Expected Credit Loss Model

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Impairment loss recognised in respect of:		
Trade receivables	14,659	10,361
Other receivables	4,350	1,401
	19,009	11,762

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended June 30, 2021 are the same as those followed in the preparation of the Group's Historical Financial Information for the years ended December 31, 2018, 2019 and 2020.

18. Prepayments, Deposits and Other Receivables

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Prepayments	244,212	194,261
Value-added tax recoverable	8,045	11,776
Deposits placed with brokers	15,721	8,606
Rental receivables	3,610	5,820
Utility and other deposits	16,170	8,414
Compensation receivable	10,725	3,270
Advances to staff	3,456	1,717
Capitalised issue costs	–	7,479
Other receivables	15,442	9,077
	317,381	250,420
Less: Allowance of doubtful debts	(8,079)	(3,729)
	309,302	246,691

19. Trade and Bills Payables

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Trade payables	1,140,630	1,015,870
Bills payables	123,102	422,635
	1,263,732	1,438,505

The following is an aged analysis of trade payables presented based on delivery dates.

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Within 1 year	1,078,009	896,459
1 to 2 years	32,964	74,789
2 to 3 years	4,129	10,774
More than 3 years	25,528	33,848
	1,140,630	1,015,870

The maturity period of bills payables are normally within 1 year based on the invoice dates.

20. Other Payables and Accruals

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Payables for purchase of property, plant and equipment	556,192	565,102
Salaries and welfare payables	179,189	181,277
Deposits received from suppliers	114,690	94,464
Service and professional fee payables	25,860	58,636
Freight charges payables	58,504	35,285
Storage fee payables	12,889	13,722
Consideration payable for the acquisition of SKX Group	–	110,745
Payables for acquisition of non-controlling interests	–	24,781
Non-income tax related tax payables	9,095	8,607
Sundry payables and accrued expenses	53,987	41,101
Accrued listing expenses	11,826	13,392
Accrued issue costs	8,857	2,378
	1,031,089	1,149,490

21. Bank and Other Borrowings

During the current interim period, the Group obtained new bank borrowings amounting to RMB7,503,400,000 (six months ended June 30, 2020: RMB3,993,968,000).

The ranges of effective interest rates of the Group's borrowings are as follows:

	30/06/2021 %	31/12/2020 %
Effective interest rates:		
Floating rate borrowing	2.00 to 6.00	3.30 to 5.46
Fixed rate borrowing	3.85 to 5.15	2.00 to 6.53

Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China ("PBOC").

22. Convertible Notes

In November 2020, the Company issued convertible notes with an aggregate principal amount of US\$460 million (equivalent to approximately RMB3,051 million). The convertible notes are subject to cash interest and pay-in-kind interest (the "PIK Interest") on the outstanding principal amount at the rate of 4% per annum and 6% per annum, respectively. The cash interest is payable on the last day of each quarter in arrears commencing on December 31, 2020. The PIK Interest shall capitalise and be added into the then outstanding principal amount, whereupon PIK Interest shall accrue on the then outstanding principal amount plus any capitalised amount of PIK Interest at the same rate. Accrued and capitalised PIK Interest on any portion of the principal amount that is converted into ordinary shares of the Company shall be waived upon the completion of such conversion.

The key terms of the convertible notes are summarised as follows:

(a) Conversion option

The holders shall have the right, but not the obligation, to convert the outstanding principal amount into such number of ordinary shares of the Company at any time subject to and in accordance with terms and conditions attached to the convertible notes. The initial conversion price upon issuance shall be US\$0.44605 per ordinary share. The conversion price shall increase at a rate of 2% per annum, or 0.5% per quarter, on each interest payment date, commencing on the interest payment date immediately following the third anniversary of the issuance date.

22. Convertible Notes *(continued)*

(b) Redemption on maturity

The convertible notes will be matured on the third anniversary of the issuance date and, at the sole discretion of the holders, may be extended to the fifth anniversary of the issuance date. Unless the entire principal amount of the convertible notes have been redeemed or converted earlier in accordance with the terms thereof, the Company shall redeem the entire outstanding principal amount of the convertible notes in full together with accrued interest. The holders may at any time after the occurrence of an event of default as stipulated in the convertible notes instruments require the Company to redeem the outstanding principal amount of the convertible notes or any portion thereof at the redemption price as defined in the convertible notes instruments.

(c) Early redemption

Upon the expiration of the fifteenth month of the issuance date, the holders has an one-off right to require the Company to redeem all outstanding principal amounts of this convertible notes (including the outstanding principal amount plus total accrued interest calculated at 10% per annum (cash interest and PIK Interest) on the principal), or any portion thereof.

The Group has designated the convertible notes as financial liabilities at FVTPL upon initial recognition on November 2020 mainly because its conversion option will not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's ordinary shares (the "Fixed-for-fixed Criterion") under IFRS requirement, given the convertible notes are denominated in USD while the Company's functional currency was RMB before March 31, 2021. The convertible notes was subsequently measured at fair value with changes in fair value recognised in profit or loss up to March 31, 2021.

The Company's functional currency had been changed from RMB to USD as at March 31, 2021 as the Company commenced trading business in the first quarter of 2021, with sales and purchases denominated and settled in USD. As a result, the conversion option of the convertible notes can fulfil the fixed-for-fixed criterion, and the convertible notes are then split into equity conversion component and liability component. The equity conversion component with fair value of approximately RMB963 million as at March 31, 2021 is recognized as equity and will not be subsequently remeasured and the liability component with fair value of approximately RMB2,183 million as at March 31, 2021 is recognized as financial liabilities which will be subsequently measured at amortised cost using the effective interest rate method.

	Financial liability at FVTPL RMB'000	Liability component at amortised cost RMB'000	Convertible notes equity reserve RMB'000	Total RMB'000
At January 1, 2021 (audited)	3,043,648	–	–	3,043,648
Cash interest paid before reclassification	(29,814)	–	–	(29,814)
Changes in fair value*	132,910	–	–	132,910
Reclassification on March 31, 2021	(3,146,744)	2,183,360	963,384	–
Effective interest expense charged for the period	–	118,001	–	118,001
Cash interest paid after reclassification	–	(29,553)	–	(29,553)
Exchange differences	–	(37,331)	–	(37,331)
At June 30, 2021 (unaudited)	–	2,234,477	963,384	3,197,861

* The changes in fair value presented in RMB also includes the exchange effect on translation from USD balances into RMB.

22. Convertible Notes *(continued)*

(c) Early redemption *(continued)*

The fair value of convertible notes at January 1, 2021 and March 31, 2021 were valued by the directors of the Company with reference to an independent qualified professional valuer, Jones Lang LaSalle, not connected to the Group, which has appropriate qualifications and experiences in valuation of similar instruments.

Binomial model was used to determine the underlying equity value of the Company.

Key valuation assumptions used to determine the fair value of the convertible notes are as follows:

	As at March 31, 2021	As at January 1, 2021
Risk-free interest rate	0.26%	0.10%
Volatility	35.50%	37.15%
Stock price (HKD)	3.94	3.94
Dividend yield	0.00%	0.00%
Discount Rate	26.50%	27.63%

23. Share Capital

	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB
Authorised:			
At August 21, 2020 (date of incorporation) and June 30, 2021	10,000,000,000	100,000	691,070
Issued and fully paid:			
At January 1, 2021	3,302,000,000	33,020	219,406
Issuance of ordinary shares upon global offering*	493,404,000	4,934	31,755
At June 30, 2021 (unaudited)	3,795,404,000	37,954	251,161

On August 21, 2020, the Company was incorporated as an exempted company with limited liability under the laws of Cayman Islands with an authorised share capital of US\$100,000 divided into 10,000,000,000 ordinary shares of US\$0.00001 each. On October 27, 2020, the Company issued 3,302,000,000 ordinary shares with a par value of US\$0.00001 as part of the reorganisation as detailed in Note 2 of Historical Financial Information in the Company's prospectus.

* Upon completion of the initial public offering, the Company issued 493,404,000 new shares with par value of US\$0.00001 each at HK\$6.98 and raised gross proceeds of approximately HK\$3,443,960,000 (equivalent to RMB2,854,801,000). The respective share capital amount was approximately RMB32,000 and share premium arising from the issuance was approximately RMB2,854,769,000. The issuance costs amounting to approximately RMB91,999,000 were treated as a deduction against the share premium arising from the issuance, mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related cost.

24. Business Combination

On October 3, 2020, the Group entered into a share purchase agreement with Fonterra Tangshan Dairy Farm (HK) Limited ("Fonterra HK") to purchase its 100% equity interests of Fonterra China Farms Group. Fonterra China Farms Group were owned by Fonterra HK and ultimately controlled by Fonterra Co-operative Group Limited ("Fonterra Group"). The acquisition was completed on April 1, 2021, for an aggregate consideration of RMB2,530,566,000, subject to final completion audit.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB30,239,000. Fonterra China Farms Group are mainly engaged in production and sale of raw milk in the PRC. Fonterra China Farms Group were acquired so as to continue the expansion of the Group's dairy farming operations.

Goodwill arose in the acquisition of Fonterra China Farms Group, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill that arose on these acquisitions is expected to be deductible for tax purposes.

The fair values of the identifiable assets and liabilities of Fonterra China Farms Group recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	1,079,746
Right-of-use assets	96,844
Intangible assets	92
Biological assets	1,108,475
Inventories	164,038
Trade receivables	137,644
Prepayments, deposits and other receivables	11,508
Bank balances and cash	151,323
Trade payables	(136,788)
Other payables and accruals	(70,264)
Contract liabilities	(1,818)
Lease liabilities	(40,473)
Total	2,500,327

The fair value of trade receivables at the date of acquisition amounted to RMB137,644,000. The gross contractual amounts of those trade receivables acquired amounted to RMB137,644,000 at the date of acquisition.

Acquisition-related costs amounting to RMB11,663,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended December 31, 2020.

24. Business Combination *(continued)*

Goodwill arising on acquisition

	RMB'000
Purchase consideration	2,310,000
Adjustment to purchase consideration*	220,566
Adjusted purchase consideration	2,530,566
Less: Net assets acquired	(2,500,327)
Goodwill arising on acquisition	30,239

The purchase consideration of RMB2,310,000,000 is determined based on business valuation. The purchase consideration adjustment is determined by a formula set out in the share purchase agreement, which is calculated as (1) the net debt amount which is the difference between cash amount and certain debt amounts at completion date; and (2) the difference between the net working capital at completion date and the target net working capital; and (3) certain devaluation adjustments (where applicable) based on the number of biological assets at completion date and capital expenditures incurred from the date of share purchase agreement to completion date.

The adjusted purchase consideration of RMB2,530,566,000 has been settled in March 2021.

Net cash outflows on acquisition

	RMB'000
Consideration paid	(2,530,566)
Bank balances and cash acquired	151,323
Net cash outflows on acquisition	(2,379,243)

Included in the profit for the six months ended June 30, 2021 is RMB88,091,000 attributable to the additional business generated by Fonterra China Farms Group. Revenue for the six months ended June 30, 2021 includes RMB337,790,000 generated from Fonterra China Farms Group.

Had the acquisition been completed on January 1, 2021, total group revenue for the six months ended June 30, 2021 would have been RMB7,599,440,000, and profit for the six months ended June 30, 2021 would have been RMB1,217,579,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2021, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group had Fonterra China Farms Group been acquired at the beginning of the current period, the directors of the Group calculated depreciation and amortisation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

25. Fair Value Measurements

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Company reports its findings to the board of directors of the Company to explain the cause of fluctuations in the fair value.

The Group's biological assets and certain of the Group's financial assets are measured at fair value on a recurring basis at the end of each reporting period. The following table gives information about how the fair values of these biological assets and financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 2 and 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value hierarchy			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
As at June 30, 2021 (unaudited)				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	3,397,624	3,397,624
Milkable cows (Note (b))	–	–	5,817,897	5,817,897
Feeder cattle (Note (c))	–	–	9,720	9,720
Breeding stock (Note (d))	–	–	47,086	47,086
Bills receivables at FVTOCI (Note (e))	–	–	3,385	3,385
Equity instruments at FVTOCI (Note (f))	–	–	62,304	62,304
	–	–	9,338,016	9,338,016

	Fair value hierarchy			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
As at December 31, 2020				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	2,432,082	2,432,082
Milkable cows (Note (b))	–	–	4,564,233	4,564,233
Feeder cattle (Note (c))	–	–	9,564	9,564
Breeding stock (Note (d))	–	–	41,797	41,797
Bills receivables at FVTOCI (Note (e))	–	–	27,080	27,080
Equity instruments at FVTOCI (Note (f))	–	–	72,040	72,040
	–	–	7,146,796	7,146,796
<u>Liability</u>				
Convertible notes	–	–	3,043,648	3,043,648

The fair value of convertible notes before March 31, 2021 is under level 3 category and have subsequently remeasured at amortised cost using the effective interest rate method as mentioned in Note 22. There were no transfers between Level 1 and 2 and there were no transfers into or out of Level 3 during the period.

25. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(a)	Biological assets – Calves and heifers	<p>The fair value of 14 months old heifers is determined by reference to the local market selling price.</p> <p>The fair values of calves and heifers at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser.</p> <p>Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.</p>	<p>Estimated local market selling prices of the heifers of 14 months old are RMB20,200 to RMB20,500 per head as at June 30, 2021 (December 31, 2020: RMB19,000 to RMB19,400).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for calves and heifers younger than 14 months old (i.e. from born to 14 months) are ranging from RMB16,404 to RMB18,966 as at June 30, 2021 (December 31, 2020: RMB15,386 to RMB17,245).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are ranging from RMB10,934 to RMB14,536 as at June 30, 2021 (December 31, 2020: RMB9,596 to RMB13,110).</p>	<p>An increase in the estimated local market selling price used would result in an increase in the fair value measurement of calves and heifers, and vice versa.</p> <p>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in an increase/decrease in the fair value measurement of calves and heifers older/younger than 14 months old, and vice versa.</p>

25. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(b)	Biological assets – 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.	<p>Estimated feed costs per kg of raw milk used in the valuation process are ranging from RMB2.12 to RMB2.65 for the six months ended June 30, 2021 (December 31, 2020: RMB2.01 to RMB2.54), based on the historical average feed costs per kg of raw milk after taking into consideration of inflation.</p> <p>A milkable cow could have as many as six lactation cycles. Estimated daily milk yield at each lactation cycle is ranging from 18.89 kg to 32.42 kg for the six months ended June 30, 2021 (December 31, 2020: 18.84 kg to 31.92 kg), depending on the number of the lactation cycles and the individual physical condition.</p> <p>Estimated local future market prices for raw milk are ranging from and RMB4,490 to RMB5,730 per tonne as at June 30, 2021 (December 31, 2020: RMB4,230 to RMB5,690 per tonne).</p> <p>Discount rate for estimated future cash flows used is 13% as at June 30, 2021 (December 31, 2020: 13%).</p>	<p>An increase in the estimated feed costs per kg of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated average selling price of raw milk would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of milkable cows, and vice versa.</p>

25. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(c)	Biological assets – Feeder cattle	<p>Feeder cattle includes bull calves and beef cattle.</p> <p>The fair value of 15 days bull calf is determined by reference to the local market selling price.</p> <p>The fair value of bull calves are determined by reference to the local market selling price of 15 days old bull calves and the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period.</p> <p>The fair value of beef cattle is determined by reference to the local market selling price subtracting the estimated feeding costs to selling date.</p>	<p>Estimated local market selling prices of the 15 days bull calf are RMB5,078 per head as at June 30, 2021 (December 31, 2020: RMB4,838 per head).</p> <p>Estimated feeding costs per head daily for bull calves are RMB24.44 for the six months ended June 30, 2021 (December 31, 2020: RMB24.44).</p>	<p>An increase in the estimated local market selling prices of bull calf used would result in an increase in the fair value measurement of bull calves, and vice versa.</p> <p>An increase in the estimated feeding costs would normally be required by a raiser used would result in an increase/ decrease in the fair value measurement of bull calves older/younger than 15 days old, and vice versa.</p> <p>An increase in the estimated local market selling prices of beef cattle used would result in an increase in the fair value measurement of beef cattle, and vice versa.</p>
(d)	Biological assets – Breeding stock	The fair values of breeding stock are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such breeding stock.	<p>The estimated feed costs per day per bull used in the valuation process are RMB47 for the six months ended 2021 (December 31, 2020: RMB41) based on the historical average feed costs per day of breeding stock after taking into consideration of inflation.</p> <p>Estimated local future market prices for sex-sorting frozen bovine semen are RMB114 per straw as at June 30, 2021 (December 31, 2020: RMB134 per straw). Estimated local future market prices for conventional frozen bovine semen are RMB15 per straw as at June 30, 2021 (December 31, 2020: RMB16.66 per straw).</p> <p>Discount rate for estimated future cash flow used is 13% as at June 30, 2021 (December 31, 2020: 13%).</p>	<p>An increase in the estimated feed costs per day of breeding stock used would result in a decrease in the fair value measurement of the breeding stock, and vice versa.</p> <p>An increase in the estimated selling price of frozen dairy bovine semen used would result in an increase in the fair value measurement of breeding stock, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of breeding stock, and vice versa.</p>

25. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(e)	Bills receivables at FVTOCI	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bills receivables.	Discount rate is ranging from 2.65% to 3.85% at June 30, 2021 (December 31, 2020: 3.18% to 3.29%).	<p>An increase in the discount of fair value for lack of liquidity would result in a decrease in the fair value measurement of the unquoted equity investments.</p> <p>If the discount of fair value for lack of liquidity increase by 1%, the estimated fair value of equity instruments at FVTOCI will decrease by RMB894,564.62 as at June 30, 2021, vice versa.</p>
(f)	Equity instruments at FVTOCI	Market approach	Fair value is estimated based on value of comparable listed companies and discounted for lack of liquidity.	<p>An increase in the discount of fair value for lack of liquidity would result in a decrease in the fair value measurement of the unquoted equity investments.</p> <p>If the discount of fair value for lack of liquidity increase by 1%, the estimated fair value of equity instruments at FVTOCI will decrease by RMB9,734,847.81 as at June 30, 2021, vice versa.</p>

25. Fair Value Measurements *(continued)*

Reconciliation of Level 3 fair value measurements

	Bills receivables at FVTOCI RMB'000	Equity instruments at FVTOCI RMB'000	Convertible notes RMB'000	Biological assets RMB'000	Total RMB'000
At January 1, 2021	27,080	72,040	(3,043,648)	7,047,676	4,103,148
Purchases	34,829	–	–	–	34,829
Settlements	(58,524)	–	–	–	(58,524)
Fair value changes during the period	–	(9,736)	(132,910)	–	(142,646)
Cash interest paid	–	–	29,814	–	29,814
Reclassification of convertible notes (Note 22)	–	–	3,146,744	–	3,146,744
Purchase cost	–	–	–	236,787	236,787
Feeding and other related costs	–	–	–	1,379,096	1,379,096
Decrease due to disposal/death	–	–	–	(597,332)	(597,332)
Gain arising from changes in fair value less costs to sell of biological assets	–	–	–	97,625	97,625
Acquisition of subsidiaries (Note 24)	–	–	–	1,108,475	1,108,475
At June 30, 2021 (unaudited)	3,385	62,304	–	9,272,327	9,338,016

The fair value changes for equity instruments at FVTOCI during the six months ended June 30, 2021 is reported as changes of "Investment revaluation reserve". No gain or loss relating to bills receivables at FVTOCI has been recognised during the interim period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the period approximate their fair value.

26. Related Party Transactions

The Group had the following material transactions and balances with Inner Mongolia Yili Industrial Group Co., Ltd. ("Yili", together with its subsidiaries, collectively "Yili Group"), a major shareholder of the Group.

Transactions with Yili Group for the period

	Note	Six months ended June 30,	
		2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Sales of raw milk to Yili Group	(a)	3,989,538	3,067,087
Sales of feeds to Yili Group	(a)	46,266	–
Purchase of raw materials from Yili Group	(a)	11,476	11,436
Other service to Yili Group	(a)	99	–

Note:

- (a) The above sale and purchase transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved, and the prices are mainly determined based on prices offered to independent third parties.

26. Related Party Transactions *(continued)*

Balances with Yili Group at the period/year end

	Notes	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Amounts due from related parties:			
Trade receivables from Yili Group	(b)	655,182	555,676
Amounts due to related parties:			
Trade payables to Yili Group	(c)	1,922	6,941
Deposits received from Yili Group	(d)	6	7,268
Current account balances with Yili Group	(e)	200	48
		2,128	14,257

Notes:

- (b) The trade receivables are in trade nature, mainly related to the sale of raw milk to Yili Group.
- (c) The trade payables are in trade nature, related to the purchase of raw materials from Yili Group, which aged within one year at the end of the reporting period.
- (d) The balance are in trade nature, related to the deposits received in respect of the sale of raw milk to Yili Group, which is expected to be recognised as revenue within one year.
- (e) The balances are non-trade in nature, unsecured, interest-free and no fixed terms of repayment.

Settlement arrangements with Yili Group for the period

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Trade receivables from the sale of feeds settled on behalf by Yili Group	184,029	188,872

Certain customers who purchase feeds from the Group are also raw milk suppliers of Yili Group (the "Overlapping Parties"). The Group, Yili Group and the Overlapping Parties have entered into an entrusted payment arrangement (the "Entrusted Payment Arrangement"), pursuant to which Yili Group would deduct the amount payable to the Group by the Overlapping Parties (the "Feeds Payments") from the payments made to the Overlapping Parties by Yili Group, and pay the Feeds Payments to the Group directly. The directors of the Company consider that the Entrusted Payment Arrangement is an industry norm in dairy farming products industry in the PRC to simplify the payment procedures.

Compensation to key management personnel

The remuneration of key management personnel, including members of the board of directors and other members of senior management of the Group was as follows:

	Six months ended June 30,	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Salaries and allowances	3,298	1,841
Retirement benefit scheme contributions	154	52
	3,452	1,893

27. Capital Commitments

At the end of the reporting period, the Group had the following capital commitments:

	30/06/2021 RMB'000 (unaudited)	31/12/2020 RMB'000 (audited)
Capital expenditures in respect of acquisition of property, plant and equipment: Contracted but not provided for	2,434,840	1,681,760

28. Contingent Liabilities

On December 7, 2020, the Group received a notice of arbitration regarding the adjustments made to the consideration for acquisition of SKX. The arbitration amount is RMB44.9 million. In the current interim period, there is no development on the arbitration, and the directors of the Company have considered that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Accordingly, no provision has been made in relation to this arbitration.

Apart from ongoing litigation for which provision has been made, at the end of the reporting period, the Group had no significant contingent liability.

Definitions

“Audit Committee”	audit committee of the Company
“Auditor”	Deloitte Touche Tohmatsu
“Board”	our Board of Directors
“BVI”	the British Virgin Islands
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
“China”, or “the PRC”	the People’s Republic of China and, except where the context requires and only for the purpose of this interim report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. “Chinese” shall be construed accordingly
“Company”, “our Company”, or “the Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company with limited liability incorporated in the Cayman Islands on August 21, 2020
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Yili and the PAG Entities
“Director(s)”	the director(s) of our Company
“Fonterra Acquisition”	the acquisition by the Group of 100% of the equity interest of Fonterra China Farms Group
“Fonterra China Farms Group”	Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on December 14, 2010, and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on February 11, 2014, both of which were wholly-owned subsidiaries of Fonterra Group before the Fonterra Acquisition
“Fonterra Group”	Fonterra Co-operative Group Limited, a New Zealand based dairy co-operative company incorporated with limited liability under the laws of New Zealand on October 16, 2001
“Global Offering”	the Hong Kong Public Offering and the International Offering as defined in the Prospectus
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IFRSs”	International Financial Reporting Standards
“Jingang Holding”	HONGKONG JINGANG TRADE HOLDING CO., LIMITED (香港金港商貿控股有限公司), a company incorporated under the laws of Hong Kong with limited liability on January 17, 2011, and a wholly-owned subsidiary of Yili
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Meadowland”	Meadowland Investment Limited Partnership, an exempted limited partnership established under the laws of the Cayman Islands on September 7, 2020, and one of our Pre-IPO investors
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“PAG Entities”	means PAG I, PAG II and PAG III, collectively
“PAG I”	PAGAC Yogurt Holding I Limited, a company incorporated under the laws of the BVI with limited liability on March 18, 2015, and one of our Pre-IPO investors and Controlling Shareholders
“PAG II”	PAGAC Yogurt Holding II Limited, a company incorporated under the laws of Hong Kong on May 3, 2019, and one of our Pre-IPO investors and Controlling Shareholders
“PAG III”	PAGAC Yogurt Holding III Limited, an exempted company incorporated under the laws of the Cayman Islands on October 4, 2019, and one of our Pre-IPO investors and Controlling Shareholders
“Prospectus”	the prospectus of the Company dated June 7, 2021
“Reporting Period”	six months ended June 30, 2021
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of par value US\$0.00001 each in the issued share capital of our Company
“Shareholder(s)”	holder(s) of our Share(s)
“SKX”	Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd (內蒙古賽科星繁育生物技术(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the National Equities Exchange and Quotations (stock code: 834179) which has been a subsidiary of the Company since January 8, 2020
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“United States”, “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”, “U.S. dollars”, “US\$” or “USD”	United States dollars, the lawful currency of the United States
“Yili”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of our Controlling Shareholders
“%”	per cent