



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

ANNUAL REPORT
2021



Contents

2	Corporate Information
4	Distribution Map of Production Bases
5	Highlights
6	President's Statement
8	Awards and Recognition
11	Management Discussion and Analysis
32	Report of Directors
52	Biographical Details of Directors and Senior Management
59	Corporate Governance Report
72	Independent Auditor's Report
76	Consolidated Statement of Profit or Loss and Other Comprehensive Income
77	Consolidated Statement of Financial Position
79	Consolidated Statement of Changes in Equity
80	Consolidated Statement of Cash Flows
82	Notes to the Consolidated Financial Statements
161	Four-Year Financial Summary
162	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 Auditors

REGISTERED OFFICE

89 Nexus Way

Camana Bay, Grand Cayman

KY1-9009, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 169, Hexi Road, Saihan District

Hohhot, Inner Mongolia

China

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F., Tower Two
Times Square
1 Matheson Street, Causeway Bay
Hong Kong

LEGAL ADVISERS

As to Hong Kong law

Skadden, Arps, Slate, Meagher & Flom and affiliates

As to Cayman Islands law

Ogier

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman, KY1-9009
Cayman Islands

HONG KONG SHARE REGISTRAR

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

COMPLIANCE ADVISER

Lego Corporate Finance Limited
Room 1601, 16/F
China Building
29 Queen's Road Central
Hong Kong

PRINCIPAL BANKER

Bank of Communications Inner Mongolia
Region Branch
Fengye Mansion, No. 110, Daxue Road West
Hohhot, Inner Mongolia
China

STOCK CODE

9858

COMPANY WEBSITE

<https://www.yourandairy.com/>

Distribution Map of Production Bases

- 73** self-operated dairy farms
Covering 16 provinces, municipalities and autonomous regions with more than 410,000 dairy cows
- 13** feed mills
Covering 26 provinces, municipalities and autonomous regions, and serving around 1,500,000 ruminants
- 12** forage grass plantation bases
Having built forage grass plantation bases centered on Ar Horqin Banner, the China's "Grass Capital", for producing premium forage grass with nearly 200,000 mu of land area for integrated planting and farming
- 3** key bull stations
The United States: Wisconsin
China: Horinger and Qingshuihe
- 1** dairy industry chain platform
Industry chain financial center, warehousing and logistics center, cloud sharing center and global procurement center



Highlights

	Year ended December 31,		Year-on-year change (%)
	2021 RMB'000	2020 RMB'000	
Revenue	15,346,167	11,781,195	30.3
Including: revenue from raw milk business	9,537,814	6,994,592	36.4
revenue from comprehensive ruminant farming solutions	5,808,353	4,786,603	21.3
Gross profit	4,694,479	3,603,192	30.3
Profit before income tax	2,095,333	1,594,435	31.4
Profit for the year	2,021,216	1,540,630	31.2
Profit attributable to owners of the Company	1,558,016	1,340,735	16.2
Non-IFRSs measure: Adjusted profit attributable to owners of the Company ¹	2,040,400	1,368,093	49.1
	Heads	Heads	
Herd size of dairy cows	416,196	308,195	35.0

The Board did not recommend the distribution of a final dividend for the year ended December 31, 2021.



1 Adjusted profit represents profit attributable to owners of the Company, after adjusting (i) the difference between the fair value loss on convertible notes and the total interest of 4% of the nominal cash interest rate of RMB103,696,000 for the year ended December 31, 2021 (2020: RMB(7,007,000)); (ii) the difference between the effective interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal cash interest rate of RMB291,799,000 for the year ended December 31, 2021 (2020: Nil); (iii) the listing expenses of RMB17,848,000 for the year ended December 31, 2021 (2020: RMB34,365,000); and (iv) loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX of RMB69,041,000 for the year ended December 31, 2021 (2020: Nil).

President's Statement

China Youran Dairy Group Limited is a leader in China's upstream dairy market with business covering the entire upstream dairy industry chain from breeding, feed to raw milk production, and has achieved a leading position in all business segments.

On June 18, 2021, the Company successfully listed its Shares on the Stock Exchange, realising the integration of capital and industrial chain resources. It was included in the Southbound trading of the Shanghai-Hong Kong Stock Connect less than three months after its listing, and was successfully included in the MSCI China Small Cap Index in November of the same year. Within half a year from its listing, the Company was repeatedly recognised by the capital market, which represented the great affirmation of the Group's comprehensive strength such as various business indicators and corporate governance in the capital market.

On behalf of the Board, I am pleased to present the annual results of the Group for the Reporting Period to all Shareholders.

Looking back at 2021, faced with adverse factors such as the COVID-19 pandemic, the continuous tension between China and the U.S., and the increasingly rising prices of bulk raw materials in the complicated and ever-changing market environment, the Group overcame the adverse impacts caused by the rise in cost of raw materials by leveraging its own advantages and refining its internal management. All employees overcame difficulties with high morale and concerted efforts, achieving orderly production while implementing effective pandemic prevention and control measures. The Group recorded a revenue of RMB15,346 million and a profit of RMB2,021 million for the Reporting Period, representing an increase of 30.3% and 31.2%, respectively, compared to the year ended December 31, 2020.

In 2021, through the effective integration of the Group's M&A businesses, strategic layout and high-standard investment in new farms and feed mills, product development and technological innovation, effective enhancement of refined management, development and use of digital management systems, all-round quality assurance



President's Statement

and establishment of sustainable development model, each of the Group's business segments exceeded its respective targets with significant improvement in its profitability, which further consolidated the Group's long-term advantages of "the most comprehensive upstream dairy industry chain, the largest scale, the best structure and the strongest operational capacity", and contributed to the Group's sustainable development.

With the support of national policies and under the trend of further scaling up dairy farming, the Group continued to enhance the effective synergy between each business segment through close cooperation with downstream customers, promoted the digitalisation and intelligence of production and management and improved the production capacity and average milk yield to provide consumers and customers with high quality raw milk and comprehensive ruminant farming solutions. Furthermore, the Group proposed a strategic goal of recreating a "Youran Dairy" by 2026 to consolidate its leading position in the industry and constantly create value for customers, Shareholders and the society.

On behalf of the Board, I would like to express our gratitude to the Shareholders who have always trusted and supported the Group. In a complicated and volatile market environment, the trust and recognition of Shareholders is our motivation to move forward, and I would like to sincerely thank the Board, the management team and all staff for their hard work and dedication in the past year.

In light of the great plan and heavy responsibilities, the Group will live up to expectations, and continue to consolidate its long-term advantages to lead the Chinese dairy farming industry in terms of scale and profitability. The Group will always be committed to producing and providing quality products, technology and services to enhance its comprehensive competitiveness, reward customers and Shareholders with quality products and outstanding performance, and contribute its continuous efforts to the healthy development of the Chinese dairy industry.



Awards and Recognition



Inner Mongolia Youran Dairy Co., Ltd.
Agricultural and Rural Informatization
Demonstration Base (Production Type)
Ministry of Agriculture and Rural Affairs
of the People's Republic of China



Inner Mongolia Youran Dairy Co., Ltd.
Enlisted in "The Marvel and Splendor of Dairy China
– The Outstanding Company Directory During Realising
the 13th Five-Year Plan"
Dairy Association of China



The team of Dr. Li Xihe from SKX Research Institute,
the team of the University of Hong Kong
and the team of Inner Mongolia University
Establishment of bovine expanded potential stem cells
Proceedings of the National Academy of Sciences
of the United States of America (PNAS)



Inner Mongolia Youran Dairy Co., Ltd.
Intellectual Property Management System Certification
Zhongzhi (Beijing) Certification Co., Ltd.

Awards and Recognition



Inner Mongolia Youran Dairy Co., Ltd.
No.9 among the Top 100 Private Enterprises in Inner Mongolia
Inner Mongolia Federation of Industry and Commerce &
Inner Mongolia Development and Reform Commission



Inner Mongolia Youran Dairy Co., Ltd.
Key Leading Enterprise in the Industrialisation of
Agricultural and Animal Husbandry Sector
in Inner Mongolia Autonomous Region
People's Government of Inner Mongolia Autonomous Region



China Youran Dairy Group Limited
The 11th Golden Bauhinia Awards of China Securities
— The Most Valuable Listed Company for Investment
Hong Kong Ta Kung Wen Wei Media Group Limited



China Youran Dairy Group Limited
The 6th Golden Hong Kong Stocks Awards Ceremony
— The Most Valuable Company in Consumer and Service Sector
Shenzhen Zhitong Caijing Information Technology Services Co., Ltd.



Awards and Recognition



China Youran Dairy Group Limited
2021 China Financial Market Award – “The Most Potential Listed Company” & “The Best Brand Value Award”
China Financial Market, a famous financial magazine



China Youran Dairy Group Limited
2021 Award for Social Responsibility of Listed Companies
at the 11th Philanthropy Festival
syobserve.com
www.gongyidaily.com



Inner Mongolia Muquan Yuanxing Feed Co., Ltd.
Leading Enterprise in Competitive Agricultural and Animal Husbandry Industry Clusters in Inner Mongolia
Inner Mongolia Association of Agricultural Leading Enterprises
Inner Mongolia Green and Organic Food Association



Inner Mongolia Yihe Lvjin Agriculture Development Co., Ltd.
Key Leading Enterprise in the Industrialisation of Agricultural and Animal Husbandry Sector in Chifeng City in 2021
Chifeng Municipal People's Government



Management Discussion and Analysis

LONG-TERM ADVANTAGES

In pursuit of the vision “leading the dairy farming industry in China and to become the most reliable world-class dairy farming group”, the Group focuses on the upstream dairy market, and continues to consolidate its long-term advantages of “the most comprehensive upstream dairy industry chain, the largest scale, the best structure and the strongest operational capacity” to constantly create value for customers, Shareholders and the society and achieve the Group’s sustainable development.

Through nearly 40 years of development, as a leading enterprise in the upstream dairy industry, the Group’s long-term advantages during the Reporting Period were mainly in the following aspects: (i) the Group’s business has covered the entire upstream dairy industry chain from raw milk business, feed business, breeding business to ruminant farming products marketplace business, each of which has secured a leading position in its own field. The Group offered diversified services such as online product trading, technical consultation, remote diagnosis and information support through *Jumuc.com*, a China’s leading sharing platform for dairy industry chain. (ii) Against the backdrop of increasingly tight land resources, the Group leveraged its first-mover advantage to expand dairy farms and feed mills. During the Reporting Period, three newly built dairy farms, one feed mill, one premix production workshop and one key bull station of the Group had been put into operation. Meanwhile, the Group acquired Fonterra China Farms Group (including six dairy farms) during the Reporting Period, and the number of dairy cows of the Group reached 416,000 as of December 31, 2021. During the Reporting Period, the Group’s production volume of raw milk and concentrated feed reached 1,990,000 tons and 1,111,000 tons, respectively. (iii) The Group has continuously enriched its specialty raw milk offerings. During the Reporting Period, in addition to organic milk, A2 milk, DHA milk, Jersey milk and other categories of specialty raw milk, the Group also launched special raw milk such as organic A2 milk and selenium-rich milk to continuously increase its total production volume of special raw milk. During the Reporting Period, SKX cultivated a sire that ranked the first in the national genetic groups (NAAB registration). Moreover, SKX’s research team took the lead in making great achievements in the research of new stem cells in cattle, which is expected to open up a new avenue for the basic research and industrial application of dairy cattle bio-breeding in the future. With the advanced breeding techniques of SKX, the supply of core breeding herds for the Group will be guaranteed in the long-term run. (iv) As the world’s first Chinese dairy farming enterprise in the industry recognised by an authoritative international lean production management certification organisation, Japan Institute of Plant Maintenance, with the Excellence Award, the Group took the initiative in introducing the industrialised mode into the upstream dairy industry, and replicated the lean production operation and management mode in its own and social farms and feed mills in a standardised and rapid way, thereby rapidly improving the organisational and operational capabilities of its own farms, production bases and partners.

Management Discussion and Analysis

INDUSTRY REVIEW

With respect to the dairy industry, with the rapid recovery of China's economy, the growth of national income and the change in consumer awareness, new momentum is being created for the growth of dairy products. According to the National Bureau of Statistics, national dairy production increased by 9.4% year-on-year during the Reporting Period, while national milk production increased by 7.1% year-on-year, driven by the demand of the dairy downstream market. The growth rate of dairy production still outperformed that of raw milk supply, and the tension between demand and supply continued, which would support milk prices to maintain a high level. 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, in terms of the equivalent of raw milk, per capita dairy product consumption in China was 38.3 kilograms, accounting for approximately one-third of the world average level and still with room for growth. The change in consumers' consumption consciousness has driven up the demand for dairy products, in particular personalised and high-end dairy products with rich nutrients. Upon the implementation of regular epidemic prevention and control measures, the consumption of dairy products rapidly recovered. According to AC Nielsen, sales of high-end white milk increased by 16.5% year-on-year during the Reporting Period.

With respect to the dairy farming industry, due to the tightening of national land policies, increased environmental requirements, price increases of bulk raw materials as a result of trade frictions and the epidemic, the barriers of the dairy farming industry continue to heighten and the concentration is further increased, promoting the scale development of large dairy farming groups. In November 2021, the State Council issued the 14th Five-Year Plan for Promoting Agricultural and Rural Modernisation (《「十四五」推進農業農村現代化規劃》), which explicitly provides that the state will revitalise the seed industry, establish milk source bases and develop green and circular agriculture with organic combination of planting and breeding. On February 16, 2022, the Ministry of Agriculture and Rural Affairs of the People's Republic of China (the "Ministry of Agriculture and Rural Affairs") issued the Action Plan for Improving the Competitiveness of Dairy Industry in the 14th Five-Year Plan (《「十四五」奶業競爭力提升行動方案》). The plan defines the action goal: by 2025, the national milk output will reach about 41 million tons, which aims to improve the competitiveness of dairy industry and ensure the safety of milk supply. The above national policies will bring more development opportunities for large-scale dairy farming group with business operations covering the entire industry chain.

With respect to ruminant feed, according to the monitoring data of the Ministry of Agriculture and Rural Affairs, the production volume of concentrated feed for ruminants grew by 12.2% from 13.2 million tons for the year ended December 31, 2020 to 14.8 million tons during the Reporting Period. The expansion of the herd size of cows, the improvement of farming and the demand for scale farming promoted the growth of the market of concentrated feed for ruminants. As the requirements on the quality of feed and technical services became more stringent, the advantages of feed production enterprises with research and development capabilities and technical service capabilities have been increasingly prominent. 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 will promote the high-quality and efficient development of beef cattle and sheep production and will facilitate the long-term development of ruminant feed.

Management Discussion and Analysis

With respect to the breeding business, in April 2021, the Ministry of Agriculture and Rural Affairs issued the National Livestock and Poultry Genetic Improvement Plan (2021-2035) 《全國畜禽遺傳改良計劃(2021-2035年)》, clarifying target tasks and technical routes for genetic improvement of major livestock and poultry in China in the next 15 years. In July 2021, the Ministry of Agriculture and Rural Affairs released the Reply to the Proposal No. 9075 of the Fourth Session of the 13th National People's Congress 《對十三屆全國人大四次會議第9075號建議的答覆》, clarifying that it will resolutely promote the revitalisation of the dairy industry and the seed industry, strengthen the breeding of domestically-produced fine breeds of dairy cows and the establishment of in-house breeding system, support the popularisation and application of domestically-produced high-quality dairy cows and genetic resources, and guarantee the supply of domestically-produced dairy cows. With the support of national livestock and poultry genetic improvement and breeding policies, it will become a national strategy to enhance the core competitiveness of China's dairy breeding industry by improving herd genetics to gradually narrow the gap with international genetic performance, so as to ensure germplasm resources security, which is expected to open up a new avenue for basic research and industrial application of dairy cattle bio-breeding in the future.

BUSINESS REVIEW

As the largest provider of comprehensive products and services along the upstream dairy industry chain in China, the Group continued to maintain high growth in its raw milk, feed and breeding businesses during the Reporting Period by leveraging its advantages in scale as a leading enterprise and model of business operations spanning the entire upstream dairy industry chain. Each business segment synergised highly and effectively to reduce cost, improve economies of scale and enhance the Group's ability to resist risks, thereby consolidating the Group's leading position in the industry. During the Reporting Period, the Group expanded the production scale of its raw milk and feed businesses through acquisition and construction of dairy farms and feed mills. During the Reporting Period, the Group continued to launch new products of specialty raw milk and feed products. During the Reporting Period, the Group improved operational efficiency through effective implementation of lean production management and further increased average milk yield.

Management Discussion and Analysis

The following table sets forth the Group's two business segments, i.e. raw milk and comprehensive ruminant farming solutions:

Business Segments	Business Lines	Business Introduction
Comprehensive ruminant farming solutions	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.
	Feed business	The Group provides nutritious concentrated feed and forage grass for dairy farms that meet the demands of ruminants for their growth and production, and offers ancillary 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 regular frozen bovine semen, sex-sorted frozen bovine semen, embryos, breeding solutions, etc. from home and abroad 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 <i>Jumuc.com</i> , a China's leading sharing platform for dairy industry chain, and offline pick-up stores, and offers diversified services such as online product trading, technical consultation, remote diagnosis and information support through <i>Jumuc.com</i> , to diversify its product offerings and further address its customers' business needs.

Management Discussion and Analysis

All business segments of the Group recorded satisfactory financial performance during the Reporting Period. The Group's revenue grew by 30.3% from RMB11,781 million for the year ended December 31, 2020 to RMB15,346 million for the Reporting 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 RMB2,021 million for the Reporting Period, representing an increase of 31.2% from RMB1,541 million for the year ended December 31, 2020. The following table sets forth the revenue data with respect to each of the Group's business segments for the periods indicated:

	Year ended December 31,		Year-on-year change (%)	Percentage of the Group's total revenue for the Reporting Period (%)
	2021 RMB'000	2020 RMB'000		
Revenue	15,346,167	11,781,195	30.3	100
Including: Raw milk business	9,537,814	6,994,592	36.4	62.2
Comprehensive ruminant farming solutions	5,808,353	4,786,603	21.3	37.8
Including: Feed business	5,328,139	4,395,724	21.2	34.7
Ruminant farming products marketplace business	411,453	339,992	21.0	2.7
Breeding business	68,761	50,887	35.1	0.4

Raw milk

The Group's raw milk sales volume increased from 1,529,835 tons for the year ended December 31, 2020 to 1,947,226 tons for the Reporting Period, among which the sales volume of specialty raw milk increased from 396,164 tons for the year ended December 31, 2020 to 474,142 tons for the Reporting Period. The average unit price of raw milk of the Group increased by 6.5% from RMB4.6 per kilogram for the year ended December 31, 2020 to RMB4.9 per kilogram for the Reporting Period. The number of dairy cows of the Group increased from 308,195 as of December 31, 2020 to 416,196 as of December 31, 2021.

As of December 31, 2021, the Group operated 73 modern dairy farms across 16 provinces in China. The Group continuously expanded its scale of raw milk business and established new dairy farms. As of December 31, 2021, the Group had commenced the construction of new dairy farms in Inner Mongolia, Henan, Shandong, Anhui, Xinjiang, etc. During the Reporting Period, the Group had put into operation three new dairy farms, of which one farm housed 6,000 Jerseys.

The Group is currently in a stage of rapid development. In terms of herd structure, the proportion of calves and heifers is relatively high. As of December 31, 2021, the Group had 204,545 milkable cows and 211,651 calves and heifers, accounting for 49.1% and 50.9% of the total number of the Group's dairy cows, respectively, which indicates that the Group has a very strong and clear advantage in releasing its raw milk production capacity in the future.

Management Discussion and Analysis

In terms of average milk yield, annualised average milk yield per milkable cow (excluding Jerseys) increased by 3.8% from 10.5 tons for the year ended December 31, 2020 to 10.9 tons in the Reporting Period. The Group has adopted various measures, including establishing core herds and increasing the proportion of high-performance cows through genetic testing and breeding technologies; continuously improving SOP feeding management process standards and standardised operation of employees; focusing on improving the comfort of cows through heatstroke prevention, warm-keeping and nutrition to continuously enhance herd welfare; precisely monitoring the behaviour of each cow with the big data management system to effectively ensure herd health; and leveraging synergies with its feed business and breeding business to guarantee quality feed from the source and improve genetic traits of dairy herds, thus achieving the positive cycle with “outstanding breeding brings outstanding cows, fine feed for fine cows and excellent cows producing excellent milk”.

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

	For the year ended/ As of December 31,	
	2021	2020
Number of dairy farms	73	67
Number of dairy cows (in heads)	416,196	308,195
Raw milk production volume (in tons)	1,989,684	1,562,409
Raw milk sales volume (in tons)	1,947,226	1,529,835
Average unit price of raw milk (RMB/kg)	4.9	4.6
Annualised average milk yield per milkable cow (excluding Jerseys (Note 1)) (in tons)	10.9	10.5
Including: Annualised average milk yield per milkable cow (excluding Jerseys) of Inner Mongolia Youran (in tons)	11.2	11.0
Including: Inner Mongolia Youran (excluding Fonterra China Farms Group) (in tons)	11.4	11.0
Including: Fonterra China Farms Group (in tons)	10.3	9.3 (Note 2)
Annualised average milk yield per milkable cow of SKX (in tons)	10.5	10.0

Note 1: Jerseys are a breed of small dark brown dairy cattle originating from the Jersey Islands, the English Channel, with a high milk fat and milk protein content and lower milk yield per dairy cow as compared to Holsteins.

Note 2: For the year ended December 31, 2020, annualised average milk yield per milkable cow was calculated based on the total raw milk production volume divided by the average number of the milkable cows during the period.

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. The Group provided ruminant farming products and services to customers during the Reporting Period, the particulars of which are as follows:

In terms of feed business, the sales volume of concentrated feed during the Reporting Period amounted to 914,000 tons. Insisting on the core philosophy of provision of “China’s leading comprehensive ruminant farming solutions” to customers, the Group actively expanded sales channels and established

Management Discussion and Analysis

the product layout of beef cattle, sheep and dairy goats under the sales model of “service + product”, so as to promote business development. The sales volume of concentrated feed for beef cattle, sheep and dairy goats during the Reporting Period increased by 49.1% as compared with the year ended December 31, 2020. During the Reporting Period, the Group provided leading comprehensive ruminant farming solutions for over 500 dairy farms in China, serving nearly 1.5 million ruminants. Through the provision of comprehensive solutions, the average milk yield of demonstration dairy farms across China for the Reporting Period increased by 4.77% as compared with the year ended December 31, 2020, achieving win-win results between the Group and its customers. During the Reporting Period, the Group continuously enhanced the production scale of feed business and built high value-added premix feed production lines. The Group also expanded the supply scope of its own feed mills to cover three major markets such as Shandong, Anhui and Jiangsu through putting Shandong Feed Mill into operation, making the production capacity of feed business increase by 240,000 tons. A China’s leading premix production workshop in Ulanqab has been put into operation, which adopts the same standard as infant milk powder in producing premixes with product preparation accuracy up to 0.1%, providing solutions for the precise nutrition needed by the industry in the era of high average milk yield in the future.

In terms of the ruminant farming products marketplace business, as a China’s leading sharing platform for dairy industry chain, *Jumuc.com* covers the products and services along the whole industry chain such as “dairy cattle, dairy goats, beef cattle and goats”. In order to provide customers with better products and services and promote the shift of platform business to agricultural industrialisation, *Jumuc.com* was fully upgraded in 2021. After that, *Jumuc.com* provides diversified services such as online product trading, technical consultation, remote diagnosis and information support. The Group has established long-term and stable strategic cooperation with a number of world leading animal nutrition and farm equipment manufacturing companies and domestic first-class animal health companies, to improve the operational efficiency of the supply chain. The number of the Group’s offline “bee warehouse” has reached over 40, which is designed to resolve the “last kilometer” distribution problems for partners, and to promote the common development with upstream and downstream partners in the industrial chain to achieve win-win results.

In terms of the breeding business, during the Reporting Period, SKX has cultivated a sire that ranked the first in the national genetic groups (NAAB registration), and it had a total of nine sires ranking among the top 20 in China, of which five sires ranked among the top 10. According to the bull list released by the Holstein Association USA in April 2021, SKX has introduced frozen bovine semen for dairy cows from sires ranking first by global verification and ranking first by genomic selection into Chinese markets. In 2021, SKX provided nearly 500 customers and 1.64 million cows with high-quality frozen semen and produced nearly 9,000 high-yield sex-sorted embryos of dairy cows. The Group continued to expand the scale of breeding business. During the Reporting Period, the Group has put into operation a new core breeding farm that meets international standard in Inner Mongolia with a designed capacity of 3,500 cattle and equipped with a world-class embryo production laboratory. The laboratory is committed to building an international first-class platform for research and development of dairy breeding techniques and germplasm innovation. Leveraging integrated application of ovum pick-up-in vitro fertilisation technology and sex-sorted technology, it aggressively grows high-yield dairy cows and seed cows in a rapid manner and breeds test-tube high-yield dairy cows and reserve breeding bulls on a large-batch basis. In the next five years, the production capacity of breeding more than 13 tons of high-yield sex-sorted cows will reach 50,000, which will make it become the largest quality breed supply base in China, so as to solve the current shortage of high-yield dairy cows in China.

Management Discussion and Analysis

CORE OPERATIONAL INITIATIVES OF THE GROUP

Effective integration of merger and acquisition business

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 such businesses expanded the size of the Group's raw milk business. Meanwhile, it significantly improved the operational efficiency of the businesses acquired. Among them, the raw milk production volume of SKX increased by 7.5% from 714,541 tons for the year ended December 31, 2020 to 768,453 tons in the Reporting Period. The annualised average milk yield per milkable cow of SKX increased by 5.0% from 10.0 tons for the year ended December 31, 2020 to 10.5 tons in the Reporting Period. The annualised average milk yield per milkable cow of Fonterra China Farms Group increased by 10.8% from 9.3 tons for the year ended December 31, 2020 to 10.3 tons in the Reporting Period.

Strategic layout of and high standard investment in new dairy farms and feed mills

During the Reporting Period, the Group proactively and strategically constructed new dairy farms and feed mills. The number of dairy farms increased from 67 as of December 31, 2020 to 73 as of December 31, 2021, with business covering Gansu and Shanxi for the first time. We had commenced the construction of feed mills in Heilongjiang and Hebei as of December 31, 2021. All new dairy farms and feed mills were equipped with advanced equipment and facilities and introduced cutting-edge technologies, which laid a solid foundation for the Group's further improvement in scale and operational capacity both during the Reporting Period and in the future.

Product development and technological innovation

In terms of the raw milk business, in order to meet customers' growing demand for specialty raw milk, during the Reporting Period, the Group introduced new specialty raw milk, such as organic A2 milk containing A2 β -casein which is easier to digest and absorb, and selenium-rich milk which can supplement insufficient selenium intake in daily meals and improve immunity.

In terms of the feed business, leveraging its in-house research and development team, the Group launched several new high value-added products by upgrading and updating formulas, equipment and processes during the Reporting Period, such as exclusive nourishments for dairy farms with a target average milk yield of over 40kg, antibiotic-free upgraded feed for calves and biological feed. Targeting animal health, longevity and high yield and high efficiency, the premix production workshop put into use during the Reporting Period selected the manufacturing equipment with the same standard as infant milk powder, and adopted tertiary blending and smart early warning processes to produce stable and green premixes.

In terms of the breeding business, the Group assumed the role of implementing the program of "National Dairy Core Breeding Farm and Embryo Engineering Centre" and newly built and put into use a core breeding farm that meets international standards in Inner Mongolia. SKX, jointly with Inner Mongolia University, continued to build the "Genetic Resource Bank and Information Platform of Animals in Mongolian Plateau", mainly focusing on livestock. In April 2021, the research team led by Dr. Li Xihe of SKX's research institute, the team of University of Hong Kong and the team of Inner Mongolia University jointly published the latest research results in novel bovine stem cells on the Proceedings of the National Academy of Sciences of the United States of America. The research achieved breakthroughs in induction of livestock stem cells, a world-class research difficulty, developed a new path for genome editing of herbivorous livestock and biological breeding of functional cows in the future and is a milestone achievement in the research on stem cells of herbivorous livestock.

Management Discussion and Analysis

Effective promotion of lean production management

The Group is the first dairy farming company in the world to adopt the TPM (Total Productive Maintenance) system to establish a sustainable operation and lean production management model with industrial characteristics. We cultivate talents in lean production management and roll out the standardised management model in every dairy farm and feed mill swiftly, thereby rapidly improving our organisational and operational capabilities. Through four year's efforts, the average milk yield of our pilot farms has increased by nearly 5kg/cow/day, and 81.6% of the manufacturing facilities of our pilot feed company have achieved zero failure for 6 months with overall equipment effectiveness increased by approximately 7.8% and 66,000 tons of production capacity released per year. During the Reporting Period, three TPM pilot units of the Company won the TPM Excellence Award after three strict reviews. TPM system, as one of our core strategies, is applied in new projects in the early stage. We will continuously expand its application to empower our operational capabilities to maintain our leading position in the industry.

Digital management system empowering the Company's growth of performance

The Group relies, to a large extent, on advanced intelligent management systems to control and manage its herds and farms. These systems cover all processes from information collection to activity monitoring and from breeding to milking. During the Reporting Period, the Group's operation efficiency was significantly enhanced through self-developed intelligent farm management system, TMR precise feeding system, monitoring system for estrus in dairy cattle and full coverage video surveillance system. Through information systems and data and information management, we can not only macroscopically monitor the status of the herds in dairy farms but more importantly, we can accurately monitor the information of a particular cow to ensure the health of each cow.

The Group also provides comprehensive farming solutions for dairy farms in a rapid manner through big data collection and analysis on customers' farming and with global expert resources and remote diagnosis.

Quality assurance

Quality control is one of the core values of the Group, which is vital to the business of the Group. 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. During the Reporting Period, the Group continued to conduct and has passed various food safety and quality related management system certifications: including the SQF (Safe Quality Food system), ISO9001 (the quality management system), ISO22000 (the food safety management system), ChinaGAP (China Good Agricultural Practice) and GMP (Good Manufacturing Practice). Additionally, the Group is the first comprehensive enterprise of dairy farming and feed processing in China that has passed the world-leading food safety and quality management system SQF certification.

The Group unswervingly adheres to the "three lines" to strictly control the product quality, i.e., the national standard line that meets the national statutory standards, the enterprise control line that is stricter than the national standard line and the internal control line that is stricter than the enterprise standard line. If any abnormality beyond the internal control line occurs, the production bases nationwide will report the items beyond the internal control line at the first time through the information system, and then the Group will thoroughly investigate the causes and timely eliminate hidden dangers, to ensure that its product quality meets the internal control line of the Group and is higher than the national standard.

Management Discussion and Analysis

During the Reporting Period, the Group achieved great achievements in quality management and quality improvement by quickly identifying known and unknown risks, establishing quality management information system, normalising quality assurance control points (QACP) and introducing Six Sigma tools. During the Reporting Period, all the Group's products have passed the sampling inspection of product quality conducted by national supervision and inspection authorities at all levels.

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 11,600 CFU/ml and 169,500 CFU/ml, respectively, much better than the European Union 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.

BUILDING OF SUSTAINABLE DEVELOPMENT MODEL

The Group took the lead in publishing and implementing "Empowering the Revitalisation of the Dairy Industry through Green Development – Youran Dairy's 'Carbon Neutralisation' Strategy" (《綠色發展驅動·助力奶業振興－優然牧業「碳中和」戰略》), and formulated the "four steps" strategy and eight core emission reduction measures. The Group is committed to the research and reserve of carbon emission reduction technologies. During the Reporting Period, the Group, together with the Institute of Animal Sciences of Chinese Academy of Agricultural Sciences, the Animal Husbandry Workstation of Ningxia Hui Autonomous Region, South China Institute of Environmental Sciences, the Institute of Soil Science and Inner Mongolia Agricultural University, etc., jointly studied or reserved the following carbon emission reduction projects: the Construction of Carbon Emission Monitoring and Early Warning Platform for Dairy Farming and the Demonstration Application of Low-carbon Emission Reduction Circular Breeding Mode (《奶牛養殖碳排放監測預警平台構建及低碳減排循環養殖模式示範應用》), the Research and Application of Comprehensive Technology of Carbon Neutralisation and Carbon Emission Reduction in Large-scale Dairy Breeding (《規模化牧場養殖過程碳中和、碳減排綜合技術研究與應用》), the Key Technology Research on the Integration of Dairy Cow-Farmland System Planting and Breeding (《奶牛－農田系統種養一體化關鍵技術研究》) and the Effect of Additive Combination on Production of Methane in Dairy Cow's Feed (《添加劑組合對奶牛飼料甲烷產生量的影響》).

The Group continues to put into practice the sustainable development strategy by taking advantage of the synergy between the Group's business segments of dairy farming and forage grass plantation, and build ancillary forage grass plantation bases nearby in dairy farms, so as to realise the long-term sustainable development of the business through an "integrated farming" model. During the Reporting Period, the Group built an ancillary forage grass plantation base near its dairy farms, covering a total area of nearly 200,000 mu. At the same time, the Group actively cooperated with silage suppliers, and the actual land area of an "integrated farming" model was nearly 1.11 million mu. During the Reporting Period, the Group implemented different manure treatment methods in combination with the regional characteristics of the North and South, so as to promote the comprehensive and harmless disposal of manure. During the Reporting Period, the total investment in environmental protection was RMB91.55 million. We continued to promote the reduction, resource utilisation, harmless and ecological treatment of manure in the process of dairy farming.

Management Discussion and Analysis

The Group remains true to its original aspiration, willingly gives back to the society, and practices its social responsibilities: (i) The Group vigorously promotes rural development by setting up dairy farms in the surrounding areas of rural pastoral areas, which not only relieved local employment pressure, but also effectively reduced social problems such as left-behind children in the local areas as farmers and herdsmen can work close to their home. (ii) The Group gives full play to its industrial and technological advantages, and formulates specific poverty alleviation policies according to different regions. For instance, the Group entered into high-quality silage planting contracts with farmers near the dairy farms based on its farming needs. During the Reporting Period, the Group purchased around 2.3 million tons of silage to help farmers improve their planting income, implemented the policy of using silage to alleviate poverty, helped poor farmers plant silage with financial support; and taught farming techniques in the pastoral areas and gave calves to poverty-stricken households in surrounding areas, so as to further enhance the self-development ability of local farmers and herdsmen, thereby achieving mutual benefit and common development through working together. (iii) When the flooding battered Henan, the Group enthusiastically cared for the people in the disaster area by organising staff to express condolences to the dairy farm in the disaster area, and offering basic daily necessities, food, disinfectants and other materials to the dairy farm in the disaster area.

Prospects

In terms of consumption trend in 2021, the COVID-19 pandemic has greatly promoted the transformation of Chinese consumers' awareness, thus propelling the upgrading of the consumption of dairy products. Compared with the per capita consumption of dairy products in developed countries, China's per capita consumption still has the potential to rise. According to Frost & Sullivan, with the continuous concentration of the downstream dairy industry, the raw milk required for the consumption of dairy products by China's top five dairy manufacturers is expected to reach 36.4 million tons in 2025, representing 58.3% of the total raw milk required for China's dairy consumption. The CAGR from 2020 to 2025 is expected to reach 8.9%.

Under the trend of further scaling up dairy farming, the Group continued to enhance the effective synergy between each business segment through close cooperation with downstream customers, promoted the digitalisation and intelligence of production and management and improved the production capacity and average milk yield to provide consumers and customers with high quality raw milk and comprehensive ruminant farming solutions. Furthermore, the Group proposed a strategic goal of recreating a "Youran Dairy" by 2026, under which the number of dairy cows under the raw milk business segment will reach 800,000 heads, the scale of the feed business will double and the breeding business will expand into the embryo and fetal bovine business, to constantly create value for customers, shareholders and the society and empower the revitalisation of China's dairy industry.

In order to achieve the strategic goal of recreating a "Youran Dairy" within five years and consolidate the Group's long-term advantages of "the most comprehensive industry chain, the largest scale, the best structure and the strongest operational capacity", the Group will continue to implement the following ten core strategic initiatives:

Firstly, we will promote the strategy of building core herds, and expedite herd improvement to increase average milk yield while reducing costs and improve the profitability of a single cow.

Secondly, we will build the Yuanxing brand and provide customers with comprehensive solutions with leading product quality and technical services to improve the market share of ruminant feed.

Thirdly, we will promote the "integrated farming" model and the virtuous cycle of manure stored up for disposal – land improvement – high-quality forage grass supply to realise environmental friendliness.

Management Discussion and Analysis

Fourthly, we will strengthen the production technology and quality of domestically-produced frozen semen, embryos and fetal bovine to cultivate excellent breeding bulls and deepen embryo business, thereby empowering the national strategy of germplasm resources security.

Fifthly, we will develop a talent supply chain system with internal training as the mainstay and external introduction as the supplement and become the best employer, to attract, train, develop and retain talents.

Sixthly, we will build a highly competitive supply chain system through “procurement service centre, procurement cost management centre and value creation centre”.

Seventhly, we will establish a research and development centre and build an efficient innovative research and development platform to constantly optimise the product structure, improve the competition threshold of the industry, and ensure the long-term competitiveness of the Company.

Eighthly, we will set a benchmark for the industry in lean production management, standardise lean production management, and replicate and introduce it to the Company and its customers to continuously improve profitability of the industry.

Ninthly, we will promote the implementation of the dual carbon policy of “value-driven, technology-led, efficient utilisation and green development” to facilitate the country take the lead in realising the national “3060 dual carbon” goal.

Tenthly, we will build a digital management platform and cultivate our digital core competitiveness to realise the digitalisation of production and operation, management decision making and customer value creation process management.

FINANCIAL REVIEW

Revenue

Our revenue increased by 30.3% from RMB11,781 million for the year ended December 31, 2020 to RMB15,346 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 year ended December 31, 2021		2020
	RMB'000		
Raw milk	9,537,814		6,994,592
Comprehensive ruminant farming solutions	5,808,353		4,786,603
Total	15,346,167		11,781,195

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 36.4% from RMB6,995 million for the year ended December 31, 2020 to RMB9,538 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 21.3% from RMB4,787 million for the year ended December 31, 2020 to RMB5,808 million for the Reporting Period, which was mainly due to the growth of feed business and ruminant farming products marketplace business.

Management Discussion and Analysis

Cost of sales

Our cost of sales increased by 29.7% from RMB11,049 million for the year ended December 31, 2020 to RMB14,333 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 year ended December 31,	
	2021	2020
	RMB'000	
Raw milk	5,585,284	4,000,063
Comprehensive ruminant farming solutions	5,066,404	4,177,940
Total	10,651,688	8,178,003

The increase was primarily due to the acquisition of Fonterra China Farms Group, and the growth of raw milk business and ruminant feed solutions business.

Cost of sales for raw milk business before raw milk fair value adjustments increased by 39.6% from RMB4,000 million for the year ended December 31, 2020 to RMB5,585 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 21.3% from RMB4,178 million for the year ended December 31, 2020 to RMB5,066 million for the Reporting Period, which was primarily due to the growth of concentrated feed and ruminant farming products marketplace businesses.

Fair value adjustments for agricultural produce included in cost of sales increased by 28.2% from RMB2,871 million for the year ended December 31, 2020 to RMB3,682 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 RMB2,871 million for the year ended December 31, 2020 and RMB3,682 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 RMB3,603 million for the year ended December 31, 2020, representing a gross profit margin of 30.6%, and a gross profit of RMB4,694 million for the Reporting Period, representing a gross profit margin of 30.6%.

Management Discussion and Analysis

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 year ended December 31,			
	2021	2020	RMB'000 (except for percentage)	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Gross profit				
Raw milk	3,952,530	41.4%	2,994,529	42.8%
Comprehensive ruminant farming solutions	741,949	12.8%	608,663	12.7%
Total	4,694,479	30.6%	3,603,192	30.6%

The flat gross profit margin was primarily due to the increase in raw material price which was offset by the increase in milk price and the increase in the gross profit of comprehensive ruminant farming solutions.

The gross profit of the raw milk business increased from RMB2,995 million for the year ended December 31, 2020 to RMB3,953 million for the Reporting Period. The gross profit margin of the raw milk business decreased from 42.8% for the year ended December 31, 2020 to 41.4% 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 RMB609 million for the year ended December 31, 2020 to RMB742 million for the Reporting Period. The gross profit margin of the comprehensive ruminant farming solutions business increased from 12.7% for the year ended December 31, 2020 to 12.8% for the Reporting Period.

Loss arising from changes in fair value less costs to sell of biological assets

Our loss arising from changes in fair value less costs to sell of biological assets decreased from the fair value loss of RMB414 million for the year ended December 31, 2020 to the fair value loss of RMB407 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 97.4% from RMB77 million for the year ended December 31, 2020 to RMB152 million for the Reporting Period, which was primarily due to (i) government grants issued with deferred income increased from RMB26 million for the year ended December 31, 2020 to RMB58 million for the Reporting Period; (ii) incentive subsidies increased from RMB18 million for the year ended December 31, 2020 to RMB40 million for the Reporting Period; and (iii) bank interest income increased from RMB13 million for the year ended December 31, 2020 to RMB28 million for the Reporting Period.

Management Discussion and Analysis

Impairment loss under expected credit loss model, net of reversal

Our impairment loss under expected credit loss model, net of reversal decreased by 72.4% from RMB45 million for the year ended December 31, 2020 to RMB12 million for the Reporting Period, which was primarily due to the recovery of receivables that have been provided for impairment from a few customers.

Other gains and losses

Our other gains and losses decreased by 3% from a loss of RMB54 million for the year ended December 31, 2020 to a loss of RMB53 million for the Reporting Period, which was primarily due to the losses incurred by the recognition of litigation cases of minority shareholders of SKX.

Fair value loss on convertible notes

The Group recorded fair value loss on convertible notes of RMB133 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 22.9% from RMB453 million for the year ended December 31, 2020 to RMB557 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 3.8% for the year ended December 31, 2020 to 3.6% for the Reporting Period.

Administrative expenses

Our administrative expenses increased by 12.2% from RMB745 million for the year ended December 31, 2020 to RMB835 million for the Reporting Period, which was primarily due to the acquisition of Fonterra China Farms Group and the increase in maintenance and renovation expenses and staff salaries. The proportion of administrative expenses in our revenue decreased from 6.3% for the year ended December 31, 2020 to 5.4% for the Reporting Period.

Other expenses

Our other expenses decreased by 83.3% from RMB20 million for the year ended December 31, 2020 to RMB3 million for the Reporting Period, which was primarily due to the intermediary fee of RMB12 million incurred in the acquisition of Fonterra China Farms Group in 2020 and the estimated litigation compensation in relation to a SKX litigation of RMB5 million, which was not incurred during the Reporting Period.

Finance costs

Our finance costs increased by 136.4% from RMB310 million for the year ended December 31, 2020 to RMB732 million for the Reporting Period, which was primarily due to the increased interests recognised for convertible notes at amortised cost and increased bank borrowings.

Management Discussion and Analysis

Profit before tax

As a result of the foregoing, we had a profit before tax of RMB1,594 million for the year ended December 31, 2020, compared with a profit before tax of RMB2,095 million for the Reporting Period.

Income tax expense

We recorded a 37.8% increase in income tax expense from RMB54 million for the year ended December 31, 2020 to RMB74 million for the Reporting Period, which was primarily attributable to the increase in taxable income of the Group.

Profit for the Reporting Period

As a result of the foregoing, we generated a profit of RMB1,541 million for the year ended December 31, 2020 and generated a profit of RMB2,021 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 represents profit attributable to owners of the Company, after adjusting (i) the difference between the fair value loss on convertible notes and the total interest of 4% of the nominal cash interest rate of RMB103,696,000 for the year ended December 31, 2021 (2020: RMB(7,007,000)); (ii) the difference between the effective interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal cash interest rate of RMB291,799,000 for the year ended December 31, 2021 (2020: Nil); (iii) the listing expenses of RMB17,848,000 for the year ended December 31, 2021 (2020: RMB34,365,000); and (iv) loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX of RMB69,041,000 for the year ended December 31, 2021 (2020: Nil). 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 facilitates comparisons of operating performance from period to period and company to company to the extent applicable.

Management Discussion and Analysis

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).

	For the year ended December 31,	
	2021 RMB'000	2020 RMB'000
Profit attributable to owners of the Company	1,558,016	1,340,735
Add: the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate	103,696	(7,007)
Add: the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate	291,799	–
Add: the listing expenses	17,848	34,365
Add: loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX	69,041	–
Non-IFRSs measure: Adjusted profit attributable to owners of the Company	2,040,400	1,368,093

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 of the Company.

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

	For the Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Net cash generated from operating activities	2,266,010	1,707,871
Net cash used in investing activities	(8,696,940)	(4,752,812)
Net cash generated from financing activities	5,424,302	5,093,578
Net (decrease)/increase in cash and cash equivalents	(1,006,628)	2,048,637
Effects of foreign exchange rate changes	14,935	–
Cash and cash equivalents at the beginning of the year	2,619,113	570,476
Cash and cash equivalents at the end of the year	1,627,420	2,619,113

Management Discussion and Analysis

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities was RMB2,266 million. For the year ended December 31, 2020, net cash generated from operating activities was RMB1,708 million.

Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities was RMB8,697 million, which was mainly attributable to (i) payments for biological assets of RMB3,773 million, (ii) payments for acquisition of subsidiaries of RMB2,379 million, and (iii) payments for property, plant and equipment of RMB3,536 million, partially offset by the proceeds from the disposal of biological assets of RMB1,168 million.

For the year ended December 31, 2020, net cash used in investing activities was RMB4,753 million, which was mainly attributable to (i) payments for biological assets of RMB2,329 million, (ii) payments for acquisition of subsidiaries of RMB1,936 million, and (iii) payments for property, plant and equipment of RMB1,340 million, partially offset by the proceeds from the disposal of biological assets of RMB975 million.

Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities was RMB5,424 million, which was mainly attributable to new bank and other borrowings of RMB14,987 million, partially offset by repayment of bank and other borrowings of RMB11,734 million.

For the year ended December 31, 2020, net cash generated from financing activities was RMB5,094 million, which was mainly attributable to (i) new bank and other borrowings of RMB7,250 million; and (ii) the issuance of convertible bonds of RMB3,051 million, partially offset by repayment of bank and other borrowings of RMB5,886 million.

Net Gearing Ratio

As of December 31, 2021, the Group's net gearing ratio was 68.6%, 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 and deposits placed with a related party under current assets) divided by total equity and multiplied by 100%.

Significant Investments Held

Save as disclosed in this annual 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 December 31, 2021) during the Reporting Period.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this annual report, as of December 31, 2021, the Group did not have other plans for material investments and capital assets.

Management Discussion and Analysis

Material Acquisitions and/or Disposals of Subsidiaries and Affiliated Companies

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 December 31, 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 December 31, 2021.

Function	Number of Staff	% of Total
Management personnel	1,211	11.6%
Administrative personnel ¹	1,379	13.2%
Technicians	2,316	22.2%
Salespersons	287	2.8%
Skilled workers ²	4,214	40.5%
Housekeepers ³	1,007	9.7%
Total	10,414	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 talented 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. We have deepened our cooperation with The Ohio State University in the United States. Every year we select and dispatch outstanding employees to top-level, 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. Meanwhile, the Group provides regular training and evaluation to employees to improve their performance. Therefore, we can attract and retain talented employees and maintain a stable core management and technical team.

Management Discussion and Analysis

The total remuneration expenses, excluding share-based payments expenses and retirement benefit scheme contributions, for the Reporting Period were RMB901 million, as compared to RMB834 million for the year ended December 31, 2020, representing a year-on-year increase of 8%.

Indebtedness

	As of December 31,	
	2021	2020
	RMB'000	
	(audited)	
Bank borrowings	9,456,114	6,167,130
Unsecured	7,490,367	4,862,089
Secured	1,965,747	1,305,041
Other borrowings	–	29,003
	9,456,114	6,196,133
The carrying amounts of the above borrowings are repayable		
Within one year	5,412,175	4,224,527
More than one year but within two years	1,944,053	939,903
More than two years but within five years	1,667,913	933,648
More than five years	431,973	98,055
	9,456,114	6,196,133
Less: amounts due within one year shown under current liabilities	(5,412,175)	(4,224,527)
Amount shown under non-current liabilities	4,043,939	1,971,606
Lease liabilities	1,317,399	967,489
Less: amount due for settlement within 12 months shown under current liabilities	(51,009)	(38,684)
Amount due for settlement after 12 months shown under non-current liabilities	1,266,390	928,805
Other liabilities at amortised cost	20,845	27,106
Portion classified under current liabilities	(6,593)	(6,261)
Portion classified under non-current liabilities	14,252	20,845

Contingent Liabilities

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

Capital Commitment

As at December 31, 2021, the Group's capital commitment for the acquisition of property, plant and equipment and purchase of biological assets was RMB2,506 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.

Management Discussion and Analysis

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.

Pledge of Assets

As at December 31, 2021, certain of the Group's bank and other borrowings had been secured by the pledge of the Group's assets, including 33.2% 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 RMB1,111 million and pledged bank deposits in the carrying amount of RMB30 million.

Report of Directors

The Board of the Company is pleased to present this report of Directors together with the consolidated financial statements of the Group for the year ended December 31, 2021.

Directors

The Directors who held office during the year ended December 31, 2021 and up to the Latest Practicable Date are:

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)

Biographical details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 52 to 56 of this report.

In accordance with Article 108 of the Article of Association, Mr. Dong Jiping, Mr. Xu Jun and Mr. Qiu Zhongwei shall retire at the AGM. All of the above Directors, being eligible, will offer themselves for re-election at the AGM.

General Information

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.

Report of Directors

Principal Activities

Through its two business segments, namely, raw milk and comprehensive ruminant farming solutions, the Group primarily provides premium raw milk to large-scale dairy manufacturers and offers ruminant farming products and services to dairy farms in the PRC. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

Results

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 76 of this report.

Business Review

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance, including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business, is set out in the section headed "Management Discussion and Analysis" of this report. Events affecting the Company that have occurred since the end of the Reporting Period are set out in the section headed "Significant Events After the Reporting Period" of this report. An account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the sections headed "Relationship with Suppliers", "Relationship with Customers" and "Relationship with Employees" of this report. These discussions form part of this report. Further information regarding the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company will also be included in the Environmental, Social and Governance Report. The Environmental, Social and Governance Report will be published on the websites of the Stock Exchange and the Company. Printed copies will only be provided upon specific request. The Company will notify the Shareholders of the details to access the Environmental, Social and Governance Report in due course.

Environmental Policies and Performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth. Details of such will be set out in the "Environmental, Social and Governance Report" to be published by the Company.

Compliance with the Relevant Laws and Regulations

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended December 31, 2021, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

Report of Directors

Major Customers and Suppliers

Customers

Our customers mainly include dairy manufacturers and dairy farms. In particular, Yili is, and has been, a major customer, and the Group's success partially depends on its long-term and stable cooperation with Yili, which is a controlling Shareholder.

During the Reporting Period, we generated revenue of RMB9,563.2 million from the Group's top five customers, representing 62.3% (2020: 62.6%) of our total revenue. During the same period, we generated revenue of RMB8,756.7 million (2020: RMB6,701.4 million) from sales of raw milk to Yili, our largest customer, representing 91.8% (2020: 95.8%) of our total raw milk revenue during the Reporting Period.

As at the Latest Practicable Date, Yili was a controlling Shareholder of the Company. Save for the aforementioned, none of the Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, own more than 5% of our issued capital, had any interest in any of our five largest customers during the Reporting Period.

As disclosed on page 297 of the Prospectus, in respect of the comprehensive ruminant farming solutions business segment of the Group, a number of customers who make purchases from the Group are also raw milk suppliers of Yili (the "Overlapping Parties"). Since 2013, the relevant subsidiaries of the Company, members of the Yili group and the Overlapping Parties have been entering into certain entrusted payment arrangements, pursuant to which the Overlapping Parties would generally enter into a tripartite agreement with Yili and the Company and entrust Yili to pay to the Group the amount payable by such Overlapping Parties to the Group, after which Yili shall deduct the relevant amount from the balance of the amount owed by Yili to such Overlapping Parties. During the Reporting Period, the revenue contribution from the Overlapping Parties as at December 31, 2021 to the Group's total revenue amounted to approximately 1.97%. Further details of the Overlapping Parties and the Group's arrangements with the Overlapping Parties are set out in the Prospectus.

Suppliers

Our suppliers primarily include suppliers of feed ingredients and forage grass, ruminant farming products and farm construction services and equipment.

During the Reporting Period, the purchases we made from the single largest supplier was RMB327 million (2020: RMB222.5 million), representing approximately 1.5% (2020: 1.8%) of our total purchases. During the same period, the purchases we made from the Group's top five largest suppliers was RMB1,458.4 million (2020: RMB894.8 million), representing approximately 6.6% (2020: 7.2%) of our total purchases. During the Reporting Period, other than Yili, none of our suppliers was also our major customer.

None of the Directors or any of their close associates or any Shareholders which, to the best knowledge of the Directors, own more than 5% of the Company's issued Shares or had any interest in the Group's five largest suppliers.

Report of Directors

Relationship with Customers

The Group is committed to providing premium raw milk and comprehensive ruminant farming solutions to its customers. With a strategic goal of recreating a “Youran Dairy” within five years and to consolidate the Group’s long-term advantages of “the most comprehensive industry chain, the largest scale, the best structure and the strongest operational capacity”, the Group will aim to continuously improve its products and services to better satisfy customers’ needs, and empower the revitalisation of China’s dairy industry.

Relationship with Suppliers

The Group has implemented strict procurement policies for selecting and managing cooperative suppliers to ensure safe, reliable and high-quality supplies. The Group would evaluate suppliers based on their market reputation and ranking, industry experience, quality control system, and source control measures. In addition, we conduct thorough sample tests or on-site inspections on feed ingredients and forage grass suppliers to ensure that they and their feed products meet our quality standards. We also conduct periodic reviews and evaluations on the overall performance of our feed suppliers.

Relationship with Employees

The Group always adheres to the people-oriented concept, strictly complies with the requirements of national laws and regulations, formulates sound internal management systems and procedures, and actively safeguards the rights and interests of employees in employment and recruitment, remuneration and welfare, working hours and holidays, etc. At the same time, the Group puts emphasis on production safety and employee health, and actively establishes sound production safety and occupational health management systems, striving to create a safe and healthy working environment for employees. In addition, the Group attaches great importance to the cultivation of talents, and continuously improves the management on employee training, to promote the long-term development of employees and the Company; and the Group implements work priorities in employee care, featured activities, democratic communications and other work and builds a labour union management platform, faithfully caring for employees. For the details of the relationship between the Group and its employees, please refer to the section headed “Employee and Remuneration Policy” in this report.

Financial Summary

A summary of the audited consolidated results and the assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements, is set out on page 161 of this annual report. This summary does not form part of the audited consolidated financial statements.

Report of Directors

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 52 to the consolidated financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Reporting Period are set out in Note 17 to the consolidated financial statements.

Share Capital and Shares Issued

Details of movements in the share capital of the Company for the Reporting Period and details of the Shares issued during the Reporting Period are set out in Note 40 to the consolidated financial statements.

Donation

During the Reporting Period, the Group made charitable donations of approximately RMB2.7 million (2020: RMB3.2 million).

Debentures Issued

On November 3, 2020, the Company, as issuer, and PAGAC Yogurt Holding III Limited ("PAG III"), as purchaser, entered into a subscription agreement for the subscription of a convertible note in the principal amount of US\$330 million (the "PAG Convertible Note"). The Company issued the PAG Convertible Note to PAG III on November 4, 2020.

On November 10, 2020, the Company, as issuer, and Victory Ride Holdings Limited ("ICBC"), as purchaser, entered into a subscription agreement, as amended on November 20, 2020, for the subscription of a convertible note in the principal amount of US\$30 million (the "ICBC Convertible Note"). The Company issued the ICBC Convertible Note to ICBC on November 11, 2020, with terms as amended and restated on November 20, 2020.

Report of Directors

On November 19, 2020, the Company, as issuer, and Good Virtue Limited (嘉煌有限公司) (“BOC”), as purchaser, entered into a subscription agreement for the subscription of a convertible note in the principal amount of US\$25 million (the “BOC Convertible Note”). The Company issued the BOC Convertible Note to BOC on November 20, 2020.

On November 19, 2020, the Company, as issuer, and BCC Piano Investments, L.P. (“Bain”), as purchaser, entered into a subscription agreement for the subscription of a convertible note in the principal amount of US\$75 million (the “Bain Convertible Note”, together with the PAG Convertible Note, the ICBC Convertible Note and the BOC Convertible Note, the “Convertible Notes”). The Company issued the Bain Convertible Note to Bain on November 20, 2020.

Each of PAG III, ICBC, BOC and Bain (the “Pre-IPO Investors”) shall have the right, but not the obligation, to convert the outstanding principal amount of their respective Convertible Notes into such number of Shares at any time subject to and in accordance with terms and conditions attached to the Convertible Notes. The initial conversion price upon issuance is US\$0.44605 per Share, which 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.

At the time of the issuance of the Convertible Notes, the Directors were of the view that the Company could benefit from the additional capital that would be provided by the investments by each of the Pre-IPO Investors in the Company and their knowledge and experience. In particular, with the established networks and track record of each of the Pre-IPO Investors as experienced investors, the Company could benefit from their expertise and commitment as the investments demonstrate their confidence in the operations of the Group and serves as an endorsement of the Group’s performance, strengths and prospects.

Further details of the Convertible Notes are set out on pages 178 to 180 of the Prospectus and Note 39 to the consolidated financial statements.

Save as disclosed in the Prospectus and this annual report, the Group did not issue any debenture during the Reporting Period.

Equity-linked Agreements

No equity-linked agreements were entered into by the Group, or existed, during the Reporting Period.

Dividends

The Board does not recommend the distribution of a final dividend for the year ended December 31, 2021.

No Shareholder has waived or agreed to waive any dividends for the Reporting Period.

Permitted Indemnity

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the Reporting Period. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

Report of Directors

Distributable Reserves

The Company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business.

As at December 31, 2021, the Company had distributable reserves of RMB6,727 million (2020: RMB4,504 million).

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2021 are set out in the consolidated statement of changes in equity on page 79 and in Note 53 to the consolidated financial statements, respectively.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2021 are set out in Note 34 to the consolidated financial statements.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with our Company. The initial term of their respective service contract is from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice.

Each of the non-executive Directors has entered into a service contract and each of the independent non-executive Directors has entered into an appointment letter with our Company. The initial term for their service contracts or appointment letters is from the date of their appointment for a period of three years until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

The above appointments are always subject to the provisions of retirement and rotation of Directors under the Articles of Association.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the Prospectus and in this report, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2021.

Report of Directors

Contracts with Controlling Shareholder

As at the Latest Practicable Date, Yili was a controlling Shareholder. Save as disclosed in the Prospectus and in this report, to the best knowledge and belief of the Directors, Yili has no other contracts of significance with us apart from their interest in the Company.

Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

As at December 31, 2021, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules.

Report of Directors

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2021, so far as is known to any Directors or chief executive of the Company, the following parties (other than a Director or chief executive of the Company) had an interest or short position 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, were as follows:

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Percentage of issued share capital (%) ⁽²⁾
PAG Holdings Limited ⁽³⁾	Interest in controlled corporations	1,934,013,555(L) 107,315,000(S)	50.96(L) 2.83(S)
Pacific Alliance Group Limited ⁽³⁾	Interest in controlled corporations	1,934,013,555(L) 107,315,000(S)	50.96(L) 2.83(S)
Shan Weijian ⁽³⁾	Interest in controlled corporations	1,934,013,555(L) 107,315,000(S)	50.96(L) 2.83(S)
PAG Capital Limited ⁽³⁾	Interest in controlled corporations	1,934,013,555(L) 107,315,000(S)	50.96(L) 2.83(S)
PAG Dairy GP I Limited ⁽³⁾	Interest in controlled corporations	1,562,429,904(L) 5,688,000(S)	41.17(L) 0.15(S)
PAG Dairy I LP ⁽³⁾	Interest in controlled corporations	1,562,429,904(L) 5,688,000(S)	41.17(L) 0.15(S)
Yili ⁽⁴⁾	Interest in controlled corporations	1,320,800,000(L)	34.80(L)
PAGAC Yogurt Holding II Limited ⁽³⁾	Beneficial interest	822,602,530(L) 5,688,000(S)	21.67(L) 0.15(S)
China Youran Dairy Holding Limited ⁽⁴⁾	Beneficial interest	800,000,000(L)	21.08(L)
PAGAC Yogurt Holding III Limited ⁽³⁾	Beneficial interest	739,827,374(L)	19.49(L)
Meadowland Investment Limited Partnership ⁽⁵⁾	Beneficial interest	564,982,819(L)	14.89(L)
Hong Kong Jingang Trade Holding Co., Limited ⁽⁴⁾	Beneficial interest	520,800,000(L)	13.72(L)
PAG Asia Capital GP I Limited ⁽³⁾	Interest in controlled corporations	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)
PAG Asia I LP ⁽³⁾	Interest in controlled corporations	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)
PAGAC Yogurt Holding I Limited ⁽³⁾	Beneficial interest	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)
GIC Private Limited	Investment manager	190,518,000(L)	5.02(L)

Notes:

- The letter "L" denotes the Shareholder's long position in such Shares, while the letter "S" denotes the Shareholder's short position in such Shares.
- The percentages are calculated on the basis of 3,795,404,000 Shares in issue as at December 31, 2021.
- PAGAC Yogurt Holding I Limited ("PAG I") directly held 371,583,651 Shares in the long position and 101,627,000 Shares in the short position and PAGAC Yogurt Holding II Limited ("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 PAG Convertible Notes at a conversion price of US\$0.44605. As at the Latest Practicable Date, none of the PAG 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.
- China Youran Dairy Holding Limited directly held 800,000,000 Shares and Hong Kong Jingang Trade Holding Co., Limited directly held 520,800,000 Shares. Each of China Youran Dairy Holding Limited and Hong Kong Jingang Trade Holding Co., Limited is a wholly-owned subsidiary of Yili. Accordingly, Yili was deemed to be interested in an aggregate of 1,320,800,000 Shares.
- Meadowland Investment Limited Partnership is an exempted limited partnership established under the laws of the Cayman Islands.

Report of Directors

Save as disclosed above, as at the date December 31, 2021, so far as the Directors are aware, no other parties had an interest or short position 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.

Directors' Rights to Acquire Shares or Debenture

Save as disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

Emolument Policy and Directors' Remuneration

In compliance with Rule 3.25 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 14 to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

For the Reporting Period, the aggregate amount of remuneration (including basic salaries, housing allowances, other allowances, and benefits in kind, contributions to pension plans and discretionary bonuses) for the Directors was approximately RMB3.1 million (as set out in Note 14 to the consolidated financial statements).

Directors' Interests in Competing Business

During the Reporting Period, none of the Directors controlled a business similar to principal business of the Group that competes or is likely to compete, either directly or indirectly, with our Group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

Continuing Connected Transactions

Set out below is a table in relation to continuing connected transactions conducted by the Group during the Reporting Period and are required under the Listing Rules to be disclosed in the annual report and consolidated financial statements of the Company.

Report of Directors

Continuing Connected Transactions	Proposed Annual Cap in 2021/Maximum daily balance of deposits (including the interest accrued thereon) (RMB million)	Actual Transaction Amount in 2021 (RMB million)
<i>Partially-exempt continuing connected transactions</i>		
Feed and Other Materials Supply Framework Agreement		
Supply of materials (including but not limited to feed, veterinary drugs and bath fluid) to ZhongDi Group	300	88.3
Dairy Products Purchase Framework Agreement		
Purchase of dairy products from Yili Group	31.2	29.3
Financial Services Framework Agreement with Yili Finance Company		
Provision of deposit service to the Group by Yili Group	750	612.2*
<i>Non-exempt continuing connected transactions</i>		
Raw Milk Purchase and Sale Framework Agreement		
Sale of raw milk to Yili Group	10,100	8,756.7

* The amounts represent the actual maximum amount of the Group's total deposit balance during the period.

Partially exempt continuing connected transactions

Set out below is a summary of the continuing connected transactions of the Group which are subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

1. Feed and Other Materials Supply Framework Agreement

The Group has been supplying ZhongDi Group with various types of feed and ruminant farming materials in the past. In view of the continuous demand for feed and ruminant farming materials from ZhongDi Group, on September 4, 2020, Inner Mongolia Youran, a wholly-owned subsidiary of the Company, entered into the Feed and Other Materials Supply Framework Agreement with ZhongDi Dairy, pursuant to which our Group would supply materials (including but not limited to feed, veterinary drugs and bath fluid) to ZhongDi Dairy, its subsidiaries and associates. ZhongDi Dairy is a subsidiary of Yili, the controlling Shareholder of the Company and accordingly a connected person of the Company.

The term of the Feed and Other Materials Supply Framework Agreement is from December 2, 2020 to December 31, 2022.

In compliance with the principles, terms and conditions of the Feed and Other Materials Supply Framework Agreement and relevant laws (including the Listing Rules), the two parties shall further enter into specific agreements in respect of the supply of each type of the materials so as to agree the specific transaction terms. The terms and conditions (including but not limited to the price) for the purchase of materials by ZhongDi Group from our Group under the Feed and Other Materials Supply Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis.

Report of Directors

Historical Amount, Annual Cap and Basis for Annual Cap

The transaction amount of the feed and ruminant farming materials supplied to ZhongDi Group by the Group for the three years ended December 31, 2019, 2020 and 2021 amounted to approximately RMB189.6 million, RMB130.8 million and RMB88.3 million, respectively.

The Directors estimate that the total annual purchase amount by ZhongDi Group from the Group under the Feed and Other Materials Supply Framework Agreement will not exceed RMB350 million for the year ending December 31, 2022. In determining such annual cap, the Directors have considered the following factors:

- (i) the historical and prevailing market price for the materials, as well as the potential fluctuations in the market price for the materials in the future;
- (ii) the historical transaction volume of different types of materials during the three years ended December 31, 2020; and
- (iii) the estimated demand for relevant materials in the future two years. In particular, the expected increase in the demand of the relevant materials from ZhongDi Group.

Pricing Policy

The price and other payment terms for the purchase of materials by ZhongDi Group from the Group under the Feed and Other Materials Supply Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis. The price charged for the supply for feed and other ruminant materials shall be determined after arm's length negotiations between the parties with reference to the prevailing industry market price obtained through independent third parties, such as industry associations, and if no comparable industry market prices for the specific type of materials can be obtained, the parties shall make reference to the price of similar materials in transactions with independent third parties after taking into account the cost, technology, quality and procurement volume of the materials and the historical transaction prices of the relevant materials. If tender is required by ZhongDi Group for the procurement of certain materials, our Group shall make sure that the tender price shall not be lower than the price of the materials sold to independent third parties.

Specific payment will be made pursuant to the specific agreements to be further entered into between our Group and ZhongDi Group pursuant to the Feed and Other Materials Supply Framework Agreement.

Reason for the transactions

The Directors believe that the Feed and Other Materials Supply Framework Agreement with ZhongDi Dairy helps the Group in establishing a long-term relationship with our customer in relation to the supply of feed and other ruminant farming products in our ordinary course of business. Pursuant to the terms of the Feed and Other Materials Supply Framework Agreement, it is not obligatory for the Group to enter into specific purchase agreement with ZhongDi Group if the terms cannot be agreed between the parties. Given the pricing mechanism of the Feed and Other Materials Supply Framework Agreement, the Group will only supply materials to ZhongDi Group on terms which are no less favourable to our Group than terms available from independent third-party agents, hence fulfilling the definition of "normal commercial terms or better" under Rule 14A.06(26) of the Listing Rules.

Further details of the Feed and Other Materials Supply Framework Agreement are set out in the Prospectus.

Report of Directors

2. Dairy Products Purchase Framework Agreement

In order to ensure business operations in the foreseeable future, the Company entered into a dairy products purchase framework agreement on May 17, 2021, pursuant to which Yili and its subsidiaries and associates would supply dairy products, such as milk powder, feed-grade milk powder, etc. to the Group on a long-term basis. Yili is a controlling Shareholder of the Company and accordingly a connected person of the Company.

The Dairy Products Purchase Framework Agreement has a term of three years commencing from the Listing Date.

Historical Amount, Annual Cap and Basis for Annual Cap

During the three years ended December 31, 2019, 2020 and 2021, the purchases of the Group from Yili and its associates amounted to approximately RMB14.7 million, RMB30.1 million and RMB29.3 million.

The Directors estimate that the total annual purchase amount by the Group and its associates from Yili under the Dairy Products Purchase Framework Agreement will not exceed RMB40.5 million and RMB55.2 million for each of the two years ending December 31, 2022 and 2023, respectively. In determining such annual caps, the Directors have considered:

- (i) the historical and prevailing market price for the goods, as well as the potential fluctuations in the market price for the goods in the future;
- (ii) the historical transaction volume during the three years ended December 31, 2018, 2019 and 2020;
- (iii) the estimated demand for our Group's production in the future three years. In particular, the quantity of the relevant products to be purchased by our Group is expected to increase by at least 27% and 30% in 2022 and 2023, respectively, due to the expected significant increase in our herd size in each of the two years based on our expansion plans for dairy farms and, hence, the expected increase in our demand for milk powder from Yili to feed the new-born dairy cows; and
- (iv) the possible future inflation in the PRC dairy industry.

Reason for the transactions

As compared with the purchase of dairy products by the Group on our own or through an independent third-party agent, the dairy products provided to our Group, by virtue of Yili's economies of scale and bargaining power, make it possible for the Group to obtain the dairy products required for our operations at a lower cost, thus enabling our Group to maintain our competitiveness. In other words, the terms which our Group can obtain from Yili are no less favourable to our Group than terms available from independent third-party agents, hence fulfilling the definition of "normal commercial terms or better" under Rule 14A.06(26) of the Listing Rules.

Report of Directors

Pricing Policies

Payment terms shall be determined from time to time by the parties on an arm's length basis. Fees charged for the purchase of dairy products shall be determined after arm's length negotiation between the parties with reference to the market prices of those sold to independent third parties. Specific payment will be made according to the dairy products purchase contract further entered into between Yili and its subsidiaries and associates on the one hand, and the Group on the other hand, under the Dairy Products Purchase Framework Agreement.

Further details of the Dairy Products Purchase Framework Agreement are set out in the Prospectus.

3. Financial Services Framework Agreement with Yili Finance Company

On September 28, 2021, the Company entered into the Financial Services Framework Agreement with Yili Finance Company, pursuant to which Yili Finance Company agreed to provide a range of financial services to the Group, including the deposit services, settlement services (including collection, payment or internal settlement services and other settlement services approved by the CBIRC), and other financial services (including financial and financing consulting services, credit certification and related consulting and agency services, and other services approved by the CBIRC), for a term commencing from September 28, 2021 to December 31, 2023. As Yili is a controlling Shareholder, Yili and its associates are connected persons of the Company under the Listing Rules. As Yili Finance Company is a subsidiary of Yili, Yili Finance Company is an associate of Yili and accordingly a connected person of the Company under the Listing Rules.

Historical Amount, Annual Cap and Basis for Annual Cap

Before entering into the Financial Services Framework Agreement, the Group did not conduct any transactions with Yili or Yili Finance Company in respect of any deposit services, settlement services or other financial services.

The maximum daily balance of deposits (including the interest accrued thereon) under the deposit services for the period from September 28, 2021 to December 31, 2023 shall not exceed RMB750 million. In arriving at the maximum daily balance of deposits (including the interest accrued thereon) under the deposit services for the period from September 28, 2021 to December 31, 2023, the Directors considered the following:

- (i) the latest cash and current assets position of the Group;
- (ii) the increasing asset and operation scale and the expected amount of cash of the Group available for deposit; and
- (iii) the expected amount of interest income from Yili Finance Company taking into account the interest income that could otherwise be obtained by placing a comparable amount of deposits with other major commercial banks in the PRC.

Report of Directors

Reason for the Transactions

- (i) The rates on deposits to be offered by Yili Finance Company to the Group under the deposit services will be similar to or more favourable than those offered by the major commercial banks in the PRC.
- (ii) The fees for the settlement services and other financial services to be provided by Yili Finance Company will not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services.
- (iii) Yili Finance Company is regulated by the PBOC and the CBIRC, and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
- (iv) By depositing majority of the cash that is temporarily not in use by the Group, the Group can earn a higher interest income and thereby maximise the interest income received by the Group and maximise the Shareholders' value at the same time.
- (v) The Group is expected to benefit from Yili Finance Company's better understanding of the operation of the Group, which will facilitate more expedient and efficient services than those rendered by the major commercial banks in the PRC.
- (vi) By entering into the Financial Services Framework Agreement with Yili Finance Company, the Group will be able to centralise its control and management over its financial resources, therefore improve the utilisation and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilisation. Meanwhile, the financial services to be provided under the Financial Services Framework Agreement are diversified and can meet the business needs of the Group.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Financial Services Framework Agreement is entered into on normal commercial terms that are fair and reasonable, and the transactions contemplated thereunder are on terms no less favourable than those available from independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole.

Pricing Policies

The interest rates payable by Yili Finance Company and fees payable by the Group under the Financial Services Framework Agreement shall be determined according to the following guidelines:

- (i) the interest rates payable by Yili Finance Company to the Group for the deposit services shall not be lower than (a) the benchmark deposit rates prescribed by the PBOC; and (b) deposit rates payable by the major commercial banks in the PRC;
- (ii) Yili Finance Company will provide the settlement services for a fee which shall not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and
- (iii) Yili Finance Company will provide the other financial services at a fee equal to the lower of (i) the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and (ii) the pricing standard prescribed by the PBOC, the CBIRC or other applicable regulatory authorities for the same type of services.

Further details of the Financial Services Framework Agreement are set out in the announcement of the Company dated September 28, 2021.

Report of Directors

4. Raw Milk Purchase and Sale Framework Agreement

In order to secure uninterrupted supply of high quality raw milk in the foreseeable future, on May 17, 2021, our Company and Yili entered into the Raw Milk Purchase and Sale Framework Agreement, pursuant to which our Group (including its subsidiaries from time to time) will provide long-term supply of raw milk to Yili and its associates. Yili is a controlling Shareholder and accordingly a connected person of the Company under the Listing Rules.

The Raw Milk Purchase and Sale Framework Agreement shall have a term of three years commencing from the Listing Date.

Historical Amount, Annual Cap and Basis for Annual Cap

The Directors estimate that the total annual purchase amount by Yili and its subsidiaries and associates from the Group (including our subsidiaries from time to time) under the Raw Milk Purchase and Sale Framework Agreement will not exceed RMB12,500 million and RMB15,000 million for each of the two years ending December 31, 2022 and 2023, respectively. In determining such annual caps, the Directors have considered the following factors:

- (i) the historical and prevailing market price for raw milk, and potential fluctuations in the market price for raw milk in the future;
- (ii) the historical transaction volume of raw milk purchased by Yili, its subsidiaries and associates from our Group (including SKX acquired by our Group on January 8, 2020, and its subsidiaries from time to time) during the three years ended December 31, 2020;
- (iii) the historical revenue of the raw milk business segment of SKX of RMB2,037.5 million and RMB2,347.6 million for each of the two years ended December 31, 2018 and 2019, respectively, which has been taken into account in determining the annual caps because, given that SKX has become a subsidiary of our Group, and hence part of our Group, since January 2020, and at least 70% of the annual raw milk production of our Group will be purchased by Yili and its subsidiaries and associates under the agreement;
- (iv) the historical revenue in relation to the raw milk sales in the dairy farming business of Fonterra China Farms Group of RMB930.2 million, RMB1,080.5 million and RMB1,148.5 million for each of the three years ended December 31, 2018, 2019 and 2020, respectively, which has been taken into account in determining the annual caps because upon completion of the acquisition on April 1, 2021, members of the Fonterra China Farms Group have become our subsidiaries, and hence part of our Group, and at least 70% of the annual raw milk production of our Group will be purchased by Yili and its subsidiaries and associates under the agreement;
- (v) the historical average milk yield per milkable cow (excluding Jerseys) of Inner Mongolia Youran of 10.0 tons, 10.4 tons and 11.0 tons for the years ended December 31, 2018, 2019 and 2020, respectively, and the historical average milk yield per milkable cow of SKX of 8.6 tons, 9.0 tons and 10.0 tons for the years ended December 31, 2018, 2019 and 2020, respectively;

Report of Directors

- (vi) the anticipated significant growth in the production of raw milk of our Group for the three years ending December 31, 2021, 2022 and 2023, having taken into account (i) the increase in the Group's revenue from the business segment of raw milk from RMB2,610.3 million for the year ended December 31, 2018 to RMB3,063.6 million for the year ended December 31, 2019, representing an increase of approximately 17.4%; (ii) the increase in production caused by the acquisition and integration of SKX and the Fonterra China Farms Group. Hence, the quantity of raw milk to be sold under this agreement is expected to increase by at least 20% in each of 2022 and 2023; and (iii) the expected increase in production due to the commencement of commercial production of the ten new dairy farms which were under construction as of December 31, 2020; and
- (vii) the possible sustained growth of the PRC dairy industry.

Reasons for the transactions

This procurement arrangement is an indication of Yili's recognition of the importance of the Group as Yili relies on the Group's output of raw milk for Yili's own operation and future growth. On the other hand, Yili is one of the dominant dairy conglomerates in the PRC and a long-term procurement arrangement with Yili ensures a stable demand of the Group's raw milk, which provides a great level of certainty in our business growth and future strategic and operational planning.

Pricing Policies

The minimum price and terms of raw milk to be supplied by the Group (including our subsidiaries from time to time) to Yili and its subsidiaries and associates shall in principle not be lower than the price of and comparable to the terms of raw milk to be supplied to Yili by dairy farms of similar scale located in the same geographical location with the Group or nearby, or in the absence of such dairy farms in such region, by similar dairy farms in other regions, and/or shall be negotiated on an arm's length basis between both parties based on the type, quality, purchase volume and historical transaction price of raw milk. The purchase price of raw milk is determined and adjusted based on market conditions and seasonal factors. As agreed between both parties, the final purchase price of raw milk varies depending on the quality grade. The quality of raw milk supplied by the Group must satisfy the standards set by the government and the requirements of Yili and its subsidiaries and associates.

Further details of the Raw Milk Purchase and Sale Framework Agreement are set out in the Prospectus.

Confirmation from Independent Non-Executive Directors

All the above continuing connected transactions for the Reporting Period have been reviewed by the independent non-executive Directors. The independent non-executive Directors have confirmed that each of the continuing connected transactions has been entered into: (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Report of Directors

Confirmations from the Auditor

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the Reporting Period: (a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board; (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (d) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

A summary of all significant transactions with related parties (the "Related Party Transactions") entered into by the Group during the Reporting Period is contained in note 47 to the consolidated financial statements. During the Reporting Period, other than the continuing connected transactions of the Group set out above which are disclosed pursuant to the Listing Rules, no Related Party Transactions disclosed in note 47 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the Reporting Period.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the Reporting Period.

Material Litigation

The Company was not involved in any material litigation or arbitration during the Reporting Period. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the Reporting Period.

Report of Directors

Use of 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, was approximately HK\$3,270 million (approximately RMB2,711 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.

There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus. Set out below is the status of use of proceeds from the Global Offering as at December 31, 2021.

Purpose	% of use of proceeds	Net proceeds (RMB million)	Utilised amount for the year ended December 31, 2021 (RMB million)	Unutilised amount as at December 31, 2021 (RMB million)
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	75%	2,033	1,131	902
Purchasing dairy cows for our dairy farms	15%	407	407	0
Working capital and general corporate purposes	10%	271	271	0
Total	100%	2,711	1,809	902

The Company expects to gradually apply the remaining unutilised net proceeds in the manner set out below:

- RMB902 million for the investment in construction projects, including dairy farms under construction, new dairy farms and feed mills, by December 31, 2022.

PUBLIC FLOAT

As disclosed in the Prospectus, the Stock Exchange has granted the Company a waiver (the "Waiver") from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules, which requires that at least 25% of an issuer's total issued share capital must be held at all times by the public. Pursuant to the Waiver, the Company's minimum public float shall be 18.85% of the Company's total issued share capital.

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the Latest Practicable Date, the Company had maintained the aforementioned prescribed percentage of minimum public float under the Waiver. For further information on the Waiver, please refer to pages 101 and 102 of the Prospectus and the company information sheet of the Company dated March 30, 2022.

Report of Directors

AUDITOR

The consolidated financial statements of the Group have been audited by the Auditor who will retire and, being eligible, offer themselves for reappointment at the AGM.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On March 2, 2022, the Company, YeGu Investment Company Limited and Mr. Zhang Jianshe entered into a share transfer agreement, pursuant to which the Company conditionally agreed to purchase, and YeGu Investment Company Limited conditionally agreed to sell, approximately 27.16% of the total outstanding shares of Wholesome Harvest Limited for a consideration of HK\$1,206,380,000. Wholesome Harvest Limited wholly owns ZhongDi Dairy, which operates a total of nine dairy farms in China with approximately 75,000 dairy cows in China. The transaction would enable the Group to invest in additional dairy farms and to explore potential collaboration opportunities in the future, which will be favourable for the Group's long-term development. For further details, please refer to the announcements of the Company dated March 2, 2022, March 23, 2022 and the circular of the Company dated March 4, 2022.

Save as disclosed in this annual report, no significant events affecting the Company have occurred since the end of the Reporting Period and up to the Latest Practicable Date.

By the order of the Board

Mr. Zhang Yujun

Chairman and Non-executive Director

Hong Kong

March 30, 2022

Biographical Details of Directors and Senior Management

The Board consists of two executive Directors, four non-executive Directors and three independent non-executive Directors.

Directors

Executive Directors

Mr. Zhang Xiaodong (張小東), aged 43, joined our Group since March 2017, and was appointed as a Director of our Company on August 24, 2020 and designated as an executive Director and appointed as the president on November 15, 2020. Mr. Zhang has over 23 years of experience in dairy industry and is responsible for our Group's overall operation and management.

Mr. Zhang joined Yili in 1998. He started his career at the production department of Jinchuan Factory (金川廠) under the powdered milk division (奶粉事業部) of Yili, and served as a chief of production from August 1998 to June 2001. He worked as the production manager of Zhaodong Yili Dairy Co., Ltd (肇東伊利乳品公司) under liquid milk division (液態奶事業部) of Yili from July 2001 to June 2003, and the production manager of Langfang Yili Dairy Co., Ltd (廊坊伊利乳製品公司) under liquid milk division (液態奶事業部) of Yili from July 2003 to March 2004. He then served as the general manager of Bayannaer branch (巴彥淖爾分公司) under liquid milk division (液態奶事業部) of Yili from April 2004 to May 2006, and the general manager of Ulan Qab Dairy Factory (烏蘭察布乳製品廠) under liquid milk division (液態奶事業部) of Yili from May 2006 to November 2007. He worked at Jinchuan branch (金川廠) and Jinchuan Yili Dairy Co., Ltd. (金川伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from December 2007 to October 2011. He then worked at the liquid milk division (液態奶事業部) of Yili for various positions, including the deputy director of the supply department from October 2011 to September 2012, the deputy director of the production management department from September 2012 to March 2013, the director of production management department from March 2013 to October 2014. He was the assistant to the president of milk powder division (奶粉事業部) of Yili from October 2014 to April 2015 and the vice president of milk powder division (奶粉事業部) of Yili from April 2015 to March 2017. Mr. Zhang is also a director and the president of Inner Mongolia Youran, a principal operating subsidiary of our Company in the PRC, and he has served as a non-executive director of SKX, a subsidiary of our Company in the PRC, since February 2020.

Mr. Zhang graduated from Tianjin University of Science & Technology (天津科技大學), majoring in food science and engineering in January 2010.

Mr. Dong Jiping (董計平), aged 41, joined our Group since November 2015, and was appointed as a Director of our Company on August 24, 2020 and designated as an executive Director and appointed as vice president on November 15, 2020. Mr. Dong has over 16 years of experience in dairy industry and is primarily responsible for the management of our Group's legal compliance and external relations. He is also a director and the vice president of Inner Mongolia Youran, our principal operating subsidiary in the PRC.

Mr. Dong joined Yili in July 2004. He started his career at the liquid milk division (液態奶事業部) of Yili responsible for the procurement business and worked as the secretary to the president's office of Yili from June 2005 to April 2012. Subsequently, he worked as the planning director (企劃總監) of strategy management department of Yili from April 2012 to November 2015.

Mr. Dong obtained his bachelor's degree in biotechnology from Northeast Forestry University (東北林業大學) in July 2004.

Biographical Details of Directors and Senior Management

Non-executive Directors

Mr. Zhang Yujun (張玉軍), aged 52, was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director and appointed as the chairman of the Board on November 15, 2020. Mr. Zhang has over 26 years of experience in dairy industry and is primarily responsible for strategic planning of our Group and the management of the Board.

Mr. Zhang joined Yili in July 1995. He started his career in the frozen products division (冷凍公司) of Yili and served as a squad leader from July 1995 to September 1996. He served as the department head of production department at the mineral drink division (礦飲公司) of Yili from October 1996 to December 1999. He further served as the general manager of mineral drinking division (礦飲公司) of Yili from January 2000 to September 2001. Subsequently, he worked at the powdered milk division (奶粉事業部) of Yili, served as the assistant to general manager from October 2001 to December 2005 and the vice general manager of milk powder sales and marketing division (奶粉事業部) from December 2005 to June 2007. Mr. Zhang worked as the vice general manager in sales and marketing department directly under the liquid milk division (液態奶事業部) from July 2007 to June 2016. He further served as the vice general manager in sales and marketing department at yogurt division (酸奶事業部) of Yili from June 2016 to July 2017. From July 2017 to August 2019, he served as the general manager of liquid milk division (液態奶事業部) of Yili. Since August 2019, Mr. Zhang has worked as the assistant to the president of Yili and the general manager of liquid milk division (液態奶事業部) of Yili.

Mr. Zhang is also a director and the chairman of Inner Mongolia Youran, a principal operating subsidiary of our Company in the PRC. He has also served as the chairman of SKX, a subsidiary of our Company in the PRC, since February 2020.

Mr. Zhang obtained his bachelor's degree in philosophy from Inner Mongolia University (內蒙古大學) in July 1995. Mr. Zhang was awarded the qualification as an intermediate economist (中級經濟師) in December 2003.

Mr. Xu Jun (徐軍), aged 50, joined our Group since November 2015, and was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Xu joined Yili in August 1996. He worked as a director of the corporate management division of the dairy food limited (奶食品有限責任公司) from February 1998 to May 2000, as a director of the corporate management division and a human resource director of the human resource division of liquid milk division (液態奶事業部) from June 2000 to March 2005, as the vice general manager of the strategic sourcing department (戰略採購部) from April 2005 to December 2005, as the general manager of the cold drink department (冷飲事業部) from January 2006 to September 2012, as the president of the milk powder department (奶粉事業部) from September 2012 to December 2016, as the general manager of the human resource department (人力資源部) from December 2016 to July 2017. Subsequently, he has been the assistant to the president (總裁助理) of Yili since August 2017. Mr. Xu is also a director of Inner Mongolia Youran, a principal operating subsidiary of our Company in the PRC.

Mr. Xu obtained his bachelor's degree in economic management from the University of Inner Mongolia (內蒙古大學) in July 1996.

Biographical Details of Directors and Senior Management

Mr. Xu, Zhan Kevin (許湛), aged 40, was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Xu served at Morgan Stanley Asia Limited from January 2006 to August 2007. He served as an associate at TPG Capital Limited from August 2007 to June 2009, a senior associate at Apax Partners Hong Kong Limited from November 2009 to August 2011, and a managing director at PAG Asia Capital since September 2011. Mr. Xu serves as a non-executive director of Alphamab Oncology (康寧傑瑞生物製藥), a company listed on the Stock Exchange (stock code: 9966) since November 2018. Mr. Xu is also a director of Inner Mongolia Youran, a principal operating subsidiary of our Company in the PRC.

Mr. Xu obtained his bachelor's degree in electronic engineering from Zhejiang University (浙江大學) in June 2003 and his master's degree of management science and engineering from Stanford University in January 2006.

Mr. Qiu Zhongwei (邱中偉), aged 53, was appointed as a Director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Qiu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Qiu started his career at China Huaneng Group Corporation (中國華能集團公司), a company listed on the Shanghai Stock Exchange (stock code: 600011). From March 2000 to October 2004, he served as the vice president and chairman of Yintai Holdings Limited (銀泰控股公司), from January 2005 to March 2015, he served as the managing director of the management committee and general manager of the strategic research and business development department of Beijing Hony Yuanfang Investment Consultant (北京弘毅遠方投資顧問). He has been the president and managing director of PAG Asia Capital since April 2015. Mr. Qiu has served as a director of Beijing Investment Development Co. Ltd. (京投發展股份有限公司) a company listed on the Shanghai Stock Exchange (stock code: 600683) since December 2017. Mr. Qiu is also a director of Inner Mongolia Youran, a principal operating subsidiary of our Company in the PRC, and he has served as a director of SKX, a subsidiary of our Company in the PRC, since February 2020.

Mr. Qiu obtained his bachelor's degree in engineering from Xi'an Jiaotong University (西安交通大學) in July 1990 and his master's degree in business administration from Northwestern University and Hong Kong University of Science and Technology in November 2003.

Independent Non-executive Directors

Ms. Xie Xiaoyan (謝曉燕), aged 51, has been an independent non-executive Director since June 7, 2021. Ms. Xie is primarily responsible for supervising and providing independent judgment to our Board.

Ms. Xie worked at Inner Mongolia Dahua Certified Public Accountant (內蒙古大華會計師事務所, previously known as Inner Mongolia Certified Public Accountant (內蒙古會計師事務所)) as auditor, project manager, principal accountant and senior accounting manager from January 1997 to July 2006. Ms. Xie has been working at Inner Mongolia University of Technology (內蒙古工業大學) responsible for the teaching and research works for undergraduate and graduate students since August 2006 and is currently a professor of the Department of Accounting of School of Economic and Management of Inner Mongolia University of Technology (內蒙古工業大學).

Biographical Details of Directors and Senior Management

Ms. Xie has served as an independent director of Inner Mongolia Junzheng Energy & Chemical Group Co. Ltd. (內蒙古君正能源化工集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601216.SH)) from June 2014 to June 2020; and an independent director of Inner Mongolia Jinyu Group Co., Ltd. (內蒙古金宇集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600201.SH)) from May 2007 to May 2013. She has also served as an independent director of Inner Mongolia Datang Pharmaceutical Co. (內蒙古大唐藥業股份有限公司) (a company listed on Beijing Stock Exchange (stock code: 836433)) since April 14, 2020, and Jinhe Biotechnology CO., LTD. (金河生物科技股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002688.SZ)) since April 2020.

Ms. Xie is a national advanced accountant (全國先進會計工作者), and obtained the Second Prize of Government Award for Outstanding Achievements in Philosophy and Social Sciences (哲學社會科學優秀成果政府獎二等獎) presented by the government of Inner Mongolia Autonomous Region. Ms. Xie is currently a Chinese certified public accountant, certified tax agent, senior accountant and qualified with a certificate of independent directorship.

Ms. Xie graduated from the University of Inner Mongolia (內蒙古大學) in 2003, and obtained a master degree in political economics from the Normal University of Inner Mongolia (內蒙古師範大學) in 2006 and a doctorate degree of agricultural economic management from the Agricultural University of Inner Mongolia (內蒙古農業大學) in 2010.

Mr. Yao Feng (姚峰), aged 61, has been an independent non-executive Director since June 7, 2021. Mr. Yao is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Yao held the position of deputy director at the integrated planning department of the Ministry of Finance of the PRC, a vice president of the securities department and general manager of enterprise management department of China Economic Development Trust & Investment Corporation (中國經濟開發信託投資公司) from March 1993 to April 1997, a vice president of the financial and securities department of China National Travel Service (HK) Group Corporation (香港中旅(集團)有限公司) from April 1997 to July 1998, and a vice general manager of China Travel Financial Investment Holdings Co., Limited (香港中旅金融投資有限公司) from July 1998 to June 1999.

Mr. Yao successively served in various positions of the China Securities Regulatory Commission from June 1999 to May 2013, including the director of institution regulatory department, a party committee member and deputy officer of Guangzhou Securities Regulatory Office, a party committee member and deputy director of Guangzhou Regulatory Bureau, a deputy officer of the risk management office for securities companies, and an inspector and deputy officer of the accounting department from January 2001 to September 2011, and a commissioner of Shanghai Supervision Office of the Commissioner from September 2011 to May 2013. Mr. Yao successively served in China Association of Public Companies (中國上市公司協會) from May 2013 to April 2016 as the secretary of the party committee, the executive vice-chairman and legal representative. Mr. Yao served as the vice-chairman and legal representative of China Association of Public Companies from April 2016 to April 2017. Mr. Yao served as the deputy mayor of Hangzhou Municipal People's Government from June 2017 to October 2019. Mr. Yao served as the deputy secretary of the party committee and the head of supervisors of China Association of Public Companies from June 2019 to September 2019. Mr. Yao has served as an independent non-executive director of Haitong UniTrust International Leasing Co., Ltd. (海通恆信國際租賃股份有限公司) (a company listed on the Stock Exchange (stock code: 1905)) from March 2020.

Biographical Details of Directors and Senior Management

Mr. Yao was a member of the first session of self-regulatory committee of the Shenzhen Stock Exchange from December 2014 to December 2017 and an adjunct professor of China University of Political Science and Law (中國政法大學) from June 2015 to June 2018. Mr. Yao has been a council member of the Business School of China University of Political Science and Law since May 2017.

Mr. Yao obtained a bachelor's degree in national economic planning from Hubei Institute of Finance and Economics (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1983 and a master's degree in economics from Zhongnan University of Finance and Economics (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1997.

Mr. Shen Jianzhong (沈建忠), aged 59, has been an independent non-executive Director since June 7, 2021. Mr. Shen is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Shen has been working at China Agricultural University since 1988 and is currently the dean of the school of veterinary medicine (動物醫學院) of China Agricultural University (中國農業大學), a director of the national assessment centre for safety of animal drugs (國家獸藥安全評價中心), a director of the national laboratory on standards of residual veterinary drugs (國家獸藥殘留基準實驗室), and an expert of the Joint FAO and WHO Expert Committee on Food Additives (世界糧農組織和世衛組織食品添加劑聯合專家委員會會議).

Mr. Shen was awarded the second prize of the National Award for Progress in Science and Technology (國家科技進步二等獎) in 2006 and the second prize of the National Award for Technological Invention (國家技術發明二等獎) in 2015 and was elected as an academician of the Chinese Academy of Engineering (中國工程院院士) in 2015.

Mr. Shen obtained a master's degree of agriculture from Beijing Agricultural University (北京農業大學) in 1988 and a doctorate degree of science from China Agricultural University (中國農業大學) in 1997.

Senior Management

Mr. Zhang Xiaodong (張小東), aged 43, is the executive Director and president of our Company. Please see above for further details.

Mr. Dong Jiping (董計平), aged 41, is the executive Director and vice president of our Company. Please see above for further details.

Mr. Jiang Guangjun (姜廣軍), aged 48, joined our Group in December 2019, and was appointed as the vice president of our Company on November 15, 2020. Mr. Jiang has over 23 years of experience in dairy industry and is primarily responsible for assisting the president in full charge of the operation and management of our Group. He has also been serving as vice president of Inner Mongolia Youran, a principal operating subsidiary of our Company in the PRC, since December 2019.

He started his career at the cold drink division (冷飲事業部) of Yili in July 1998 and served as a quality inspector at the chocolate egg roll workshop (巧克力蛋捲車間) from July 1998 to January 2000. He then worked at the No.2 workshop of Jinchuan Factory (金川廠) under liquid milk division (液態奶事業部) of Yili for various positions, including as section chief from January 2000 to January 2001, as production manager from January 2001 to September 2002, and as the assistant to the factory head from September 2002 to February 2004. He then served as the general manager at Xilinhot Branch of liquid milk division (液態奶事業部) of Yili from February 2004 to September 2004, the general manager at Qiqihar Branch of

Biographical Details of Directors and Senior Management

liquid milk division (液態奶事業部) of Yili from October 2004 to September 2005, the general manager at Baotou Yili Dairy Co., Ltd. (包頭伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from October 2005 to November 2010. He was the president of Ningxia Yili Dairy Co., Ltd. (寧夏伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from November 2010 to August 2012, and was then promoted and worked as its senior president from August 2012 to August 2013. He served at the supply department in liquid milk division (液態奶事業部) of Yili, as the deputy supervisor in supply (person in charge) from August 2013 to February 2018, and as the supervisor in supply from February 2018 to December 2018. He worked as the vice president at the liquid milk division (液態奶事業部) of Yili from December 2018 to December 2019. He has also served as a director of SKX, a subsidiary of our Company in the PRC, since September 2020.

Mr. Jiang obtained his bachelor of engineering degree, majoring in food science and engineering from Inner Mongolia Agriculture University (內蒙古農業大學) in July 1998.

Mr. Xu Yanfei (許燕飛), aged 41, joined our Group in August 2008 and was appointed as a vice president of our Company on November 15, 2020. Mr. Xu has over 15 years of experience in farm management, and is responsible for overseeing and managing the overall operations of our Group's farms.

Mr. Xu started his career in Yili's raw milk division and served as the quality controller and system operator of the raw milk division from 2006 to 2007; and as the general manager of project management department of the raw milk division from 2007 to 2008. From 2008 to 2017, he served as a veterinarian, the group leader of the milking department, the deputy manager of the milking department, the manager of the milking department, the manager of the feeding department, the assistant to dairy farm manager and the dairy farm manager, during which he was assigned to study for one year at a farm of 10,000 cows in Florida, U.S. from 2011 to 2012. From July 2017 to December 2018, he served as the assistant general manager of the husbandry unit of Inner Mongolia Youran, a principal operating subsidiary in China; the vice president of Inner Mongolia Youran and was responsible for husbandry business from December 2018 till now. He also served as a director in several subsidiaries of Inner Mongolia Youran, a principal operating subsidiary of our Company in China.

Mr. Xu obtained his bachelor's degree in agriculture from the Agricultural University of Inner Mongolia (內蒙古農業大學) in June 2006, majoring in animal medicine. He was awarded May 1 Labour Medal in the Inner Mongolia Autonomous Region (內蒙古自治區五一勞動獎章) in April 2016.

Mr. Yang Ming (楊明), aged 42, joined our Group in 2002 and was appointed as the vice president of our Company on November 15, 2020. Mr. Yang has over 19 years of experience in the ruminant feed industry, and is responsible for overseeing and managing overall operation of our Group's feed business. Mr. Yang started his career in Muquan Yuanxing in 2002 and worked on procurement business. From 2002 to 2008, he served at multiple positions including production director, production manager, the manager of marketing department, regional manager and other positions in Muquan Yuanxing. He was promoted as the deputy manager of Muquan Yuanxing in 2008 and in charge of its operations in 2014. Since July 2015, he has served as the vice president of Inner Mongolia Youran, our principal subsidiary in the PRC and is in charge in feed business. He also served as a director in several subsidiaries of Inner Mongolia Youran, a principal operating subsidiary of our Company in China.

Mr. Yang completed his junior college education in the Agricultural University of Inner Mongolia (內蒙古農業大學) in July 2002, majoring in animal husbandry and medicine and completed undergraduate study in the Agricultural University of Inner Mongolia in July 2005, majoring in animal medicine.

Biographical Details of Directors and Senior Management

Mr. Lv Xiongyu (呂雄宇), aged 50, joined our Group since January 2022 and was appointed as the vice president and the secretary to the Board of our Group. Mr. Lv has more than 19 years of experience in dairy industry, and is primarily responsible for the work related to the Board office of our Group while in charge of investor affairs and financial management.

From July 1994 to March 2003, Mr. Lv worked in Armed Police of China 5303 Factory (武警五三零三工廠), holding various positions such as statistics, auditing, comprehensive operation and management, etc. From March 2003 to March 2015, he worked in Yili, successively serving as the auditor of liquid milk division (液態奶事業部) of Yili, the financial manager of Shuozhou Yili Dairy Co., Ltd. (朔州伊利乳業有限責任公司) and Hefei Yili Dairy Co., Ltd. (合肥伊利乳業有限責任公司), the marketing and finance director of the finance department and the assistant to the chief financial officer at liquid milk division (液態奶事業部) of Yili; and the deputy marketing and finance director and the budget management director of the financial management department of Yili. From April 2015 to August 2019, Mr. Lv worked in our Group, successively serving as the chief financial officer of Inner Mongolia Youran and the assistant deputy director of finance of SKX. He was concurrently appointed as the secretary of the Board of Inner Mongolia Youran since May 2016, and also serving as a director of Inner Mongolia Youran from November 2015 to December 2019; and from August 2019 to January 2022, he worked in Yili as the head of its M&A department.

Mr. Lv graduated from Inner Mongolia Forestry College in July 1994, majoring in forestry economics and management. He was qualified as an intermediate auditor in October 1998.

Corporate Governance Report

The Board of Directors is pleased to present the corporate governance report for the Company for the Reporting Period.

Corporate Governance Practices

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 to protect and maximise interests of the Shareholders of the Company. 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.

Code provision A.1.1 of the CG Code (re-arranged as code provision C.5.1 of the CG Code Since 1 January 2022) recommends, but does not require, that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. The Company recently listed on the Stock Exchange on June 18, 2021, from which date the CG Code has been applicable to the Company. Since the Listing Date and until the end of the Reporting Period, the Company held three Board meetings. Nevertheless, the Board has been in regular communication with one another and, going forward, will continue to meet regularly to update themselves on the Company's affairs.

Save as disclosed above, the Company has complied with the code provisions set out in the CG Code since the Listing Date and until the end of the Reporting Period. The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions

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 during the period from the Listing Date to December 31, 2021.

Board of Directors

Board Composition

During the Reporting Period and as at the Latest Practicable Date, the Board comprised two executive Directors, four non-executive Directors and three independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors

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

Mr. Dong Jiping (董計平)

Corporate Governance Report

Non-executive Director

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)

The biographical details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 52 to 56 of this annual report, in which a diversity of skills, expertise, experience and qualifications of the Directors is contained.

There are no financial, business, family or other material/relevant relationships between the members of the Board.

Chairman and President

The positions of Chairman and President are held by Mr. Zhang Yujun and Mr. Zhang Xiaodong, respectively. The Chairman provides leadership and is responsible for the management of the Board, to ensure that the Board works effectively and discharges its responsibilities; all key and appropriate issues are discussed by the Board in a timely manner; good corporate governance practices and procedures are established; and appropriate steps are taken to provide effective communication with Shareholders and that views of Shareholders are communicated to the Board as a whole. The President focuses on the Company’s overall operation and management, and is responsible for the planning of the Company’s long-term strategies and the implementation of commercial plans. Their respective responsibilities are clearly defined and set out in writing.

Corporate Governance Report

Board Meetings, Committee Meetings and General Meetings

A summary of the attendance record of the Directors at Board meetings and committee meetings during the Reporting Period is set out in the following table below:

Name of Director	Board <i>(Note 1)</i>	Remuneration Committee <i>(Note 2)</i>	Nomination Committee <i>(Note 2)</i>	Audit Committee	General Meeting <i>(Note 3)</i>
Executive Directors:					
Mr. Zhang Xiaodong	3/3	N/A	N/A	N/A	N/A
Mr. Dong Jiping	3/3	N/A	N/A	N/A	N/A
Non-executive Directors:					
Mr. Zhang Yujun	2/3	N/A	N/A	N/A	N/A
Mr. Xu Jun	3/3	0/0	N/A	N/A	N/A
Mr. Xu, Zhan Kevin	3/3	N/A	0/0	N/A	N/A
Mr. Qiu Zhongwei	2/3	N/A	N/A	1/1	N/A
Independent Non-executive Directors:					
Ms. Xie Xiaoyan	3/3	0/0	N/A	1/1	N/A
Mr. Yao Feng	3/3	N/A	0/0	1/1	N/A
Mr. Shen Jianzhong	2/3	0/0	0/0	N/A	N/A

Apart from regular Board meetings, the Chairman of the Board also held meetings with the independent non-executive Directors without the presence of other Directors during the Reporting Period.

Notes:

- (1) Code provision A.1.1 of the CG Code (re-arranged as code provision C.5.1 of the CG Code Since 1 January 2022) recommends, but does not require, that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. The Company recently listed on the Stock Exchange on June 18, 2021, from which date the CG Code has been applicable to the Company. Since the Listing Date and until December 31, 2021, the Company held 3 Board meetings. Nevertheless, the Board has been in regular communication with one another and, going forward, will continue to meet regularly to update themselves on the Company's affairs.
- (2) No Nomination Committee meeting and Remuneration Committee meeting was held in the period from the Listing Date until the end of the Reporting Period.
- (3) No annual general meeting or other general meeting was held in the period from the Listing Date until the end of the Reporting Period.

Independence of Independent Non-Executive Directors

During the Reporting Period, the Board had at all times met the requirements under Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Board has received from each of the independent non-executive Directors a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent.

Corporate Governance Report

Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company. The initial term of their respective service contract is from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice. Each of the non-executive Directors has entered into a service contract and each of the independent non-executive Directors has entered into an appointment letter with our Company. The initial term for their service contracts or appointment letters is from the date of their appointment for a period of three years until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

All the Directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association.

At each annual general meeting of the Company, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. Any Directors appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Accordingly, Mr. Dong Jiping, Mr. Xu Jun and Mr. Qiu Zhongwei shall retire at the 2021 AGM and be eligible, and they will offer themselves for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees") as detailed in this report.

Corporate Governance Report

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and senior management's liabilities in respect of legal actions against Directors and senior management of the Company arising out of corporate activities.

Board Committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee, and the Nomination Committee for overseeing particular aspects of the Company's affairs. Each of these committees is established with defined written terms of reference.

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 CG 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, Mr. Yao Feng and Mr. Qiu Zhongwei. Mr. Qiu Zhongwei is a non-executive Director and each of Ms. Xie Xiaoyan and Mr. Yao Feng is an independent non-executive Director. Ms. Xie Xiaoyan, being our independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise) is the chairperson of the Audit Committee.

The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

During the Reporting Period, the Audit Committee met once to review the Company's interim results and interim report for the six months ended June 30, 2021. During the meeting, the Audit Committee also reviewed the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function; and reviewed appointment of external auditors and engagement of non-audit services and relevant scope of works. In addition, the Audit Committee reviewed whether the Company had formulated corresponding mechanisms and arrangements for employees to raise concerns about possible improprieties.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee consists of three Directors, namely Mr. Shen Jianzhong, Ms. Xie Xiaoyan and Mr. Xu Jun. Mr. Xu Jun is a non-executive Director and each of Ms. Xie Xiaoyan and Mr. Shen Jianzhong is an independent non-executive Director. Mr. Shen Jianzhong is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include, among other things (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management, or alternatively, making recommendations to the Board on such remuneration packages; and (iii) reviewing performance-related elements of the total remuneration package for executive Directors to align their interests with those of Shareholders.

The terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

Details of the Directors' remuneration for the year ended December 31, 2021 are set out in Note 14 to the consolidated financial statements.

Corporate Governance Report

The remuneration of the senior management (other than Directors) of the Group by band for the Reporting Period is set out below:

Remuneration bands (HKD)	Number of persons
HK\$1,000,001-HK\$1,500,000	N/A
HK\$1,500,001-HK\$2,000,000	2
HK\$2,000,001-HK\$2,500,000	1
Total	3

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of three members, namely, Mr. Yao Feng, Mr. Shen Jianzhong and Mr. Xu, Zhan Kevin. Mr. Xu, Zhan Kevin is a non-executive Director and each of Mr. Yao Feng and Mr. Shen Jianzhong is an independent non-executive Director. Mr. Yao Feng is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession.

The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

Board Diversity Policy

In order to enhance the effectiveness of the Board and to maintain the high standard of corporate governance, the Company adopted the board diversity policy (the "Board Diversity Policy") which sets out the objective and approach to achieve and maintain diversity of the Board. The Company believes that increasing diversity at the Board level is the basic element to support the attainment of the Company's strategic objectives and sustainable development. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors when selecting candidates to the Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution that the selected candidates is expected to bring to the Board.

The Board currently consists of one female Director and eight male Directors with a balanced mix of knowledge and skills, including but not limited to business management, veterinary medicine, biotechnology and financial management. They obtained degrees in various majors including economics, engineering and management. The Board is of the view that the Board satisfies the Board Diversity Policy. The Nomination Committee is responsible for ensuring the diversity of our Board members. and will review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Corporate Governance Report

Director Nomination Policy

The Company has adopted a director nomination policy (the “**Director Nomination Policy**”) in accordance with the CG Code. The Director Nomination Policy sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business.

The Nomination Committee shall identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

The Director Nomination Policy sets out the non-exhaustive factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Integrity and reputation;
- Educational background, professional qualifications and work experience (including part-time jobs);
- Whether or not they have the necessary skills and experience;
- Whether or not they are able to spend sufficient time and energy to handle the Company’s affairs;
- Whether or not they will promote the diversity of the Board in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and term of office;
- Whether or not the candidates for independent Directors meet the requirements for independence under Rule 3.13 of the Listing Rules; and
- Any other relevant factors as determined by the Nomination Committee or the Board from time to time.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Director Nomination Policy, from time to time and as appropriate, to ensure its effectiveness.

Corporate Governance Function

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code (re-arranged as code provision A.2.1 of the CG Code Since 1 January 2022).

The Board would review the Company’s corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, and the Company’s compliance with the CG Code and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

Corporate Governance Report

Dividend Policy

The Company has adopted a policy on payment of dividends in accordance with code provision E.1.5 of the CG Code (re-arranged as code provision F.1.1 of the CG Code Since 1 January 2022).

According to the dividend policy, payment of dividends depends on a number of factors, including but not limited to the following:

- general business conditions of the Company;
- financial results of the Company;
- capital requirements of the Company;
- interests of the Shareholders; and
- any other factors which the Board may deem relevant.

Dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to Shareholders' approval.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

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

The statement of the Auditor about its reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 72 to 75 of this annual report.

Continuous Professional Development of Directors

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

Every newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for the Directors would be arranged and reading material on relevant topics would be provided to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Corporate Governance Report

During the Reporting Period, the Company provided a series of trainings and relevant reading materials to the Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company. The Directors have attended seminars and training sessions arranged by professional/financial institutions, and have read relevant materials relating to regulatory updates, accounting, financial or professional skills and/or directors' duties and responsibilities. The relevant details are set out below:

Name of Director	Training Areas		
	Corporate Governance	Legal and Regulatory	Business and Industry Development
Executive Directors:			
Mr. Zhang Xiaodong	√	√	√
Mr. Dong Jiping	√	√	√
Non-executive Directors:			
Mr. Zhang Yujun	√	√	√
Mr. Xu Jun	√	√	√
Mr. Xu, Zhan Kevin	√	√	√
Mr. Qiu Zhongwei	√	√	√
Independent Non-executive Directors:			
Ms. Xie Xiaoyan	√	√	√
Mr. Yao Feng	√	√	√
Mr. Shen Jianzhong	√	√	√

Auditor's Responsibility and Remuneration

The Company appointed Deloitte Touche Tohmatsu as the external auditor for the Reporting Period. A statement by the Auditor about its reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 72 to 75.

Details of the fees in respect of the audit and non-audit services provided by the Auditor for the Reporting Period are set out in the table below:

Services rendered for the Company	RMB'000
Audit services	2,500
Non-audit services (Interim Review)	1,500
Total	4,000

Corporate Governance Report

Risk Management and Internal Control

The Board acknowledges its responsibility for the Company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Principal Risks and Uncertainties

The Group has adopted a comprehensive risk management system. The Audit Committee is authorised by the Board to manage, monitor and improve the risk management system. The main risks of the Group include risks related to supply and quality of dairy cows, product and service quality, manufacturing and production safety, environmental pollution, and changes in market supply and demand, strategic risks, operational risks and financial risks.

Strategic Risks

The Board has devised short-and long-term strategies for the continuous development of the Group based on the Directors' in-depth experience and knowledge of the dairy industry. Based on such strategies, the Group will seize market opportunities and, among others, expand the scale and coverage of its each business segment, constantly conduct product development and technological innovation, effectively promote lean production management and continuously promote the digitalisation and intelligence of production management. The Group will closely review and monitor the progress of the implementation of such strategies and take appropriate risk mitigation actions and make suitable strategy adjustments in order to provide consumers and customers with high-quality raw milk and comprehensive ruminant farming solutions.

Operational Risks

The Group's operations are subject to certain specific risk factors, such as the interruption of production facilities, an outbreak of any dairy cows disease, actual or perceived food safety issue or product contamination. In addition, inadequacies or failures of internal processes, people and systems or other external events may have a certain degree of negative impact on the Group's operating results. Such risks are mitigated by and controlled by the Company's internal control system, details of which are set out in the section headed "Risk Management and Internal Control – Internal Control" in this annual report.

Financial Risks

The Group is exposed to risks such as credit, liquidity, interest rate and currency risks in the ordinary course of business. The Group's overall risk management strategy aims to minimise potential adverse impact on the Group's financial performance.

Further details of risks the Group faces are set out in the section headed "Risk Factors" in the Prospectus.

Corporate Governance Report

Risk Management

The Group's risk management measures include the following:

- the Board is responsible for monitoring our internal control system and for reviewing its effectiveness, and maintaining the Company's risk management at an appropriate and effective level;
- as the responsible department for risk management, the Company's audit department evaluates the risks faced by the Company every year, and prepares a risk assessment report based on the evaluation results and submits it to the Audit Committee and the Board for compliance and approval. We will refer to the approved risk assessment report when formulating or revising the Company's development plan and targets for the coming year;
- the Company requires all departments to proactively identify the risks they face and various internal and external factors that affect the occurrence of the risks, and make a summary according to the risk classification;
- in addition, the Company also requires the person in charge of the audit department to formulate a complete set of monitoring procedures and plans to achieve effective risk monitoring and risk management; and
- the Company will engage external professional advisors, where necessary, and work with our internal audit and legal team to conduct regular review to ensure the effectiveness of all registrations, licenses, permits, filings and approvals and timely renew the same.

Internal Control

The Board is responsible for establishing the internal control system and reviewing its effectiveness. The Company established an internal control system with an internal audit function to develop and maintain an appropriate internal control framework.

Below is a summary of the internal control policies, measures and procedures the Company has implemented:

- The Company has adopted various measures and procedures regarding each aspect of the business operation.
- The Directors (who are responsible for monitoring the corporate governance of the Group), with assistance from the company secretary and the Company's legal advisers, also periodically review the compliance status with all relevant laws and regulations after the Listing.
- The Company has established the Audit Committee, which (i) makes recommendations to the Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and renders advice in respect of financial reporting as well as oversees internal control procedures of the Group.
- The Company has engaged Lego Corporate Finance Limited as its compliance adviser to provide advice to the Directors and management team until the end of the first fiscal year after the Listing regarding matters relating to the Listing Rules.

The Audit Committee is responsible for assisting the Board in leading the management and monitoring and overseeing the risk management and internal control systems through the internal audit department, and reporting and making recommendations to the Board where appropriate. The internal audit department oversees the risk management and internal control systems under the supervision of the Audit Committee by performing independent audits on the effectiveness and completeness of the risk management and internal control systems. It identifies any material risks and makes recommendations on the improvement and rectification plans and measures and conducts follow-up audits with regard to the identified issues to ensure that the planned remedial measures have been duly implemented. The internal audit department operates independently from the Company's business centres and departments and directly reports the audit findings and follow-up status to the Audit Committee annually.

Corporate Governance Report

The Company regularly reviews and enhances the risk management and internal control system. During the Reporting Period, the Board had conducted a review of the effectiveness of the risk management and internal control system of the Company and considered the system effective and adequate. The review covered all material controls, including financial, operational and compliance controls.

The Company regulates the handling and dissemination of inside information as set out in various inside information disclosure procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

The Company has adopted an anti-corruption policy, and pays high attention to the management of anti-corruption and promotion of honesty by continuously improving its anti-fraud ecosystem to ensure all the staff “don’t dare to, are unable to and have no desire to commit acts of corruption”, and develop a clean and upright working environment. The Company has a designated department to manage risk assessment and investigate into complaints, thereby guaranteeing its lawful operation free of corruption. The relevant provisions include a series of internal rules such as the Punishment Measures for Fraudulent Behaviours (舞弊行為懲處辦法), Measures for the Administration of Anti-Fraud Work (反舞弊工作管理辦法), Youran Dairy’s Code of Business Conduct (優然商業行為準則), Youran Dairy’s Bottom Line System (優然高壓綫) and Youran Dairy’s Relevant Regulations on Cultivating a Culture of Honest and Upright (優然牧業推動落實廉潔新風的相關規定). In the meantime, we have set up multiple whistle-blowing channels for the Company’s employees, customers and suppliers to raise concerns in confidence and anonymity with the Audit Committee about possible improprieties in any matter related to the Company in order to minimise any suspected incidents of corruption. In addition, the Company also conducts internal audit as part of its regular routine monitoring and reports the same to the management. In addition, our staff are continuously reminded on the importance of anti-corruption through training.

During the Reporting Period, there were no reported non-compliances with regard to corruption within the Group.

Company Secretary

Ms. Yu Wing Sze (“Ms. Yu”), is the company secretary of the Company. Ms. Yu is a manager of the listing services department of TMF Hong Kong Limited, a company secretarial service provider, and is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, and the applicable laws, rules and regulations were followed.

Her primary corporate contact person at the Company is Ms. Wu Di, the manager of Hong Kong office of the Company who is primarily responsible for internal compliance and company secretarial matters of our Group.

Ms. Yu has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the Reporting Period.

Shareholders’ Rights

Convening of Extraordinary General Meetings (“EGM”) by Shareholders

Pursuant to article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. EGMs shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitioner(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

Corporate Governance Report

Putting Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Companies Act of Cayman Islands (as revised and amended from time to time) or the Articles of Association. However, Shareholders who wish to put forward proposals at general meetings may achieve so by means of convening an EGM following the procedures set out in paragraph above.

Detailed procedures for Shareholders to propose a person for election as a Director of the Company are published on the Company's website.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company, for the attention of the Board by mail to No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China or by e-mail to YouranIR@yourandairy.com. The Company will endeavour to respond to their queries in a timely manner. Shareholders may also make enquiries with the Directors at the general meetings of the Company. The Company will not normally deal with verbal or anonymous enquiries.

Communication with Shareholders and Investors Relations

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming AGM, Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries. Regular meetings are held with institutional investors and financial analysts to ensure two-way communications on the Company's performance and development. When the Company announces its interim and annual results, earnings conferences are conducted to apprise investors, analysts and the press of the Group's operating results as well as business strategies and outlook. Investor relations website is updated on a timely basis to ensure that investors are able to have access to the Company's information, latest news and reports.

The Company discloses information and publishes periodic reports and announcements to the public in accordance with the Listing Rules, the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

Changes in Constitutional Documents

During the Reporting Period, the Company did not make any significant changes to its constitutional documents.

A latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

Independent Auditor's Report

The Deloitte logo consists of the word "Deloitte" in a bold, black, sans-serif font, followed by a period.The Chinese characters "德勤" (De Qin) in a bold, black, sans-serif font.

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

Opinion

We have audited the consolidated financial statements of China Youran Dairy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 76 to 160, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Fair value of milkable cows	<p data-bbox="810 480 1445 534">Our procedures in relation to the significant inputs used in determining fair value of milkable cows included:</p> <ul data-bbox="810 567 1445 1030" style="list-style-type: none"> <li data-bbox="810 567 1445 685">• Comparing the estimated future market price of raw milk with historical raw milk price and trend, latest selling price and, where available, the sales contracts on hand; <li data-bbox="810 717 1445 771">• Comparing the estimated average daily milk yield with historical milk yield and industry data; <li data-bbox="810 804 1445 879">• Comparing the estimated feed costs per kilogram of raw milk with historical feed cost and recent contract prices of main raw materials; and <li data-bbox="810 911 1445 1030">• Comparing the discount rate used in discounting future cash flows to be generated by milkable cows with the acceptable range calculated by our internal valuation professionals.
<p data-bbox="150 480 783 627">We identified the fair value of milkable cows as a key audit matter due to the significance of the balance on the consolidated statement of financial position at December 31, 2021 and the significant degree of estimates made by the management in determining such fair values.</p>	
<p data-bbox="150 659 783 771">The Group reported milkable cows of RMB6,661 million in biological assets as at December 31, 2021. These biological assets are measured at fair value less costs to sell at the end of each reporting period.</p>	
<p data-bbox="150 804 783 1062">As disclosed in Notes 5, 22 and 46 to the consolidated financial statements, 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. The management's estimation is primarily based on the discount rate, the estimated future market price of raw milk, the estimated average daily milk yield and the estimated feed costs per kilogram of raw milk.</p>	
<p data-bbox="150 1095 783 1179">Details of milkable cows and the related estimation uncertainty on their fair value are set out in Notes 5, 22 and 46 to the consolidated financial statements.</p>	

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Independent Auditor's Report

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Mak Chi Lung.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 30, 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2021

	NOTES	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Revenue	6	15,346,167	11,781,195
Cost of sales	7	(14,333,273)	(11,048,726)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	22	3,681,585	2,870,723
Gross profit		4,694,479	3,603,192
Loss arising from changes in fair value less costs to sell of biological assets	22	(407,440)	(413,784)
Other income	8	151,974	76,979
Impairment loss under expected credit loss model, net of reversal	9	(12,438)	(45,083)
Other gains and losses	10	(52,618)	(54,273)
Fair value loss on convertible notes	39	(132,910)	(10,769)
Selling and distribution expenses		(556,699)	(453,116)
Administrative expenses		(835,399)	(744,516)
Other expenses		(3,348)	(20,030)
Listing expenses		(17,848)	(34,365)
Share of profit of a joint venture		23	25
Finance costs	11	(732,443)	(309,825)
Profit before tax		2,095,333	1,594,435
Income tax expense	12	(74,117)	(53,805)
Profit for the year	13	2,021,216	1,540,630
Other comprehensive (expense)/income, 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	24	(12,928)	25,352
Exchange differences arising on translation from functional currency to reporting currency		(352,491)	–
		(365,419)	25,352
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		436,402	49
Other comprehensive income for the year, net of income tax		70,983	25,401
Total comprehensive income for the year		2,092,199	1,566,031
Profit for the year attributable to:			
Owners of the Company		1,558,016	1,340,735
Non-controlling interests		463,200	199,895
		2,021,216	1,540,630
Total comprehensive income for the year attributable to:			
Owners of the Company		1,634,521	1,355,559
Non-controlling interests		457,678	210,472
		2,092,199	1,566,031
		RMB	RMB
Earnings per share	15		
Basic		0.44	0.41
Diluted		0.44	0.40

Consolidated Statement of Financial Position

At December 31, 2021

	NOTES	31/12/2021 RMB'000	31/12/2020 RMB'000
Non-current assets			
Property, plant and equipment	17	10,131,630	6,183,940
Investment properties	18	25,744	29,853
Right-of-use assets	19	2,186,585	1,321,296
Goodwill	20	792,980	762,741
Intangible assets	21	4,278	4,934
Biological assets	22	10,408,379	7,038,112
Deferred tax assets	23	17,751	11,382
Interest in a joint venture		496	808
Equity instruments at fair value through other comprehensive income	24	24,812	72,040
Pledged and restricted bank deposits	30	10,250	21,282
Deposits paid for purchase of property, plant and equipment		467,916	140,352
Deposits paid for purchase of biological assets		423,020	208,907
Deposits paid for right-of-use assets		13,635	–
		24,507,476	15,795,647
Current assets			
Inventories	25	3,326,130	1,972,145
Trade receivables	26	1,189,240	834,521
Bills receivables at fair value through other comprehensive income	27	13,828	27,080
Contract assets	28	8,354	12,139
Biological assets	22	7,701	9,564
Prepayments, deposits and other receivables	29	467,554	246,691
Amounts due from related parties	47	780,392	555,676
Pledged and restricted bank deposits	30	33,544	128,367
Bank balances and cash	30	1,015,261	2,619,113
Deposits placed with a related party	47	612,159	–
		7,454,163	6,405,296
Current liabilities			
Trade and bills payables	31	1,878,597	1,438,505
Other payables and accruals	32	1,397,550	1,149,490
Contract liabilities	33	41,090	34,770
Amounts due to related parties	47	1,883	14,257
Bank and other borrowings	34	5,412,175	4,224,527
Lease liabilities	36	51,009	38,684
Other liabilities	37	6,593	6,261
Other provisions	38	82,056	18,546
Convertible notes	39	2,407,292	–
Income tax payable		29,741	19,068
		11,307,986	6,944,108
Net current liabilities		(3,853,823)	(538,812)
Total assets less current liabilities		20,653,653	15,256,835

Consolidated Statement of Financial Position

At December 31, 2021

	NOTES	31/12/2021 RMB'000	31/12/2020 RMB'000
Non-current liabilities			
Bank and other borrowings	34	4,043,939	1,971,606
Convertible notes	39	–	3,043,648
Deferred tax liabilities	23	6,434	6,667
Deferred income	35	434,053	216,968
Lease liabilities	36	1,266,390	928,805
Other liabilities	37	14,252	20,845
Other provisions	38	8,674	6,760
		5,773,742	6,195,299
Net assets			
		14,879,911	9,061,536
Capital and reserves			
Share capital	40	251	219
Reserves		13,180,660	7,819,989
Equity attributable to owners of the Company		13,180,911	7,820,208
Non-controlling interests		1,699,000	1,241,328
Total equity		14,879,911	9,061,536

The consolidated financial statements on pages 76 to 160 were approved and authorised for issue by the board of directors on March 30, 2022 and are signed on its behalf by:

Zhang Xiaodong
Director

Dong Jiping
Director

Consolidated Statement of Changes in Equity

For the Year ended December 31, 2021

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note (i))	Convertible notes equity reserve RMB'000	Capital reserve RMB'000	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000 (Note (ii))	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2020	-	-	3,688,567	-	-	-	-	111,797	1,589,455	5,389,819	-	5,389,819
Profit and total comprehensive income for the year	-	-	-	-	-	14,795	29	-	1,340,735	1,355,559	210,472	1,566,031
Capital contributions	-	-	2,278,500	-	-	-	-	-	-	2,278,500	-	2,278,500
Acquisition of subsidiaries (Note 43)	-	-	-	-	-	-	-	-	-	-	1,037,932	1,037,932
Acquisition of additional interests in subsidiaries	-	-	-	-	(4,922)	-	-	-	-	(4,922)	(7,076)	(11,998)
Statutory fund appropriation	-	-	-	-	-	-	-	50,741	(50,741)	-	-	-
Effect of the reorganisation	219	5,778,281	(5,778,500)	-	-	-	-	-	-	-	-	-
Dividend paid (Note 16)	-	(1,198,748)	-	-	-	-	-	-	-	(1,198,748)	-	(1,198,748)
At December 31, 2020	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 (expense)/income for the year	-	-	-	-	-	(7,545)	84,050	-	1,558,016	1,634,521	457,678	2,092,199
Shares issued pursuant to Initial Public Offering ("IPO") (Note 40)	32	2,854,769	-	-	-	-	-	-	-	2,854,801	-	2,854,801
Share issuance cost (Note 40)	-	(91,999)	-	-	-	-	-	-	-	(91,999)	-	(91,999)
Recognition of equity component of convertible notes (Note 39)	-	-	-	963,384	-	-	-	-	-	963,384	-	963,384
Statutory fund appropriation	-	-	-	-	-	-	-	235,838	(235,838)	-	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	(4)	-	-	-	-	(4)	(6)	(10)
Disposal of equity investments at fair value through other comprehensive income (Note 24)	-	-	-	-	-	(4,574)	-	-	4,574	-	-	-
At December 31, 2021	251	7,342,303	188,567	963,384	(4,926)	2,676	84,079	398,376	4,206,201	13,180,911	1,699,000	14,879,911

Notes:

- (i) Other reserve as at January 1, 2020 included amounts due to China Youran Dairy Holding Limited ("Youran Holding"), the then immediate holding company of the Group, of RMB3,500,000,000 prior to the reorganisation as described in Note 1. During the year ended December 31, 2020, Youran Holding advanced RMB2,278,500,000 to the Group for the purpose of the acquisition of SKX Group (as defined in Note 43). These amounts in substance represent capital contribution the Group. Upon the completion of the reorganisation of the Group, these deemed contribution from Youran Holding are reclassified as share capital and share premium.
- (ii) The amount mainly represents statutory reserve fund. According to the relevant laws in the People's Republic of China (the "PRC"), each of the subsidiaries established in the PRC is required to allocate at least 10% of its profit after tax as per financial statements prepared in accordance with the relevant PRC accounting standards to statutory reserve fund until the reserve fund reaches 50% of the registered capital of respective subsidiary. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years' losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.

Consolidated Statement of Cash Flows

Year ended December 31, 2021

	NOTES	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
OPERATING ACTIVITIES			
Profit before tax		2,095,333	1,594,435
Adjustments for:			
Share of profit of a joint venture		(23)	(25)
Loss arising from changes in fair value less costs to sell of biological assets		407,440	413,784
Bank interest income	8	(28,236)	(12,606)
Government grants	8	(58,228)	(26,487)
Finance costs	11	732,443	309,825
Depreciation and amortisation	13	377,299	334,270
Write-down of inventories	7	4,602	5,190
Impairment loss on trade and other receivables under expected credit loss model, net of reversal	9	12,438	45,083
Loss on disposal of property, plant and equipment	10	7,658	5,909
Impairment loss on property, plant and equipment	10	–	15,197
Gain on termination and modification of lease agreements	10	(1,857)	–
Loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX	10	69,041	–
Fair value loss on convertible notes	39	132,910	10,769
Operating cash flows before movements in working capital		3,750,820	2,695,344
Increase in inventories		(1,153,886)	(301,719)
(Increase)/decrease in trade receivables		(226,861)	306,303
Decrease in bills receivables at fair value through other comprehensive income		13,252	48,599
(Increase)/decrease in prepayments and other receivables		(219,486)	15,780
Increase in amounts due from related parties		(224,716)	(410,157)
Decrease/(increase) in contract assets		3,785	(4,612)
Increase/(decrease) in trade and bills payables		303,304	(503,768)
Increase in other payables and accrued expenses		46,500	59,306
Increase/(decrease) in contract liabilities		2,323	(170,400)
(Decrease)/increase in amounts due to related parties		(12,374)	14,100
(Decrease)/increase in other provisions		(5,531)	5,198
Increase in deferred income		30,690	3,664
Cash generated from operations		2,307,820	1,757,638
Interest received		28,236	12,606
Income taxes paid		(70,046)	(62,373)
Net cash from operating activities		2,266,010	1,707,871
INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,535,950)	(1,340,173)
Payments for right-of-use assets		(490,014)	(98,827)
Payments for intangible assets		–	(3,309)
Proceeds from disposal of property, plant and equipment		39,333	10,812
Payments for biological assets		(3,772,880)	(2,328,867)
Proceeds from disposal of biological assets		1,167,781	974,504
Proceeds from disposal of investments in equity instruments at fair value through other comprehensive income		34,300	–
Acquisitions of subsidiaries	43	(2,379,243)	(1,936,199)
Payments for consideration payable for the acquisition of SKX Group		(110,745)	–
Placement of pledged and restricted bank deposits		(37,326)	(135,864)
Withdrawal of pledged and restricted bank deposits		143,181	73,163
Receipt of government grants for assets		244,623	31,948
Net cash used in investing activities		(8,696,940)	(4,752,812)

Consolidated Statement of Cash Flows

Year ended December 31, 2021

	NOTES	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
FINANCING ACTIVITIES			
New bank and other borrowings raised		14,986,955	7,250,300
Repayments of bank and other borrowings		(11,733,824)	(5,886,049)
Interest paid for bank and other borrowings		(295,404)	(263,279)
Repayment of lease liabilities		(100,646)	(44,624)
Interest paid for lease liabilities		(56,218)	(48,442)
Repayment of other liabilities		(7,500)	(11,058)
Proceeds from issuance of ordinary shares		2,854,801	–
Dividends paid to owners of the Company		–	(1,198,748)
Proceeds on issue of convertible notes	39	–	3,050,656
Payments of interest cost for convertible notes	39	(119,122)	(17,777)
Capital contribution by the then holding company		–	2,278,500
Acquisition of additional interests in subsidiaries		(24,791)	(10,800)
Payments of share issue costs for the initial public offering		(79,949)	(5,101)
Net cash from financing activities		5,424,302	5,093,578
Net (decrease)/increase in cash and cash equivalents		(1,006,628)	2,048,637
Cash and cash equivalents at beginning of the year		2,619,113	570,476
Effect of foreign exchange rate changes		14,935	–
Cash and cash equivalents at end of the year, represented by bank balances, cash and deposits placed with a related party		1,627,420	2,619,113

Notes to the Consolidated Financial Statements

For the year ended December 31, 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. The Group comprising the Company and its subsidiaries resulting from the reorganisation is regarded as a continuing entity, accordingly, the comparative financial information 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 year, 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. The directors of the Company have determined that USD better reflects the economic substance of the Company. Accordingly, the functional currency of the Company was changed prospectively from March 31, 2021.

The 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.

2. Application of Amendments to International Financial Reporting Standards (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2021 for the preparation of the consolidated financial statements:

Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendments to IFRS 9, International Accounting Standards (“IAS”) 39 and IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

2. Application of Amendments to International Financial Reporting Standards (“IFRSs”) (continued)

Amendments to IFRSs that are mandatorily effective for the current year (continued)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRS Standards that have been issued but are not yet effective:

IFRS 17	<i>Insurance Contracts and the related Amendments</i> ³
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ³
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ³
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ³
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ³
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ²
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2018-2020</i> ²

1 Effective for annual periods beginning on or after April 1, 2021.

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

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

4 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the above new and amendments to IFRSs will have no material impact on the Group’s consolidated financial statements in the foreseeable future.

3. Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with IFRSs. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Going concern assessment

As at December 31, 2021, the Group had net current liabilities of RMB3,854 million. The 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 December 31, 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 December 31, 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 certain bank loan facilities amounting to approximately RMB5 billion in 2022.

The consolidated financial statements has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and biological assets at fair value less costs to sell, as explained in the accounting policies set out below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

3. Basis of Preparation of Consolidated Financial Statements *(continued)*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- (i) has power over the investee;
- (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations or asset acquisitions

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combinations *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Investments in joint ventures

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Revenue from contracts with customers *(continued)*

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leases

Definition of a lease

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

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Leases *(continued)*

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statements of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Leases *(continued)*

The Group as a lessee *(continued)*

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statements of financial position.

Lease payments in relation to lease liability will be allocated into a principal and an interest portion which are presented as financing cash flows by the Group.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group uses the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease if the interest rate implicit in the sublease cannot be readily determined.

Foreign currencies

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Exchange differences relating to the retranslation of the Group's net assets in USD to the Group's presentation currency (i.e. RMB) are recognised directly in other comprehensive income and accumulated in translation reserve. Such exchange differences accumulated in the translation reserve are not reclassified to profit or loss subsequently.

The change in functional currency of the Company was applied prospectively from the date of change. All items were translated into USD at the exchange rate on that date. The cumulative currency translation differences which had arisen from the translation of foreign operations up to the date of the change in functional currency were not reclassified from equity to profit or loss until the disposal of the relevant operations.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Grants relating to biological assets

An unconditional government grant related to a biological asset that measured at fair value less costs to sell is recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Taxation *(continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment on property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, investment properties, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, investment properties, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units.

In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the assets is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

An obligation to incur rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing dairy farming operation. These costs discounted to net present value are provided for and a corresponding amount is capitalised as soon as the obligation to incur such costs arises. These costs are charged to profit or loss over the life of the operation through the depreciation of the asset and the unwinding of the discount on the provision. The cost estimates are reviewed periodically and are adjusted to reflect known developments which may have an impact on the cost estimates or life of operations. The unwinding of the discount is shown as a finance cost in profit or loss.

Biological assets

The Group's biological assets mainly include dairy cows, feeder cattle and breeding stock. Dairy cows, including milkable cows, calves and heifers, breeding stock, and feeder cattle are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of dairy cows and breeding stock is determined based on their present location and condition and is determined independently by a professional valuer.

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

Agricultural produce

Agricultural produce represents raw milk, frozen bovine semen and forage grass, which are recognised at the point of harvest at fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income ("OCI") and accumulated under the heading of "Investment revaluation reserve". Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets

The Group performs impairment assessment under ECL model on financial assets (including trade receivables, bill receivables, deposits and other receivables, amounts due from related parties, pledged and restricted bank deposits, bank balances and deposits placed with a related party) and other items (including contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables (including trade receivables from related parties presented in amounts due from related parties) and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increase significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade and other receivables are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The ECL on trade receivables and contract assets, except for those assessed individually for debtors with significant balances, is measured on a collective basis and those financial instruments are grouped under a provision matrix based on shared credit risk characteristics by reference to aging for the debtors.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial assets.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire consolidated contract to be designated as at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible notes

Convertible notes – before the change of the Company's functional currency

At the date of issue, both the debt component and derivative components are recognised at fair value and the convertible loan notes are designated as at FVTPL. In subsequent period, changes in fair value are recognised in profit or loss as fair value gain or loss except for changes in the fair value that is attributable to changes in the credit risk (excluding changes in fair value of the derivatives component) is recognised in other comprehensive income, unless the recognition of the effects of changes in the credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to the credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss, they are transferred to retained profits upon derecognition.

Convertible notes – after the change of the Company's functional currency

At the date of change of the Company's functional currency, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables, bank and other borrowings, amounts due to related parties and other liabilities at amortised cost, are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Fair value measurements of biological assets – milkable cows

The Group's biological assets are measured at fair value less costs to sell at the end of each reporting period. The Group uses valuation techniques that include inputs that are not based on market observable data to estimate the fair value of biological assets. For milkable cows, the fair value is 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. The management's estimation is primarily based on the discount rate, the estimated future market price of raw milk, the estimated average daily milk yield and the estimated feed costs per kilogram of raw milk. Any changes in the inputs may affect the fair value of the Group's biological assets – milkable cows significantly. The carrying amount of the Group's milkable cows as at December 31, 2021 was RMB6,660,982,000 (2020: RMB4,564,233,000). Further details are given in Notes 22 and 46.

Estimated impairment of property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill

The carrying amount of property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill are reviewed for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in Note 4. The recoverable amount of these assets are the greater of the fair value less costs of disposal and value in use, the calculations of which involve the use of estimates. Any change in these estimates may have a material impact on the results of the Group.

As at December 31, 2021, the aggregate carrying amounts of these assets of the Group were approximately RMB12,348,237,000 (2020: RMB7,540,023,000), as disclosed in as disclosed in Notes 17, 18, 19 and 21, respectively.

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 26 and 45.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

5. Key Sources of Estimation Uncertainty *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires a significant degree of estimates made by the management in determining the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of fair value less costs of disposal and value in use. The recoverable amount has been determined by a value in use calculation of the relevant cash-generating units, to which goodwill has been allocated, primarily based on the cash flow projections and a discount rate. The key assumptions and inputs used in cash flow projections including selling price, volume of sales, gross profit ratio, growth rate and discount rate. The value in use requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or changes in facts and circumstances which result in downward revision of future estimated cash flows, a material impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's raw milk and other businesses.

As at December 31, 2021, the carrying amount of goodwill was RMB792,980,000 (2020: RMB762,741,000). Details are disclosed in Note 20.

6. Revenue and Segment Information

(i) Disaggregation of revenue from contracts with customers

	2021 RMB'000	2020 RMB'000
Types of goods:		
Sales of raw milk	9,537,814	6,994,592
Sales of feeds	5,328,139	4,395,724
Sales of ruminant farming products	411,453	339,992
Sales of breeding products	68,761	50,887
	15,346,167	11,781,195
Timing of revenue recognition:		
A point in time	15,346,167	11,781,195

(ii) Performance obligations for contracts with customers

The Group sells raw milk, feeds, ruminant farming products and breeding products directly to its customers. Revenue is recognised when control of the goods has transferred, being at the point the customer received the goods and accepted the quality.

For the sale of raw milk, payments are generally due in two weeks after delivery. The credit term for the sale of feeds, ruminant farming products, and breeding products is normally one to three months for certain large customers and customers having long business relationship with the Group. The Group requests advance payments for certain new customers and such advance payments are recorded as contract liabilities until the control of the goods is transferred to the customers.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Most of the sale contracts are for periods of one year or less. As permitted by IFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

Information regarding segments is reported below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

6. Revenue and Segment Information *(continued)*

Segment information has been identified on the basis of internal management reports, which are regularly reviewed by senior management, which composed of executive directors of the Company and top management (being chief operating decision maker (the "CODM")), in order to allocate resources to operating segments and to assess their performance focuses on types of products delivered. Specifically, the Group's reportable segments under IFRS 8 Operating Segment are as follows:

- Raw milk business – raising and breeding dairy cows, and raw milk production
- Comprehensive ruminant farming solutions – trading, production and sales of feeds, ruminant farming products, and breeding products

Segment revenue and results

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

For the year ended December 31, 2021

	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	9,537,814	5,808,353	15,346,167	–	15,346,167
Inter-segment revenue	–	1,769,977	1,769,977	(1,769,977)	–
	9,537,814	7,578,330	17,116,144	(1,769,977)	15,346,167
Segment results	3,040,390	337,633	3,378,023		3,378,023
Loss arising from changes in fair value less costs to sell of biological assets					(407,440)
Fair value loss on convertible notes					(132,910)
Share of profit of a joint venture					23
Unallocated other income and expenses					(146,472)
Unallocated finance costs					(595,891)
Profit before tax					2,095,333

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

6. Revenue and Segment Information *(continued)*

Segment revenue and results *(continued)*

For the year ended December 31, 2020

	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	6,994,592	4,786,603	11,781,195	–	11,781,195
Inter-segment revenue	–	1,481,744	1,481,744	(1,481,744)	–
	6,994,592	6,268,347	13,262,939	(1,481,744)	11,781,195
Segment results	2,136,050	233,705	2,369,755		2,369,755
Loss arising from changes in fair value					
less costs to sell of biological assets					(413,784)
Fair value loss on convertible notes					(10,769)
Share of profit of a joint venture					25
Unallocated other income and expenses					(195,378)
Unallocated finance costs					(155,414)
Profit before tax					1,594,435

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment results represent the profit before tax earned by each segment without allocation of central administration costs, changes in fair value less costs to sell of biological assets and corporate income and expenses, fair value loss on convertible loans, share of profit of a joint venture and certain finance costs that are not directly attributable to operating segments. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

Inter-segment revenue is charged at prices agreed between group entities, which are determined by reference to the prices offered to third party customers.

Segment assets and liabilities

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

6. 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 year ended December 31, 2021					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation charged to profit or loss	317,538	46,846	364,384	12,915	377,299
Impairment loss of trade and other receivables under expected credit loss model, net of reversal	3,911	8,527	12,438	–	12,438
Loss on disposal of property, plant and equipment	6,033	1,625	7,658	–	7,658
Write-down of inventories	–	4,602	4,602	–	4,602
Bank interest income	(23,971)	(4,108)	(28,079)	(157)	(28,236)
Finance costs	120,128	16,424	136,552	595,891	732,443
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	8,590,494	156,787	8,747,281	143	8,747,424
Interest in a joint venture	–	–	–	496	496
Share of profit of a joint venture	–	–	–	23	23

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

6. 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 year ended December 31, 2020					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation charged to profit or loss	267,769	51,106	318,875	15,395	334,270
Impairment loss of trade and other receivables under expected credit loss model, net of reversal	6,621	38,462	45,083	–	45,083
Impairment loss of property, plant and equipment	15,197	–	15,197	–	15,197
Loss on disposal of property, plant and equipment	4,051	1,858	5,909	–	5,909
Write-down of inventories	–	5,190	5,190	–	5,190
Bank interest income	(6,403)	(3,610)	(10,013)	(2,593)	(12,606)
Finance costs	152,130	2,281	154,411	155,414	309,825
Amounts not included in the measure of segment profit or loss					
Additions to non-current assets (Note)	4,297,527	97,419	4,394,946	579	4,395,525
Interest in a joint venture	–	–	–	808	808
Share of profit of a joint venture	–	–	–	25	25

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 43).

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:

	2021 RMB'000	2020 RMB'000
Customer A:		
Revenue from sales of raw milk	8,756,701	6,701,441
Revenue from sales of feeds	68,944	27
Revenue from ruminant farming products	7,261	–
Revenue from breeding products	5,871	–
	8,838,777	6,701,468

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

7. Cost of Sales

An analysis of cost of sales is as follows:

	2021 RMB'000	2020 RMB'000
Cost of raw milk sold before fair value adjustments	5,585,284	4,000,063
Raw milk fair value adjustments	3,677,884	2,863,723
Cost of raw milk sold after fair value adjustments	9,263,168	6,863,786
Cost of feeds sold before forage grass fair value adjustments	4,682,608	3,865,155
Forage grass fair value adjustments	3,701	7,000
Cost of feeds sold after fair value adjustments	4,686,309	3,872,155
Cost of ruminant farming products sold	352,916	283,015
Cost of breeding products (Note (i))	30,880	29,770
Total cost of sales	14,333,273	11,048,726

Note:

- (i) The cost of breeding products for the year ended December 31, 2021 included write-down of inventories of RMB4,602,000 (2020: RMB5,190,000), which was mainly attributable to the decline in market price. These inventories are written down to net realisable value.

8. Other Income

An analysis of other income is as follows:

	2021 RMB'000	2020 RMB'000
Government grants released from deferred income (Note 35)	58,228	26,487
Incentive subsidies (Note (i))	39,985	17,825
Rental income	6,027	6,691
Bank interest income	28,236	12,606
Income from sale of scrap materials	7,581	3,725
Compensation income	2,349	704
Write-back of other payables	4,274	4,441
Others	5,294	4,500
	151,974	76,979

Note:

- (i) The amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development and unconditional subsidies for the purpose of giving financial support to the Group's operations. There are no unfulfilled conditions or contingencies relating to the above subsidies.

9. Impairment Loss Under Expected Credit Loss Model, Net of Reversal

	2021 RMB'000	2020 RMB'000
Impairment loss recognised on:		
Trade receivables	9,786	41,359
Other receivables	2,652	3,724
	12,438	45,083

Details of impairment assessments are set out in Note 45.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

10. Other Gains and Losses

	2021 RMB'000	2020 RMB'000
Foreign exchange differences, net	4,261	(29,371)
Loss on disposal of property, plant and equipment, net	(7,658)	(5,909)
Impairment loss on property, plant and equipment	–	(15,197)
Fair value gain on derivative financial instruments (Note (i))	4,299	436
Gain on termination and modification of lease agreements	1,857	–
Loss on arbitration regarding the adjustments made to the consideration for acquisition of SKX (Note (ii))	(69,041)	–
Recovery of pre-acquisition doubtful debt of SKX Group	11,366	–
Others	2,298	(4,232)
	(52,618)	(54,273)

Notes:

- (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 at the respective year end. The Group did not formally designate or document the hedging transactions with respect to the commodity forward contracts.
- (ii) 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. The directors of the Company considered that it was not probable that an outflow of resources embodying economic benefits would be required to settle the obligation. Accordingly, no provision was made in relation to this arbitration during the year ended December 31, 2020.

On September 1, 2021, the Group received the arbitration result from Beijing Arbitration Commission. Based on this arbitration result, the Group should pay the adjusted consideration to certain former shareholders of SKX. The directors of the Company considered the amount is not material to the prior year's financial statements and recognised a provision of RMB69 million (Note 38) during the year ended December 31, 2021.

11. Finance Costs

	2021 RMB'000	2020 RMB'000
Interest expenses on:		
Bank and other borrowings	302,254	261,705
Other liabilities	1,239	1,692
Lease liabilities	56,218	48,442
Unwind of interest of other provisions	426	334
Effective interest expense on convertible notes (Note 39)	382,551	–
	742,688	312,173
Less: Amounts capitalised to construction in progress	(10,245)	(2,348)
	732,443	309,825

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

12. Income Tax Expense

	2021 RMB'000	2020 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	82,395	57,377
(Overprovision)/underprovision in prior periods:		
PRC EIT	(1,676)	2,162
Deferred tax (Note 23)	(6,602)	(5,734)
	74,117	53,805

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 (2020: Nil).

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 for both years. In addition, certain subsidiaries operating in the PRC, including Muquan Yuanxing Feeds, Ningxia Bio-Technology, Wulanchabu Muquan Yuanxing Feeds and Bayannur Muquan Yuanxing Feeds (as defined in Note 52), 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 Bio-Technology 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% (2020: 25%).

The tax expense can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive expenses as follows:

	2021 RMB'000	2020 RMB'000
Profit before tax	2,095,333	1,594,435
Tax at the statutory rate of 25% (2020: 25%)	523,833	398,609
Tax effect of expenses not deductible for tax purpose	2,700	13,532
Effect of PRC tax exemption granted to agricultural business	(561,100)	(361,202)
Preferential income tax rates applicable to PRC subsidiaries	(22,778)	(16,239)
Effect of tax exemption granted to the Company	134,984	18,799
(Overprovision)/underprovision in respect of prior periods	(1,676)	2,162
Utilisation of tax losses previously not recognised	-	(1,016)
Tax effect of additional deduction rate on certain research and development expenses	(1,850)	(790)
Share of profit of a joint venture	(6)	(6)
Others	10	(44)
Income tax expenses	74,117	53,805

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

13. Profit for the Year

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

	2021 RMB'000	2020 RMB'000
Depreciation of:		
Property, plant and equipment	578,587	491,016
Investment properties	1,981	2,851
Right-of-use assets	121,362	80,303
Amortisation of intangible assets	748	508
Total depreciation and amortisation	702,678	574,678
Less: Capitalised in biological assets	(274,204)	(209,215)
Capitalised in construction in progress	(10,512)	(930)
Capitalised in inventories	(40,663)	(30,263)
Depreciation and amortisation charged directly to profit or loss	377,299	334,270
Lease payments not included in the measurement of lease liabilities	28,055	22,878
Less: Capitalised in biological assets	(12,658)	(9,199)
Capitalised in inventories	(391)	(2,927)
	15,006	10,752
Auditors' remuneration	4,000	3,200
Research and development costs recognised in profit or loss included in administrative expenses	48,310	22,695
Employee benefits expense (including directors' remuneration as disclosed in Note 14):		
Salaries and allowances	901,054	834,307
Retirement benefit scheme contributions	87,010	21,461
Total staff costs	988,064	855,768
Less: Capitalised in biological assets	(282,078)	(191,725)
	705,986	664,043

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

14. Directors', Chief Executive's and Employees' Emoluments

(a) Directors' emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company (including emoluments for the services as employees of the group entities prior to becoming the directors of the Company) by the group entities as follows:

	Directors' fees RMB'000	Salaries and allowance RMB'000	Discretionary performance – related payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended December 31, 2021:					
<i>Executive directors:</i>					
Mr. Zhang Xiaodong (Note (i))	–	1,710	–	34	1,744
Mr. Dong Jiping (Note (i))	–	985	–	34	1,019
<i>Non-executive directors:</i>					
Mr. Zhang Yujun (Note (ii))	–	–	–	–	–
Mr. Xu Jun (Note (ii))	–	–	–	–	–
Mr. Xu, Zhan Kevin (Note (ii))	–	–	–	–	–
Mr. Qiu Zhongwei (Note (ii))	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Ms. Xie Xiaoyan (Note (iii))	114	–	–	–	114
Mr. Yao Feng (Note (iii))	114	–	–	–	114
Mr. Shen Jianzhong (Note (iii))	114	–	–	–	114
	342	2,695	–	68	3,105
Year ended December 31, 2020:					
<i>Executive directors:</i>					
Mr. Zhang Xiaodong (Note (i))	–	1,558	–	25	1,583
Mr. Dong Jiping (Note (i))	–	839	–	25	864
<i>Non-executive directors:</i>					
Mr. Zhang Yujun (Note (ii))	–	–	–	–	–
Mr. Xu Jun (Note (ii))	–	–	–	–	–
Mr. Xu, Zhan Kevin (Note (ii))	–	–	–	–	–
Mr. Qiu Zhongwei (Note (ii))	–	–	–	–	–
	–	2,397	–	50	2,447

Notes:

- (i) Mr. Zhang Xiaodong and Mr. Dong Jiping were appointed as directors of the Company on August 24, 2020. The directors' emoluments shown above were for their services in connection with the management of affairs of the Group.
- (ii) Mr. Zhang Yujun, Mr. Xu Jun, Mr. Xu Zhan Kevin and Mr. Qiu Zhongwei were appointed as directors of the Company on August 24, 2020. Mr. Zhang Yujun is also the chairman of the board of directors. The group entities did not pay any emoluments to these directors during the year (2020: Nil).
- (iii) Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong were appointed as independent non-executive directors of the Company on June 7, 2021.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

14. Directors', Chief Executive's and Employees' Emoluments *(continued)*

(b) Employees' emoluments

The five highest paid individuals of the Group included two (2020: two) directors for the year ended December 31, 2021, details of whose remuneration are set out above. The emoluments of the remaining three (2020: three) individuals for the year ended December 31, 2021 are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and allowances	4,485	3,692
Retirement benefit scheme contributions	100	67
	4,585	3,759

The number of the highest paid individuals who are not directors of the Company whose remuneration fell within the following bands is as follows:

	2021	2020
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	–
	3	3

No remuneration was paid by the Group to any of the directors, the chief executive or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office for the year (2020: Nil). None of the directors and the chief executive has waived or agreed to waive any emoluments for the year (2020: Nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

15. 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:

	2021 RMB'000	2020 RMB'000
Earnings for the purpose of basic earning per share	1,558,016	1,340,735
Effect of dilutive potential ordinary shares:		
Convertible notes	N/A	10,769
Earnings for the purpose of diluted earnings per share	1,558,016	1,351,504

	2021 '000	2020 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating earnings per share	3,566,951	3,255,627
Effect of dilutive potential ordinary shares:		
Convertible notes	N/A	152,756
	3,566,951	3,408,383

The computation of diluted earnings per share for the year ended December 31, 2021 does not assume the conversion of the Company's outstanding convertible notes since their assumed conversion would result in an increase in earnings per share.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended December 31, 2020 has been determined on the assumption that the reorganisation as described in Note 2 of Historical Financial Information included in the prospectus of the Company dated June 7, 2021 had been effected since January 1, 2020.

16. Dividend

No dividend was paid or proposed for ordinary shareholders of the Company during 2021, nor has any dividend been proposed since the end of the reporting period.

During 2020, the Company declared a special dividend of USD180,348,072 (approximately RMB1,198,748,000) to the ordinary shareholders of the Company.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

17. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Bearer plants RMB'000	Construction in progress RMB'000	Total RMB'000
COST:								
At January 1, 2020	2,857,664	–	792,015	135,474	13,050	28,678	162,247	3,989,128
Additions	17,203	–	197,217	60,042	23,676	7,250	1,082,200	1,387,588
Disposals	(9,051)	(213)	(21,945)	(23,736)	(5,591)	–	–	(60,536)
Transfer	741,216	–	60,607	496	20,607	–	(822,926)	–
Reclassified from investment properties (Note 18)	13,416	–	–	–	–	–	–	13,416
Acquisition of subsidiaries (Note 43)	1,869,992	13,120	302,893	56,312	88,180	–	42,254	2,372,751
At December 31, 2020	5,490,440	12,907	1,330,787	228,588	139,922	35,928	463,775	7,702,347
Additions	31,345	–	277,122	111,785	26,969	8,630	3,035,543	3,491,394
Disposals	(15,025)	–	(45,487)	(12,569)	(9,339)	(5,431)	–	(87,851)
Transfer	1,057,852	–	100,146	–	204	–	(1,158,202)	–
Reclassified to investment properties (Note 18)	(8,778)	–	–	–	–	–	–	(8,778)
Reclassified from investment properties (Note 18)	4,493	–	–	–	–	–	–	4,493
Acquisition of subsidiaries (Note 43)	898,416	–	171,918	7,358	2,054	–	–	1,079,746
At December 31, 2021	7,458,743	12,907	1,834,486	335,162	159,810	39,127	2,341,116	12,181,351
ACCUMULATED DEPRECIATION:								
At January 1, 2020	648,835	–	305,331	55,606	4,630	22,187	–	1,036,589
Provided for the year	268,201	1,054	136,660	39,785	42,011	3,305	–	491,016
Reclassification from investment properties (Note 18)	344	–	–	–	–	–	–	344
Disposals	(4,046)	–	(15,207)	(21,419)	(2,849)	–	–	(43,521)
At December 31, 2020	913,334	1,054	426,784	73,972	43,792	25,492	–	1,484,428
Provided for the year	336,234	724	176,784	32,310	31,110	1,425	–	578,587
Reclassification to investment properties (Note 18)	(3,529)	–	–	–	–	–	–	(3,529)
Reclassification from investment properties (Note 18)	1,934	–	–	–	–	–	–	1,934
Disposals	(2,263)	–	(19,414)	(9,964)	(6,737)	(170)	–	(38,548)
At December 31, 2021	1,245,710	1,778	584,154	96,318	68,165	26,747	–	2,022,872
ACCUMULATED IMPAIRMENT:								
At January 1, 2020	17,184	–	2,216	–	–	–	–	19,400
Provided for the year	10,150	–	5,016	30	1	–	–	15,197
Disposals	–	–	(599)	(19)	–	–	–	(618)
At December 31, 2020	27,334	–	6,633	11	1	–	–	33,979
Provided for the year	–	–	–	–	–	–	–	–
Disposals	–	–	(2,311)	–	(1)	–	–	(2,312)
Reclassification to investment properties (Note 18)	(4,818)	–	–	–	–	–	–	(4,818)
At December 31, 2021	22,516	–	4,322	11	–	–	–	26,849
CARRYING AMOUNTS:								
At December 31, 2021	6,190,517	11,129	1,246,010	238,833	91,645	12,380	2,341,116	10,131,630
At December 31, 2020	4,549,772	11,853	897,370	154,605	96,129	10,436	463,775	6,183,940

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

17. Property, Plant and Equipment *(continued)*

The above items of property, plant and equipment (other than construction in progress) after taking into account of their estimated residual values, are depreciated on a straight-line basis over the following periods:

Buildings	15 to 40 years
Leasehold improvements	Shorter of 5 to 10 years and the remaining terms of the lease
Machinery and equipment	5 to 10 years
Motor vehicles	5 to 10 years
Electronic equipment	5 years
Bearer plants (mainly alfalfa hay roots)	5 years

At December 31, 2021, building ownership certificates in respect of certain buildings of the Group with an aggregate carrying amount of RMB42,945,000 (2020: RMB22,222,000) had not been issued by the relevant PRC authorities.

18. Investment Properties

	2021 RMB'000	2020 RMB'000
COST:		
At the beginning of the year	50,011	50,011
Acquisition of subsidiaries (Note 43)	–	13,416
Reclassified from property, plant and equipment (Note 17)	8,778	–
Reclassified to property, plant and equipment (Note 17)	(4,493)	(13,416)
At the end of the year	54,296	50,011
ACCUMULATED DEPRECIATION:		
At the beginning of the year	20,158	17,651
Provided for the year	1,981	2,851
Reclassified from property, plant and equipment (Note 17)	3,529	–
Reclassified to property, plant and equipment (Note 17)	(1,934)	(344)
At the end of the year	23,734	20,158
ACCUMULATED IMPAIRMENT:		
At the beginning of the year	–	–
Reclassified from property, plant and equipment (Note 17)	4,818	–
At the end of the year	4,818	–
CARRYING AMOUNTS:		
At the beginning of the year	29,853	32,360
At the end of the year	25,744	29,853

The above investment properties are measured using the cost model and represent dairy farms located in Mainland China and are depreciated on a straight-line basis over 15 to 40 years.

The fair value of the Group's investment properties at December 31, 2021 was RMB34,183,000 (2020: RMB34,044,000) which has been arrived at on the basis of a valuation carried out as at that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), independent qualified professional valuers which are not connected to the Group.

The fair value was determined based on the cost approach, which values the investment properties with reference to their depreciated replacement cost as at the valuation dates. There has been no change in the valuation techniques from prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair values of the Group's investment properties as at December 31, 2021 are grouped into Level 3 of fair value measurement.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

19. Right-of-Use Assets

	Leasehold lands RMB'000	Properties RMB'000	Machinery and equipment RMB'000	Total RMB'000
Carrying amounts as at January 1, 2020	501,510	31,434	24	532,968
Additions	376,437	109,909	–	486,346
Early termination of lease agreements	(71)	–	–	(71)
Depreciation provided for the year	(49,573)	(28,318)	(2,412)	(80,303)
Acquisition of subsidiaries (Note 43)	355,109	22,159	5,088	382,356
Carrying amounts as at December 31, 2020	1,183,412	135,184	2,700	1,321,296
Additions	952,290	1,503	24,742	978,535
Early termination of lease agreements	(88,728)	–	–	(88,728)
Depreciation provided for the year	(90,269)	(28,262)	(2,831)	(121,362)
Acquisition of subsidiaries (Note 43)	96,691	–	153	96,844
Carrying amounts as at December 31, 2021	2,053,396	108,425	24,764	2,186,585

	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Expense relating to short-term leases*	24,787	9,235
Variable lease payments not included in the measurement of lease liabilities* (Note (i))	3,268	6,368
Total cash outflow for leases	683,533	194,357

* Before capitalisation to biological assets and inventories

Note:

(i) Lease payments for certain machineries and equipment are variable payments, and determined based on the usage of the machineries and equipment, respectively, during the relevant lease periods.

The Group leases various lands, properties, and machinery and equipment to operate its business. Lease contracts are entered into for fixed terms of 2 to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for motor vehicles, machinery and equipment and buildings. As at the end of each year, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Restrictions or covenants on leases

Lease liabilities of RMB1,317,399,000 (2020: RMB967,489,000) were recognised with related right-of-use assets with an aggregate carrying amount of RMB1,323,611,000 (2020: RMB1,064,069,000) as at December 31, 2021. These lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

20. Goodwill

	2021 RMB'000	2020 RMB'000
CARRYING AMOUNT:		
At beginning of the year	762,741	–
Acquisition of subsidiaries (Note 43)	30,239	762,741
At the end of the year	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 (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. (collectively as “Fonterra China Farms Group”) in 2021. SKX Group and Fonterra China Farms Group mainly engaged in dairy farming business.

The recoverable amount of the CGUs of SKX Group and Fonterra China Farms Group have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the CGUs covering the following 5 years. The discount rate used for the cash flow projection is the pre-tax rate of 13% (2020: 13%). The cash flows beyond the five-year period are extrapolated using 2.5% growth rate per annum (2020: 2.5%). Other key assumptions for the value in use calculations include selling price, volume of sale and gross profit ratio which are determined based on the CGUs’ past performance and management expectations for the market development.

During the year ended December 31, 2021, management of the Group determines that there is no impairment on CGUs of SKX Group and Fonterra China Farms Group (2020: Nil).

The recoverable amount is significantly above the carrying amount of SKX Group and Fonterra China Farms Group. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

21. Intangible Assets

	Computer software RMB'000	Patents RMB'000	Total RMB'000
COST:			
At January 1, 2020	2,368	–	2,368
Additions	3,309	–	3,309
Acquisition of subsidiaries (Note 43)	–	733	733
At December 31, 2020	5,677	733	6,410
Acquisition of subsidiaries (Note 43)	92	–	92
At December 31, 2021	5,769	733	6,502
ACCUMULATED AMORTISATION:			
At January 1, 2020	968	–	968
Provided for the year	338	170	508
At December 31, 2020	1,306	170	1,476
Provided for the year	575	173	748
At December 31, 2021	1,881	343	2,224
CARRYING AMOUNTS:			
At December 31, 2021	3,888	390	4,278
At December 31, 2020	4,371	563	4,934

The above intangible assets have finite useful lives, and are amortised on a straight-line basis over the following periods:

Computer software	10 years
Patents	10 to 15 years

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

22. Biological Assets

A – Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, calves and heifers), feeder cattle and breeding stock to produce frozen bovine semen. The quantity of dairy cows and breeding stock owned by the Group at the end of each reporting period is shown below:

	31/12/2021 Heads	31/12/2020 Heads
Calves and heifers	211,651	150,879
Milkable cows	204,545	157,316
Feeder cattle	2,331	915
Breeding bulls	102	125
Total	418,629	309,235

Milkable cows, calves and heifers are dairy cows of the Group for the purpose of production of raw milk and are classified as non-current assets. Feeder cattle mainly include bull calves and beef cattles for sale to external customers. Feeder cattle is classified as current assets.

The Group is exposed to financial risks arising from changes in price of the raw milk and frozen bovine semen. The Group does not anticipate that the price of the raw milk and frozen bovine semen will decline significantly in the foreseeable future and the management of the Group are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the raw milk and frozen bovine semen.

In general, heifers are inseminated when they reached approximately 14 months old. After an approximately 285-day pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days to 340 days before approximately 60 days dry period. When a heifer begins to produce raw milk, it is transferred to the category of milkable cows based on the estimated fair value on the date of transfer.

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

i. Regulatory and environmental risks

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

ii. Climate, disease and other natural risks

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

B – Quantity of the agricultural produce of the Group's biological assets

	Year ended 31/12/2021	Year ended 31/12/2020
Volume of raw milk produced for sale (Ton)	1,947,226	1,529,835
Volume of frozen bovine semen produced for sale (Straw)	977,988	797,668

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

22. Biological Assets *(continued)*

C – Value of biological assets

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

	31/12/2021 RMB'000	31/12/2020 RMB'000
Dairy cows:		
Calves and heifers	3,675,802	2,432,082
Milkable cows	6,660,982	4,564,233
Feeder cattle	7,701	9,564
Breeding stock	71,595	41,797
Total	10,416,080	7,047,676
Less: current portion classified under current assets	(7,701)	(9,564)
Non-current portion classified under non-current assets	10,408,379	7,038,112

As at December 31, 2021, certain of the Group's biological assets with an aggregate carrying amount of RMB1,111,222,000 (2020: RMB1,919,064,000) were pledged to secure certain bank facilities granted to the Group (Note 34).

The movements in biological assets are set out below:

	Calves and heifers RMB'000	Milkable cows RMB'000	Breeding stock RMB'000	Total non-current assets RMB'000	Feeder cattle RMB'000
At January 1, 2020	1,094,787	2,228,130	–	3,322,917	12,070
Purchase cost	173,433	–	1,650	175,083	–
Feeding and other related costs	2,063,206	–	8,213	2,071,419	91,568
Transfer	(1,837,545)	1,837,545	–	–	–
Transfer to feeder cattle	(20,764)	(88,425)	–	(109,189)	109,189
Decrease due to disposal/death	(293,474)	(448,221)	(2,547)	(744,242)	(218,535)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	222,602	(643,727)	(7,931)	(429,056)	15,272
Acquisition of subsidiaries (Note 43)	1,029,837	1,678,931	42,412	2,751,180	–
At December 31, 2020	2,432,082	4,564,233	41,797	7,038,112	9,564
Purchase cost	674,753	–	2,654	677,407	–
Feeding and other related costs	3,035,835	–	8,941	3,044,776	110,788
Transfer	(2,744,632)	2,744,632	–	–	–
Transfer to feeder cattle	(881)	–	–	(881)	881
Decrease due to disposal/death	(202,578)	(823,611)	(5,595)	(1,031,784)	(133,818)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	125,888	(577,412)	23,798	(427,726)	20,286
Acquisition of subsidiaries (Note 43)	355,335	753,140	–	1,108,475	–
At December 31, 2021	3,675,802	6,660,982	71,595	10,408,379	7,701

The directors of the Company have 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 46.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

22. Biological Assets (continued)

C – Value of biological assets (continued)

The aggregate gain arising on initial recognition of agricultural produce (including raw milk, raw semen and forage grass) and the aggregate loss arising from the change in fair value less costs to sell of biological assets is analysed as follows:

	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	3,681,585	2,870,723
Loss arising from changes in fair value less costs to sell of biological assets	(407,440)	(413,784)
	3,274,145	2,456,939

23. Deferred Tax Assets/Liabilities

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2021 RMB'000	31/12/2020 RMB'000
Deferred tax assets	17,751	11,382
Deferred tax liabilities	(6,434)	(6,667)
	11,317	4,715

The following are the major deferred tax liabilities and assets recognised and movements.

	ECL provision RMB'000	Impairment loss on assets RMB'000	Government grants RMB'000	Fair value adjustments RMB'000 (Note)	Total RMB'000
At January 1, 2020	4,964	56	68	(6,902)	(1,814)
Credited to profit or loss	4,193	680	626	235	5,734
Acquisition of subsidiaries (Note 43)	795	–	–	–	795
At December 31, 2020	9,952	736	694	(6,667)	4,715
Credited to profit or loss	3,322	603	2,444	233	6,602
At December 31, 2021	13,274	1,339	3,138	(6,434)	11,317

Note: The deferred tax liabilities for fair value adjustments related to the fair value adjustments of certain land use rights and property, plant and equipment upon acquisition of subsidiaries in 2016.

Pursuant to the EIT Law, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008. At December 31, 2021 and 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

As at December 31, 2021, the aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised approximately RMB5,833,228,000 (2020: RMB3,685,214,000).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

24. Equity Instruments at Fair Value Through Other Comprehensive Income

	31/12/2021 RMB'000	31/12/2020 RMB'000
Unlisted equity investments in the PRC, at fair value	24,812	72,040

The above unlisted equity investments represent the Group's equity investment in certain private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI.

During the year, fair value loss of RMB12,928,000 was recorded and charged to other comprehensive income (2020: fair value gain of RMB25,352,000).

In the current year, the Group disposed of certain investment and the corresponding cumulative fair value gain of RMB4,574,000 has been transferred from investment revaluation reserve to retained earnings upon disposal.

25. Inventories

	31/12/2021 RMB'000	31/12/2020 RMB'000
Raw materials	3,160,837	1,830,951
Finished goods	142,086	102,804
Semi-finished goods	6,835	24,608
Breeding products	16,372	13,782
	3,326,130	1,972,145

26. Trade Receivables

	31/12/2021 RMB'000	31/12/2020 RMB'000
Trade receivables	1,265,196	900,956
Less: Allowance for credit loss	(75,956)	(66,435)
	1,189,240	834,521

Trade receivables from related parties are set out in Note 47.

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

	31/12/2021 RMB'000	31/12/2020 RMB'000
Within 90 days	953,182	740,925
90 days to 180 days	189,470	83,832
181 days to 1 year	43,532	5,889
Over 1 year	3,056	3,875
	1,189,240	834,521

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

26. Trade Receivables *(continued)*

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

	31/12/2021 RMB'000	31/12/2020 RMB'000
Not yet past due	866,296	535,788
Past due less than 30 days	127,873	100,238
Past due more than 30 days but less than 90 days	136,288	153,371
Past due more than 90 days	58,783	45,124
	1,189,240	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 each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit loss separately. The provision rates are based on aging groupings of customer segments with similar loss patterns (i.e., by product type and customer type). The calculation is a probability-weighted outcome, which reflects 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.

Further details of impairment assessment of trade receivables under IFRS 9 are set out in Note 45.

27. Bills Receivables at Fair Value Through Other Comprehensive Income

	31/12/2021 RMB'000	31/12/2020 RMB'000
Bills receivables	13,828	27,080

Bills receivables at FVTOCI are matured within one year. As at December 31, 2021, certain bills receivables with an aggregate carrying amount of nil (2020: RMB18,000,000) were pledged to secure certain bank facilities granted to the Group (Note 34).

Further details of impairment assessment of bills receivables at FVTOCI under IFRS 9 are set out in Note 45.

28. Contract Assets

	31/12/2021 RMB'000	31/12/2020 RMB'000
Dairy farm equipment: Classified under current assets	8,354	12,139

As at January 1, 2020, contract assets amounted to RMB7,527,000.

The Group enters into certain feeds supply contracts (the "Contracts") with certain customers pursuant to which the Group agrees to provide dairy farm equipment to the customers upon the signing of the Contracts for free provided that the customers purchase from the Group a minimum quantity of feeds as stipulated in the Contracts within the contract period, which is normally one to two years. If the customers fail to meet the minimum purchase requirement, the customers are obliged to pay to the Group the price of the dairy farm equipment provided by the Group as a compensation at the end of the contract period.

The Group recognises revenue from sale of equipment upon delivery of the dairy farm equipment to the customers. A contract asset is recognised accordingly as the Group's right to consideration is not yet unconditional.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

29. Prepayments, Deposits and Other Receivables

	31/12/2021 RMB'000	31/12/2020 RMB'000
Prepayments	390,454	194,261
Value-added tax recoverable	6,534	11,776
Deposits placed with brokers for commodity forward contracts	41,800	8,606
Rental receivables	4,104	5,820
Utility and other deposits	16,275	8,414
Compensation receivable	1,727	3,270
Advances to staff	1,137	1,717
Capitalised issue cost	–	7,479
Other receivables	11,904	9,077
	473,935	250,420
Less: Allowance of doubtful debts	(6,381)	(3,729)
	467,554	246,691

Details of impairment assessment of other receivables under IFRS 9 are set out in Note 45.

30. Bank Balances and Cash, Pledged and Restricted Bank Deposits

Bank balances carry interest at prevailing market rates which range from 0.25% to 1.9% per annum as at December 31, 2021 (2020: 0.3% to 1.61%).

An analysis of pledged and restricted bank deposits is as follows:

	31/12/2021 RMB'000	31/12/2020 RMB'000
Deposits pledged to banks to secure banking facilities granted to the Group:		
Bills payables	30,000	128,202
Bank loans	166	165
Restricted bank deposits	13,628	21,282
	43,794	149,649
Less: classified under current assets	(33,544)	(128,367)
Non-current portion	10,250	21,282

The restricted bank deposits included deposits frozen under court orders in relation to ongoing litigations and deposits restricted to use for land rehabilitation purpose only.

The restricted and pledged bank balances carry interest at prevailing market rates ranging from 0.3% to 3.03% per annum as at December 31, 2021 and 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

31. Trade and Bills Payables

	31/12/2021 RMB'000	31/12/2020 RMB'000
Trade payables	1,717,402	1,015,870
Bills payables	161,195	422,635
	1,878,597	1,438,505

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

	31/12/2021 RMB'000	31/12/2020 RMB'000
Within 1 year	1,620,254	896,459
1 to 2 years	57,904	74,789
2 to 3 years	14,675	10,774
More than 3 years	24,569	33,848
	1,717,402	1,015,870

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

32. Other Payables and Accruals

	31/12/2021 RMB'000	31/12/2020 RMB'000
Payables for purchase of property, plant and equipment	828,935	565,102
Salaries and welfare payables	220,291	181,277
Deposits received from suppliers	130,233	94,464
Service and professional fee payables	71,933	58,636
Freight charges payables	56,051	35,285
Storage fee payables	12,817	13,722
Consideration payable for the acquisition of SKX Group (Note 43)	–	110,745
Payables for acquisition of non-controlling interests	–	24,781
Non-income tax related tax payables	16,609	8,607
Sundry payables and accrued expenses	52,279	41,101
Accrued listing expenses	1,453	13,392
Accrued issue costs	6,949	2,378
	1,397,550	1,149,490

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

33. Contract Liabilities

	31/12/2021 RMB'000	31/12/2020 RMB'000
Receipts in advance from customers for:		
Sales of raw milk	54	–
Sales of feeds	11,282	10,076
Sales of ruminant farming products	13,747	13,502
Sales of breeding products	4,843	2,207
Sales of feeder cattle	11,164	8,985
	41,090	34,770

As at January 1, 2020, contract liabilities amounted to RMB18,162,000.

Contract liabilities are expected to be settled within the Group's normal operating cycle and will be recognised as revenue when the related performance obligations are satisfied. The management of the Group expects the contract liabilities at the respective reporting period end will be recognised as revenue within one year.

Revenue recognised during each reporting period included the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognised during the year that related to performance obligations that were satisfied in prior years.

34. Bank and Other Borrowings

	31/12/2021 RMB'000	31/12/2020 RMB'000
Bank borrowings:		
Unsecured	7,490,367	4,862,089
Secured (Note (i))	1,965,747	1,305,041
Other borrowings (Note (ii))	–	29,003
	9,456,114	6,196,133
Fixed rate borrowing	3,846,891	3,563,502
Floating rate borrowing	5,609,223	2,632,631
	9,456,114	6,196,133
The carrying amounts of the above borrowings are repayable*:		
Within one year	5,412,175	4,224,527
More than one year but within two years	1,944,053	939,903
More than two years but within five years	1,667,913	933,648
More than five years	431,973	98,055
	9,456,114	6,196,133
Less: Amounts due within one year shown under current liabilities	(5,412,175)	(4,224,527)
Amounts shown under non-current liabilities	4,043,939	1,971,606

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

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

	31/12/2021 %	31/12/2020 %
Effective interest rates:		
Floating rate borrowing	3.40 to 5.46	3.30 to 5.46
Fixed rate borrowing	2.00 to 6.00	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").

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

34. Bank and Other Borrowings *(continued)*

Notes:

- (i) The secured bank loans of the Group are secured by certain biological assets of the Group (Note 22) and bills receivables (Note 27).
- (ii) Other borrowings represents loans from certain local governments which matured in March 2021. These loans bore a fixed interest rate of 4.75% per annum up to June 30, 2019 and 6% per annum from July 1, 2019 to the maturity date.

35. Deferred Income

	2021 RMB'000	2020 RMB'000
Balance at beginning of the year	216,968	207,843
Government grants received	275,445	35,697
Released to other income (Note 8)	(58,228)	(26,487)
Others	(132)	(85)
Balance at end of year	434,053	216,968

Deferred income arising from government grants of the Group represents the government grants received for capital expenditure incurred for the acquisition of property, plant and equipment, right-of-use assets and biological assets. The amounts are deferred and are credited to the profit or loss on a systematic basis over the useful lives of the related assets.

36. Lease Liabilities

	31/12/2021 RMB'000	31/12/2020 RMB'000
Lease liabilities payable:		
Within one year	51,009	38,684
Within a period of more than one year but not more than two years	48,529	33,115
Within a period of more than two years but not more than five years	176,463	99,473
Within a period of more than five years	1,041,398	796,217
	1,317,399	967,489
Less: Amount due for settlement within 12 months shown under current liabilities	(51,009)	(38,684)
Amount due for settlement after 12 months shown under non-current liabilities	1,266,390	928,805

The Group leases various properties to operate its dairy farm business and these lease liabilities were measured at the present value of the lease payments that are not yet paid. As at December 31, 2021, the weighted average incremental borrowing rate applied ranging from 4.89% to 5.25% (2020: 4.89% to 5.25%).

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function. The lease liabilities of the Group were unguaranteed and secured by rental deposits.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

37. Other Liabilities

	31/12/2021 RMB'000	31/12/2020 RMB'000
Other liabilities at amortised cost	20,845	27,106
Less: Portion classified under current liabilities	(6,593)	(6,261)
Portion classified under non-current liabilities	14,252	20,845

In January 2018, the Group entered into a biological assets lease agreement with a third party (the "Third Party") to lease certain dairy cows from the Third Party for a period of five years. Pursuant to the relevant lease agreement, the Group is required to return the same number of dairy cows with same age composition to the Third Party. At initial recognition, the provision for the obligation to return the dairy cows represented the best estimate of the consideration required to settle the present obligation which approximate the fair value of the dairy cows to be returned to the Third Party which amounted to RMB40,622,000. The amount have been recorded as biological assets with a corresponding credit to other liabilities.

In December 2019, the Group and the Third Party agreed to terminate the above lease agreement and entered into a biological assets purchase agreement pursuant to which the Group agreed to purchase all the dairy cows under the lease agreement. The purchase consideration with an initial recognition amount of RMB38,164,000 would be settled by instalments in five years and bear interest at 5.3% per annum. The Group accounted the consideration as other liabilities at amortised cost.

38. Other Provisions

	31/12/2021 RMB'000	31/12/2020 RMB'000
Classified under current liabilities		
Provisions for litigations (Note (i))	13,015	18,546
Provisions for arbitration regarding the adjustments made to the consideration for acquisition of SKX Group (Note 10)	69,041	–
	82,056	18,546
Classified under non-current liabilities:		
Provision for land rehabilitation (Note (ii))	8,674	6,760
	90,730	25,306

Notes:

- (i) The provisions represent the expected loss from a civil litigation against the Group for alleged failure to supply products to a customer.
- (ii) The provisions are related to an obligation to incur rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing dairy farming operation. The movements during the year represented additional provision made as required by local authority and the unwinding of the discount on the provisions charged to profit or loss as a finance cost.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

39. Convertible Notes

In November 2020, several pre-IPO investors (the "Pre-IPO Investors") entered into subscription agreements with the Company in relation to issue of convertible notes with an aggregate principal amount of USD460 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, 2021. 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 Pre-IPO Investors 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 USD0.44605 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.

(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 Pre-IPO Investors, 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 Pre-IPO Investors 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 Pre-IPO Investors 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.

Subsequent to December 31, 2021, the early redemption right of these convertible notes expired in February 2022.

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 then functional currency was RMB. The convertible notes was measured at fair value with changes in fair value recognised in profit or loss up to March 31, 2021.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

39. Convertible Notes *(continued)*

(c) Early redemption *(continued)*

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. The directors reassess that 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 was recognised as equity and would not be subsequently remeasured and the liability component with fair value of approximately RMB2,183 million as at March 31, 2021 is recognised 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, 2020	–	–	–	–
Issue of convertible notes	3,050,656	–	–	3,050,656
Cash interest paid	(17,777)	–	–	(17,777)
Changes in fair value*	10,769	–	–	10,769
At January 1, 2021	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	–	382,551	–	382,551
Cash interest paid after reclassification	–	(89,308)	–	(89,308)
Exchange differences	–	(69,311)	–	(69,311)
At December 31, 2021	–	2,407,292	963,384	3,370,676

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

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 (HK\$)	3.94	3.94
Dividend yield	0.00%	0.00%
Discount Rate	26.50%	27.63%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

40. 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), December 31, 2020 and 2021	10,000,000,000	100,000	691,070
Issued and fully paid:			
At August 21, 2020 (date of incorporation)	1	–	–
Issue of ordinary shares	3,301,999,999	33,020	219,406
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 December 31, 2021	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 USD100,000 divided into 10,000,000,000 ordinary shares of USD0.00001 each. On October 27, 2020, the Company issued 3,301,999,999 ordinary shares with a par value of USD0.00001 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 in June 2021, the Company issued 493,404,000 new shares with par value of USD0.00001 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.

41. Retirement Benefit Plans

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the PRC government. The PRC subsidiaries are required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit schemes during the year are disclosed in Note 13.

42. Pledge of Assets

Certain of the Group's bank and other borrowings and bills payables had been secured by the pledge of the Group assets and the carrying amounts of the respective assets are as follows:

	31/12/2021 RMB'000	31/12/2020 RMB'000
Pledged bank deposits (Note 30)	30,166	128,367
Bills receivables (Note 27)	–	18,000
Biological assets (Note 22)	1,111,222	1,919,064
	1,141,388	2,065,431

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

43. Business Combination

Year ended December 31, 2021

On October 3, 2020, the Group entered into a share purchase agreement with Fonterra Tangshan Dairy Farm (HK) Limited ("Fonterra HK") to purchase 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 RMB2,310,000,000, 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 arising 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, 2021.

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 was settled in March 2021.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

43. Business Combination *(continued)*

Year ended December 31, 2021 *(continued)*

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 year ended 2021 is RMB63,086,000 attributable to the additional business generated by Fonterra China Farms Group. Revenue for the year ended 2021 includes RMB1,008,365,000 generated from Fonterra China Farms Group.

Had the acquisition been completed on January 1, 2021, total group revenue for year ended 2021 would have been RMB15,653,840,000, and profit for year ended 2021 would have been RMB2,051,277,000. 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.

Year ended December 31, 2020

On January 8, 2020, the Group acquired 536,066,738 issued ordinary shares 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"), a company listed on the new over-the-counter market (新三板) in the PRC, from the existing shareholders, which represent approximately 58.36% equity interests in SKX, for an aggregate consideration of RMB2,278,284,000, subject to certain adjustment clauses.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB762,741,000. SKX Group is mainly engaged in the dairy breeding and farming. SKX Group was acquired so as to continue the expansion of the Group's dairy farming operations.

Goodwill arose in the acquisition of SKX Group because the cost of the combination included a control premium. In addition, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

43. Business Combination *(continued)*

Year ended December 31, 2020 *(continued)*

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

	RMB'000
Property, plant and equipment	2,372,751
Investment properties	13,416
Right-of-use assets	382,356
Intangible assets	733
Biological assets	2,751,180
Deferred tax assets	795
Interests in a joint venture	733
Equity instruments at FVTOCI	46,688
Deposits paid for purchase of property, plant and equipment and biological assets	2,234
Inventories	678,067
Trade receivables	206,885
Bills receivables at FVTOCI	1,000
Prepayments, deposits and other receivables	32,933
Pledged and restricted bank deposits	24,997
Bank balances and cash	162,299
Trade and bills payables	(1,304,917)
Other payables and accruals	(343,058)
Bank and other borrowings	(2,049,159)
Contract liabilities	(178,156)
Lease liabilities	(303,981)
Other provisions	(13,346)
Income tax payable	(16)
Total	2,484,434

The fair value of trade receivables at the date of acquisition amounted to RMB206,885,000. The gross contractual amounts of those trade receivables acquired amounted to RMB251,657,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB44,772,000.

Acquisition-related costs amounting to RMB23,410,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended December 31, 2019.

Goodwill arising on acquisition

	RMB'000
Purchase consideration	2,278,284
Less: Adjustments pursuant to the acquisition agreement	(69,041)
Adjusted purchase consideration	2,209,243
Plus: Non-controlling interests	1,037,932
Less: Net assets acquired	(2,484,434)
Goodwill arising on acquisition	762,741

The purchase consideration of RMB2,278,284,000 is determined based on share price of SKX Group and business valuation. According to the relevant sale and purchase agreement, the purchase consideration is subject to adjustments if the non-current assets of SKX Group recorded certain amount of impairment loss based on the PRC GAAP audited financial statements of SKX Group for the year ended December 31, 2019 as compared to the audited net assets as at December 31, 2018.

Out of the adjusted purchase consideration of approximately RMB2,209,243,000, RMB2,098,498,000 has been settled and the remaining balance of RMB110,745,000 has been recorded under other payables as at December 31, 2020.

The Group has elected to measure the non-controlling interest of SKX at the non-controlling interest's proportionate share of respective identified net assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

43. Business Combination *(continued)*

Year ended December 31, 2020 *(continued)*

Net cash outflows on acquisition

	RMB'000
Consideration paid	(2,098,498)
Bank balances and cash acquired	162,299
Net cash outflows on acquisition	(1,936,199)

Included in the profit for the year is RMB391,756,000 attributable to the additional business generated by SKX Group. Revenue for the year includes RMB3,010,241,000 generated from SKX Group.

Had the acquisition been completed on January 1, 2020, total group revenue for the year would have been RMB11,834,400,000, and profit for the year would have been RMB1,547,202,000. 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, 2020, nor is it intended to be a projection of future results.

In determining the 'pro forma' revenue and profit of the Group had SKX Group been acquired at the beginning of the current period, the directors of the Company have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

44. Categories of Financial Instruments

	31/12/2021 RMB'000	31/12/2020 RMB'000
Financial assets		
Financial assets at amortised cost	3,711,412	4,192,134
Equity instruments at FVTOCI	24,812	72,040
Bills receivables at FVTOCI	13,828	27,080
Financial liabilities		
Financial liabilities at amortised cost	14,925,381	8,635,607
Convertible notes at FVTPL	–	3,043,648

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, pledged and restricted bank deposits, bank balances and cash, amounts due from/to related parties, equity instruments at FVTOCI, trade and bills payables, other payables, bank and other borrowings, convertible notes and other liabilities at amortised cost. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from monetary assets and liabilities denominated in foreign currencies.

The Group operates mainly in the PRC and majority of revenue and cost 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.

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

The carrying amounts of the Group's foreign currency denominated monetary assets (bank balances) and liabilities (convertible notes) at the end of each reporting period are as follows:

	31/12/2021 RMB'000	31/12/2020 RMB'000
Bank balances denominated in USD	907	115,112
Convertible notes in USD (Note)	–	3,043,648

Note:

As disclosed in Note 39, the Company's functional currency was changed from RMB to USD on March 31, 2021, therefore the convertible notes issued by the Company are not considered as a foreign currency liability as at December 31, 2021.

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 arises.

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against USD. The following table details the Group's sensitivity to a 5% (2020: 5%) increase or decrease in RMB against USD. The percentage represents management's assessment of the reasonably possible change in foreign exchange rate. At the end of each reporting period, if the exchange rate had been weakened/strengthened in RMB against USD by 5% and all other variables were held constant, the Group's post-tax profit for each reporting period would decrease/increase as follow:

	Change in exchange rate	Increase/(decrease) in profit after tax	
		2021 RMB'000	2020 RMB'000
RMB strengthen against USD	5%	(45)	146,426
RMB weaken against USD	5%	45	(146,426)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. Financial Risk Management Objectives and Policies *(continued)*

Market risk *(continued)*

Currency risk *(continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 34 for details of these borrowings) and lease liabilities (see Note 36 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged and restricted bank deposits (see Note 30 for details) and variable-rate bank borrowings (see Note 34 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates quoted by PBOC arising from the Group's RMB denominated borrowings.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of each reporting period. The analysis is prepared assuming the variable-rate bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis point increase or decrease in variable-rate bank borrowings are used during year when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances, pledged and restricted bank deposits are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant during the year.

If interest rates on variable interest rate borrowings had been 50 basis points higher/lower and all other variables were held constant (without taking into account the effect of interest capitalisation and government grants for specific loan interests), the potential effect on post-tax profit of the Group is as follows:

	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Post-tax profit would decrease/increase by	28,028	13,123

Credit risk and impairment assessment

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and the current economic environment.

The Group performs impairment assessment under ECL model upon application of IFRS 9 on financial assets individually or based on provision matrix. The Group also reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group consider that the Group's credit risk is significantly reduced.

Trade receivables and contract assets arising from contracts with customers

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit quality of customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade receivables balances individually or on provision matrix, of which these receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to aging for the customers. Details of the quantitative disclosures are set out below in this note.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

Amounts due from related parties

The receivables from related parties are trade in nature and mostly related to the sales of raw milk and feeds to a shareholder (Note 47). Payments are generally due in two weeks after delivery and there is no history of default. The directors of the Company believe that the failure of the shareholder to make required payments is unlikely after considering its past settlement records and financial position.

Other than concentration of credit risk on receivables from related parties of RMB780,392,000 as at December 31, 2021 (2020: RMB554,548,000), the Group's trade receivables consist of a large number of customers and does not have any other significant concentration of credit risk.

Deposits and other receivables, bills receivables

For deposits and other receivables, the directors of the Company make periodic individual assessment on the recoverability of deposits and other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Group only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills. The management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. During the year, the Group assessed ECL for deposits and other receivables on an individual basis to ensure that adequate impairment loss is made. Details of the quantitative disclosures are set out below in this note.

Bank balances, pledged and restricted bank deposits and deposits placed with a related party

The credit risk on bank balances, pledged and restricted bank deposits and deposits placed with a related party of the Group is limited because the counterparties are banks and other financial institutions with good reputation in the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	N/A	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment upon application of IFRS 9:

	Notes			Gross carrying amount as at December 31,	
				2021 RMB'000	2020 RMB'000
<i>Financial assets at amortised cost</i>					
Trade receivables	26	Low risk	Lifetime ECL (provision matrix)	1,047,261	801,393
		Low risk	Lifetime ECL (assessed individually)	156,482	51,993
		Loss	Credit-impaired	61,453	47,570
				1,265,196	900,956
Bills receivables	27	Low risk	12-month ECL	13,828	27,080
Deposits and other receivables	29	Low risk	12-month ECL	70,566	33,175
		Loss	Credit-impaired	6,381	3,729
				76,947	36,904
Amounts due from related parties	47	Low risk	Lifetime ECL (assessed individually)	780,392	555,676
Pledged and restricted bank deposits	30	Low risk	12-month ECL	43,794	149,649
Bank balances	30	Low risk	12-month ECL	1,015,261	2,619,113
Deposits placed with a related party	47	Low risk	12-month ECL	612,159	–
Other item					
Contract assets	28	Low risk	Lifetime ECL (provision matrix)	8,354	12,139

For trade receivables, amounts due from related parties (trade nature) and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, which are assessed individually, the Group determines the expected credit losses on trade receivables and contract assets by using a provision matrix, grouped ageing status, as these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at December 31, 2021, within lifetime ECL (not credit impaired).

	31/12/2021 RMB'000	31/12/2020 RMB'000
Within 90 days	866,850	697,317
90 days to 1 year	180,411	104,076
Total	1,047,261	801,393

The average loss rate as at December 31, 2021 is ranging from 1.25% to 13.97% (2020: 2.29% to 15.21%).

During the year, the exposure to credit risk of contract assets assessed based on provision matrix are insignificant.

The above calculation is a probability-weighted outcome, which reflects 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.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables measured at amortised cost under the simplified approach.

	Lifetime ECL (Not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at January 1, 2020	5,252	20,296	25,548
Changes for trade receivables recognised as at January 1, 2020:			
Impairment loss recognised	–	11,721	11,721
Impairment loss reversed	–	(11,588)	(11,588)
Write-offs	–	(472)	(472)
New trade receivables originated or purchased	13,613	27,613	41,226
As at December 31, 2020	18,865	47,570	66,435
Changes for trade receivables recognised as at January 1, 2021:			
Impairment loss recognised	–	6,261	6,261
Impairment loss reversed	(17,741)	(8,356)	(26,097)
Write-offs	–	(265)	(265)
New trade receivables originated	13,379	16,243	29,622
As at December 31, 2021	14,503	61,453	75,956

During the year ended December 31, 2021, the Group reversed RMB4,362,000 (2020: provided RMB13,613,000) impairment allowance for trade receivables based on the provision matrix. Additional impairment allowance of RMB14,148,000 (2020: RMB27,746,000) were provided on debtors with significant balances or credit-impaired debtors for the year ended December 31, 2021.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. Financial Risk Management Objectives and Policies *(continued)*

Credit risk and impairment assessment *(continued)*

The following table shows the movement in ECL that has been recognised for other receivables measured at amortised cost.

	Lifetime ECL (credit-impaired) RMB'000
As at January 1, 2020	5
Changes for other receivables recognised as at January 1, 2020:	
Impairment loss recognised	4,043
Impairment loss reversed	(319)
As at December 31, 2020	3,729
Changes for other receivables recognised as at January 1, 2021:	
Impairment loss recognised	4,302
Impairment loss reversed	(1,650)
As at December 31, 2021	6,381

The Group writes off an other receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the other receivables are over two years past due, whichever occurs earlier.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group had net current liabilities of RMB3,853,823,000 as at December 31, 2021, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the directors of the Company regularly monitor the operating cash flows of the Group to meet its liquidity requirement in the short and long term. The Group's net current liabilities position as at December 31, 2021 was mainly attributable to trade and bills payables, other payables and accruals, bank and other borrowings and other liabilities due within one year and convertible notes.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance, including unutilised bank loan facilities, in assessing whether the Group will have sufficient financial resources to continue as a going concern. Meanwhile, the Group recorded net operating cash inflows during the year.

The directors of the Company have prepared a working capital forecast of the Group covering a period of not less than 12 months from December 31, 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. The directors of the Company, after taking into account the reasonably possible changes in the operational performance and the availability of borrowings, are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due.

The following table sets out the Group's remaining contractual maturity for its financial liabilities as at the end of each reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk *(continued)*

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period.

	Weighted average interest rate %	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<i>As at December 31, 2021</i>							
Trade and bills payables	-	1,878,597	-	-	-	1,878,597	1,878,597
Other payables and accruals	-	1,160,650	-	-	-	1,160,650	1,160,650
Amounts due to related parties	-	1,883	-	-	-	1,883	1,883
Bank and other borrowings:							
Fixed-rate	2.00 to 6.00	2,781,238	332,667	876,281	73,249	4,063,435	3,846,891
Variable-rate	3.40 to 5.46	2,887,638	1,748,515	956,019	384,150	5,976,322	5,609,223
Lease liabilities	4.89 to 5.25	110,073	110,216	366,633	2,524,674	3,111,596	1,317,399
Convertible notes*	10	3,128,343	-	-	-	3,128,343	2,407,292
Other liabilities	5.30	7,500	7,500	7,500	-	22,500	20,845
		11,955,922	2,198,898	2,206,433	2,982,073	19,343,326	16,242,780
<i>As at December 31, 2020</i>							
Trade and bills payables	-	1,438,505	-	-	-	1,438,505	1,438,505
Other payables and accruals	-	950,758	8,672	176	-	959,606	959,606
Amounts due to related parties	-	14,257	-	-	-	14,257	14,257
Bank and other borrowings:							
Fixed-rate	2.00 to 6.53	3,141,132	102,278	388,992	17,543	3,649,945	3,563,502
Variable-rate	3.30 to 5.46	1,200,656	926,718	625,381	81,769	2,834,524	2,632,631
Lease liabilities	4.89 to 5.25	92,462	73,529	202,880	1,578,175	1,947,046	967,489
Convertible notes*	10	120,058	3,241,495	-	-	3,361,553	3,043,648
Other liabilities	5.30	7,500	7,500	15,000	-	30,000	27,106
		6,965,328	4,360,192	1,232,429	1,677,487	14,235,436	12,646,744

* In respect of the convertible notes, the Pre-IPO Investors has an one-off right to require the Company to redeem all outstanding principal amount upon the expiration of the fifteenth month of the issuance date. The early redemption right of these convertible notes expired in February 2022 as disclosed in Note 2 and Note 39.

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. 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 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 December 31, 2021				
Assets				
Biological assets:				
Calves and heifers (Note (a))	–	–	3,675,802	3,675,802
Milkable cows (Note (b))	–	–	6,660,982	6,660,982
Feeder cattle (Note (c))	–	–	7,701	7,701
Breeding stock (Note (d))	–	–	71,595	71,595
Bills receivables at FVTOCI (Note (e))	–	–	13,828	13,828
Equity instruments at FVTOCI (Note (f))	–	–	24,812	24,812
	–	–	10,454,720	10,454,720
As at December 31, 2020				
Assets				
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
Liability				
Convertible notes (Note (g))	–	–	3,043,648	3,043,648

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. Fair Value Measurements *(continued)*

There were no transfers between Level 1 and 2 and there were no transfers into or out of Level 3 during the year.

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 RMB20,990 per head as at December 31, 2021 (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 RMB18,497 to RMB19,913 as at December 31, 2021 (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 RMB14,091 to RMB15,822 as at December 31, 2021 (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>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(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 RMB2.25 to RMB2.88 for the year ended December 31, 2021 (2020: RMB2.01 to RMB2.54), taking into account management's experience and knowledge of market conditions.</p> <p>A milkable cow could have as many as six lactation cycles. Estimated daily milk yield at each lactation cycle is ranging from 19.41 kg to 32.60 kg for the year ended December 31, 2021 (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 RMB4,610 to RMB5,830 per tonne as at December 31, 2021 (2020: RMB4,230 to RMB5,690 per tonne), taking into account management's experience and knowledge of market conditions.</p> <p>Discount rate for estimated future cash flows used is 13% as at December 31, 2021 (2020: 13%), taking into account weighted average cost of capital determined using a Capital Asset Pricing Model.</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>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. Fair Value Measurements *(continued)*

Notes	Assets	Valuation technique(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 RMB2,807 per head as at December 31, 2021 (2020: RMB4,838 per head).</p> <p>Estimated feeding costs per head daily for bull calves are RMB21.09 for the year ended December 31, 2021 (2020: RMB24.44).</p> <p>No estimated local market selling prices was used for the valuation of beef cattle as at December 31, 2021 (2020: RMB17,608 per head).</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	<p>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>	<p>The estimated feed costs per day per bull used in the valuation process are RMB50 for the year ended December 31, 2021 (2020: RMB41 per day) based on the historical average feed costs per day of breeding stock taking into account management's experience and knowledge of market conditions.</p> <p>Estimated local future market prices for sex-sorting frozen bovine semen are RMB105 per straw as at December 31, 2021 (2020: RMB134 per straw). Estimated local future market prices for conventional frozen bovine semen are RMB14 per straw as at December 31, 2021 (2020: RMB17 per straw).</p> <p>Discount rate for estimated future cash flow used is 13% as at December 31, 2021 (2020: 13%) taking into account weighted average cost of capital determined using a Capital Asset Pricing Model.</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>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. Fair Value Measurements *(continued)*

Notes	Assets/Liabilities	Valuation technique(s) and key 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 December 31, 2021 (2020: 3.18% to 3.29%).	<p>An increase in discounted rate would result in a decrease in the fair value measurement of the financial assets at FVTOCI, and vice versa.</p> <p>If the discounted rate increases by 1%, the estimated fair value of bills receivables at FVTOCI will decrease by RMB535,000 as at December 31, 2021, and 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 RMB353,000 as at December 31, 2021, vice versa.</p>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. Fair Value Measurements *(continued)*

Notes	Assets/Liabilities	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(g)	Convertible notes	Debt component: Discount cash flow method Conversion option component: Binominal model	Discount cash flow method: Discount rate is 27.63% at December 31, 2020. Binominal model: Volatility of 37.15%, taking into account historical data of the comparable companies at December 31, 2020.	<p>An increase in discount rate would result in a decrease in the fair value measurement of the convertible notes, and vice versa. If the discount rate increase 5% to 29.01% or decrease 5% to 26.24% while holding all other variables constant, the carrying amount of the convertible notes would decrease by RMB57,382,000 or increase by RMB59,780,000 as at December 31, 2020.</p> <p>A slight increase in the expected volatility used in isolation would result in a slight increase in the fair value measurement of convertible notes, and vice versa. If the volatility increase 5% to 39.01% or decrease 5% to 35.29% while holding all other variables constant, the carrying amount of the convertible notes would increase by RMB36,986,000 or decrease by RMB37,164,000 as at December 31, 2020.</p>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. Fair Value Measurements *(continued)*

Reconciliation of Level 3 fair value measurements

The reconciliations for biological assets are set out in Note 22. The reconciliations for financial assets and convertible notes under Level 3 fair value measurements are as follows:

	Bills receivables at FVTOCI RMB'000 (Note 27)	Equity instruments at FVTOCI RMB'000 (Note 24)	Convertible notes RMB'000 (Note 39)	Total RMB'000
At January 1, 2020	75,679	–	–	75,679
Purchases	81,298	–	–	81,298
Settlements	(129,897)	–	–	(129,897)
Acquisition of subsidiaries (Note 43)	–	46,688	–	46,688
Issue of convertible notes	–	–	(3,050,656)	(3,050,656)
Fair value changes during the year	–	25,352	(10,769)	14,583
Cash interest paid	–	–	17,777	17,777
At December 31, 2020	27,080	72,040	(3,043,648)	(2,944,528)
Purchases	41,099	–	–	41,099
Settlements	(54,351)	–	–	(54,351)
Fair value changes during the year	–	(12,928)	(132,910)	(145,838)
Disposals	–	(34,300)	–	(34,300)
Cash interest paid before reclassification	–	–	29,814	29,814
Reclassification of convertible notes	–	–	3,146,744	3,146,744
At December 31, 2021	13,828	24,812	–	38,640

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

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 year approximate their fair value.

47. 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 year

	Note	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Sales of raw milk to Yili Group	(a)	8,756,701	6,701,441
Sales of feeds to Yili Group	(a)	68,944	27
Sales of ruminant farming products to Yili Group	(a)	7,261	–
Sales of breeding products to Yili Group	(a)	5,871	–
Purchase of raw materials from Yili Group	(a)	30,032	30,138
Other service to Yili Group		562	–
Interest income from Yili Group		566	–

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

47. Related Party Transactions *(continued)*

Balances with Yili Group at the year end

	Notes	31/12/2021 RMB'000	31/12/2020 RMB'000
Amounts due from related parties:			
Trade receivables from Yili Group	(b)	780,392	555,676
Amounts due to related parties:			
Trade payables to Yili Group	(c)	1,883	6,941
Deposits received from Yili Group		–	7,268
Current account balances with Yili Group		–	48
		1,883	14,257
Deposits placed with Yili Finance Company Limited	(d)	612,159	–

Notes:

- (b) The trade receivables are in trade nature, mainly related to the sale of raw milk to Yili Group. As at December 31, 2021, trade receivables from related parties are aged within 90 days based on the day of delivery.
- (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 each reporting period.
- (d) The Group entered into the financial services agreement with Yili Finance Company Limited, a subsidiary of Yili Group which has financial institution license. Pursuant to the agreement, Yili Finance Company Limited provided deposit service to the Group. The interest rates are determined according to and shall not be lower than the benchmark deposit rates prescribed by the PBOC and the deposit rates offered by the major commercial banks in the PRC.

Settlement arrangements with Yili Group for the year

	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Trade receivables from the sale of feeds settled on behalf by Yili Group (e)	363,765	421,798
Trade payables from the purchase of raw material settled on behalf by Yili Group (f)	5,923	–

- (e) Certain customers (the "Overlapping Parties") who purchase feeds from the Group are also raw milk suppliers of Yili Group. 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.
- (f) Certain suppliers who sell feeds to the Group are also debtors of Yili Group. The Group, Yili Group and the supplier entered into an entrusted payment arrangement, the Group would deduct the amount payables to the suppliers and pay to Yili to settle the debts directly.

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:

	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Salaries and allowances	10,710	9,094
Retirement benefit scheme contributions	269	167
	10,979	9,261

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

48. Notes to Consolidated Statements of Cash Flows

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Accrued issue costs RMB'000 (Note 32)	Lease liabilities RMB'000 (Note 36)	Bank and other borrowings RMB'000 (Note 34)	Other liabilities RMB'000 (Note 37)	Convertible notes RMB'000 (Note 39)	Total RMB'000
At January 1, 2020	–	325,717	2,782,605	38,164	–	3,146,486
Financing cash flows	(5,101)	(93,066)	1,102,664	(12,750)	3,032,879	4,024,626
Deferred share issue costs for IPO	7,479	–	–	–	–	7,479
New leases entered	–	382,490	–	–	–	382,490
Finance costs	–	48,442	261,705	1,692	–	311,839
Fair value changes	–	–	–	–	10,769	10,769
Early termination of lease agreements	–	(75)	–	–	–	(75)
Acquisition of subsidiaries (Note 43)	–	303,981	2,049,159	–	–	2,353,140
At December 31, 2020	2,378	967,489	6,196,133	27,106	3,043,648	10,236,754
Financing cash flows	(79,949)	(156,864)	2,957,727	(7,500)	(119,122)	2,594,292
Share issue costs for IPO	84,520	–	–	–	–	84,520
New leases entered	–	500,668	–	–	–	500,668
Finance costs	–	56,218	302,254	1,239	382,551	742,262
Fair value changes	–	–	–	–	132,910	132,910
Early termination of lease agreements	–	(90,585)	–	–	–	(90,585)
Acquisition of subsidiaries (Note 43)	–	40,473	–	–	–	40,473
Reclassification on March 31, 2021	–	–	–	–	(963,384)	(963,384)
Effect of foreign exchange rate changes	–	–	–	–	(69,311)	(69,311)
At December 31, 2021	6,949	1,317,399	9,456,114	20,845	2,407,292	13,208,599

Major non-cash transactions

Lease liabilities for lands, properties and machinery and equipment with a total amount of RMB500,668,000 (2020: RMB382,490,000) were recognised and the corresponding amount of RMB500,668,000 (2020: RMB382,490,000) were adjusted to right-of-use assets during the year ended December 31, 2021.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

49. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which included bank and other borrowings and convertible notes as disclosed in Notes 34 and 39, respectively, net of bank balances and equity attributable to owners of the Company, comprising share capital, retained earnings and other reserves as disclosed in the consolidated statements of changes in equity.

The management of the Group review the capital structure on a continuous basis. The Group considers the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

50. Capital Commitments

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

	31/12/2021 RMB'000	31/12/2020 RMB'000
Capital expenditures in respect of acquisition of property, plant and equipment, and purchase of biological assets: Contracted but not provided for	2,505,969	1,681,760

51. Contingent Liabilities

Apart from ongoing litigation for which provision has been made (Note 38), at the end of this reporting period, the Group had no significant contingent liability.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

52. Particulars of Subsidiaries of the Company

General information of subsidiaries

At the end of reporting period, the Company has direct and indirect shareholders/equity interests in the following subsidiaries:

Name of subsidiary	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2021 %	2020 %	
Yogurt Holding II Limited	British Virgin Island ("BVI")	BVI	US\$100.00	100	100	Investment holding
Yogurt Holding I (HK) Limited	Hong Kong	Hong Kong	US\$13.00	100	100	Investment holding
內蒙古優然牧業有限責任公司 (Inner Mongolia Youran Dairy Co., Ltd.*)	PRC	PRC	RMB9,100,000,000	100	100	Investment holding, raising and breeding dairy cows, and raw milk production
內蒙古牧泉元興飼料有限責任公司 (Inner Mongolia Muquan Yuanxing Feeds Co., Ltd.*) ("Muquan Yuanxing Feeds")	PRC	PRC	RMB136,000,000	100	100	Production and sales of feeds
內蒙古盛德和泰商貿有限責任公司 (Inner Mongolia Shengde Hetai Business Co., Ltd.*)	PRC	PRC	RMB5,000,000	100	100	Trading of feeds
內蒙古伊禾綠錦農業發展有限公司 (Inner Mongolia Yihe Lvjin Agriculture Development Co., Ltd.*)	PRC	PRC	RMB100,000,000	100	100	Planting of feeds
American Western Prataculture Corp. (美國西部草業有限公司)	Delaware, United States of America	United States of America	-	100	100	Inactive
成都優然牧業有限責任公司 (Chengdu Youran Dairy Co., Ltd.*)		PRC	PRC RMB136,000,000	100	100	Raising and breeding dairy cows and raw milk production
合肥優然牧業有限責任公司 (Hefei Youran Dairy Co., Ltd.*)		PRC	PRC RMB138,000,000	100	100	Raising and breeding dairy cows, and raw milk production
黃岡優然牧業有限責任公司 (Huanggang Youran Dairy Co., Ltd.*)		PRC	PRC RMB226,000,000	100	100	Raising and breeding dairy cows, and raw milk production
錫林浩特市優然牧業有限責任公司 (Xilin Hot Youran Dairy Co., Ltd.*)		PRC	PRC RMB222,000,000	100	100	Raising and breeding dairy cows and raw milk production
吳忠優然牧業有限責任公司 (Wuzhong Youran Dairy Co., Ltd.*)		PRC	PRC RMB74,000,000	100	100	Raising and breeding dairy cows, and raw milk production
肇東市長青畜牧有限公司 (Zhaodong Chang Qing Livestock Co., Ltd.*)		PRC	PRC RMB191,500,000	100	100	Raising and breeding dairy cows, and raw milk production
南京優然牧業有限責任公司 (Nanjing Youran Dairy Co., Ltd.*)		PRC	PRC RMB67,000,000	100	100	Raising and breeding dairy cows, and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

52. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2021 %	2020 %	
林甸優然牧業有限責任公司 (Lindian Youran Dairy Co., Ltd.*)	PRC	PRC	RMB472,000,000	100	100	Raising and breeding dairy cows, and raw milk production
銅川優然牧業有限責任公司 (Tongchaun Youran Dairy Co., Ltd.*)	PRC	PRC	RMB131,000,000	100	100	Raising and breeding dairy cows, and raw milk production
張北中都畜牧有限責任公司 (Zhangbei Zhong Du Livestock Co., Ltd.*)	PRC	PRC	RMB333,000,000	100	100	Raising and breeding dairy cows, and raw milk production
達拉特旗優然牧業有限責任公司 (Dalad Banner Youran Dairy Co., Ltd.*)	PRC	PRC	RMB286,000,000	100	100	Raising and breeding dairy cows, and raw milk production
杜爾伯特蒙古自治縣中都畜牧有限責任公司 (Duerbote Mongolia Autonomous County Zhongdu Livestock Co., Ltd.*)	PRC	PRC	RMB124,000,000	100	100	Raising and breeding dairy cows, and raw milk production
濟南優然牧業有限責任公司 (Jinan Youran Dairy Co., Ltd.*)	PRC	PRC	RMB100,000,000	100	100	Raising and breeding dairy cows, and raw milk production
阜新優然牧業有限責任公司 (Fuxin Youran Dairy Co., Ltd.*)	PRC	PRC	RMB114,000,000	100	100	Raising and breeding dairy cows, and raw milk production
平頂山優然牧業有限責任公司 (Pingdingshan Youran Dairy Co., Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
呼倫貝爾優然牧業示範牧場有限責任公司 (Hulunbeier YouRan Dairy Co., Ltd.*)	PRC	PRC	RMB250,000,000	100	100	Raising and breeding dairy cows, and raw milk production
武威市優然牧業有限責任公司 (Wuwei Youran Dairy Co., Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
杜爾伯特牧元興飼料有限責任公司 (Duerbote Muquan Yuanxing Feeds Co., Ltd.*)	PRC	PRC	RMB5,400,000	100	100	Production and sales of feeds
保定伊和生物科技有限責任公司 (Baoding Yihe Bio-Technology Co., Ltd.*)	PRC	PRC	RMB10,000,000	100	100	Production and sales of feeds
寧夏伊康元生物科技有限公司 (Ningxia Yikangyuan Bio-Technology Co., Ltd.*) ("Ningxia Bio-Technology")	PRC	PRC	RMB80,000,000	100	100	Production and sales of feeds
山東牧泉元興生物科技有限責任公司 (Shandong Bio-Technology Co., Ltd.*)	PRC	PRC	RMB50,000,000	100	100	Production and sales of feeds

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

52. Particulars of Subsidiaries of the Company *(continued)*

General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2021 %	2020 %	
大慶牧泉元興生物科技有限责任公司 (Daqing Bio-Technology Co., Ltd.*)	PRC	PRC	RMB40,000,000	100	100	Production and sales of feeds
烏蘭察布市牧泉元興飼料有限責任公司 (Wulanchabu Muquan Yuanxing Feed Co., Ltd.*) ("Wulanchabu Muquan Yuanxing Feeds")	PRC	PRC	RMB60,000,000	100	100	Production and sales of feeds
巴彥淖爾市牧泉元興飼料有限責任公司 (Bayannur Muquan Yuanxing Feed Co., Ltd.*) ("Bayannur Muquan Yuanxing Feeds")	PRC	PRC	RMB35,000,000	100	100	Production and sales of feeds
興安盟優然牧業有限責任公司 (Hinggan League Youran Dairy Co.Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
通遼優然牧業有限責任公司 (Tongliao Youran Dairy Co. Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
呼和浩特優然牧業有限責任公司 (Hohhot Youran Dairy Co. Ltd.*)	PRC	PRC	RMB700,000,000	100	100	Raising and breeding dairy cows and raw milk production
涼城優然牧業有限責任公司 (Liangcheng Youran Dairy Co. Ltd.*)	PRC	PRC	RMB50,000,000	100	100	Raising and breeding dairy cows and raw milk production
駐馬店優然牧業有限責任公司 (Zhumadian Youran Dairy Co. Ltd.*)	PRC	PRC	RMB250,000,000	100	100	Raising and breeding dairy cows, and raw milk production
呼和浩特金河優然牧業有限責任公司 (Hohhot Jinhe Youran Dairy Co. Ltd. *)	PRC	PRC	RMB100,000,000	100	100	Raising and breeding dairy cows, and raw milk production
濰坊優然牧業有限責任公司 (Weifang Youran Dairy Co. Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
壽光優然牧業有限責任公司 (Shouguang Youran Dairy Co. Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
開魯優然牧業有限責任公司 (Kailu Youran Dairy Co. Ltd.*)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows, and raw milk production
邢台優然牧業有限責任公司 (Xingtai Youran Dairy Co. Ltd.*)	PRC	PRC	RMB68,000,000	100	100	Raising and breeding dairy cows, and raw milk production
河北牧泉元興生物科技有限责任公司 (Hebei Muquan Yuanxing Biotechnology Co. Ltd.*)	PRC	PRC	RMB50,000,000	100	100	Raising and breeding dairy cows, and raw milk production
延安洛川優然牧業有限責任公司 (Yan'an Luochuan Youran Dairy Co. Ltd.*)	PRC	PRC	RMB100,000,000	100	100	Raising and breeding dairy cows, and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

52. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2021 %	2020 %	
合肥元興牧業有限責任公司 (Hefei Yuanxing Dairy Co. Ltd.*)	PRC	PRC	RMB42,000,000	100	100	Raising and breeding dairy cows, and raw milk production
內蒙古聚牧城科技有限責任公司 (Inner Mongolia Jumucheng Technology Co. Ltd.*)	PRC	PRC	RMB10,000,000	100	100	Sales of fodder
內蒙古優創業有限責任公司 (Inner Mongolia Youchuang Industrial Co., Ltd. *)	PRC	PRC	RMB30,000,000	100	100	Construction materials sales; wire, and real estate development and operation
聊城優然牧業有限責任 公司(Liaocheng Youran Dairy Co., Ltd. *)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
昌吉優然牧業有限責任公司 (Changji Youran Dairy Co., Ltd. *)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
昌邑優然牧業有限責任公司 (Changyi Youran Dairy Co., Ltd. *)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
雲南優然牧業有限責任公司 (Yunnan Youran Dairy Co., Ltd. *)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
洛陽優然牧業有限責任公司 (Luoyang Youran Dairy Co., Ltd. *)	PRC	PRC	RMB125,000,000	100	100	Raising and breeding dairy cows and raw milk production
清水河優然牧業有限責任公司 (Qingshuihe Youran Dairy Co., Ltd. *)	PRC	PRC	-RMB120,000,000	100	100	Raising and breeding dairy cows and raw milk production
唐山優然牧業有限責任公司 (Tangshan Youran Dairy Co., Ltd., formally known as Fonterra (Yutian) Dairy Farm Co., Ltd. *)	PRC	PRC	RMB1,772,390,272	100	100	Raising and breeding dairy cows and raw milk production
山西優然天合牧業有限責任公司 (Shanxitianhe Youran Dairy Co., Ltd. formally known as Fonterra (Ying) Dairy Farm Co., Ltd. *)	PRC	PRC	RMB2,258,816,796	100	100	Raising and breeding dairy cows and raw milk production
SKX (as defined in Note 43)	PRC	PRC	RMB918,600,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production, and production and sale of breeding products
內蒙古彝騰牧業有限公司 (Inner Mongolia Best Holsteins Co., Ltd. *)	PRC	PRC	RMB560,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
內蒙古賽科星牧業有限公司 (Inner Mongolia SK Xing Dairy Limited *)	PRC	PRC	RMB88,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
寧夏賽科星養殖有限責任公司 (Ningxia SK Xing Breeding Co. Ltd. *) ("Ningxia SKX")	PRC	PRC	RMB74,200,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

52. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2021 %	2020 %	
鄂爾多斯市賽科星養殖有限責任公司 (Ordos SK Xing Breeding Co. Ltd. *) ("Ordos SKX")	PRC	PRC	RMB50,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
滄州賽科星牧業有限公司 (Cangzhou SK Xing Dairy Limited*) ("Cangzhou SKX")	PRC	PRC	RMB40,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
定州市賽科星伊人牧業有限公司 (Dingzhou SK Xing Yiren Dairy Limited*) ("Dingzhou SKX")	PRC	PRC	RMB41,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
鄂托克旗賽優牧業有限公司 (Etuokeqi Saiyou Dairy Limited*) ("Etuokeqi Saiyou")	PRC	PRC	RMB45,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
內蒙古北方聯牛農牧業有限公司 (Inner Mongolia Northern Lianiu Agriculture and Dairy Co. Ltd. *)	PRC	PRC	RMB190,977,100	58.36	58.36	Raising and breeding dairy cows, and raw milk production
北京海華雲都生態農業有限公司 (Beijing Haihuayundu Ecological Agriculture Co. Ltd. *) ("Beijing Haihuayundu")	PRC	PRC	RMB477,188,074	58.36	58.36	Raising and breeding dairy cows, and raw milk production
呼倫貝爾市賽優牧業有限公司 (Hulun Buir Saiyou Dairy Co. Ltd. *) ("Hulun Buir Saiyou")	PRC	PRC	RMB210,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
河北犇放牧業有限公司 (Hebei Benfang Dairy Limited*)	PRC	PRC	RMB240,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
達拉特旗賽優牧業有限公司 (Dalateqi Saiyou Dairy Limited*) ("Dalateqi Saiyou")	PRC	PRC	RMB100,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
武強賽優牧業有限公司 (Wuqiang Saiyou Dairy Limited*)	PRC	PRC	RMB51,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
華夏畜牧興化有限公司 (Huaxia Livestock Xinghua Limited*) ("Huaxia Xinghua")	PRC	PRC	RMB462,457,540	58.36	58.36	Raising and breeding dairy cows, and raw milk production
濟源市賽科星牧業有限公司 (Jiyuan SK Xing Dairy Limited*) ("Jiyuan SKX")	PRC	PRC	RMB66,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
尋甸賽優牧業有限公司 (Xundian Saiyou Dairy Limited*) ("Xundian Saiyou")	PRC	PRC	RMB80,000,000	57.49	57.49	Raising and breeding dairy cows, and raw milk production

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

52. Particulars of Subsidiaries of the Company (continued)

General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest and voting rights held by the Group as at December 31,		Principal activities
				2021 %	2020 %	
內蒙古賽科星家畜種業與繁育生物技術研究院有限公司 (Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd.*)	PRC	PRC	RMB48,000,000	58.36	58.36	Raising and breeding of livestock, and cloning technology development
內蒙古賽科星精源科技有限公司 (Inner Mongolia SK Xing Jingyuan Technology Co. Ltd.*)	PRC	PRC	RMB10,000,000	58.36	58.36	Trading of breeding products
承德賽優牧業有限公司 (Chengde Saiyou Dairy Co., Ltd.*)	PRC	PRC	RMB40,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
呼倫貝爾賽科星牧業有限責任公司 (Hulun Buir SK Xing Dairy Co. Ltd.*)	PRC	PRC	RMB73,606,000 /RMB80,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
清水河賽科星牧業有限責任公司 (Qingshuihe SK Xing Dairy Co. Ltd.*)	PRC	PRC	RMB40,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production
巴彥淖爾賽科星牧業有限責任公司 (Bayan Nur SK Xing Dairy Co. Ltd.*)	PRC	PRC	RMB100,000,000	58.36	58.36	Raising and breeding dairy cows, and raw milk production

* The English name of the Chinese company marked with "*" are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

None of the subsidiaries has issued any debt securities as at December 31, 2021.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiary	Place of establishment and operations	Proportion of interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests for the year ended		Accumulated non-controlling interests at	
		31/12/2021	31/12/2020	31/12/2021 RMB'000	31/12/2020 RMB'000	31/12/2021 RMB'000	31/12/2020 RMB'000
SKX Group	The PRC	41.64%	41.64%	463,200	199,895	1,699,000	1,241,328

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

52. Particulars of Subsidiaries of the Company *(continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

Summarised financial information in respect of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31/12/2021 RMB'000	31/12/2020 RMB'000
Current assets	1,559,281	1,308,058
Non-current assets	6,987,134	5,908,653
Current liabilities	(3,507,534)	(3,537,788)
Non-current liabilities	(1,050,172)	(789,331)
Net assets	3,988,709	2,889,592
Equity attributable to owners of the Company	2,289,709	1,648,264
Non-controlling interests of SKX Group	1,698,432	1,240,756
Non-controlling interests of SKX's subsidiary	568	572
	3,988,709	2,889,592

	For the year ended December 31, 2021 RMB'000	From January 8, 2020 (date of acquisition of SKX Group) to December 31, 2020 RMB'000
Revenue	3,630,329	3,010,241
Expenses	(2,517,940)	(2,618,485)
Profit for the period	1,112,389	391,756
Other comprehensive (expense)/income	(13,262)	25,401
Total comprehensive income for the year	1,099,127	417,157
Profit for the period attributable to:		
Owners of the Company	649,189	191,861
Non-controlling interests of SKX Group	463,200	199,895
	1,112,389	391,756
Total comprehensive income for the year attributable to:		
Owners of the Company	641,449	206,685
Non-controlling interests of SKX Group	457,678	210,472
	1,099,127	417,157
Net cash inflows/(outflows) from:		
Operating activities	1,122,168	746,876
Investing activities	(1,141,649)	(550,231)
Financing activities	2,168	(50,291)
	(17,313)	146,354

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

53. Statement of Financial Position and Reserves of the Company

	31/12/2021 RMB'000	31/12/2020 RMB'000
Non-current asset		
Interests in a subsidiary	9,831,512	7,468,262
Current assets		
Prepayments, deposits and other receivables	1,979	7,479
Bank balances and cash	134,814	114,307
	136,793	121,786
Current liabilities		
Amounts due to a subsidiary	42,523	26,074
Other payables and accruals	9,009	15,770
Convertible notes	2,407,292	–
	2,458,824	41,844
Net current liabilities	(2,322,031)	79,942
Total assets less current liabilities	7,509,481	7,548,204
Non-current liability		
Convertible notes	–	3,043,648
Net assets	7,509,481	4,504,556
Capital and reserves		
Share capital	251	219
Reserves	7,509,230	4,504,337
Total equity	7,509,481	4,504,556

Reserves of the Company

	Share premium RMB'000	Convertible notes equity reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At August 21, 2020 (date of incorporation)	–	–	–	–	–
Loss and total comprehensive expense for the period	–	–	–	(75,196)	(75,196)
Effect of the reorganisation	5,778,281	–	–	–	5,778,281
Dividend paid (Note 16)	(1,198,748)	–	–	–	(1,198,748)
At December 31, 2020	4,579,533	–	–	(75,196)	4,504,337
Loss and total comprehensive expense for the year	–	–	(181,327)	(539,934)	(721,261)
Shares issued pursuant to IPO (Note 40)	2,854,769	–	–	–	2,854,769
Share issuance cost (Note 40)	(91,999)	–	–	–	(91,999)
Recognition of equity component of convertible notes (Note 39)	–	963,384	–	–	963,384
At December 31, 2021	7,342,303	963,384	(181,327)	(615,130)	7,509,230

54. Events after the Reporting Period

Save as disclosed elsewhere in this report, events and transactions took place subsequent to December 31, 2021 are detailed as below:

On March 2, 2022, the Company entered into a sale and purchase agreement with YeGu Investment Company Limited (the "Seller") and Mr. Zhang Jianshe, pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell approximately 27.16% of the total issued share capital in Wholesome Harvest Limited, which wholly owns China ZhongDi Dairy Holdings Company Limited, at a total consideration of HK\$1,206,380,000. The above transaction has been published in the Company's announcement dated March 2, 2022.

This transaction has not been completed up to the date of approval of the consolidated financial statements of the Group.

Four-Year Financial Summary

	Year ended December 31,			
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	15,346,167	11,781,195	7,667,818	6,333,920
Cost of sales	(14,333,273)	(11,048,726)	(7,014,226)	(5,810,627)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	3,681,585	2,870,723	1,232,668	1,022,398
Gross profit	4,694,479	3,603,192	1,886,260	1,545,691
Loss arising from changes in fair value less costs to sell of biological assets	(407,440)	(413,784)	(133,255)	(87,271)
Other income	151,974	76,979	55,396	51,469
Impairment loss under expected credit loss model, net of reversal	(12,438)	(45,083)	(24,761)	(1,453)
Other gains and losses	(52,618)	(54,273)	(16,046)	(35,613)
Fair value loss on convertible notes	(132,910)	(10,769)	–	–
Selling and distribution expenses	(556,699)	(453,116)	(340,687)	(271,932)
Administrative expenses	(835,399)	(744,516)	(445,453)	(421,298)
Other expenses	(3,348)	(20,030)	(26,528)	(2,311)
Listing expenses	(17,848)	(34,365)	–	–
Share of profit of a joint venture	23	25	–	–
Finance costs	(732,443)	(309,825)	(104,071)	(80,081)
Profit before tax	2,095,333	1,594,435	850,855	697,201
Income tax expense	(74,117)	(53,805)	(48,973)	(44,334)
Profit for the year	2,021,216	1,540,630	801,882	652,867
Profit for the year/period attributable to:				
Owners of the Company	1,558,016	1,340,735	801,882	652,867
Non-controlling interests	463,200	199,895	–	–
	2,021,216	1,540,630	801,882	652,867

	As of December 31,			
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	31,961,639	22,200,943	9,946,574	7,765,146
Total liabilities	17,081,728	13,139,407	4,556,755	3,177,209
Total equity	14,879,911	9,061,536	5,389,819	4,587,937
Attributable to:				
Owners of the Company	13,180,911	7,820,208	5,389,819	4,587,937
Non-controlling interests	1,699,000	1,241,328	–	–

Note: Extracted from prospectus and 2021 annual results announcement. Company and DTT to review. Where the published results and statement of assets and liabilities have not been prepared on a consistent basis, please include disclosure to explain

Definitions

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Articles of Association”	the third amended and restated memorandum and articles of association of the Company adopted on May 17, 2021 with effect from Listing, as amended from time to time
“AGM”	the annual general meeting of the Company to be held on May 27, 2022
“Audit Committee”	the audit committee of the Company
“Auditor”	Deloitte Touche Tohmatsu
“Board” or “Board of Directors”	the board of directors of our Company
“CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules (as amended from time to time)
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”, “our Company”, “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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transactions”	has the meaning ascribed to it under the Listing Rules
“controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Dairy Products Purchase Framework Agreement”	the dairy products purchase framework agreement dated May 17, 2021 entered into between the Company and Yili
“Director(s)”	the director(s) of our Company
“Environmental, Social and Governance Report”	the environmental, social and governance report of the Company for the Reporting Period
“Feed and Other Materials Supply Framework Agreement”	the feed and other materials supply framework agreement dated September 4, 2020 entered into between Inner Mongolia Youran and ZhongDi Dairy

Definitions

“Financial Services Framework Agreement”	the financial services framework agreement dated September 28, 2021 entered into between the Company and Yili Finance Company
“Global Offering”	the Hong Kong Public Offering and the International Offering as defined in the Prospectus
“Group”, “our Group”, “the Group”, “we”, “us”, “our” or “Youran Dairy”	the Company and its subsidiaries from time to time
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars”, “HK dollars”, “HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IFRSs”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Inner Mongolia Youran”	Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a company established under the laws of the PRC on August 1, 2007 and a wholly-owned subsidiary of the Company
“Latest Practicable Date”	April 14, 2022, being the latest practicable date for ascertaining certain information in this report before its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	June 18, 2021, the date on which the Shares were listed and on which dealings in the Shares are first permitted to take place on 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
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company
“PBOC”	People’s Bank of China (中國人民銀行)
“Prospectus”	the prospectus of the Company dated June 7, 2021

Definitions

“Raw Milk Purchase and Sale Framework Agreement”	the raw milk purchase and sale framework agreement dated May 17, 2021 entered into between the Company and Yili
“Remuneration Committee”	the remuneration committee of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of PRC
“Reporting Period”	the year ended December 31, 2021
“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) in the share capital of our Company, currently with a par value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Share(s)
“SKX”	Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd (內蒙古賽科星繁育生物技術(集團)股份有限公司)
“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”	has the meaning ascribed to it in the Listing Rules
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	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
“Yili Finance Company”	Yili Finance Company Limited* (伊利財務有限公司), a company established under the laws of the PRC and a wholly-owned subsidiary of Yili
“ZhongDi Dairy”	China ZhongDi Dairy Holdings Limited (中國中地乳業控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands
“ZhongDi Group”	ZhongDi Dairy, its subsidiaries and associates
“%”	per cent