



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

Interim Report 2022



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

(*resigned on July 22, 2022*)

Mr. Yuan Jun (袁軍) (*President*)

(*appointed on July 22, 2022*)

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) (*Chairperson*)

Mr. Yao Feng (姚峰)

Mr. Qiu Zhongwei (邱中偉)

REMUNERATION COMMITTEE

Mr. Shen Jianzhong (沈建忠) (*Chairman*)

Ms. Xie Xiaoyan (謝曉燕)

Mr. Xu Jun (徐軍)

NOMINATION COMMITTEE

Mr. Yao Feng (姚峰) (*Chairman*)

Mr. Shen Jianzhong (沈建忠)

Mr. Xu, Zhan Kevin (許湛)

COMPANY SECRETARY

Ms. Yu Wing Sze (余詠詩)

AUTHORISED REPRESENTATIVES

Mr. Dong Jiping (董計平)

Ms. Yu Wing Sze (余詠詩)

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

Registered Public Interest Entity Auditor

REGISTERED OFFICE

89 Nexus Way

Camana Bay, Grand Cayman

KY1-9009, Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 169, Hexi Road, Saihan District

Hohhot, Inner Mongolia

China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two

Times Square

1 Matheson Street, Causeway Bay

Hong Kong

Corporate Information

LEGAL ADVISORS

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

17/F, Far East Finance Centre

16 Harcourt Road

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 Autonomous
Region Branch

Fengye Mansion, No. 110, Daxue Road West

Hohhot, Inner Mongolia, China

STOCK CODE

9858

COMPANY WEBSITE

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

Highlights

Over 440,000 heads

Number of breeding Holsteins and Jerseys as of June 30, 2022

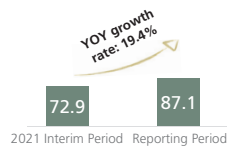
Over 640,000 tons

Concentrated feed production volume during the Reporting Period

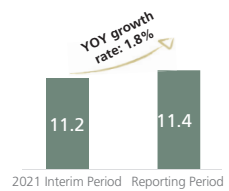
Over 1.62 million straws

Sales volume of regular frozen bovine semen and sex-sorted frozen bovine semen of high-quality cattle during the Reporting Period

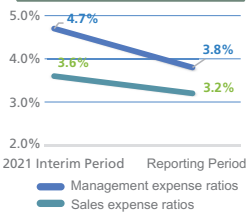
Revenue (RMB100 million)



Annualised average milk yield per milkable cow (excluding Jerseys) (RMB/tons)



Expense ratios (%)

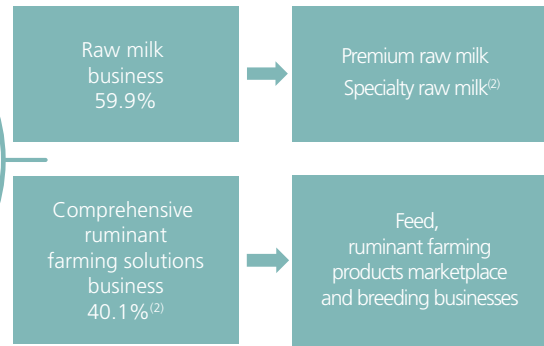
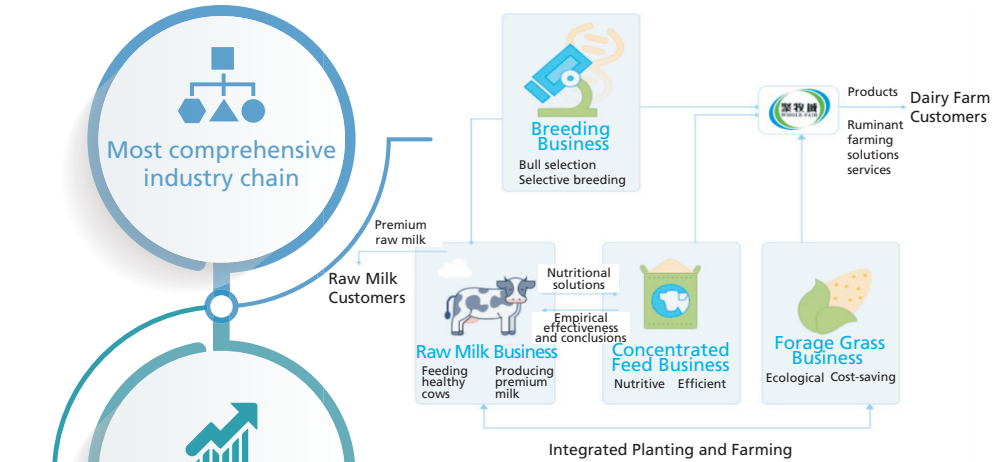


Most comprehensive industry chain

Largest scale

Best structure and the strongest operational capacity⁽¹⁾

Efficient operation



Proportion of revenue from all business segments for the Reporting Period

Business compositions

Notes:

- (1) New dairy farms (with ancillary forage grass plantation bases) and feed mills are strategically constructed in the Golden Raw Milk Belt and central and southern provinces of China;
- (2) The business segment is less affected by the fluctuation of milk price.

Highlights

	Six months ended June 30,		Year-on-year change (%)
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)	
Revenue	8,706,955	7,291,767	19.4
Including: revenue from raw milk business	5,219,010	4,351,943	19.9
revenue from comprehensive ruminant farming solutions	3,487,945	2,939,824	18.6
Gross profit	2,096,933	2,138,881	-2.0
Profit attributable to owners of the Company	219,326	935,275	-76.5
Net asset value per share (RMB) ^{Note 1}	3.50	3.47	0.9
Non-IFRSs measure:			
Adjusted profit attributable to owners of the Company ^{Note 2}	437,123	1,142,013	-61.7
Cash EBITDA ^{Note 3}	1,837,606	1,636,448	12.3
Profit for the period (before biological assets fair value adjustments) ^{Note 4}	1,052,347	1,089,893	-3.4
	<i>Heads</i>	<i>Heads</i>	
Herd size of dairy cows	447,335	375,654	19.1

The Board did not recommend the distribution of an interim dividend for the six months ended June 30, 2022.

Note 1 It is calculated by dividing equity attributable to owners of the Company at the end of the period by the number of issued ordinary shares of the Company at the end of the reporting period (defined as as of June 30, 2022 and as of June 30, 2021).

Note 2 Adjusted profit attributable to owners of the Company represents profit, adding back (i) the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate (being nil for the Reporting Period and RMB101 million for the 2021 Interim Period, respectively); (ii) the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate (being RMB239 million for the Reporting Period and RMB88 million for the 2021 Interim Period, respectively); and (iii) the Listing expenses (being nil for the Reporting Period and RMB18 million for the 2021 Interim Period, respectively) (items (i) and (iii) are not applicable for the Reporting Period), and less reversal of provision for loss from legal proceedings regarding the adjustments made to the consideration for acquisition of SKX (being RMB21 million for the Reporting Period and nil for the 2021 Interim Period, respectively).

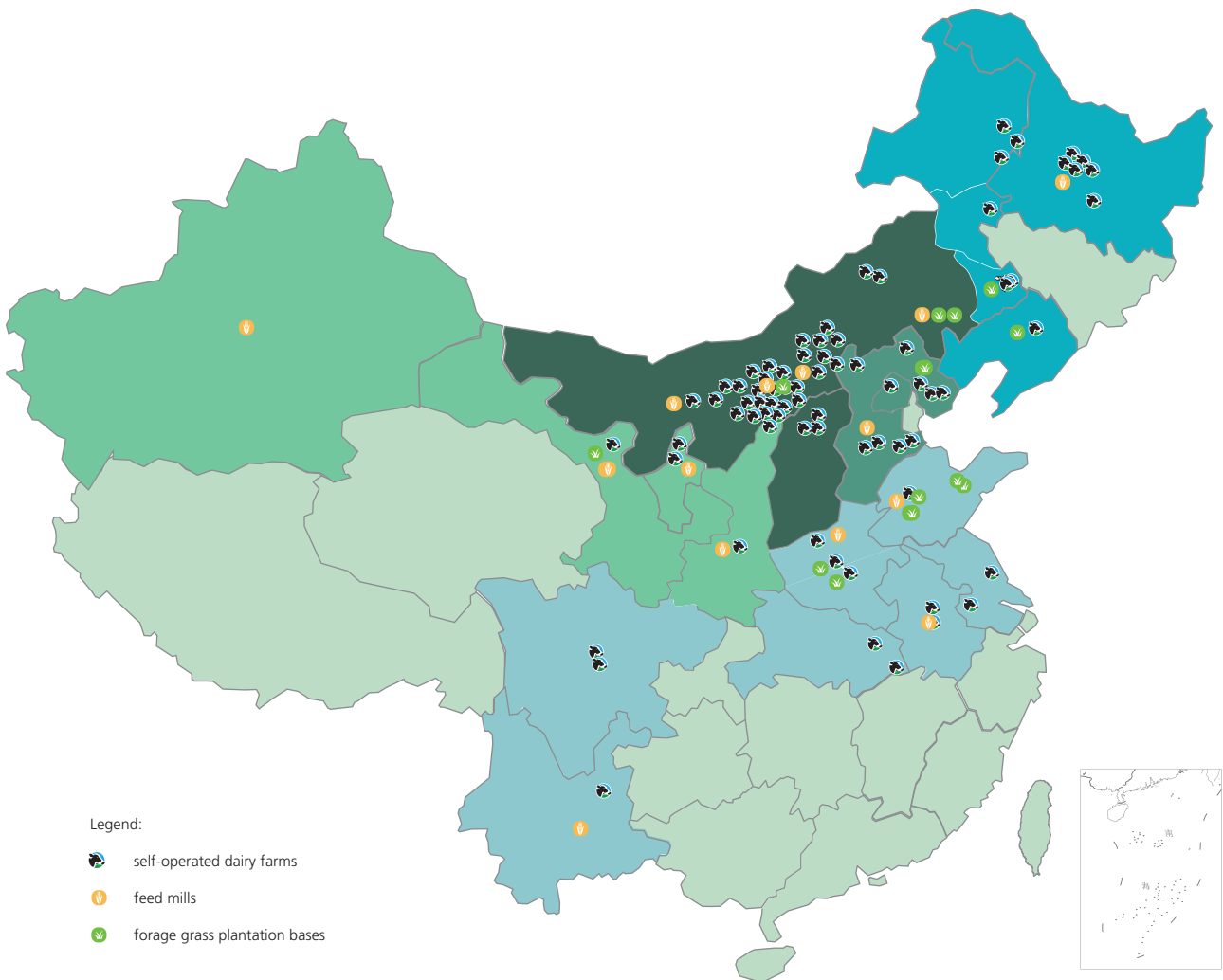
Note 3 It represents profit for the period excluding finance costs, interest income, income tax expense, depreciation and amortisation, loss/gain arising from changes in fair value less costs to sell of biological assets, other gains and losses, impairment loss under expected credit loss model, net of reversal and effect of Listing expenses.

Note 4 It represents profit for the period excluding loss/gain arising from changes in fair value less costs to sell of biological assets.

Shareholders and potential investors of the Company should note that the adjusted profit attributable to owners of the Company is not a measure required by or presented in accordance with the IFRSs.

Distribution Map of Production Bases

- 75** self-operated dairy farms
Covering 16 provinces, municipalities and autonomous regions with nearly 450,000 dairy cows
- 14** feed mills
Covering 26 provinces, municipalities and autonomous regions, and serving around 1,500,000 ruminants
- 13** 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 more than 210,000 mu of land area for integrated planting and farming
- 3** key breeding bases
The United States: Wisconsin
China: Horing and Qingshuihe
- 1** dairy industry chain platform
Industry chain financial center, warehousing and logistics center, cloud sharing center and global procurement center



Management Discussion and Analysis

LONG-TERM ADVANTAGES

In pursuit of the vision of “leading the dairy farming industry of China 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 layout and high-efficiency operation” to constantly create value for customers, shareholders, employees and the society and achieve 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 mainly lied 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 benefiting from the effective coordination and promotion among segments in light of its resource advantages in the entire industry chain. The Group offers diversified services such as online product trading, technical consultation, remote diagnosis and information support through *Jumuc.com*, a China’s leading sharing platform for the dairy industry chain.
- ii. Against the backdrop of increasingly tight supply of land resources, the Group leverages its first-mover advantage to strategically focus on dairy farms, feed mills and breeding farms to expand the scale and production capacity of all major business segments. During the Reporting Period, the Group had put three newly built dairy farms into operation, reached strategic cooperation with a new third-party feed manufacturer in Gansu province, whose production capacity of feed business can reach 150 thousand tons per year, and completed the site selection and planning of a high-quality beef cattle breeding farm, which meets the highest standards in China. During the Reporting Period, the Group’s production volume of raw milk and concentrated feed reached 1,150 thousand tons and 640 thousand tons, respectively.
- iii. The Group continues to optimize products and product structure in an innovative way, and makes strategic plans to expand and optimize business coverage to continuously enhance its core competitiveness. During the Reporting Period, the Group has continuously enriched its specialty raw milk offerings. In addition to organic milk, A2 milk, DHA milk, Jersey milk, organic A2 milk, selenium-rich milk and other categories of specialty raw milk, the Group also launched a new specialty raw milk product, i.e., organic Jersey milk, to continuously improve the conversion efficiency of functional ingredients of specialty raw milk and increase its total production volume; in terms of comprehensive ruminant farming solutions, based on the trend of market demand, the Group promoted the upgrading of major feed products, focused on the development of functional products in animal healthcare, expanded new business, set up a selection, cultivation and industrialization demonstration platform for new varieties of high-quality domestically grown alfalfa hay, and innovated breeding techniques, thereby realising double-digit growth in the feed business and ruminant farming products and doubling the revenue from the breeding business. The Group made a strategic layout in a forward-looking way, and built a number of new dairy farms and ancillary feed mills on the golden milk source belt supported by favorable industrial policies and in the provinces of South-central China, where there is a large population, strong economy, great consumption potential, scarce land resources and a long-term lack of raw milk.



Management Discussion and Analysis

- iv. The Group has further improved its operational efficiency through modern and scientific management practices. As the world's first Chinese dairy farming enterprise in the industry recognised by an authoritative international lean production management certification organization, Japan Institute of Plant Maintenance, with the Excellence Award, the Group took the initiative in introducing the industrialised lean production operation mode into the upstream dairy industry, and replicated this mode in its own and social farms and feed mills in a standardised and rapid way, thereby rapidly improving the operational capabilities of its own farms, production bases and those of its partners. Meanwhile, based on years of industrial experience, the Group continued to explore and practice in digitalization, carried out informationalized practice and effectively integrated its industry-leading management experience, standard processes and farming technologies with its business segments through information technology, to create efficient operation management capabilities. By applying advanced technologies of the Internet of Things, big data, artificial intelligence and image recognition, the Group adopted the way of digital management of the full life cycle of dairy farming and took the lead to construct smart farms in the industry, leading the development of the industry.

INDUSTRY REVIEW

During the Reporting Period, due to the on-going impact of COVID-19 pandemic, Russia-Ukraine war and extreme weather, the growth of China's economy slowed down. However, it overcame the adverse effects caused by such unanticipated factors through the implementation of a series of prudent economic policies. The gross domestic product (GDP) increased by 2.5% at constant prices during the Reporting Period as compared with that for the 2021 Interim Period, according to the data from the National Bureau of Statistics of China ("NBS"). The per capita disposable income of national residents grew by 4.7% as compared with that in the 2021 Interim Period, with a real growth rate of 3.0% regardless of price factors.

With respect to the dairy industry, the output of dairy manufacturers above designated size reached 15,109 thousand tons during the Reporting Period, which remained relatively stable as compared with that for the 2021 Interim Period, according to the data from NBS. According to customs statistics, all kinds of dairy products imported to China during the Reporting Period were equivalent to 10,480 thousand tons of raw milk, representing a year-on-year decrease of 18.1%, for which dry dairy products were calculated at a rate of 1:8 and liquid dairy products at a rate of 1:1. During the Reporting Period, the average price of raw milk in major provinces where China's dairy industry was concentrated was RMB4.20/kg, down by 1.4% from that for the 2021 Interim Period, according to the data from the Ministry of Agriculture and Rural Affairs. Furthermore, with the change of Chinese residents' health awareness and consumption patterns, the development of emerging purchasing channels, the upgrading of residents' consumption and accelerated demand for nutrition due to demographic change, China's target consumption groups and market size of dairy products are constantly expanding. On the other hand, China still lags a long way behind other major dairy consumption countries in per capita consumption of dairy products, which means that China's dairy market still has great growth potential.

With respect to the dairy farming industry, as affected by factors like tighter national land policies, higher environmental requirements, and the rising prices of bulk raw materials and forage grass, including corn, soybean meal and alfalfa hay, the barriers of the dairy farming industry continue to be heightened, and its concentration is further increased, promoting the large-scale development of large dairy farming groups.

Management Discussion and Analysis

With respect to ruminant concentrated feed and forage grass, driven by the expansion of China's herd size of dairy cows, the improvement of farming techniques of large-scale dairy farms, the increasing demand for high-quality feed and forage grass and the tight supply of imported forage grass, China's ruminant concentrated feed and forage grass market has been further expanded. The output of ruminant feed reached 7,240 thousand tons during the Reporting Period, representing an increase of 2.8% as compared to that for the 2021 Interim Period, according to the data from China Feed Industry Association. According to customs statistics, during the Reporting Period, China imported a total of 817.7 thousand tons of hay, representing a year-on-year increase of 6.9%, including 741.9 thousand tons of alfalfa hay, representing a year-on-year increase of 16.7%, at an average CIF (i.e. cost, insurance and freight) price of US\$464.24 per ton, rising by 29.0% year on year. With more stringent requirements for the quality of feed and forage grass and technical services, feed manufacturers with strong Research & Development ("R&D") strength and technical service capability will be gradually at an advantage.

With respect to the breeding business, quality breeds are guaranteed to be the source and mainstay of the value chain of the animal husbandry industry. With the innovation of technology and the increase of large-scale dairy farms, there is a strong demand for high-quality breeding products in China. According to customs statistics, during the Reporting Period, China imported 6.17 million straws of frozen bovine semen, with the value of imports amounting to US\$51.17 million, representing an increase of 33.4% over the 2021 Interim Period. The strong domestic demand has brought new opportunities for the development of enterprises possessing advanced independent cow genetic improvement and sex-sorting technologies.

With respect to the government policies for the upstream dairy value chain, the government authorities of the PRC successively issued the 14th Five-Year Plan for Promoting Agricultural and Rural Modernization, the National Development Plan for Animal Husbandry and Veterinary Industry in the 14th Five-Year Plan, the Opinions of the Central Committee of the Chinese Communist Party and the State Council on "Doing a Good Job in the Key Work of Comprehensively Promoting Rural Revitalization in 2022" and the Action Plan for Improving the Competitiveness of Dairy Industry in the 14th Five-Year Plan etc., and numerous initiatives were proposed such as promoting revitalization of the dairy industry by constructing milk source base and optimizing the structure of dairy products. By 2025, national milk production will reach approximately 41 million tons, the proportion of large-scale farming with more than 100 cows will reach approximately 75%, and annualized average milk yield per dairy cow will reach around 9 tons; implementing a five-year action plan for the development of cattle and sheep to vigorously develop herbivorous animal husbandry and establishing modern forage industry systems to promote specialized production of forage grass and feed; and accelerating the implementation of major scientific and technological projects in agricultural bio-breeding to promote the industrialization of bio-breeding in an orderly manner. In addition, during the Reporting Period, many major provinces where China's dairy industry is concentrated successively issued policies to support the animal husbandry industry, and increased the amount of subsidies such as subsidies for purchasing superior crop varieties, subsidies for the construction of large-scale dairy farms, subsidies for the construction of alfalfa hay bases and subsidies related to inclusive policies etc.. These policies have brought more development opportunities for large-scale, intensive and intelligent dairy farming groups with business covering the entire industry chain.

Management Discussion and Analysis

BUSINESS REVIEW

As the largest provider of comprehensive products and services along the upstream dairy industry chain in China, the Group was principally engaged in providing premium raw milk and specialty raw milk to large-scale dairy manufacturers and offering comprehensive ruminant farming solutions to dairy farms during the Reporting Period.

During the Reporting Period, leveraging its advantages in the scale as a leading enterprise and the business model covering the entire upstream dairy value chain, the Group continued to optimize products and product structure in an innovative way, make strategic plans to expand business scale and coverage, promote the implementation of the TPM system and the practice of digital management to further enhance operational efficiency, vigorously explore the development of the online *Jumuc.com* and offline pick-up store channels, carry out the grid-based sales management and strengthen the “product + service” strategy. As a result, the Group maintained high growth of revenue from raw milk business, feed business, breeding business and ruminant farming products marketplace business, of which revenue from breeding business doubled. The Group’s revenue increased by 19.4% from RMB7,292 million for the 2021 Interim Period to RMB8,707 million for the Reporting Period. The table below sets forth the figures of the Group’s revenue from each business segment for the periods indicated:

	Six months ended June 30,		Period- on-period change (%)	Percentage of the Group’s total revenue for the Reporting Period (%)
	2022 RMB’000	2021 RMB’000		
Revenue	8,706,955	7,291,767	19.4	100
Including: Raw milk business	5,219,010	4,351,943	19.9	59.9
Comprehensive ruminant farming solutions	3,487,945	2,939,824	18.6	40.1
Including: Feed business	3,181,389	2,711,981	17.3	36.6
Ruminant farming products marketplace business	246,264	199,844	23.2	2.8
Breeding business	60,292	27,999	115.3	0.7

Management Discussion and Analysis

I. Performance of Each Business Segment and Operation Review

(I) Raw Milk Business

Operating Performance and Operational Strategies

The Group has established long-term and stable relationships with large dairy manufacturers in the PRC, supplying premium raw milk and specialty raw milk to them. Benefiting from the new growth momentum of the dairy industry, the large dairy manufacturers continue to expand, which will constantly contribute to the sustainable development of the Group's business. During the Reporting Period, the major customers of the Group's raw milk business included Yili, Bright, Junlebao Dairy, etc. Going forward, the Group expects to continuously strengthen the linkage between the upstream and downstream dairy industry to ensure stable growth in sales of raw milk.

Thanks to the lean production operation and moderate expansion strategy, the Group recorded significant improvement in all of its key operating indicators of raw milk business during the Reporting Period. Revenue from raw milk business increased by 19.9% from RMB4,352 million for the 2021 Interim Period to RMB5,219 million for the Reporting Period, accounting for 59.9% of the Group's total revenue for the Reporting Period. The table below sets forth certain key operating data of the Group's raw milk business for the periods and as of the dates indicated:

	For the six months ended/ As of June 30,		Period- on-period change (%)
	2022	2021	
Number of dairy farms	75	73	2.7
Number of dairy cows (in heads)	447,335	375,654	19.1
Raw milk production volume (in tons)	1,150,873	947,764	21.4
Raw milk sales volume (in tons)	1,127,736	927,832	21.5
Average price of raw milk (RMB/Kg)	4.63	4.69	-1.3
Annualised average milk yield per milkable cow (excluding Jerseys ^{Note 1}) (in tons)	11.4	11.2	1.8
Including: Inner Mongolia Youran (excluding Fonterra China Farms Group acquired) (in tons)	11.9	11.7	1.7

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.

Management Discussion and Analysis

The Group's raw milk sales volume increased by 21.5% from 927,832 tons in the 2021 Interim Period to 1,127,736 tons for the Reporting Period, among which the sales volume of specialty raw milk increased by 23.7% from 219,433 tons in the 2021 Interim Period to 271,376 tons for the Reporting Period, and the sales volume of premium raw milk increased by 20.9% from 708,399 tons in the 2021 Interim Period to 856,360 tons for the Reporting Period. The increase in the raw milk sales volume mainly benefited from the following: i. through the effective implementation of lean production management, the effective integration of the merger and acquisition businesses, the application of genetic testing and advanced breeding technologies, the average milk yield continued to steadily increase and the annualised average milk yield per milkable cow (excluding Jerseys) increased by 1.8% from 11.2 tons in the 2021 Interim Period to 11.4 tons for the Reporting Period, and the annualised average milk yield per milkable cow of certain farms exceeded 13 tons; ii. the Group released its production capacity gradually through its self-operated dairy farms and strategically constructed new dairy farms. As of June 30, 2022, the Group operated 75 modern dairy farms across 16 provinces in China. The number of dairy cows of the Group increased by 19.1% from 375,654 as of June 30, 2021 to 447,335 as of June 30, 2022, including 208,882 milkable cows and 238,453 calves and heifers, accounting for 46.7% and 53.3% of the total number of the Group's dairy cows, respectively, of which the proportion of milkable cows further decreased as compared to 50.5% in the 2021 Interim Period. The relatively lower proportion of the Group's milkable cows also provided strong guarantee for the continuous improvement of raw milk yield and the continuous expansion of herd size of the Group in the future. During the Reporting Period, a total of 3 new dairy farms of 10,000 cows each were put into operation, one of which is an organic dairy farm of 10,000 cows, and as of June 30, 2022, the Group has constructed several new dairy farms in Inner Mongolia, Heilongjiang, other provinces on the golden milk source belt, and the provinces of South-central China such as Shandong, Henan and Anhui, where there is a large population, strong economy, great consumption potential, scarce land resources and a long-term lack of raw milk.

During the Reporting Period, the Group's average feed cost of premium raw milk and specialty raw milk was RMB2.43/kg, representing an increase of 14.6% from the 2021 Interim Period. Confronted with the severe situation of the rising feed cost, the Group took the following measures to mitigate the cost pressure: i. deeply implementing the strategy of purchasing bulk raw and ancillary materials. The Group took advantage of the cooperation with strategic suppliers to conduct scale purchasing and improve its trading capacity; ii. applying innovative and technical means to continuously reduce cost and increase efficiency. During the Reporting Period, in order to curb the rising price of soybean meal, corn and alfalfa hay, the Group adopted bionic testing technology to optimize diet formula, enrich the offerings of forage grass, improve and diversify processing techniques of forage grass, promote and use cost-effective ingredients locally available to achieve precise nutrition, and applied the amino acid balance technique to increase the average milk yield of dairy cows and improve feed conversion efficiency.

By virtue of the unique nutrition and functional value of specialty raw milk, and excellent physical and chemical indicators of premium raw milk, the average unit price of raw milk of the Group was RMB4.63/kg for the Reporting Period, basically remaining stable as compared to that of RMB4.69/kg in the 2021 Interim Period. Under the pressure of the significant rise of the price of bulk raw materials, the gross profit margin of the Group's raw milk business decreased from 40.4% in the 2021 Interim Period to 32.3% for the Reporting Period. Under the circumstance that the gross profit margin of the raw milk industry was generally affected, the Group managed to control the decline in the gross profit margin of raw milk through optimizing product structure.

Management Discussion and Analysis

Product development and technological innovation

In the area of raw milk research and development, the Group has established a database on the nutrient content of raw milk by testing raw milk from its own dairy farms, and continued to promote the research and development of new specialty raw milk products by conducting feeding trials on its own dairy farms. During the Reporting Period, in addition to organic milk, A2 milk, DHA milk, Jersey milk, organic A2 milk, selenium-rich milk and other categories of specialty raw milk, the Group also newly launched organic Jersey milk with high protein and silky taste by introducing pure breeds of Jerseys from abroad, following the natural rules, paying attention to animal welfare and health during the breeding process, and adopting feeding management methods that meet the natural behavior and living conditions of Jerseys. The Group has improved the conversion efficiency of functional ingredients in functional milk products that have been launched such as DHA milk and selenium-rich milk through means of cow nutrition regulation and the optimization of raw material processing technology.

Dairy farms operation and management

The Group is committed to raising healthy dairy cows and producing premium milk. Under such business philosophy, the health, longevity and high milk yield of dairy cows are not only the Group's responsibilities, but they are also vital for consolidating our leading position in the industry. During the Reporting Period, the Group improved and ensured the health, longevity and high milk yield of dairy cows by:

- i. continuously adopting the TPM system, extensively implementing lean production management, improving SOP feeding management process standards and enhancing standardized operation of employees. We adopted a standardized management model in our dairy farms to improve operation and management capabilities, empowering the Company's industry-leading operating capabilities.
- ii. guaranteeing the nutrition of cows through precise feeding, formula upgrade and the supply of high-quality concentrated feed and forage grass. During the Reporting Period, the Group achieved precise feeding, increased the feed intake and feed conversion rate of dairy cows and improved their health through, among others, upgrading feed formula via our in-house research team, improving processing techniques and introducing new breeds etc.; the Group's feed business also ensured the supply of premium and customized concentrated feed and high-quality fresh forage grass; the Group also cooperated with well-known experts and institutions at home and abroad to improve the nutrition management of cows through on-site assessment and online training.
- iii. precisely monitoring the health of cows with the herd big data management system to improve operation efficiency. During the Reporting Period, through our proprietary intelligent farm management system, the Group achieved real-time monitoring of, among others, cow management, inventory management, nutritional feeding, pasture equipment and estrus, and built efficient operation and management capabilities. In the meantime, we precisely monitored the information of each individual cow to ensure the health of each cow.
- iv. continuously improving dairy cattle welfare. During the Reporting Period, the Group realised automatic detection and control of the temperature, humidity, illumination intensity, and odour of barns by applying the Internet of Things, and comprehensively and continuously improved dairy cattle welfare through equipment upgrade and the application of intelligent systems etc..

Management Discussion and Analysis

- v. continuously establishing core herds with genetic testing and advanced breeding technologies and developing primipara cows' longevity and high milk yield plan to increase the proportion of high-yield cow herd and extend primipara cows' lifespans. The Group carried out genomic testing on reserve cows to screen out the most valuable dairy herds through genetic testing technology. The selected high-value dairy herds are distributed with the best sex-sorted frozen bovine semen to produce dairy cow embryos with an average milk yield of over 14 tons. These high-quality embryos are subsequently transplanted into low-value dairy cows to speed up the expansion of high-quality dairy herds while inhibiting the expansion of low-value dairy cows, thus boosting the milk yield of dairy cows.
- vi. holding the belief that epidemic disease prevention is paramount importance, the Group always maintained a sense of crisis against epidemic diseases, carried out vaccination against common diseases and actively seeking new methods for disease prevention and control.

(II) Comprehensive Ruminant Farming Solutions

The Group deeply believes that outstanding grass, high-quality feed and quality breeding products are fundamental guarantees to the health and high milk yield of cows. Through nearly 40 years of unwavering focus on ruminant studies, we have gained invaluable nutrition research experience and profound industry insights. The Group provides high-performance concentrated feed, high-quality forage grass, ruminant farming products and quality frozen bovine semen and embryos etc., and offers ancillary support services, such as ruminant nutrition, breeding techniques, and ruminant healthcare. Meanwhile, through *Jumuc.com*, China's leading sharing platform for the dairy industry chain, the Group also offers diversified services such as online product trading, technical consultation, remote diagnosis, information support, farm management and intelligent procurement to diversify its product offerings and further address its customers' business needs.

During the Reporting Period, the Group actively promoted the strategy of product innovation to upgrade its existing feed products in an innovative way, improve the nutrition, health and milk yield of dairy cows, promote the feed intake of beef cattle and sheep and improve the acidity of dairy goat milk, and introduced "camel breed" products to fill in the blank of specialty camel feed products in the market. The Group continued to conduct the selection, cultivation and process improvement of new varieties of forage grass. It also achieved the production and commercialized application of high-yield sex-sorted embryos in its breeding business, and gradually carried out genome editing in herbivorous livestock and the research of functional dairy cow breeding. The Group continuously consolidated the "product + service" operation model through actively implementing the strategies of product innovation and the enhancement of systematic service capabilities, and vigorously explored the development of the online platform, *Jumuc.com*, and offline pick-up store channels to implement the grid-based sales management measures and focus on building the value-based marketing capability. Revenue from the comprehensive ruminant farming solutions increased by 18.6% from RMB2,940 million in the 2021 Interim Period to RMB3,488 million in the Reporting Period, accounting for 40.1% of the Group's total revenue in the Reporting Period. Under the background of the significantly rising price of bulk raw materials, its gross profit margin generally remained stable as compared to the 2021 Interim Period. The gross profit margin was 11.9% in the Reporting Period.

Management Discussion and Analysis

Feed Business

Revenue from the Group's feed business increased by 17.3% from RMB2,712 million in the 2021 Interim Period to RMB3,181 million in the Reporting Period, accounting for 36.6% of the Group's total revenue for the Reporting Period. The sales volume of the Group's concentrated feed increased by 14.7% from 457,548 tons in the 2021 Interim Period to 525,009 tons in the Reporting Period. The growth of the Group's feed business was mainly due to:

i. Consolidating the "product + service" operation model and strengthening technical service capabilities to continuously create value for customers

The Group adopted the operation model with the close integration of products and technical services for the feed business. It developed strategies by leveraging on the dual systems of dairy farming and feed talents, established a senior expert service team and pooled highly sophisticated talents on technical services with over 15 years of experience in dairy farm management to provide customers with various services such as diagnosis, on-site services and technology escrow. Relying on its own long-term and large-scale farming advantages in different regions with different scales, the Group accurately grasped the current pain points of customers in farming and the future development trends and converted them into products and the contents of services combined with them. It also adopted the customer acquisition strategy drove by "demonstration dairy farms" in the promotion of models to promote the business development of the Company. During the Reporting Period, the Group has established 25 demonstration dairy farms in China. The annualised average milk yield per milkable cow of demonstration dairy farm customers across China increased by 4.8% as compared with the 2021 Interim Period and the daily average milk yield per milkable cow in certain farms exceeded 40 kg, achieving win-win results between the Group and its customers.

ii. Focusing on value marketing and implementing grid-based sales management measures to promote the expansion of markets and sales channels

The Group adhered to the direct sales business model of "company-dairy farms". Through the *Jumuc.com* platform, based on market opportunities and combined with phased operation focuses of dairy farms and seasonal nutrition demands, it carried out the "health protection of cows, intestinal health protection of calves, prevention and control of heat stress" and other marketing activities during the Reporting Period. Through grid-based sales management measures, the Company implemented strategies on the expansion of new markets and new channels and effectively promoted business development in northwestern and southwestern markets during the Reporting Period.

Management Discussion and Analysis

iii. Deeply conducting product innovation and boosting efforts in product development

In the concentrated feed business segment, the Group offered a variety of concentrated feed under eight brands, which are customized for different ruminants, including dairy cows, beef cattle, sheep and dairy goats. During the Reporting Period, under the support of its in-house research and development team, the Group made the following achievements:

- in the dairy cow feed segment, the Group vigorously upgraded its existing high value-added products, of which, with respect to nutrients exclusive for dairy farms with the target of an average milk yield of over 40 kg, efforts were focused on the improvement of nutrient resorption efficiency to promote the growth of milk yield of dairy cows; with respect to antibiotic-free series of feed products for calves, efforts were focused on the optimization of starch supply and adding intestinal health improving agents extracted from natural plants to promote the growth and health performance of calves; with respect to biological feed products, efforts were focused on increasing the content of beneficial bacteria in products from the perspective of fermentation control to promote the rumen and intestinal health performance of ruminants. During the Reporting Period, the Group focused on developing and launching functional nutrient products, which were able to facilitate dairy cows to promote the digestibility of starch and fiber during the heat stress period in summer, and help dairy farms to control the cost of high protein feed products for heifers under the circumstance of cost rise of raw materials. During the Reporting Period, the Group also developed functional new products for dairy cows during the perinatal period for the precautionary purpose, to effectively solve the problem of a high incidence of diseases in dairy cows after delivery and promote the health and longevity of dairy cows through the optimization of the energy supply system and the application of organic microelements.
- in the beef cattle and mutton sheep feed segment, the Group firstly introduced a full series of premix feed products for mutton sheep. A technique to improve the feed intake of mutton sheep during the fattening period was applied in such series of products to effectively promote the overall performance in daily weight gain of mutton sheep.
- in the dairy goat segment, with respect to the unmet demand for the control of acidity of goat milk on the market, the Group firstly developed and launched functional feed products to adjust the acidity of goat milk, thus facilitating the development of the dairy goat farming industry of China.
- during the Reporting Period, the Group commenced its fifth breeding business, sales of “camel breed” feed products, developed and launched nutrient products exclusive for camels under the concept of health, high yield and high efficiency to fill in the blank of specialty camel feed products in the market.
- in the forage grass segment, the Group established a demonstration platform for the selection, cultivation and industrialization of new varieties of domestically grown alfalfa hay with high quality and formed an innovative chain layout on “fundamental research, application and development as well as promotion and demonstration” with the purposes to solve problems such as the shortage of alfalfa varieties, the low efficiency of innovation in seed quality and outdated breeding technology for superior varieties. It explored and created new farming models and methods, developed and promoted new technologies for the deep processing and utilization of forage grass products to tap into the added value of forage grass products.

Management Discussion and Analysis

iv. *Deepening on industrial layout and actively promoting the construction of high-standard feed mills*

In terms of the concentrated feed business, the Group continuously enhanced the production scale of feed business and expanded the production capacity of the high value-added premix feed through self-construction dairy farms and cooperation with third parties. During the Reporting Period, the Group conducted new cooperative production with third-party feed manufacturers in Gansu and its production volume of concentrated feed increased by 13.7% from 564,839 tons in the 2021 Interim Period to 642,428 tons in the Reporting Period. As of June 30, 2022, the Group has commenced the construction of feed mills in Heilongjiang and Hebei. The production capacity of its self-operated feed mills will reach 2 million tons after such feed mills are put into operation. New feed mills of the Group were equipped with advanced equipment and facilities as well as cutting-edge technologies, which laid a solid foundation for the Group's further improvement in scale and operational capacity in the future.

In terms of the forage grass business, the Group laid out premium forage grass plantation bases centred on Ar Horqin Banner, the China's "Grass Capital", and a total of 13 forage grass plantation bases have been built. Meanwhile, based on the synergies between the livestock breeding and forage grass growing segments, the Group established ancillary forage grass plantation bases in proximity to our dairy farms with an aggregate site area of over approximately 210,000 mu, making it become a leading enterprise of producing premium forage grass, and achieving the long-term sustainable development of its business through the integrated integration of plantation and dairy farming model. The ancillary forage grass plantation bases are mainly used for the production of alfalfa hay, alfalfa silage, oat hay, oat silage, corn silage, paper mulberry silage, sorghum silage and other high-quality forage grass products.

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 *Jumuc.com*, a China's leading sharing platform for dairy industry chain, and offline pick-up stores.

Revenue from the Group's ruminant farming products business increased by 23.2% from RMB200 million in the 2021 Interim Period to RMB246 million in the Reporting Period, accounting for 2.8% of the Group's total revenue for the Reporting Period. The growth of the Group's ruminant farming products business was mainly due to:

i. *Fully upgrading of Jumuc.com to achieve digital precision marketing*

In order to improve the operational efficiency of the supply chain, during the Reporting Period, the Group upgraded the customer analysis system of *Jumuc.com*, conducted digital precision marketing through consumer data analysis, and provided technical services and support during the full process of goods procurement, creating the first sales model supported by technical services in the industry.

Currently, *Jumuc.com* covers 26 provinces, municipalities and autonomous regions and serves around 1,500,000 dairy cows in China. Meanwhile, through offline pick-up stores, it connects the instant delivery service chains for procurements at dairy farms, providing instant delivery services within 24 hours. It thoroughly solves the difficulties of dairy farms in online procurement and offline delivery and provides better and more convenient procurement experience and services for dairy farms in areas under full coverage, meeting the one-stop shopping demands of dairy farms, promoting the common development of partners in the upper and down streams of the industrial chain and achieving win-win results.

Management Discussion and Analysis

ii. Consolidating advantages in the industry chain to expand new businesses and develop its own brand products

The Group consolidated its advantages in the industry chain, expanded vaccination, agricultural materials and other new businesses, integrated global supply of resources and introduced milking robots, material pushing robots, calves feeding equipment and other new equipments and products, providing product and service support to achieve the intelligence and automation of dairy farms. It promoted the strategic cooperation with large-scale groups in China and developed products under its own brand of “Muyuanyoungeng (牧元優能)” fat powder, “Juyoudian (聚優典)” medical bath fluid, and “Chuweishi (弼衛士)” mycotoxin adsorbent products etc., providing support for dairy farms to reduce cost and improve efficiency.

Breeding Business

The Group offers high-quality domestic and overseas regular frozen bovine semen, sex-sorted frozen bovine semen and embryos to dairy farms through SKX, a subsidiary of the Group. During the Reporting Period, sales revenue from the breeding business doubled as compared to the same period last year. The growth of the Group’s breeding business was mainly due to:

i. Focusing on securing the world’s top breeds, continuously enhancing services, intensively developing channels and expanding new business models to promote the operation of the breeding business

During the Reporting Period, the Group accelerated the operation of its world-class core breeding farms, expedited its independent cultivation of world-class top-class sires, increased its investment in the joint-venture breeding farm in the United States, and carried out strategic cooperation with the world’s leading breeding companies to secure the world’s top breeds. It established strategic breeding partnership with customers and promoted the application of whole-genome detection at commercial dairy farms. Combined with embryo production and transplant technology and the upgrading of the genetics application system (GAS) as well as ancillary long-term, systematic and continuous breeding services, the Group provided customers with accurate improvement plans and built core herds to improve customer stickiness. Leveraging on the channel advantages of *Jumuc.com*, the Group continuously improved the penetration rate of customers and the market share of the platform. It promoted the underwriting model for high-quality frozen bovine semen of beef bulls and made use of the sex-sorting technology of SKX to provide customers with processing services for sex-sorted frozen bovine semen etc. Through the above measures, the Group continues to improve its core competitiveness and market share in breeding business.

Management Discussion and Analysis

ii. Deeply conducting product development and technology innovation

The Group is devoted to strengthening the production technology and quality of domestically-produced frozen semen, embryos and bovine embryo to cultivate excellent breeding bulls and deepen embryo business, thereby empowering the national strategy of germplasm resources security. Relying on the support of its in-house research and development team, the Group made the following achievements in the R&D of breeding business during the Reporting Period:

- Conducting the production of high-yield sex-sorted embryos of dairy cows through ovum pick-up-in vitro fertilization (OPU-IVF), and such technique has reached the international level, achieving the commercial production and application of in vitro embryos of dairy cows;
- Carrying out researches on the whole-genome detection and genetic evaluation after cutting microcells of breeding embryos, establishing technical systems and procedures of the genome detection for breeding embryos, breeding the breeding embryos with the highest quality and speeding up in the genetic improvement process of dairy cows to significantly reduce the detection cost and feeding cost of dairy farms;
- Carrying out researches on new varieties of functional dairy cows and building a technical process for gene editing in dairy cows to provide technical reserves for cultivating new varieties of functional dairy cows;
- Continuously improving the genetic resource bank of animals in the Mongolian Plateau. As of June 30, 2022, a total of 158 samples of animal varieties, including domestic livestock and endangered wildlife exclusive in the Mongolian Plateau were collected and nearly 30,000 straws (tubes) of samples of somatic cells, embryos and semen resources separated and collected from such animals were frozen and stored, preliminarily establishing the first "Genetic Resource Bank and Information Platform of Animals in the Mongolian Plateau" in the world, providing precious biological resources and materials for exploring the anti-disease and anti-reverse genetic characteristics of animals exclusive in the Mongolian Plateau, the breeding of domestic livestock and the cultivation of new breeds as well as animal genetics and evolution, and protecting animal genetic resources. In addition, through studying the genetic performance of such animals, the genetic characteristics of cold resistance, disease resistance, strong reproductive ability and high parity may be applied to the world-class sires bred by the Group in China in the future, which will expand a new development direction for the Group's breeding business.

Management Discussion and Analysis

iii. Deepening industrial layout and actively promoting the construction of high-standard breeding farms

The Group is operating a total of three breeding farms in Inner Mongolia, China and Wisconsin, the United States, one of which is a core breeding farm operated in Inner Mongolia that meets international standards with a designed capacity of 3,500 cattles and equipped with a world-class embryo production laboratory. The laboratory is committed to developing into an international first-class platform for the research and development of dairy breeding techniques and germplasm innovation. Leveraging the integrated application of OPU-IVF technology and sex-sorted technology, it rapidly expanded the breeding of high-yield dairy cows and breeding cows and bred OPU-IVF high-yield dairy cows and reserve breeding bulls on a large-batch basis. In the future, the Group will have the annual production capacity of 50,000 high-yield sex-sorted embryos of over 14 tons, 2,000 breeding embryos and 500 breeding cattles, 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. The full operation of the breeding farm will enhance the profitability of the Group and lay a foundation for maintaining high growth of the Group's breeding business.

During the Reporting Period, the Group completed the site selection and planning for the construction of the core breeding farm of high-quality beef cattle with the highest standard in China.

II. Quality Assurance

Sticking to the mission of "Creating the Source Power for the Healthy Life of Human Beings with Quality" and carrying forward the management concept that quality is life, the Group focuses on consolidating the foundation for quality management through three cores, namely quality culture, full-chain quality management and high-quality products. The Group continuously promotes the implementation of the quality management system among all the staff, during the full process and in all aspects and adheres to "high quality, high standards and high requirements" for the production process to guarantee product quality.

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

During the Reporting Period, the Group established a "food safety group" to continuously implement the quality assurance system and the risk prevention and control system, and extended the management to its partners to assist upstream suppliers and downstream customers in implementing responsibilities on food safety. It 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, the Group recorded no quality and safety accidents and 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 reference to indicators generally recognised in the industry, namely aerobic plate count and somatic cell count. During the Reporting Period, both the average aerobic plate count and somatic cell count in the Group's raw milk were superior to 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.

Management Discussion and Analysis

III. Raw Materials and Imported Cattle Procurement Management

The Group established a functional procurement strategy highly matching its strategic development, focused on deeply implementing the procurement strategy on bulk raw and ancillary materials and made use of the advantages in cooperation with strategic suppliers to improve the trading capability. Meanwhile, it concentrated on the TCO (total cost of ownership), the innovation in procurement models, the sustainable and continuous improvement and the sound development of the Company.

The Group has made long-term investments in the research and establishment of the raw materials procurement system and has developed a mature bulk raw materials procurement and trading model and a market information sharing and transmission mechanism. It conducted risk management and cost optimization on bulk raw materials through the hedging of futures, the optimization of the structure of suppliers, raw materials trade, forward reserves, direct purchase from sources, global purchases and other strategies. Meanwhile, the Group's self-operated concentrated feed bases and forage grass plantation bases of over 210,000 mu ensured the feed quality of the Group and effectively reduced the feed cost of the Group. For the management and control of the transportation cost, the Company actively expanded the joint road-rail-sea transportation and other diversified transportation channels and lowered the point-to-point transportation cost, further reducing the overall procurement cost of raw materials.

The Group applied a "full life cycle" of supplier management system. Supplier management covers seven main processes: supplier development, performance, classification, risk, relationship management, capability enhancement and exit management, specifically including screening suppliers that meet its requirements for access to the industry, conducting performance evaluation work and developing positive and negative incentives to enhance supplier cooperation efficiency, classifying suppliers for management, developing supplier-related risk identification mechanism to identify and reduce supplier-related risks, formulating differentiated management initiatives to allocate advantageous resources to important suppliers, fundamentally improving suppliers' capabilities with optimal resource input and the number of projects, disciplining suppliers with major problems, and ensuring the quality of the cooperative supplier team to minimize procurement risks and secure the supply.

In terms of imported heifers, the Company has established a five-year strategic partnership with long-term partners. Both parties conducted strategic cooperation on the imported cattle business and offered priority policy support in securing cattle source and the purchase price. It effectively guaranteed the quantity of imported cattle for new dairy farms of the Group, ensured the quality and the most competitive purchase price of imported cattle and effectively controlled the procurement cost.

IV. Digital Management

The Group advances the intelligent dairy farm project through the research and development, upgrades the *Jumuc.com* platform and propels financial sharing, human resources sharing and other projects. It deepens the digital transformation strategy of the Company, improves the management efficiency of the Company and continuously promotes the construction related to the digital transformation of the Group.

Digitalization of business management

The Group adheres to the principle of "driving business innovation with data" and gives full play to the data value of laboratories, intelligent dairy farms and the *Jumuc.com* platform with CNAS certification through the integration and governance mechanism to guarantee the accuracy of basic data. It also applies cloud computing, artificial intelligence, the Internet of Things and other advanced digital technologies and conducts digital management on the full lifecycle of cows to achieve the upgrading of business management and operation models.

Management Discussion and Analysis

During the Reporting Period, the Group achieved big data management through the self-developed intelligent dairy farm system and introduced intelligent cloud computing to obtain real-time indicators and data on the health of cows and provide data basis for judging health risks, identifying diseases and breeding to care about each cow. The Group also established digital technology and application structures with refined products and in-depth services through *Jumuc.com* and applied big data of platform-based customers and OCR image identification to provide customers with high-quality, multi-dimensional and in-depth services. At the same time, through the comprehensive data integration, the Group extracted thematic data for in-depth analysis to facilitate the management, farming enterprises and consumers to break data islands and provided multi-dimensional image analysis services for routine management and decision-making analysis to improve the management efficiency of dairy farms and promote the scientific decision-making. Digital operation improved the management efficiency of the Group and the Group's administrative expenses as a percentage of revenue decreased from 4.7% in the 2021 Interim Period to 3.8% in the Reporting Period.

Digitalization of empowerment management

To support its digital strategy and to follow the core concept of lean production management, the Group introduced financial sharing and actively advanced human resources sharing during the Reporting Period. It conducted the centralized consolidation of businesses for standardized handling and carried out process reengineering and standardized unification, achieved fully automatic processing model of and large-scale benefits from fundamental operation through professional labor division and standardized procedures, effectively facilitating the reasonable allocation of resources, standardized management, risks prevention and the improvement of employee satisfaction.

V. Building a Sustainable Development Model

The Group adheres to the green, ecological and sustainable development strategy, continuously deepens the sustainable development management system, increasingly integrates core issues on sustainable development with business development and innovation and vigorously promotes the long-term mechanism on sustainable development to set an example to the industry.

Actively responding to climate change

The Group actively advanced the carbon neutrality strategy and deeply implemented eight core measures on carbon emission reduction. During the Reporting Period, the Group conformed to the guidelines for greenhouse gas accounting issued by the Intergovernmental Panel on Climate Change (IPCC) and the DB11T 1565-2018 Guidelines for Greenhouse Gas Emissions Accounting of Livestock Products and established the carbon accounting model for full industry chains in the upstream of the dairy industry. It carried out carbon inventory based on the requirements of the ISO 14064-1: 2018 standards and the results showed that the Group's greenhouse gas emissions per ton of raw milk was at the leading level in China in 2021, which was at a domestic leading level. Based on the results of the first stage of carbon inventory, the Group further refined the plans, targets and implementation paths for carbon peaking and emission reduction to promote the further refinement of carbon emissions reduction. It also invited a third-party review organisation to review the undertakings and statements on carbon neutrality.

Management Discussion and Analysis

In terms of specific measures on emission reduction, the Group sped up in advancing the electrified transformation and the construction of new energy at dairy farms. During the Reporting Period, it achieved phased results in the experiment on electric loaders and promoted its application at the intelligent dairy farm in Chilechuan. The greenhouse gas emission of each electric loader is expected to reduce by approximately 72% as compared with the diesel loader. The transformation of air source heat pumps is under full promotion at dairy farms. The complementary farming and photovoltaic project was under steady progress.

In terms of technical research and reserve on carbon emission reduction, the Group participated in and undertook the key R&D project of the Science and Technology Department of Ningxia on low-carbon and emission reduction at dairy farms in 2022. The project explores the carbon emission laws under typical breeding model by measuring the nutrient composition of common feed for dairy cows and carbon emission model, studies the nutrient regulation technologies to reduce carbon emissions and efficient manure utilization technologies, and integrates low-carbon recirculating technologies. The Group, together with Chinese Academy of Agricultural Sciences and other scientific research institutions and universities, jointly advanced 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》. Currently, it has established the cow farming assessment methodology and will gradually build a database of cow farms in the future to contribute its intelligence to the green and sustainable development of the global dairy industry.

Practicing sustainable development in integrated plantation and dairy farming

During the Reporting Period, the Group, together with Chinese Academy of Agricultural Sciences and other scientific research institutions and universities, jointly studied the project of the Key Technology Research on the Integration of Dairy Cow Breeding and Farmland Planting 《奶牛－農田系統種養一體化關鍵技術研究》, the Group completed the approval of two landmarks, namely the Technical Regulations for the Production of Recyclable Bedding Materials with Manure at Large-scale Dairy Farms 《規模化奶牛場牛糞再生墊料製備技術規程》 and the Technical Regulations on the In-situ Disposal of Manure at Dairy Farms 《奶牛養殖場糞污原位消納技術規程》, as well as the approval of a standard, namely the Technical Regulations for the Recycling of Bedding Materials at Dairy Farms 《牛場牛床墊料再生利用技術規程》. Additionally, it was granted two utility patents, namely a Storage Tank for the Natural Storage of Liquid Manure and Odor Control 《一種用於液態糞污自然儲存臭氣控制的儲存箱》 and an Anaerobic Equipment Used for the Harmless Treatment of Liquid Manure 《一種用於液態糞污無害化處理的厭氧設備》.

The Group continues to put the sustainable development strategy into practice by taking full advantage of the synergy between the business segments of dairy farming and forage grass plantation, and building ancillary forage grass plantation bases nearby its dairy farms. During the Reporting Period, the Group built ancillary forage grass plantation bases near its dairy farms, covering a total site area of over 210,000 mu. Meanwhile, the Group actively cooperated with silage suppliers, and the actual land area under the integrated plantation and dairy farming model was approximately more than 1,220,000 mu.

During the Reporting Period, the Group successfully implemented two leading manure treatment processes, namely the intelligent and integrated aerobic fermentation process for severe cold areas and the anaerobic methane fermentation process for southern areas. The Group will continue to adhere to the principles of prioritizing ecology with environmental friendliness; follow the concepts of reduction, harmless and odorless treatment, resource utilization and efficiency improvement; turn manures into resources through technological innovation and build an example for integrated and sustainable development.

Management Discussion and Analysis

Fulfilling social responsibilities

i. Solving employment of farmers and herdsmen in surrounding areas and helping farmers and herdsmen achieve income growth through businesses and technologies

The Group actively fulfills its social responsibilities, provides job opportunities for farmers and herdsmen in surrounding areas and helps farmers and herdsmen achieve income growth through businesses and technologies. During the Reporting Period, the Group drove the plantation of silage, oat grass, alfalfa and other forage grass to approximately 1.01 million mu in China. Leveraging on the advantages in utilizing whole forage grass and while solving the environmental issue caused by the treatment of wheat straws, it effectively boosted the income growth of herdsmen in surrounding areas and drove the rapid development of agriculture and husbandry in surrounding areas. The Group gave full play to its industrial and technological advantages, provided technical services for farmers and herdsmen to improve the average milk yield per dairy cow and help them increase income, and formulated specific poverty alleviation policies according to different regions. It implemented the policy of using silage to alleviate poverty, taught farming techniques and knowledge in the agricultural and pastoral areas, gave calves to herdsmen and supported beef cattle farming to enhance the self-development ability of local farmers and herdsmen to achieve mutual development.

ii. Fighting against the COVID-19 pandemic with concerted efforts

During the pandemic, the Group actively donated materials for the prevention and control of the pandemic. At the same time, it offered milk and other nutritional supplements, disinfectants and other materials to frontline epidemic prevention staff.

VI. Prospects

In 2022, the first year to implement the Group's upgraded strategies, the Group will continue to consolidate its long-term advantages of "the most comprehensive industry chain, the largest scale, the best structure and layout and high-efficiency operation", and continuously implement the following core strategic initiatives:

- i. continuously enhancing the synergies among various business segments and optimizing product portfolio and business plan leveraging on the resource advantages of the Group in the entire upstream industry;
- ii. continuing to promote product and technology innovation and application capabilities and develop high and new technology businesses to enhance the technological value of the Group and ensure its sustainable and high-quality growth;
- iii. accelerating the progress of the digitalization and intelligence of its production management to further improve its operation efficiency and strengthen the core competitiveness for building the Group's soft power;
- iv. improving quality and enhancing efficiency in a regular way and reducing cost and saving energy consumption in a sustainable way by setting the industry benchmark for lean production management and forming standardised lean production management to become a leader in the green and sustainable development, and to create the most efficient farming group;
- v. cultivating a strategic talent team and building a talent development system to accelerate the construction of an efficient and nimble talent team for our future development.

Looking forward to the future, the Group believes that a large-scale, integrated and intelligent farming group with business covering the entire industry chain will seize more development opportunities. The Group will continue to implement five core strategic measures to promote the sustainable and high-quality development of the Group and to create value for customers, shareholders, employees and the society, thus contributing to the revitalization of China's dairy industry.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Our revenue increased by 19.4% from RMB7,292 million in the 2021 Interim Period to RMB8,707 million for the Reporting Period.

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

	For the six months ended June 30,	
	2022 (RMB'000) (unaudited)	2021 (RMB'000) (unaudited)
Raw milk	5,219,010	4,351,943
Comprehensive ruminant farming solutions	3,487,945	2,939,824
Total	8,706,955	7,291,767

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 business increased by 19.9% from RMB4,352 million for the 2021 Interim Period to RMB5,219 million for the Reporting Period, which was mainly due to the impact of the decline in sales prices of raw milk offset by the steady increase in sales volume of raw milk. Our revenue generated from comprehensive ruminant farming solutions business increased by 18.6% from RMB2,940 million for the 2021 Interim Period to RMB3,488 million for the Reporting Period, which was mainly due to the growth of feed business, ruminant farming products marketplace business and frozen bovine semen business.

Cost of sales

Our cost of sales increased by 20.1% from RMB6,779 million in the 2021 Interim Period to RMB8,142 million for the Reporting Period.

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

	For the six months ended June 30,	
	2022 (RMB'000) (unaudited)	2021 (RMB'000) (unaudited)
Raw milk	3,535,780	2,594,678
Comprehensive ruminant farming solutions	3,074,242	2,558,208
Total	6,610,022	5,152,886

Management Discussion and Analysis

The increase was primarily due to the growth of raw milk business and ruminant feed solutions business and the effect of agricultural produce fair value adjustments.

Cost of sales for raw milk business before raw milk fair value adjustments increased by 36.3% from RMB2,595 million for the 2021 Interim Period to RMB3,536 million for the Reporting Period, which was primarily due to new dairy farms being put into operation, 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 20.2% from RMB2,558 million for the 2021 Interim Period to RMB3,074 million for the Reporting Period, which was primarily due to the growth of feed and ruminant farming products marketplace business.

Fair value adjustments for agricultural produce included in cost of sales decreased by 5.8% from RMB1,626 million in the 2021 Interim Period to RMB1,532 million for the Reporting Period.

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

Our gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest were RMB1,626 million in the 2021 Interim Period and RMB1,532 million for the Reporting Period, respectively, mainly due to the combined effect of the decline in the selling price of raw milk, the rise of price of bulk raw materials and the increase in sales volume. According to the requirements of IFRSs, agriculture products shall be initially recognised at fair value less costs to sell at the point of harvest and the difference between fair value less costs to sell and the actual cost incurred shall be recognised in profit or loss.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB2,139 million in the 2021 Interim Period, representing a gross profit margin of 29.3%, and a gross profit of RMB2,097 million for the Reporting Period, representing a gross profit margin of 24.1%.

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

	For the six months ended June 30,			
	2022		2021	
	<i>RMB'000, except for percentage (unaudited)</i>			
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Raw milk	1,683,230	32.3%	1,757,265	40.4%
Comprehensive ruminant farming solutions	413,703	11.9%	381,616	13.0%
Total	2,096,933	24.1%	2,138,881	29.3%

Management Discussion and Analysis

The decrease in the gross profit margin was primarily due to the general increase in the prices of raw materials such as protein feed, corn and forage grass in the Reporting Period as a result of the impact of the pandemic and the international situation.

The gross profit of the raw milk business decreased from RMB1,757 million in the 2021 Interim Period to RMB1,683 million for the Reporting Period. The gross profit margin of the raw milk business decreased from 40.4% in the 2021 Interim Period to 32.3% for the Reporting Period, mainly because the increase in raw material prices and the decrease in the sales price of raw milk.

Gross profit of the comprehensive ruminant farming solutions business increased from RMB382 million in the 2021 Interim Period to RMB414 million for the Reporting Period. The gross profit margin of comprehensive ruminant farming solutions business decreased from 13.0% in the 2021 Interim Period to 11.9% for the Reporting Period, mainly because the increase in raw material prices resulting in the decrease in the gross profit margin of sales of feeds, which offset the increase in the gross profit margin of frozen bovine semen.

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

Our loss/gain arising from changes in fair value less costs to sell of biological assets changed from the gain of RMB98 million in the 2021 Interim Period to the loss of RMB852 million for the Reporting Period, which was primarily due to the decrease in the valuation of a single milkable cow resulted from various market factors such as the increase in raw material prices and the decline in the sales price of raw milk during the year.

Other income

Our other income increased by 207.1% from RMB55 million in the 2021 Interim Period to RMB168 million for the Reporting Period, which was primarily due to the increases in (i) government grants transferred from deferred income from RMB26 million in the 2021 Interim Period to RMB62 million for the Reporting Period; and (ii) incentive subsidies from RMB12 million in the 2021 Interim Period to RMB79 million for the Reporting Period.

Impairment loss under expected credit loss model, net of reversal

Our impairment loss under expected credit loss model, net of reversal increased by 83.0% from RMB19 million in the 2021 Interim Period to RMB35 million for the Reporting Period, which was primarily due to the recovery of receivables that have been provided for impairment from certain customers.

Other gains and losses

Our other gains and losses increased by 24.9% from a gain of RMB5 million in the 2021 Interim Period to a gain of RMB6 million for the Reporting Period, which was primarily due to the losses on futures trading caused by market fluctuations offset by the reversal of provision for the previous litigation event as no further payments were made.

Selling and distribution expenses

Our selling and distribution expenses increased by 5.7% from RMB266 million in the 2021 Interim Period to RMB281 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 to our revenue decreased from 3.6% in the 2021 Interim Period to 3.2% for the Reporting Period, mainly due to the underperformance of the growth of selling and distribution expenses over that of revenue.

Management Discussion and Analysis

Administrative expenses

Our administrative expenses decreased by 4.9% from RMB346 million in the 2021 Interim Period to RMB329 million for the Reporting Period. The proportion of administrative expenses to our revenue decreased from 4.7% in the 2021 Interim Period to 3.8% for the Reporting Period, mainly due to the efficient operation and management, outstanding performance of cost control and improvement of cost management of the Company.

Other expenses

Our other expenses increased from RMB2 million in the 2021 Interim Period to RMB31 million for the Reporting Period, which was primarily due to a year-on-year increase in the expenditure as a result of more investment in R&D.

Finance costs

Our finance costs increased by 72.1% from RMB298 million in the 2021 Interim Period to RMB512 million for the Reporting Period, which was primarily due to the increased interests recognised for convertible notes at amortised cost and increased interests for bank borrowings.

Profit before tax

As a result of the foregoing, the Group had a profit before tax of RMB1,217 million in the 2021 Interim Period, compared with a profit before tax of RMB233 million for the Reporting Period.

Income tax expense

We recorded a 14.2% increase in income tax expense from RMB29 million in the 2021 Interim Period to RMB33 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, the Group generated a profit of RMB1,188 million in the 2021 Interim Period and generated a profit of RMB200 million for the Reporting Period, primarily due to (i) the general increase in the prices of raw materials such as protein feed, corn and forage grass in the Reporting Period, coupled with the slight decline in the sales price of raw milk as a result of the impact of the pandemic and the international situation, resulting in a decline in the gross profit margin of milk; (ii) the increase in the loss as a result of the change in fair value of biological assets; and (iii) the increase in the investment in the short term based on the strategic layout of the Company, resulting in the increase in financing amount and finance cost.

Management Discussion and Analysis

Adjusted profit attributable to owners of the Company

To supplement our consolidated financial information which is presented in accordance with IFRSs, the Group also uses 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 interest rate of nil for the Reporting Period (2021 Interim Period: RMB101,070,000); (ii) the difference between the effective interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate of RMB239,075,000 for the Reporting Period (2021 Interim Period: RMB87,820,000); and (iii) the Listing expenses of nil for the Reporting Period (2021 Interim Period: RMB17,848,000); (iv) the reversal of litigation losses regarding the adjustments made to the consideration for acquisition of SKX of RMB21,278,000 for the Reporting Period (2021 Interim Period: 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.

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).

Item	For the six months ended June 30,	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Profit attributable to owners of the Company	219,326	935,275
Add: the difference between the fair value loss on convertible notes and the interest calculated at 4% of the nominal interest rate	–	101,070
Add: the difference between the interest of convertible notes recognised at amortised cost and the interest calculated at 4% of the nominal interest rate	239,075	87,820
Add: Listing expenses	–	17,848
Less: reversal of litigation losses regarding the adjustments made to the consideration for acquisition of SKX	21,278	–
Non-IFRSs measure: Adjusted profit attributable to owners of the Company	437,123	1,142,013

Management Discussion and Analysis

Liquidity and Capital Resources

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

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

	For the six months ended June 30,	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Net cash generated from operating activities	1,861,728	1,594,270
Net cash used in investing activities	(4,215,724)	(4,792,354)
Net cash generated from financing activities	3,736,490	4,338,447
Net increase in cash and cash equivalents	1,382,494	1,140,363
Effects of foreign exchange rate changes	3,370	17,126
Cash and cash equivalents at the beginning of the period	1,627,420	2,619,113
Cash and cash equivalents at the end of the period	3,013,284	3,776,602

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities was RMB1,862 million. In the 2021 Interim Period, net cash generated from operating activities was RMB1,594 million.

Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities was RMB4,216 million, which was mainly attributable to (i) payments for biological assets of RMB2,539 million, (ii) payments for investments in associates of RMB1,118 million, and (iii) payments for property, plant and equipment of RMB1,328 million, partially offset by the proceeds from the disposal of biological assets of RMB572 million.

In the 2021 Interim Period, net cash used in investing activities was RMB4,792 million, which was mainly attributable to (i) payments for biological assets of RMB1,759 million, (ii) payments for acquisition of subsidiaries of RMB2,490 million, and (iii) payments for property, plant and equipment of RMB1,008 million, partially offset by the proceeds from the disposal of biological assets of RMB598 million.

Management Discussion and Analysis

Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities was RMB3,736 million, which was mainly attributable to new bank and other borrowings of RMB13,327 million, partially offset by repayment of bank and other borrowings of RMB9,201 million.

In the 2021 Interim Period, net cash generated from financing activities was RMB4,338 million, which was mainly attributable to (i) proceeds from the Global Offering of RMB2,855 million; and (ii) new bank and other borrowings of RMB7,503 million, partially offset by repayment of bank and other borrowings of RMB5,634 million.

Indebtedness

	As of June 30, 2022 RMB'000 (unaudited)	As of December 31, 2021 RMB'000 (audited)
Bank borrowings	13,613,427	9,456,114
Unsecured	11,419,475	7,490,367
Secured	2,193,952	1,965,747
	13,613,427	9,456,114
The carrying amounts of the above borrowings are repayable		
Within one year	8,032,899	5,412,175
More than one year but within two years	1,426,234	1,944,053
More than two years but within five years	3,348,870	1,667,913
More than five years	805,424	431,973
	13,613,427	9,456,114
Less: amounts due within one year shown under current liabilities	(8,032,899)	(5,412,175)
Amount shown under non-current liabilities	5,580,528	4,043,939
Lease liabilities	1,411,322	1,317,399
Less: amount due for settlement within 12 months shown under current liabilities	(73,943)	(51,009)
Amount due for settlement after 12 months shown under non-current liabilities	1,337,379	1,266,390
Other liabilities at amortised cost	13,885	20,845
Portion classified under current liabilities	(6,764)	(6,593)
Portion classified under non-current liabilities	7,121	14,252

Management Discussion and Analysis

Contingent Liabilities

As at June 30, 2022, the Group had no significant contingent liability.

Capital Commitment

As at June 30, 2022, the Group's capital commitment for the acquisition of property, plant and equipment and purchase of biological assets was RMB3,088 million (as at December 31, 2021: RMB2,506 million), representing an increase compared with that of December 31, 2021, which was mainly due to the purchase of assets for new construction by the Group.

Net Gearing Ratio

As at June 30, 2022, the Group's net gearing ratio was 89.5%, representing an increase of 20.9 percentage points as compared to 68.6% as at December 31, 2021, mainly due to the increase in bank and other borrowings as a result of the centralized construction of various dairy farms by the Group on the golden milk source belt. Net gearing ratio is 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 interim report, the Group did not make or hold any significant investments (including any investment in an investee company with a value of 5% or more of the Company's total assets as at June 30, 2022) during the Reporting Period.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this interim report, as of June 30, 2022, the Group did not have other plans for material investments and capital assets.

Material Acquisitions and/or Disposals of Subsidiaries and Affiliated Companies

i. Acquisition of 27.16% equity interest in Wholesome Harvest Limited

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, 707,878,000 ordinary shares of Wholesome Harvest Limited at a consideration of HK\$1,206,380,000. Wholesome Harvest Limited wholly owns China ZhongDi Dairy Holdings Company Limited, which operates a total of nine dairy farms in China with approximately 75,000 dairy cows. The transaction would enable the Group to invest in additional dairy farms and to explore potential collaboration opportunities in the future, which will be favorable 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.

On March 31, 2022, the Group completed the acquisition of 27.16% equity interest in Wholesome Harvest Limited.

Management Discussion and Analysis

ii. Investment cooperation agreement with Rixin

On June 17, 2022, Inner Mongolia Youran and Inner Mongolia Rixin Investment (Group) Limited* (內蒙古日信投資(集團)有限公司) (“Rixin”) entered into an investment cooperation agreement, pursuant to which Inner Mongolia Youran and Rixin established a company for the investment in new dairy farms in the upstream dairy industry chain in the PRC. The registered capital of the company is RMB1 billion, of which Inner Mongolia Youran and Rixin contributed RMB510,000,000 and RMB490,000,000, respectively. For further details, please refer to the announcement of the Company dated June 17, 2022.

Save as disclosed above, the Group did not conduct any material acquisitions and/or disposals of subsidiaries and affiliated companies and joint ventures during the Reporting Period.

Employee and Remuneration Policy

The following table sets forth the numbers of full-time staff dedicated to our business and operations categorized by function as of June 30, 2022.

Function	Number of Staff	% of Total
Management personnel	1,325	12.2%
Administrative personnel	1,350	12.5%
Technicians	2,331	21.5%
Salespersons	336	3.1%
Skilled workers	4,503	41.6%
Housekeepers	990	9.1%
Total	10,835	100.0%

Notes:

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

Our success depends on our ability to attract, retain and motivate qualified employees. Therefore, we have continuously improved our operations in human resources guarantee, capacity building, activating organization and incentive for change, and remuneration management, and managed to attract and retain qualified employees and maintain a stable core management and technical team. In particular:

- Human resources guarantee: we established cooperation relationships with colleges to achieve the integration of industry, teaching and research and continuously introduce quality industry talents. We built a versatile management team comprising members with the same major and multiple skills, continued to improve the dual-track promotion mechanism of management and specialty, and upgraded the qualification management system to enhance the support of the career development of employees on our strategy. We were awarded the honor of the best employer by recruitment portal websites and head-hunting companies.
- Capacity building: in order to build a strategic talent team, the Group opened a career development path integrated with employee development and talent cultivation, and established a hierarchical, branded and digitalized talent cultivation system. We were awarded the best talent education award of the Executive Education Programme of Business School of Renmin University of China.

Management Discussion and Analysis

- iii. Activating organization and incentive for change: during the Reporting Period, we initiated the strategic performance and organizational change program, and activated the organization from definite value output requirements in different business stages/different role positionings, enhancing the undertaking of strategic/organizational key value and motivating employees to become outstanding value creators. Meanwhile, we made incentives in innovation, revenue generation and cost reduction to improve non-material incentive programs.
- iv. Remuneration management: we carried out position value and salary matching from four perspectives, namely position, performance, personnel ability and market condition, and implemented a comprehensive remuneration management system based on market changes.

The total remuneration expenses, excluding share-based payments expenses and contributions to pension plans, for the Reporting Period were RMB690 million, as compared to RMB536 million for the 2021 Interim Period.

Significant Events after the Reporting Period

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

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 respective functional currency of the Group's entities.

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. 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 June 30, 2022, certain of the Group's bank and other borrowings had been secured by the pledge of the Group's assets, including 51.73% shares of SKX and 21.65% shares of Shanxi Youran Tianhe Dairy Co., Ltd. held by a wholly-owned subsidiary of the Company for a loan of the Group, biological assets in the carrying amount of RMB1,090 million and pledged and restricted bank deposits in the carrying amount of RMB4.3 million.

Other Information

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 June 30, 2022, 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.

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

As at June 30, 2022, the parties (other than a Director or chief executive of the Company) who 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 ⁽³⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)
Pacific Alliance Group Limited ⁽³⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)
Shan Weijian ⁽³⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)
PAG Capital Limited ⁽³⁾	Interest in controlled corporations	1,934,013,555(L)	50.96(L)
PAG Dairy GP I Limited ⁽³⁾	Interest in controlled corporations	1,562,429,904(L)	41.17(L)
PAG Dairy I LP ⁽³⁾	Interest in controlled corporations	1,562,429,904(L)	41.17(L)
Yili ⁽⁴⁾	Interest in controlled corporations	1,320,800,000(L)	34.80(L)

Other Information

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Percentage of issued share capital (%) ⁽²⁾
PAGAC Yogurt Holding II Limited ⁽³⁾	Beneficial interest	822,602,530(L)	21.67(L)
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)
Jingang ⁽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)	9.79(L)
PAG Asia I LP ⁽³⁾	Interest in controlled corporations	371,583,651(L)	9.79(L)
PAGAC Yogurt Holding I Limited ⁽³⁾	Beneficial interest	371,583,651(L)	9.79(L)

Notes:

1. The letter "L" denotes the Shareholder's long position in such Shares.
2. The percentages are calculated on the basis of 3,795,404,000 Shares in issue as at June 30, 2022.
3. PAGAC Yogurt Holding I Limited ("PAG I") directly held 371,583,651 Shares in the long position and PAGAC Yogurt Holding II Limited ("PAG II") held 822,602,530 Shares in the long position. On June 22, 2022, PAG II as chargor and Madison Pacific Trust Limited ("Madison Pacific") as security agent entered into a share charge, pursuant to which PAG II granted security over its interest in the 822,602,530 Shares in favour of Madison Pacific. In addition, PAGAC Yogurt Holding III Limited ("PAG III") was interested in 739,827,374 Shares by way of subscription of convertible notes in the amount of US\$330 million at a conversion price of US\$0.44605 (the "Convertible Notes"). On April 8, 2022, PAG III, as chargor, and Madison Pacific, as security agent, entered into a debenture, pursuant to which, PAG III charged by way of security to Madison Pacific all its present and future right, title and interest in and to the Convertible Notes. As at the Latest Practicable Date, none of the Convertible Notes had been converted. Each of PAG I, PAG II and PAG III is a wholly-owned subsidiary 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. Each of PAG II and PAG III is a wholly-owned subsidiary 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 100% by PAG. Accordingly, PAG Capital Limited, Pacific Alliance Group Limited, Mr. Shan Weijian and PAG were deemed to be interested in an aggregate of 1,934,013,555 Shares in the long position.
4. China Youran Dairy Holding Limited directly held 800,000,000 Shares and Jingang directly held 520,800,000 Shares. Each of China Youran Dairy Holding Limited and Jingang is a wholly-owned subsidiary of Yili. Accordingly, Yili was deemed to be interested in an aggregate of 1,320,800,000 Shares.
5. Meadowland Investment Limited Partnership is an exempted limited partnership established under the laws of the Cayman Islands.

Save as disclosed above, as at June 30, 2022, 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.

Other Information

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 were 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 of June 30, 2022.

Purpose	% of net proceeds	Net proceeds (RMB million)	Utilised amount as at June 30, 2022 (RMB million)	Utilized amount during the Reporting Period (RMB million)	Unutilised amount as at June 30, 2022 (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	1,426	295	607
Purchasing dairy cows for our dairy farms	15%	407	407	–	–
Working capital and general corporate purposes	10%	271	271	–	–
Total	100%	2,711	2,104	295	607

During the Reporting Period, the Group had utilized net proceeds of RMB295 million from the Global Offering.

The Company expects to gradually apply the remaining unutilised net proceeds of RMB607 million for the investment in construction projects, including dairy farms under construction, new dairy farms and new feed mills, by December 31, 2022.

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

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

Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all Shareholders. During the Reporting Period, the Company had adopted and complied with all the applicable code provisions of the Corporate Governance Code. In light of the amendments to the Corporate Governance Code which came into effect on January 1, 2022 and impose additional requirements applicable to corporate governance reports for the financial year commencing on or after January 1, 2022, the Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the latest version of the Corporate Governance Code, and maintain high corporate governance standards. The Company will report on the compliance with the latest version of the Corporate Governance Code in its corporate governance report for the year ending December 31, 2022.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 had strictly complied with the required standards set out in the Model Code for the Reporting Period.

AUDIT COMMITTEE

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

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

The condensed consolidated financial statements for the six months ended June 30, 2022 have been reviewed by the Auditor, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

Other Information

OTHER BOARD COMMITTEES

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

INTERIM DIVIDEND

The Board did not recommend the distribution of an interim dividend for the six months ended June 30, 2022.

CHANGES IN INFORMATION OF DIRECTORS

Changes in information required to be disclosed under Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Zhang Xiaodong resigned as an executive Director and the president of the Company with effect from July 22, 2022.

Mr. Yuan Jun was appointed as an executive Director and the president of the Company with effect from July 22, 2022.

Save as disclosed above, there was no information required to be disclosed under Rule 13.51B(1) of the Listing Rules as at the Latest Practicable Date.

INVESTOR RELATIONS

The Company adopted active policies to promote relationship and communications with investors. The Company organizes meetings and events with people from the investing sector from time to time to response to their inquires about the Company and make institutional investors and financial analysts have a better understanding of the industry prospect and the Company's businesses, and to ensure that mutual communication in respect of the Company's performance and development is maintained. You are welcome to send letters to youranir@yourandairy.com or visit the website of the Company (www.yourandairy.com) to get updated news of the Company.

Report on Review of Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the condensed consolidated financial statements of China Youran Dairy Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 41 to 75, which comprise the condensed consolidated statement of financial position as of June 30, 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

August 29, 2022

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive income

For the six months ended June 30, 2022

	NOTES	Six months ended June 30,	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Revenue	4	8,706,955	7,291,767
Cost of sales	5	(8,142,314)	(6,779,340)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		1,532,292	1,626,454
Gross profit		2,096,933	2,138,881
(Losses)/gains arising from changes in fair value less costs to sell of biological assets		(852,226)	97,625
Other income	6	168,446	54,848
Impairment losses under expected credit loss model, net of reversal	17	(34,780)	(19,009)
Other gains and losses	7	5,747	4,600
Fair value losses on convertible notes		–	(130,298)
Selling and distribution expenses		(281,011)	(265,765)
Administrative expenses		(329,296)	(346,357)
Other expenses		(30,593)	(2,351)
Listing expenses		–	(17,848)
Share of profit of a joint venture		4	6
Share of profits of associates		2,491	–
Finance costs	8	(512,309)	(297,661)
Profit before tax		233,406	1,216,671
Income tax expense	9	(33,285)	(29,153)
Profit for the period	10	200,121	1,187,518
Other comprehensive income/(expense), net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		(168)	(9,736)
Exchange differences arising on translation from functional currency to presentation currency		767,811	(83,692)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(900,994)	135,424
Other comprehensive (expense)/income for the period, net of income tax		(133,351)	41,996
Total comprehensive income for the period		66,770	1,229,514
Profit/(loss) for the period attributable to:			
Owners of the Company		219,326	935,275
Non-controlling interests		(19,205)	252,243
		200,121	1,187,518
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		86,050	981,371
Non-controlling interests		(19,280)	248,143
		66,770	1,229,514
		RMB	RMB
Earnings per share	11		
Basic		0.06	0.28
Diluted		0.06	0.27

Condensed Consolidated Statement of Financial Position

At June 30, 2022

	NOTES	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	13	11,106,490	10,131,630
Investment properties		24,779	25,744
Right-of-use assets	13	2,322,973	2,186,585
Goodwill	14	792,980	792,980
Intangible assets		11,293	4,278
Biological assets	15	11,556,401	10,408,379
Deferred tax assets		23,340	17,751
Interests in associates	19	1,156,949	–
Interest in a joint venture		488	496
Equity instruments at fair value through other comprehensive income		24,644	24,812
Pledged and restricted bank deposits		9,616	10,250
Deposits paid for purchase of property, plant and equipment		557,613	467,916
Prepayments for purchase of biological assets		548,409	423,020
Deposits paid for right-of-use assets		14,666	13,635
		28,150,641	24,507,476
Current assets			
Inventories		2,340,259	3,326,130
Trade receivables	16	1,444,068	1,189,240
Bills receivables at fair value through other comprehensive income (“FVTOCI”)		–	13,828
Contract assets		8,186	8,354
Biological assets	15	7,780	7,701
Prepayments, deposits and other receivables	18	559,739	467,554
Amounts due from related parties	16&26	845,538	780,392
Pledged and restricted bank deposits		4,265	33,544
Bank balances and cash		2,539,138	1,015,261
Deposits placed with a related party	26	474,146	612,159
		8,223,119	7,454,163
Current liabilities			
Trade and bills payables	20	1,389,129	1,878,597
Other payables and accruals	21	1,445,590	1,397,550
Contract liabilities		42,763	41,090
Amounts due to related parties	26	2,991	1,883
Bank and other borrowings	22	8,032,899	5,412,175
Lease liabilities		73,943	51,009
Convertible notes	23	2,781,739	2,407,292
Other liabilities		6,764	6,593
Other provisions		47,762	82,056
Income tax payable		32,475	29,741

Condensed Consolidated Statement of Financial Position

At June 30, 2022

	NOTES	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
		13,856,055	11,307,986
Net current liabilities		(5,632,936)	(3,853,823)
Total assets less current liabilities		22,517,705	20,653,653
Non-current liabilities			
Bank and other borrowings	22	5,580,528	4,043,939
Deferred tax liabilities		6,319	6,434
Deferred income		630,778	434,053
Lease liabilities		1,337,379	1,266,390
Other liabilities		7,121	14,252
Other provisions		8,899	8,674
		7,571,024	5,773,742
Net assets		14,946,681	14,879,911
Capital and reserves			
Share capital	24	251	251
Reserves		13,266,710	13,180,660
Equity attributable to owners of the Company		13,266,961	13,180,911
Non-controlling interests		1,679,720	1,699,000
Total equity		14,946,681	14,879,911

The condensed consolidated financial statements on pages 41 to 75 were approved and authorised for issue by the board of directors on August 29, 2022 and are signed on its behalf by:

Yuan Jun
Director

Dong Jiping
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2022

	Attributable to owners of the Company											Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Convertible notes equity reserve	Capital reserve	Investment revaluation reserve	Translation reserve	Statutory reserve	Retained earnings	Subtotal			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2022 (audited)	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	
Profit/(loss) and total comprehensive income/(expense) for the period	-	-	-	-	-	(98)	(133,178)	-	219,326	86,050	(19,280)	66,770	
At June 30, 2022 (unaudited)	251	7,342,303	188,567	963,384	(4,926)	2,578	(49,099)	398,376	4,425,527	13,266,961	1,679,720	14,946,681	
At January 1, 2021 (audited)	219	4,579,533	188,567	-	(4,922)	14,795	29	162,538	2,879,449	7,820,208	1,241,328	9,061,536	
Profit and total comprehensive income/(expense) for the period	-	-	-	-	-	(5,682)	51,778	-	935,275	981,371	248,143	1,229,514	
Shares issued pursuant to Initial Public Offering ("IPO") (Note 24)	32	2,854,769	-	-	-	-	-	-	-	2,854,801	-	2,854,801	
Share issuance cost (Note 24)	-	(91,999)	-	-	-	-	-	-	-	(91,999)	-	(91,999)	
Recognition of equity component of convertible notes (Note 23)	-	-	-	963,384	-	-	-	-	-	963,384	-	963,384	
At June 30, 2021 (unaudited)	251	7,342,303	188,567	963,384	(4,922)	9,113	51,807	162,538	3,814,724	12,527,765	1,489,471	14,017,236	

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2022

	NOTE	Six months ended June 30,	
		2022	2021
		RMB'000	RMB'000
		(unaudited)	(unaudited)
OPERATING ACTIVITIES			
Cash generated from operations		1,890,413	1,619,087
Interest received		7,570	7,909
Income taxes paid		(36,255)	(32,726)
Net cash from operating activities		1,861,728	1,594,270
INVESTING ACTIVITIES			
Payments for property, plant and equipment		(1,327,888)	(1,007,611)
Payments for right-of-use assets		(26,335)	(397,350)
Proceeds from disposal of property, plant and equipment		734	25,118
Payments for biological assets		(2,538,651)	(1,758,944)
Payments for intangible assets		(7,827)	–
Proceeds from disposal of biological assets		571,830	598,060
Acquisitions of subsidiaries		–	(2,489,988)
Placement of pledged and restricted bank deposits		(4,100)	(31,750)
Withdrawal of pledged and restricted bank deposits		34,013	118,866
Receipt of government grants for assets		200,864	151,245
Investments in associates		(1,118,364)	–
Net cash used in investing activities		(4,215,724)	(4,792,354)
FINANCING ACTIVITIES			
New bank and other borrowings raised		13,327,188	7,503,400
Repayments of bank and other borrowings		(9,201,154)	(5,634,030)
Interest paid for bank borrowings		(194,553)	(156,525)
Repayment of lease liabilities		(95,884)	(36,045)
Interest paid for lease liabilities		(32,501)	(23,465)
Repayment of other liabilities		(7,500)	(7,500)
Net proceeds from issuance of ordinary shares		–	2,854,801
Payments of share issue cost for IPO		–	(78,041)
Payments of interest for convertible notes	23	(59,106)	(59,367)
Acquisition of additional interests in subsidiaries		–	(24,781)
Net cash from financing activities		3,736,490	4,338,447
Net increase in cash and cash equivalents		1,382,494	1,140,363
Cash and cash equivalents at beginning of the period		1,627,420	2,619,113
Effect of foreign exchange rate changes		3,370	17,126
Cash and cash equivalents at end of the period, represented by bank balances and cash and deposits placed with a related party		3,013,284	3,776,602

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

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”).

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.

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

Significant events and transactions in the current interim period:

On March 31, 2022, the Group completed the acquisition of 27.16% equity interest in Wholesome Harvest Limited, which wholly owns China ZhongDi Dairy Holdings Company Limited. Further details of the acquisition is set out in Note 19.

2. BASIS OF PREPARATION

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

Going concern assessment

As at June 30, 2022, the Group had net current liabilities of RMB5,633 million. The condensed consolidated financial statements have been prepared on a going concern basis, because the directors of the Company are of the opinion that based on a cash flow forecast of the Group for the 12 months ending June 30, 2023 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due for at least 12 months from June 30, 2022. 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 an aggregate amount of approximately RMB5.6 billion within 12 months from June 30, 2022.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2022 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2021.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2018-2020</i>

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

Impacts and change in accounting policies on application of Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use

Accounting policies

Property, plant and equipment

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, including costs of testing the related assets functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss.

Transition and summary of effects

The application of the amendments has had no material impact on the Group’s financial position and performance.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

4. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Types of goods:		
Sales of raw milk	5,219,010	4,351,943
Sales of feeds	3,181,389	2,711,981
Sales of ruminant farming products	246,264	199,844
Sales of breeding products	60,292	27,999
	8,706,955	7,291,767
Timing of revenue recognition:		
A point in time	8,706,955	7,291,767

Segment revenue and results

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

For the six months ended June 30, 2022 (unaudited)

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue					
External customers	5,219,010	3,487,945	8,706,955	-	8,706,955
Inter-segment revenue	-	992,797	992,797	(992,797)	-
	5,219,010	4,480,742	9,699,752	(992,797)	8,706,955
Segment results	1,448,212	112,863	1,561,075		1,561,075
Losses arising from changes in fair value less costs to sell of biological assets					(852,226)
Share of profits of associates					2,491
Share of profit of a joint venture					4
Unallocated other income and expense					(58,734)
Unallocated finance costs					(419,204)
Profit before tax					233,406

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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

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

Segment assets and liabilities

The chief operating decision maker (the "CODM") makes decisions according to operating results of each segment. No analysis of segment assets and segment liabilities 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 Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
For the six months ended June 30, 2022 (unaudited)					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation charged to profit or loss	185,326	27,226	212,552	5,650	218,202
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	3,489	31,291	34,780	–	34,780
Fair value losses on derivative financial instruments	21,209	–	21,209	–	21,209
Gains on termination of lease agreements	(715)	–	(715)	–	(715)
Reversal of provision regarding to a civil litigation	(4,247)	–	(4,247)	–	(4,247)
Reversal of provision regarding the adjustments made to the consideration for acquisition of SKX (as defined in Note 14)	(21,278)	–	(21,278)	–	(21,278)
Losses on disposal of property, plant and equipment	1,056	121	1,177	–	1,177
Interest income	(5,549)	(1,923)	(7,472)	(98)	(7,570)
Finance costs	85,873	7,232	93,105	419,204	512,309
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	4,225,032	63,852	4,288,884	179	4,289,063
Investment in a joint venture	–	–	–	488	488
Investments in associates	–	–	–	1,156,949	1,156,949
Share of profit of a joint venture	–	–	–	(4)	(4)
Share of profits of associates	–	–	–	(2,491)	(2,491)

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
For the six months ended June 30, 2021 (unaudited)					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation charged to profit or loss	163,300	25,158	188,458	6,935	195,393
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	(1,295)	20,304	19,009	–	19,009
Fair value gains on derivative financial instruments	(75)	–	(75)	–	(75)
Gains on termination of lease agreements	(2,386)	–	(2,386)	–	(2,386)
Losses on disposal of property, plant and equipment	2,243	1,445	3,688	–	3,688
Write-down of inventories	–	1,526	1,526	–	1,526
Interest income	(5,796)	(2,091)	(7,887)	(22)	(7,909)
Finance costs	99,851	1,321	101,172	196,489	297,661
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	2,517,641	76,443	2,594,084	31	2,594,115
Investment in a joint venture	–	–	–	496	496
Share of profit of a joint venture	–	–	–	(6)	(6)

Note: Non-current assets excluded goodwill, financial instruments, interest in a joint venture, interests in associates, deferred tax assets and non-current assets acquired through business combination.

Geographic information

Since all revenue from external customers of the Group is derived from the customers located in Mainland China and all of the non-current assets are located in Mainland China, therefore no geographic information is presented.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue from major customers

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

	Six months ended June 30,	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Customer A:		
Revenue from sales of raw milk	5,028,566	3,989,538
Revenue from sales of feeds	51,334	46,266
Revenue from ruminant farming products	144	–
Revenue from breeding products	7,357	–

5. COST OF SALES

An analysis of cost of sales is as follows:

	Six months ended June 30,	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Cost of raw milk sold before fair value adjustments	3,535,780	2,594,678
Raw milk fair value adjustments	1,530,366	1,622,384
Cost of raw milk sold after fair value adjustments	5,066,146	4,217,062
Cost of feeds sold before forage grass fair value adjustments	2,831,411	2,371,737
Forage grass fair value adjustments	1,926	4,070
Cost of feeds sold after fair value adjustments	2,833,337	2,375,807
Cost of ruminant farming products sold	212,323	171,398
Cost of breeding products	30,508	15,073
Total cost of sales	8,142,314	6,779,340

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

6. OTHER INCOME

An analysis of other income is as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants released from deferred income	61,960	25,891
Incentive subsidies	78,759	11,505
Rental income	4,301	2,903
Bank interest income	4,467	7,909
Interest income from Yili Group (as defined in Note 26)	3,103	–
Income from sale of scrap materials	5,976	2,674
Compensation income	3,461	1,074
Write-back of other payables	1,271	556
Others	5,148	2,336
	168,446	54,848

7. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Foreign exchange differences, net	1,879	4,268
Losses on disposal of property, plant and equipment, net	(1,177)	(3,688)
Fair value (losses)/gains on derivative financial instruments (Note (i))	(21,209)	75
Gains on termination of lease agreements	715	2,386
Reversal of provision regarding to a civil litigation (Note (ii))	4,247	–
Reversal of provision regarding the adjustments made to the consideration for acquisition of SKX (Note (iii))	21,278	–
Others	14	1,559
	5,747	4,600

Notes:

- (i) The fair value changes represent gains/losses on commodity forward contracts entered for as an economic hedge of the market price fluctuations on soybean meal and corn. The Group did not have open positions as at interim period end.
- (ii) A provision of approximately RMB13 million was recognised from a civil litigation against the Group for alleged failure to supply products to a customer as at December 31, 2021. According to the final civil judgment on June 22, 2022, the Group reversed approximately RMB4 million of the above provision.
- (iii) Details of the arbitration are set out in the Group's annual financial statement for the year ended December 31, 2021, and a provision of approximately RMB69 million was recognised as at December 31, 2021. During this interim period, the directors reviewed the latest circumstances and reversed approximately RMB21 million of the above provision to reflect the current best estimate.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

8. FINANCE COSTS

	Six months ended June 30,	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Interest expenses on:		
Bank and other borrowings	190,444	158,491
Other liabilities	540	703
Lease liabilities	32,501	23,465
Unwind of interest of other provisions	226	235
Effective interest expense on convertible notes	298,181	118,001
	521,892	300,895
Less: Amounts capitalised to construction in progress	(9,583)	(3,234)
	512,309	297,661

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

9. INCOME TAX EXPENSE

	Six months ended June 30,	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	42,940	41,581
Overprovision in prior periods:		
PRC EIT	(3,951)	(1,971)
Deferred tax	(5,704)	(10,457)
	33,285	29,153

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

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

Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of the Company are exempted from PRC EIT for taxable profit from the operation of agricultural business in the PRC. In addition, certain subsidiaries operating in the PRC, including Inner Mongolia Youran Dairy Co., Ltd., Inner Mongolia Muquan Yuanxing Feeds Co., Ltd., Ningxia Yikangyuan Bio-Technology Co., Ltd., Wulanchabu Muquan Yuanxing Feed Co., Ltd. and Bayannur Muquan Yuanxing Feed Co., Ltd. are eligible for preferential tax rate of 15% under relevant preferential tax policy in relation to PRC western development. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa [2012] No. 97), Ningxia Yikangyuan Bio-Technology Co., Ltd. is eligible for 20% EIT reduction from 2021 on the basis of 15% tax rate. According to preferential tax policy of Heilongjiang, the PRC, for promoting local investment (Heizheng Han [2021] No.102), Duerbote Muquan Yuanxing Feeds Co., Ltd. is eligible for 40% EIT reduction from 2022.

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%.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

10. PROFIT FOR THE PERIOD

The Group's profit for the period is arrived at after charging:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of:		
Property, plant and equipment	339,968	269,065
Investment properties	965	1,123
Right-of-use assets	79,438	51,575
Amortisation of intangible assets	812	327
Total depreciation and amortisation	421,183	322,090
Less: Capitalised in biological assets	(163,022)	(100,681)
Capitalised in construction in progress	(5,180)	(7,321)
Capitalised in inventories	(34,779)	(18,695)
Depreciation and amortisation charged directly to profit or loss	218,202	195,393
Research and development costs recognised in profit or loss	27,739	7,755
Employee benefits expense:		
Salaries and allowances	690,304	535,561
Retirement benefit scheme contributions	75,473	38,399
Total staff costs	765,777	573,960
Less: Capitalised in biological assets	(185,539)	(128,551)
	580,238	445,409

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

11. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings for the purpose of basic earning per share	219,326	935,275
Effect of dilutive potential ordinary shares:		
Convertible notes	N/A	248,299
Earnings for the purpose of diluted earnings per share	219,326	1,183,574

	Six months ended June 30,	
	2022	2021
	'000	'000
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,795,404	3,334,712
Effect of dilutive potential ordinary shares:		
Convertible notes	N/A	1,031,275
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,795,404	4,365,987

The computation of diluted earnings per share for the six months ended June 30, 2022 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.

12. DIVIDEND

No dividends were paid, declared or proposed during the current interim period (six months ended June 30, 2021: nil). The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

13. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, construction in progress of the Group increased with an aggregate amount of RMB1,096,736,000 (six months ended June 30, 2021: RMB849,644,000) for the expansion of dairy farming operations.

During the current interim period, the Group entered into several new lease agreements with lease terms ranged from 1.25 to 30 years. On lease commencement, the Group recognised right-of-use assets of RMB222,490,000 (six months ended June 30, 2021: RMB420,304,000) and lease liabilities of RMB197,186,000 (six months ended June 30, 2021: RMB73,019,000).

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

14. GOODWILL

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
CARRYING AMOUNT:		
At beginning of the period (audited)	792,980	762,741
Acquisition of subsidiaries	–	30,239
At the end of the period (unaudited)	792,980	792,980

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

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

15. BIOLOGICAL ASSETS

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

	June 30,	December 31,
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Dairy cows:		
Calves and heifers	5,292,217	3,675,802
Milkable cows	6,179,860	6,660,982
Feeder cattle	7,780	7,701
Breeding stock	84,324	71,595
Total	11,564,181	10,416,080
Less: current portion classified under current assets	(7,780)	(7,701)
Non-current portion classified under non-current assets	11,556,401	10,408,379

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

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

16. TRADE RECEIVABLES

	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Trade receivables	1,554,696	1,265,196
Less: Allowance for credit losses	(110,628)	(75,956)
	1,444,068	1,189,240
Trade receivables from related parties	845,538	780,392

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

	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Within 90 days	1,117,449	953,182
91 days to 180 days	262,087	189,470
181 days to 1 year	53,164	43,532
Over 1 year	11,368	3,056
	1,444,068	1,189,240

As at June 30, 2022, trade receivables from related parties are aged within 3 months based on the month of delivery.

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

	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Not yet past due	973,944	866,296
Past due less than 30 days	161,070	127,873
Past due more than 30 days but less than 90 days	220,728	136,288
Past due more than 90 days	88,326	58,783
	1,444,068	1,189,240

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.

Except for debtors with significant balances and credit impaired on which the management of the Group considers the corresponding expected credit loss individually, an impairment analysis is performed at the end of reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing groupings of customer segments with similar loss patterns (i.e., by product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

17. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Impairment losses recognised/(reversed) in respect of:		
Trade receivables	34,802	14,659
Other receivables	(22)	4,350
	34,780	19,009

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended June 30, 2022 are the same as those followed in the preparation of the Group's annual financial statement for the year ended December 31, 2021.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30,	December 31,
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Prepayments	412,848	390,454
Value-added tax recoverable	7,108	6,534
Deposits placed with brokers for commodity forward contracts	50,923	41,800
Rental receivables	4,990	4,104
Utility and other deposits	70,652	16,275
Compensation receivable	1,680	1,727
Advances to staff	1,869	1,137
Other receivables	16,028	11,904
	566,098	473,935
Less: Allowance for credit losses	(6,359)	(6,381)
	559,739	467,554

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

19. INTERESTS IN ASSOCIATES

	June 30, 2022 RMB'000 (unaudited)
Cost of investment in associates	1,098,386
Share of post-acquisition profits and other comprehensive income	2,491
Exchange adjustments	56,072
	1,156,949

Details of each of the Group's associates at the end of the reporting period are as follows:

	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest	Proportion of voting rights held by the Group	Principal activity
Wholesome Harvest Limited ("Wholesome") (Note i)	Cayman Islands	PRC	27.16%	27.16%	Raising and breeding dairy cows and raw milk production
Jiangsu Nongken Youran Dairy Co., Ltd. ("Jiangsu Nongken") (Note ii)	PRC	PRC	20.00%	20.00%	Raising and breeding dairy cows and raw milk production

Notes:

- i. On March 2, 2022, the Company entered into a sale and purchase agreement with YeGu Investment Company Limited (the "Seller") and Mr. Zhang Jianshe, the sole shareholder of the Seller, 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, which wholly owns China ZhongDi Dairy Holdings Company Limited, at a total consideration of HK\$1,206,380,000 (equivalent to approximately RMB978,386,000). The acquisition was completed on March 31, 2022. The directors of the Company consider that the Group is able to exercise significant influence over Wholesome and Wholesome is therefore classified as an associate of the Group.
- ii. During the current period, the Group made capital contribution of RMB120,000,000 in the establishment of Jiangsu Nongken, over which the Group is able to exercise significant influence and Jiangsu Nongken is therefore classified as an associate of the Group.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended June 30, 2022

19. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

The associate is accounted for using the equity method in these condensed consolidated financial statements.

Wholesome:

	June 30, 2022 RMB'000
Current assets	799,417
Non-current assets	4,179,408
Current liabilities	(1,725,603)
Non-current liabilities	(272,259)

	From March 31, 2022 (date of acquisition) to June 30, 2022 RMB'000
Revenue	536,463
Profit for the period	9,702
Total comprehensive income for the period	9,702

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the condensed consolidated financial statements:

	June 30, 2022 RMB'000
Net assets of Wholesome	2,980,963
Proportion of the Group's ownership interest in Wholesome	27.16%
The Group's share of net assets of Wholesome	809,630
Goodwill	171,392
Exchange difference	56,072
Carrying amount of the Group's interest in Wholesome	1,037,094

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

20. TRADE AND BILLS PAYABLES

	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Trade payables	1,305,570	1,717,402
Bills payables	83,559	161,195
	1,389,129	1,878,597

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

	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Within 1 year	1,182,218	1,620,254
1 to 2 years	85,761	57,904
2 to 3 years	12,712	14,675
More than 3 years	24,879	24,569
	1,305,570	1,717,402

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

21. OTHER PAYABLES AND ACCRUALS

	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Payables for purchase of property, plant and equipment	892,720	828,935
Salaries and welfare payables	199,709	220,291
Deposits received from suppliers	143,605	130,233
Service and professional fee payables	61,538	71,933
Freight charges payables	64,949	56,051
Storage fee payables	11,269	12,817
Non-income tax related tax payables	12,757	16,609
Sundry payables and accrued expenses	41,873	52,279
Payables for civil litigation	8,768	–
Accrued listing expenses	1,453	1,453
Accrued issue costs	6,949	6,949
	1,445,590	1,397,550

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

22. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB13,327,188,000 (six months ended June 30, 2021: RMB7,503,400,000).

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

	June 30, 2022 % (unaudited)	December 31, 2021 % (audited)
Effective interest rates:		
Floating rate borrowing	2.60 to 4.00	3.40 to 5.46
Fixed rate borrowing	2.60 to 4.10	2.00 to 6.00

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

23. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

23. CONVERTIBLE NOTES *(Continued)*

(b) Redemption on maturity

The convertible notes will be matured on the third anniversary of the issuance date and, at the sole discretion of the 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.

The effective interest rate of the liability component at amortised cost is 26.5%.

During the current interim period, the early redemption right of these convertible notes was expired and the convertible notes were classified as current liabilities at June 30, 2022 as the convertible notes are redeemable by the holders immediately upon an occurrence of some specified contingent events.

	Financial liabilities at fair value through profit or loss ("FVTPL") RMB'000	Liability component at amortised cost RMB'000	Convertible notes equity component RMB'000	Total RMB'000
At January 1, 2022 (audited)	–	2,407,292	963,384	3,370,676
Effective interest expense charged for the period	–	298,181	–	298,181
Cash interest paid	–	(59,106)	–	(59,106)
Exchange differences	–	135,372	–	135,372
At June 30, 2022 (unaudited)	–	2,781,739	963,384	3,745,123
At January 1, 2021 (audited)	3,043,648	–	–	3,043,648
Cash interest paid before reclassification	(29,814)	–	–	(29,814)
Changes in fair value*	132,910	–	–	132,910
Reclassification on March 31, 2021	(3,146,744)	2,183,360	963,384	–
Effective interest expense charged for the period	–	118,001	–	118,001
Cash interest paid after reclassification	–	(29,553)	–	(29,553)
Exchange differences	–	(37,331)	–	(37,331)
At June 30, 2021 (unaudited)	–	2,234,477	963,384	3,197,861

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

23. CONVERTIBLE NOTES *(Continued)*

On April 8, 2022, PAGAC Yogurt Holding III Limited ("PAG III"), one of the above mentioned Pre-IPO Investors and shareholder of the Company, entered into a debenture with Madison Pacific Trust Limited ("Madison Pacific"), pursuant to which it charged by way of security to Madison Pacific all its present and future right, title and interest in and to the convertible notes issued by the Company on November 4, 2020 to it with an aggregate principal amount of US\$330 million, including all moneys payable to PAG III, and any claims, awards and judgments in favour of it. The above transaction has been published in the Company's announcement dated May 30, 2022.

24. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB
Authorised:			
At January 1, 2021 (audited) and June 30, 2021 (unaudited), December 31, 2021 (audited) and June 30, 2022 (unaudited)	10,000,000,000	100,000	691,070
Issued and fully paid:			
At January 1, 2021 (audited)	3,302,000,000	33,020	219,406
Issuance of ordinary shares upon global offering*	493,404,000	4,934	31,755
At June 30, 2021 (unaudited), December 31, 2021 (audited) and June 30, 2022 (unaudited)	3,795,404,000	37,954	251,161

* Upon completion of the initial public offering, the Company issued 493,404,000 new shares with par value of US\$0.00001 each at HK\$6.98 and raised gross proceeds of approximately HK\$3,443,960,000 (equivalent to RMB2,854,801,000). The respective share capital amount increased 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.

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25. FAIR VALUE MEASUREMENTS

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group 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 financial assets are measured at fair value on a recurring basis at the end of each reporting period. The following table gives information about how the fair values of these biological assets and financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 2 and 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value hierarchy			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
As at June 30, 2022 (unaudited)				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	5,292,217	5,292,217
Milkable cows (Note (b))	–	–	6,179,860	6,179,860
Feeder cattle (Note (c))	–	–	7,780	7,780
Breeding stock (Note (d))	–	–	84,324	84,324
Equity instruments at FVTOCI (Note (e))	–	–	24,644	24,644
	–	–	11,588,825	11,588,825

	Fair value hierarchy			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
As at December 31, 2021 (audited)				
<u>Assets</u>				
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	–	–	13,828	13,828
Equity instruments at FVTOCI (Note (e))	–	–	24,812	24,812
	–	–	10,454,720	10,454,720

There were no transfers between Level 1 and 2 and there were no other transfers into or out of Level 3 during the period.

Notes to the Condensed Consolidated Financial Statements

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25. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(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 RMB23,500 to RMB25,500 per head as at June 30, 2022 (December 31, 2021: RMB20,200 to RMB20,990).</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 RMB17,850 to RMB21,896 as at June 30, 2022 (December 31, 2021: RMB18,497 to RMB19,913).</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 RMB13,641 to RMB16,948 as at June 30, 2022 (December 31, 2021: RMB14,091 to RMB15,822).</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 Condensed Consolidated Financial Statements

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25. 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 RMB2.43 to RMB3.06 as at June 30, 2022 (December 31, 2021: RMB2.25 to RMB2.88), based on the historical average feed costs per kg of raw milk after taking into consideration of inflation and the purchase contracts on hand.</p> <p>A milkable cow could have as many as six lactation cycles. Estimated daily milk yield at each lactation cycle is ranging from 18.99 kg to 33.00 kg as at June 30, 2022 (December 31, 2021: from 19.41 kg to 32.60 kg), depending on the number of the lactation cycles and the individual physical condition.</p> <p>Estimated local future market prices for raw milk are ranging from and RMB4,550 to RMB5,860 per ton as at June 30, 2022 (December 31, 2021: RMB4,610 to RMB5,830 per ton).</p> <p>Discount rate for estimated future cash flows used is 13% as at June 30, 2022 (December 31, 2021: 13%).</p>	<p>An increase in the estimated feed costs per kg of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated average selling price of raw milk would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of milkable cows, and vice versa.</p>

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

25. 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 mainly includes bull calves.</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>Estimated local market selling prices of the 15 days bull calf are RMB2,673 per head as at June 30, 2022 (December 31, 2021: RMB2,807 per head).</p> <p>Estimated feeding costs per head daily for bull calves are RMB19.13 as at June 30, 2022 (December 31, 2021: RMB21.09).</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>

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

25. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(d)	Biological assets – Breeding stock	The fair values of breeding stock are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such breeding stock.	<p>The estimated feed costs per day per bull used in the valuation process are RMB54.27 as at June 30, 2022 (December 31, 2021: RMB50), based on the historical average feed costs per day of breeding stock after taking into consideration of inflation and purchase contracts on hand.</p> <p>Estimated local future market prices for sex-sorting frozen bovine semen are RMB112.73 per straw as at June 30, 2022 (December 31, 2021: RMB105 per straw). Estimated local future market prices for conventional frozen bovine semen are RMB13.69 per straw as at June 30, 2022 (December 31, 2021: RMB14 per straw).</p> <p>Discount rate for estimated future cash flow used is 13% as at June 30, 2022 (December 31, 2021: 13%).</p>	<p>An increase in the estimated feed costs per day of breeding stock used would result in a decrease in the fair value measurement of the breeding stock, and vice versa.</p> <p>An increase in the estimated selling price of frozen 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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

25. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(e)	Equity instruments at FVTOCI	Market approach	Fair value is estimated based on value of comparable listed companies and discount for lack of liquidity.	<p>An increase in the discount for lack of liquidity would result in a decrease in the fair value measurement of the unquoted equity investments.</p> <p>If the discount for lack of liquidity increase by 1%, the estimated fair value of equity instruments at FVTOCI will decrease by RMB350,340 as at June 30, 2022 (December 31, 2021: RMB353,000), vice versa.</p>

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

25. FAIR VALUE MEASUREMENTS *(Continued)*

Reconciliation of Level 3 fair value measurements

	Bills receivables at FVTOCI RMB'000	Equity instruments at FVTOCI RMB'000	Financial liabilities at FVTPL RMB'000	Biological assets RMB'000	Total RMB'000
At January 1, 2022 (audited)	13,828	24,812	–	10,416,080	10,454,720
Purchases	27,055	–	–	–	27,055
Settlements	(40,883)	–	–	–	(40,883)
Fair value changes during the period	–	(168)	–	–	(168)
Purchase cost	–	–	–	563,687	563,687
Feeding and other related costs	–	–	–	2,012,597	2,012,597
Decrease due to disposal/death	–	–	–	(575,957)	(575,957)
Losses arising from changes in fair value less costs to sell of biological assets	–	–	–	(852,226)	(852,226)
At June 30, 2022 (unaudited)	–	24,644	–	11,564,181	11,588,825
At January 1, 2021 (audited)	27,080	72,040	(3,043,648)	7,047,676	4,103,148
Purchases	34,829	–	–	–	34,829
Settlements	(58,524)	–	–	–	(58,524)
Fair value changes during the period	–	(9,736)	(132,910)	–	(142,646)
Cash interest paid	–	–	29,814	–	29,814
Reclassification of convertible notes	–	–	3,146,744	–	3,146,744
Purchase cost	–	–	–	236,787	236,787
Feeding and other related costs	–	–	–	1,379,096	1,379,096
Decrease due to disposal/death	–	–	–	(597,332)	(597,332)
Gains arising from changes in fair value less costs to sell of biological assets	–	–	–	97,625	97,625
Acquisition of subsidiaries	–	–	–	1,108,475	1,108,475
At June 30, 2021 (unaudited)	3,385	62,304	–	9,272,327	9,338,016

The fair value changes for equity instruments at FVTOCI during the six months ended June 30, 2022 is reported under “investment revaluation reserve”.

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 condensed consolidated financial statements approximate their fair value.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

26. RELATED PARTY TRANSACTIONS

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

Transactions with Yili Group

	Notes	Six months ended June 30,	
		2022	2021
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Sales of raw milk to Yili Group	(a)	5,028,566	3,989,538
Sales of feeds to Yili Group	(a)	51,334	46,266
Sales of ruminant farming products to Yili Group	(a)	144	–
Sales of breeding products to Yili Group	(a)	7,357	–
Purchase of raw materials from Yili Group	(a)	27,265	11,476
Purchase of service from Yili Group	(a)	5,072	–
Other service to Yili Group	(a)	622	99
Interest income from Yili Group	(e)	3,103	–

Transactions with Jiangsu Nongken

	Note	Six months ended June 30,	
		2022	2021
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Sales of breeding products to Jiangsu Nongken	(a)	223	N/A

Balances with Yili Group

	Notes	June 30,	December 31,
		2022	2021
		RMB'000	RMB'000
		(unaudited)	(audited)
Amounts due from related parties:			
Trade receivables from Yili Group	(b)	845,295	780,392
Amounts due to related parties:			
Trade payables to Yili Group	(c)	1,865	1,883
Advance from Yili Group	(d)	1,126	–
		2,991	1,883
Deposits placed with Yili Finance Company Limited	(e)	474,146	612,159

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

26. RELATED PARTY TRANSACTIONS *(Continued)*

Balances with Jiangsu Nongken

	Note	June 30, 2022 RMB'000 (unaudited)	December 31, 2021 RMB'000 (audited)
Amounts due from related parties:			
Trade receivables from Jiangsu Nongken	(b)	243	N/A

Notes:

- (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.
- (b) The trade receivables are in trade nature, mainly related to the sales of raw milk to Yili Group and sales of breeding products to Jiangsu Nongken.
- (c) The trade payables are in trade nature, related to the purchase of raw materials from Yili Group, which are aged within one year at the end of the reporting period.
- (d) The balance are in trade nature, related to the advance from Yili Group for the sale of raw milk, which is expected to be recognised as revenue within one year.
- (e) 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

	Six months ended June 30, 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Trade receivables from the sale of feeds and breeding products settled on behalf by Yili Group	255,539	184,029

Certain customers who purchase feeds and breeding products from the Group are also raw milk suppliers of Yili Group (the "Overlapping Parties"). The Group, Yili Group and the Overlapping Parties have entered into an entrusted payment arrangement (the "Entrusted Payment Arrangement"), pursuant to which Yili Group would deduct the amount payable to the Group by the Overlapping Parties (the "Feeds and Breeding Products Payments") from the payments made to the Overlapping Parties by Yili Group, and pay the Feeds and Breeding Products 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2022

26. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation to key management personnel

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and allowances	3,815	3,298
Retirement benefit scheme contributions	182	154
	3,997	3,452

27. CAPITAL COMMITMENTS

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

	June 30,	December 31,
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditures in respect of acquisition of property, plant and equipment: Contracted but not provided for	3,087,963	2,505,969

28. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liability.

Definitions

“2021 Interim Period”	six months ended June 30, 2021
“Audit Committee”	the audit committee of the Company
“Auditor”	Deloitte Touche Tohmatsu
“Board” or “Board of Directors”	the board of directors of our Company
“Bright”	the group of companies comprising Shanghai Bright Dairy & Food Co., Ltd. (上海光明乳業股份有限公司), a company incorporated in the PRC, and its subsidiaries, as a group being one of our customers
“China” or the “PRC”	the People’s Republic of China, and for the purpose of this interim report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“CNAS”	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
“Company” or “our Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company with limited liability incorporated in the Cayman Islands on August 21, 2020
“Controlling Shareholder(s)”	Yili and the PAG Entities, unless the context otherwise requires, refers to Yili and the PAG Entities
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules (as amended from time to time)
“Director(s)”	the director(s) of our Company
“Fonterra China Farms Group”	Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on December 14, 2010, and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on February 11, 2014, both of which were wholly-owned subsidiaries of Fonterra Group before the Fonterra acquisition
“Fonterra Group”	Fonterra Co-operative Group Limited, a New Zealand based dairy co-operative company incorporated with limited liability under the laws of New Zealand on October 16, 2001
“Global Offering”	the Hong Kong Public Offering and the International Offering as defined in the Prospectus
“Group”, “our Group”, “we”, “us” or “our”	the Company and its subsidiaries from time to time

Definitions

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IFRSs”	International Financial Reporting Standards, 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 subsidiary of the Company
“Jingang”	HONGKONG JINGANG TRADE HOLDING CO., LIMITED (香港金港商貿控股有限公司), a company incorporated in Hong Kong with limited liability on January 17, 2011, and a wholly-owned subsidiary of Yili
“Junlebao Dairy”	the group of companies comprising Shijiazhuang Junlebao Dairy Co., Ltd. (石家莊君樂寶乳業有限公司), a company incorporated in the PRC, and its subsidiaries, as a group being one of our customers
“Latest Practicable Date”	September 7, 2022, being the latest practicable date for ascertaining certain information in this interim report before its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“OCR”	Optical Character Recognition
“PAG Entities”	means PAG I, PAG II and PAG III, collectively
“Prospectus”	the prospectus of the Company dated June 7, 2021
“Reporting Period”	six months ended June 30, 2022
“RMB” or “Renminbi”	Renminbi, the lawful currency of PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

Definitions

“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术(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the National Equities Exchange and Quotations (stock code: 834179) which has been a subsidiary of the Company since January 8, 2020
“SOP”	Standard Operation Procedures
“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
“TPM”	Total Productive Maintenance
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“Yili”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of our Controlling Shareholders
“%”	per cent