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Application Proof of

China Youran Dairy Group Limited

(the “**Company**”)

(A limited liability company incorporated in the Cayman Islands)

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IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.



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)

[REDACTED]

Total number of [REDACTED] under : [REDACTED] Shares (subject to the the [REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation and the [REDACTED])
Maximum [REDACTED] : [REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : US\$0.00001 per Share [REDACTED]

Joint Sponsors, [REDACTED]



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The [REDACTED] is expected to be fixed by agreement between the [REDACTED], on behalf of the [REDACTED], and our Company on or before [REDACTED] or such later time as may be agreed between the parties, but in any event, no later than [REDACTED]. If, for any reason, the [REDACTED], on behalf of the [REDACTED], and our Company are unable to reach an agreement on the [REDACTED] by [REDACTED], [REDACTED], the [REDACTED] will not become unconditional and will lapse immediately. The [REDACTED] will be not more than [REDACTED] per [REDACTED] and is expected to be not less than [REDACTED] per [REDACTED] although the [REDACTED], on behalf of the [REDACTED], and our Company may agree to a lower price.

Prior to making an [REDACTED] decision, prospective [REDACTED] should carefully consider all of the information set out in this document, and in particular, the risk factors set out in the section headed “Risk Factors.”

Pursuant to the termination provisions contained in the [REDACTED] in respect of the [REDACTED], the [REDACTED], on behalf of the [REDACTED], have the right in certain circumstances, in their absolute discretion, to terminate the obligation of the [REDACTED] pursuant to the [REDACTED] at any time prior to [REDACTED] on the [REDACTED]. Further details of the terms of the termination provisions are set out in the section headed “[REDACTED].” It is important that you refer to that section for further details.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act, as amended (“U.S. Securities Act”) or any state securities laws in the United States, and may not be [REDACTED], [REDACTED], pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The [REDACTED] are being [REDACTED] and [REDACTED] only (i) in the United States to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (ii) outside of the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

[REDACTED]

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED] in the [REDACTED]. Some of the particular risks associated with an [REDACTED] in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

You should note that we completed the acquisition of SKX on January 8, 2020. See the section headed “History, Reorganization and Group Structure” in this document for more information on such transaction. Therefore, unless otherwise stated, the historical results of operations and financial position of our Group for the years ended December 31, 2017, 2018 and 2019 presented and discussed in this document only include the data of Youran for such periods and do not include the data of SKX, whereas the historical results of operations and financial position of our Group for the six months ended June 30, 2020 include the data of Youran for such period and the data of SKX from January 8, 2020 to June 30, 2020. In addition, subsequent to the Track Record Period, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020 to acquire 100% equity interest of Fonterra China Farms Group. Unless otherwise stated, the results of operations and financial position of Fonterra China Farms Group have not been consolidated into the results of operations and financial position of our Group during the Track Record Period.

BUSINESS OVERVIEW

We are a leader in China’s upstream dairy market and one of a select number of dairy farming companies around the world with a business layout covering the entire upstream dairy industry. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in the first half of 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

SUMMARY

Founded in 1984, we were once a wholly-owned subsidiary of Yili, the world’s fifth largest* and fast-growing large-scale dairy manufacturer, until we were spun off from Yili in 2015. With nearly 40 years of experience in the dairy industry and in-depth research and development, we have gained insights into market demands and trends, which enable us to develop and offer diversified products and services catering to evolving customer demands. Our business has grown to cover the entire upstream dairy value chain from breeding, feed to raw milk production, and we have maintained a leading position and achieved rapid growth in each of our core business lines:

Business Segments	Business Lines	Business Highlights
Raw milk	Raw milk business	We provide raw milk to large-scale dairy manufacturers for further processing into premium dairy products. We are the world’s largest raw milk provider in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020, according to Frost & Sullivan.
Comprehensive ruminant farming solutions	Feed business	We provide nutritious concentrated feed and forage grass for dairy farms that meet the demands of ruminants for their growth and production, and offer auxiliary ruminant farming support services, such as ruminant nutrition, breeding technique, and ruminant healthcare. According to Frost & Sullivan, we are the largest concentrated feed provider for ruminants in China in terms of sales volume of concentrated ruminant feed in 2019. In addition, we are also a leading supplier of forage grass, mainly alfalfa hay and oat grass, in China in 2019 with the largest market share in terms of sales volume of alfalfa hay, our major type of forage grass.

*Source: “Global Dairy Top 20” in 2020 published by the Rabobank Nederland in August 2020.

SUMMARY

Business Segments	Business Lines	Business Highlights
	Breeding business	We provide dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas through our subsidiary, SKX. SKX is the largest dairy breeding company in China in terms of sales volume of frozen bovine semen for dairy cattle in 2019, according to Frost & Sullivan.
	Ruminant farming products marketplace business	We provide ruminant farming products purchased from selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, through our online retail platform, <i>Jumuc.com</i> , and offline pick-up stores, to diversify our product offerings and further address our customers’ business needs.

During the Track Record Period, we recorded steady financial growth. Our revenue grew from RMB5,091.4 million for the year ended December 31, 2017 to RMB6,333.9 million for the year ended December 31, 2018 and further to RMB7,667.8 million for the year ended December 31, 2019, with a CAGR of 22.7% from 2017 to 2019. Our revenue grew from RMB3,436.8 million in the six months ended June 30, 2019 to RMB5,344.4 million in the six months ended June 30, 2020 (on a consolidated post-SKX Acquisition basis). Our net profit was RMB277.9 million, RMB652.9 million and RMB801.9 million for the years ended December 31, 2017, 2018 and 2019, respectively, rising with a CAGR of 69.9% from 2017 to 2019. Our net profit grew from RMB365.3 million in the six months ended June 30, 2019 to RMB744.1 million in the six months ended June 30, 2020 (on a consolidated post-SKX Acquisition basis).

The following table sets forth our revenue by business segment for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2017		2018		2019		2019		2020	
	%		%		%		%		%	
	(RMB'000, except for percentages)									
Raw milk	2,237,474	43.9	2,610,333	41.2	3,063,615	40.0	1,453,840	42.3	3,192,968	59.7
Comprehensive ruminant farming solutions	2,853,971	56.1	3,723,587	58.8	4,604,203	60.0	1,983,002	57.7	2,151,459	40.3
Total	5,091,445	100.0	6,333,920	100.0	7,667,818	100.0	3,436,842	100.0	5,344,427	100.0

SUMMARY

OUR BUSINESS

Raw milk business

We provide raw milk to large-scale dairy manufacturers for further processing into premium dairy products. In the first half of 2020, revenue from our raw milk business accounted for 59.7% of our total revenue. As of June 30, 2020, we had 65 dairy farms in operation with 287,045 dairy cows, on a consolidated post-SKX Acquisition basis. In addition, as of June 30, 2020, we had six dairy farms under construction, which are expected to commence operation within the next two years. Most of our dairy farms are located in the Golden Raw Milk Belt, a geographic area spanning from 40 to 50 degrees north latitude, which is an ideal latitude zone for dairy farming and quality raw milk production. We also strategically locate our dairy farms to accommodate demands of our downstream customers to ensure freshness of raw milk and convenient transportation. During the Track Record Period, our raw milk production volume and average milk yield per milkable cow had continuously improved. Raw milk production volume of Youran increased from 321,872 tons in the first half of 2019 to 431,578 tons in the first half of 2020. Annualised average milk yield per milkable cow of Youran (excluding Jerseys) increased from 10.7 tons in the first half of 2019 to 11.3 tons in the first half of 2020. Our advanced management and operating capabilities for raw milk business also enabled us to quickly integrate the raw milk business of SKX and improve its operation. Raw milk production volume of SKX increased from 298,054 tons in the first half of 2019 to 350,226 tons in the first half of 2020. Annualised average milk yield per milkable cow of SKX increased from 8.9 tons in the first half of 2019 to 9.9 tons in the first half of 2020.

We offer a variety of raw milk products. In addition to our premium raw milk, we also offer specialty raw milk, such as jersey milk, DHA milk, A2 milk and organic milk. We continue to develop and expand our specialty raw milk offerings through a variety of advanced and practical techniques and means to meet customers’ growing demand for specialty raw milk. We introduce overseas purebred Jerseys and conduct researches on their scientific breeding methods and nutritional requirements to produce high protein-content, good-tasting Jersey milk; we study the metabolism mechanism of DHA in cows and use coating techniques to make DHA efficiently absorbed and converted into raw milk rich in DHA; we select cows with A2- β -casein gene using genetic testing and raise them scientifically to produce A2 milk rich in A2- β -casein; and we follow the laws of nature during the farming processes, pay attention to animal welfare and health, and adopt raising and farming management practices that meet the natural behavior and living conditions of animals to produce organic milk as certified by China and the EU standards. Our revenue from specialty raw milk has been steadily increasing since we commenced to sell specialty raw milk. In the six months ended June 30, 2020, our revenue from specialty raw milk sales accounted for 31.6% of our total revenue from raw milk sales. According to Frost & Sullivan, we are the largest provider of specialty raw milk in China in terms of the production volume of specialty raw milk in the first half of 2020.

We are dedicated to producing high-quality raw milk. Raw milk quality is mainly determined by various nutrition and health factors, including protein content, fat content and microbe and somatic cell count. Key indicators of our raw milk meet or exceed the quality standards of the United States, the European Union and Japan as well as China’s Premium Milk Initiative (中國國家優質乳工程). We are the largest raw milk supplier of Yili. Meanwhile, our products are also sold to Bright and other large-scale dairy manufacturers for their production of premium dairy products.

SUMMARY

Feed business

We have accumulated extensive knowledge of ruminant nutrition from nearly 40 years of business operations and research history, which, together with our own dairy farming experience, enables us to gain deep insights into nutritional needs of ruminants. We strive to provide high-quality and customized comprehensive ruminant farming solutions to dairy farms. In the first half of 2020, revenue from our feed business accounted for 37.0% of our total revenue. As one of a select number of companies in the upstream dairy industry in China that have their own proprietary research and development technologies and teams, we evaluate ruminant nutrient requirements and supply based on the identification of specific conditions, such as ruminant species, ages, life cycles, seasonality, specific demands at each stage and overall production performance and life span; we take into consideration customers’ demands of production, and we have built a leading ruminant nutrient database in China. We are one of a select number of companies focusing on both ruminant farming and feed studies in China. Our huge ruminant herd size provided experimental basis for the development of new products and allowed us to detect feed performance and conduct the research and development of high-quality and characterized feed products.

We offer a wide selection of high-quality concentrated feed spanning the full lifecycle of dairy cows, beef cattle, sheep, dairy goats and other ruminants. As of the Latest Practicable Date, we operated seven feed mills and cooperated with five third-party feed manufacturers. In 2019, we achieved total concentrated feed production volume of 797,932 tons. As of the end of 2019, we provided leading comprehensive ruminant farming solutions to over 500 dairy farms in China, serving over 1 million ruminants. Our leading systematic dairy farming services include farm planning and design, data analysis, performance analysis, precise nutrition, efficient breeding, milking hall management and epidemic prevention, which can promote and improve the performance and efficiency of farming.

We also supply value-for-money forage grass, mainly alfalfa hay and oat grass, to dairy farm customers through large-scale forage grass growing and trading. According to Frost & Sullivan, we had the largest market share of 3.6% in China in 2019 in terms of sales volume of alfalfa hay, our major type of forage grass. In addition, we imported 188,173 tons of alfalfa hay in 2019, which made us the biggest alfalfa hay importer in China.

Breeding business

We provide dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas through our subsidiary, SKX. SKX is the largest dairy breeding company in China in terms of sales volume of frozen bovine semen for dairy cattle in 2019, according to Frost & Sullivan. Through our controlling interest in SKX, we have obtained leading cow genetic improvement and sex-sorting technologies, high-quality breeding bulls and a strong research and development team. We carry out dairy breeding business mainly in China, while we cooperate with frozen semen production bases in the United States to conduct research and development. We are one of a select of breeding companies in China that operates an overseas bull station. By virtue of our strengths in breeding and reproduction, we continue to improve the genetic merits of our own dairy herds, and enhance the overall genetic traits of dairy herds in China.

SUMMARY

OUR CUSTOMERS

Our customers mainly include dairy manufacturers and dairy farms. We sell premium raw milk to large-scale dairy manufacturers and offer comprehensive ruminant farming solutions to dairy farms in China.

The following table sets forth certain information about our customers:

Business segments	Product types	Major customers	Use of our products
Raw milk	Raw milk	Large-scale dairy manufacturers	Production of downstream dairy products
Comprehensive ruminant farming solutions	Feed products Breeding products Ruminant farming products	Dairy farms	Ruminant farming operations

For further details, please refer to the section headed “Business – Our Customers” in this document.

Our Relationship with Yili

Founded in 1984, we were a subsidiary of Yili, the world’s fifth largest* and fast-growing dairy manufacturer, until our business operations were spun off from Yili in 2015. We have maintained a long-term and stable relationship with Yili which has remained as one of our Controlling Shareholders since our inception. During the Track Record Period, Yili was our largest customer. In 2017, 2018 and 2019 and the six months ended June 30, 2020, we derived revenue of RMB2,053.2 million, RMB2,393.1 million, RMB2,845.4 million and RMB3,067.1 million from sales of raw milk to Yili, accounting for 91.8%, 91.7%, 92.9% and 96.1% of our revenue generated from raw milk during the same periods. During the Track Record Period, substantially all of our revenue from raw milk business was generated from Yili, which was mainly due to the characteristics of China’s dairy industry. Our Company plan to enter into a framework agreement with Yili, pursuant to which our Group (including our subsidiaries from time to time) will continue to supply raw milk to Yili and its associates. We expect that raw milk sales to Yili will continue to represent a significant portion of our annual sales of raw milk produced in the foreseeable future.

Also, we were the largest raw milk supplier of Yili during the Track Record Period. In particular, in recognition of the premium quality of our specialty raw milk, Yili purchased substantially all of its specialty raw milk from us, making us the largest specialty raw milk supplier of Yili during the Track Record Period. Our premium raw milk has been used for the production of Yili’s premium products under its popular brands such as *Satine*, *Ambrosial* and *QQ Star*.

*Source: “Global Dairy Top 20” in 2020 published by the Rabobank Nederland in August 2020.

SUMMARY

We believe that our mutually beneficial, stable and long-term business relationship with Yili has been driving and will continue to drive our business growth. Having considered Yili’s business scale and its strong, growing demand for premium raw milk as well as our leading market position, our Directors believe that Yili’s expanding business operations also depend on our steady supply of raw milk, which represents a stable revenue stream and an enormous growth opportunity for us. In addition, we have benefited significantly and expect to continue to benefit from Yili’s strong brand recognition, which can further enhance our brand image. For the further details, please refer to the section headed “Business – Our Customers – Our Relationship with Yili”, “Relationship with Controlling Shareholders” and “Continuing Connected Transactions” in this document.

OUR SUPPLIERS

Our suppliers primarily include suppliers of feed ingredients and forage grass, ruminant farming products and farm construction services and equipments. Feed ingredients and forage grass account for a significant portion of our procurement. We purchase feed from eligible suppliers to feed our dairy cows and feed ingredients are further processed into our concentrated feed products. We have a diverse pool of quality forage grass and feed materials suppliers in China and overseas. We carefully select and manage our feed ingredients and forage grass suppliers to ensure reliable and high-quality supplies. For the further details, please refer to the section headed “Business – Our Suppliers” in this document.

OUR STRENGTHS

We believe the following strengths are crucial to our sustained success:

- Leading upstream dairy products and services provider;
- Comprehensive business coverage along the upstream dairy value chain achieving compelling synergies;
- Modern and scientific operations and management with leading research and development capabilities;
- Strategic location of large-scale dairy farms and feed mills;
- High-quality customer base; and
- Visionary and experienced management team with strong shareholder support.

SUMMARY

OUR STRATEGIES

We aim to promote the development of the entire dairy value chain in China and to achieve sustainable growth and maximize shareholders’ interests. We plan to achieve this goal by implementing the following business strategies.

- Expanding scale: continue to strategically expand our business size and maintain our market leadership;
- Optimizing structure: optimize our product and service portfolio and enhance our core competitiveness;
- Improving efficiency: further enhance our operational efficiency through modern and scientific management practices; and
- Promoting synergies: leverage advantages of resources along the upstream value chain to strengthen synergies across businesses and drive the upgrade of industry standards and service offerings.

FINANCIAL PERFORMANCE

Summary of Financial Information of Our Group

The following tables set forth a summary our financial information for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020 and should be read in conjunction with our financial information included in the Accountants’ Report set out in Appendix I to this document, including the notes thereto. The summary financial information has been prepared in accordance with the IFRS. The basis of preparation is set forth in Note II of section one of the section headed “Appendix I – Accountants’ Report” in this document.

The table below sets forth a summary of our combined statements of comprehensive (loss)/income and other financial data for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(RMB’000)			(unaudited)	
Revenue	5,091,445	6,333,920	7,667,818	3,436,842	5,344,427
Cost of sales	(4,630,103)	(5,810,627)	(7,014,226)	(3,164,792)	(4,975,241)
– Cost of sales before fair value adjustments	(3,779,140)	(4,788,229)	(5,781,558)	(2,579,877)	(3,737,112)
– Fair value adjustments for raw milk and forage grasses included in cost of sales	(850,963)	(1,022,398)	(1,232,668)	(584,915)	(1,238,129)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	850,963	1,022,398	1,232,668	584,915	1,238,129
Gross profit	1,312,305	1,545,691	1,886,260	856,965	1,607,315
Profit before tax	324,727	697,201	850,855	383,667	770,547
Profit for the year/period	277,855	652,867	801,882	365,312	744,059
Adjusted net profit for the year/period ⁽¹⁾	682,019	777,204	999,354	498,978	983,318
Adjusted EBITDA ⁽¹⁾	900,743	1,020,845	1,287,311	629,201	1,313,119

SUMMARY

Note:

(1) See section entitled “– Non-IFRS measures” in this document.

The table below sets forth selected information from our combined statements of financial position as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Total current assets	1,792,817	2,129,078	3,043,764	4,344,928
Total non-current assets	4,364,510	5,636,068	6,902,810	14,209,865
Total assets	6,157,327	7,765,146	9,946,574	18,554,793
Total current liabilities	1,889,811	2,598,064	2,900,534	6,200,883
Total non-current liabilities	332,446	579,145	1,656,221	2,906,761
Total liabilities	2,222,257	3,177,209	4,556,755	9,107,644
Net current (liabilities)/ assets	(96,994)	(468,986)	143,230	(1,855,955)
Net assets	3,935,070	4,587,937	5,389,819	9,447,149
Non-controlling interests	–	–	–	1,047,346
Total equity	3,935,070	4,587,937	5,389,819	9,447,149
Total equity and liabilities	6,157,327	7,765,146	9,946,574	18,554,793

SUMMARY

The following table sets forth a summary of our cash flows for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000			(unaudited)	
Net cash generated from operating activities	731,210	605,801	870,809	639,867	1,237,633
Net cash used in investing activities	(698,717)	(1,142,959)	(1,490,454)	(695,055)	(2,729,006) ⁽¹⁾
Net cash generated from financing activities	296,697	424,955	878,237	273,277	2,515,402
Net increase/(decrease) in cash and cash equivalents	329,190	(112,203)	258,592	218,089	1,024,029
Cash and cash equivalents at the beginning of the year/period	94,897	424,087	311,884	311,884	570,476
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	424,087	311,884	570,476	529,973	1,594,505

Note:

- (1) The net cash used in investing activities for the six months ended June 30, 2020 was largely attributable to net cash outflows of RMB1,546.4 million for the acquisition of SKX.

Biological Assets

Our biological assets mainly consist of feeder cattle, breeding stock and dairy cows, which are further categorized into calves, heifers and milkable cows. The following table sets forth the number of our biological assets as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	Heads			
Dairy cows:				
Calves and heifers	45,907	65,488	74,082	136,685
Milkable cows	56,361	61,857	77,955	150,360
Feeder cattle	159	369	1,269	1,781
Breeding stock	—	—	—	136
Total	102,427	127,714	153,306	288,962

SUMMARY

The following table sets forth the fair value of our biological assets as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Dairy cows:				
Calves and heifers	649,174	1,010,321	1,094,787	2,232,634
Milkable cows	1,192,842	1,596,129	2,228,130	4,119,619
Feeder cattle	964	1,629	12,070	22,051
Breeding stock	—	—	—	78,822
Total	1,842,980	2,608,079	3,334,987	6,453,126
Less: current portion classified under current assets	(964)	(1,629)	(12,070)	(22,051)
Non-current portion classified under non-current assets	1,842,016	2,606,450	3,322,917	6,431,075

Please refer to the section headed “Financial Information – Valuation of Our Biological Assets” in this document for more information about the key assumptions and references for the valuation of our biological assets and the sensitivity analysis on the estimated value of milkable cows.

The following table sets forth a breakdown of our gross profit and as a percentage of the revenue (i.e., gross profit margin) for the periods indicated:

	For the Year ended December 31,						For the Six Months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000, except for percentage)									
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(unaudited)									
Raw milk	842,839	37.7%	1,060,119	40.6%	1,278,980	41.7%	602,830	41.5%	1,298,912	40.7%
Comprehensive ruminant farming solutions	469,466	16.4%	485,572	13.0%	607,280	13.2%	254,135	12.8%	308,403	14.3%
Total	1,312,305	25.8%	1,545,691	24.4%	1,886,260	24.6%	856,965	24.9%	1,607,315	30.1%

SUMMARY

Summary of Financial Information of SKX

In January 2020, we completed the acquisition of SKX to expand our raw milk business and entered the breeding business.

The following tables set forth a summary of SKX’s financial information for the three years ended December 31, 2017, 2018 and 2019 and should be read in conjunction with financial information included in the Accountants’ Report set out in Appendix I to this document, including the notes thereto. The summary of financial information has been prepared in accordance with the IFRS. The basis of preparation is set forth in Note II of section one of the section headed “Appendix I – Accountants’ Report” in this document. This document also includes the pre-acquisition financial information of SKX from January 1, 2020 up to January 7, 2020, for details of which please see “Appendix I – Accountants’ Report – III” of this document.

	For the Year Ended December 31,		
	2017	2018	2019
	RMB’000		
Revenue	1,856,866	2,103,874	2,407,511
Cost of sales	(1,745,587)	(2,008,473)	(2,312,015)
– Cost of sales before fair value adjustments	(1,203,655)	(1,347,516)	(1,594,625)
– Raw milk fair value adjustments included in cost of sales	(541,932)	(660,957)	(717,390)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	541,932	660,957	717,390
Gross profit before impairment loss on inventories	653,211	756,358	812,886
Profit before tax	338,534	53,111	109,045
Profit for the year	338,036	52,826	109,237
Adjusted net profit for the year/period ⁽¹⁾	394,103	472,125	455,461
Adjusted EBITDA ⁽¹⁾	606,901	705,591	708,653

Note:

- (1) See section entitled “Financial Information – Financial Information of SKX – Non-IFRS Measures” in this document.

SUMMARY

Summary of Financial Information of Fonterra China Farms Group

In October 2020, to further meet the needs of our expanding business and to achieve continuing profit growth through economies of scale, we entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group to acquire the 100% equity interest of Fonterra China Farms Group. As of the date of this document, the above acquisition has not been completed.

The following tables set forth a summary of Fonterra China Farms Group’s financial information for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020 and should be read in conjunction with financial information included in the Accountants’ Report set out in Appendix II to this document, including the notes thereto. The summary of financial information has been prepared in accordance with the IFRS. The basis of preparation is set forth in Notes 1, 2 of the section headed “Appendix II – Accountants’ Report – Fonterra China Farms Group” in this document.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
			RMB’000		
				(unaudited)	
Revenue	1,055,658	957,654	1,111,354	530,599	587,492
Cost of sales	(983,776)	(867,282)	(1,011,171)	(480,524)	(548,123)
– Cost of sales before fair value adjustments for agricultural produce	(901,569)	(879,551)	(916,753)	(462,018)	(454,826)
– Fair value adjustments for agricultural produce included in cost of sales	(82,207)	12,269	(94,418)	(18,506)	(93,297)
Gains/(losses) arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	82,207	(12,269)	94,418	18,506	93,297
Gross profit	154,089	78,103	194,601	68,581	132,666
(Loss)/profit before tax	(105,275)	(270,795)	(873,386)	(6,589)	11,259
(Loss)/profit and total comprehensive income for the year/period	(105,275)	(270,795)	(873,386)	(6,589)	11,259

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the periods indicated or as of the dates indicated.

	For the Year Ended December 31/ as of December 31,			For the Six Months Ended June 30/ as of June 30,
	2017	2018	2019	2020
Return on equity ⁽¹⁾	7.1%	14.2%	14.9%	15.8%
Adjusted return on equity ⁽²⁾	17.3%	16.9%	18.5%	20.8%
Current ratio ⁽³⁾	0.95	0.82	1.05	0.70
Quick ratio ⁽⁴⁾	0.56	0.47	0.72	0.51
Gearing ratio ⁽⁵⁾	19.8%	31.2%	39.9%	38.1%

SUMMARY

Notes:

- (1) Return on equity ratio for each of the years ended December 31, 2017, 2018 and 2019 is calculated as profit for the year divided by total equity at the end of the year and multiplied by 100%. Return on equity ratio for the six months ended June 30, 2020 is calculated on an annualised basis as annualized net profit (net profit multiplied by two) divided by total equity at the end of the period.
- (2) Adjusted return on equity ratio for each of the years ended December 31, 2017, 2018 and 2019 is calculated as adjusted net profit as defined in non-IFRS measures for the year divided by total equity at the end of the year and multiplied by 100%. Adjusted return on equity ratio for the six months ended June 30, 2020 is calculated on an annualised basis as annualized adjusted net profit (adjusted net profit multiplied by two) divided by total equity.
- (3) Calculated as current assets divided by current liabilities.
- (4) Calculated as current assets less inventories divided by current liabilities.
- (5) Calculated as net debt (bank and other borrowings less bank and cash balances and pledged and restricted bank deposits) divided by total equity and multiplied by 100%.

SUMMARY OF PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH SKX

The following table presents the revenue, cost of sales, gross profit, profit before tax and profit for the year of the enlarged group with SKX (as defined in Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group with SKX) based on the unaudited pro forma combined statement of profit or loss of the enlarged group for the year ended December 31, 2019 as set out in Appendix III to the document. The unaudited pro forma combined statement of profit or loss of the enlarged group with SKX has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial performance of the enlarged group for the year ended December 31, 2019. For more details, see “Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group with SKX Group” of this document.

	For the Year Ended December 31, 2019
	<i>(RMB'000)</i>
	(unaudited)
Revenue	9,547,624
Cost of sales	(8,876,485)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	1,950,058
Gross profit	2,621,197
Profit before tax	926,395
Profit for the year	879,920

SUMMARY

SUMMARY OF PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP AND SKX

The following table presents the revenue, cost of sales, gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest, gross profit, profit before tax and profit for the year/period of the enlarged group with Fonterra China Farms Group and SKX (as defined in Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group) and SKX based on the unaudited pro forma combined statement of profit or loss of our Group for the year ended December 31, 2019 and the six months ended June 30, 2020 as set out in Appendix III to the document. The unaudited pro forma combined statement of profit or loss of the enlarged group with Fonterra China Farms Group and SKX has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial performance of the enlarged group for the year ended December 31, 2019 and for the six months ended June 30, 2020. For more details, see “Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group and SKX Group” of this document.

	For the Year Ended December 31, 2019	For the Six Months Ended June 30, 2020
	<i>(RMB'000)</i>	
	(unaudited)	
Revenue	10,573,749	5,885,418
Cost of sales	(9,858,642)	(5,509,194)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	2,044,476	1,331,426
Gross profit	2,759,583	1,707,650
Profit before tax	1,019,733	714,944
Profit for the year/period	989,295	696,475

Note:

The amounts in above table are subject to adjustments for the effect of bargain purchase from the acquisition of Fonterra China Farms Group; the elimination of intercompany transactions; the acquisition-related costs; the reversal of impairment loss of property, plant and equipment; the reversal of depreciation and amortisation based on carrying amount of property, plant and equipment and right of use assets; the recognition of depreciation and amortisation based on the fair value of property, plant and equipment and right of use assets acquired; the reversal of interest expense on the Fonterra China Farms Group's debt; and the impact to our Group as if the acquisition of SKX and Fonterra China Farms Group had been completed on January 1, 2019. For the pro forma amounts for the year ended December 31, 2019, they are prepared as if the acquisition of SKX Group had been completed on January 1, 2019. Please refer to “Appendix III – (C) Unaudited Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group and SKX Group – (2) Unaudited Pro Forma Combined Statement of Profit or Loss of the Enlarged Group with Fonterra China Farms Group and SKX Group for the Year Ended December 31, 2019 – Note 3 to 12” in this document for more information.

SUMMARY

The following table presents assets, liabilities and equity for the year/period of the enlarged group with Fonterra China Farms Group (as defined in Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group) based on the audited combined statement of financial position of our Group as of June 30, 2020 as set out in Appendix I to the document. The unaudited pro forma combined statement of financial position of the enlarged group with Fonterra China Farms Group has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the enlarged group as of June 30, 2020, or any future date.

	For the Six Months Ended June 30, 2020
	<i>(RMB'000)</i>
	(unaudited)
Non-current assets	16,603,426
Current assets	4,759,829
Total assets	21,363,255
Non-current liabilities	5,314,764
Current liabilities	6,522,109
Total liabilities	11,836,873
Equity	9,526,382
Total equity and liabilities	21,363,255
Net current liabilities	(1,762,280)
Net assets	9,526,382

NON-IFRS MEASURES

To supplement our financial information presented in accordance with the IFRS, we use adjusted net profit and adjusted EBITDA as additional financial measures, which are not required by, or presented in accordance with, IFRSs. We believe that these non-IFRS measures are useful to compare the business performance of the Company across different periods by eliminating potential impacts of extraordinary items or items that our management do not consider indicative of our business performance or cash flows. We also believe that these measures provide investors and other persons with useful information to understand and evaluate our consolidated results of operation in the same manner as they help our management. However, adjusted net profit and adjusted EBITDA presented by us may not be comparable to the similar financial measures presented by other companies. There are limitations to the non-IFRS measures used as an analytical tool, and you should not consider it in isolation or regarded it as a substitute for our results of operation or financial position analysis that is presented in accordance with IFRSs.

SUMMARY

Our adjusted net profit is defined as profit for the year/period adjusted for other gains and losses, impairment losses under expected credit loss model net of reversal, loss arising from changes in fair value less costs to sell of biological, mergers and acquisitions and other transaction costs and [REDACTED] expenses (excluding tax impact). Adjusted profit for the year/period set out in the following table was adjusted by the most directly comparable financial measure calculated and presented in accordance with the IFRSs (i.e. net profit for the periods indicated):

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)			(unaudited)	
Profit for the year/ period	277,855	652,867	801,882	365,312	744,059
Add:					
Other gains and losses	(3,566)	35,613	16,046	11,032	(468)
Impairment losses under expected credit loss model net of reversal	–	1,453	24,761	5,795	11,762
Loss arising from changes in fair value less costs to sell of biological asset	407,730	87,271	133,255	116,839	217,637
Mergers and acquisitions and other transaction costs	–	–	23,410	–	–
[REDACTED] expenses	–	–	–	–	10,328
Adjusted net profit for the year/period	682,019	777,204	999,354	498,978	983,318

SUMMARY

Our adjusted EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) profit is defined as adjusted net profit for the year/period adjusted for income tax expenses, finance costs, interest income, depreciation and amortisation. Adjusted EBITDA set out in the following table was adjusted by the most directly comparable financial measure calculated and presented in accordance with the IFRSs (i.e. net profit for the periods indicated):

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)			(unaudited)	
Adjusted net profit for the year/period	682,019	777,204	999,354	498,978	983,318
Add:					
Income tax expenses	46,872	44,334	48,973	18,355	26,488
Finance costs	51,127	80,081	104,071	46,635	152,554
Interest income	(3,898)	(6,115)	(4,390)	(2,217)	(5,837)
Depreciation and amortisation	124,623	125,341	139,303	67,450	156,596
Adjusted EBITDA	900,743	1,020,845	1,287,311	629,201	1,313,119

[REDACTED] INVESTMENTS

We received [REDACTED] Investments from our [REDACTED] Investors. For the further details, please refer to the section headed “History, Reorganization and Group Structure – The [REDACTED] Investments” in this document.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, the equity interest of the Company was held as to approximately 42.89% by the PAG Entities and 40.00% by Yili, through China Youran Dairy Holding Limited and Jingang Holding, its wholly-owned subsidiaries. Immediately following the completion of the [REDACTED], the PAG Entities and Yili will be interested in approximately [REDACTED]% and [REDACTED]% of our issued share capital, respectively, assuming the [REDACTED] is not exercised and the Convertible Notes are not converted. Therefore, each of the PAG Entities and Yili will remain as our Controlling Shareholders upon the [REDACTED].

For our shareholding structure, please refer to the section headed “History, Reorganization and Group Structure” in this document.

SUMMARY

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions, which will constitute continuing connected transactions for our Company upon the completion of the [REDACTED]. For the details of the continuing connected transactions, please refer to the section headed “Continuing Connected Transactions” in this document.

[REDACTED]

DIVIDENDS

During the Track Record Period, no dividends were paid or declared by us. On November 4, 2020, we declared a dividend of US\$180.3 million to our equity shareholders, which was fully paid on November 5, 2020. Any declaration and payment as well as the amount of dividends will be subject to our Memorandum of Association and the Cayman Companies Law. The declaration and payment of any dividends in the future will be determined by our Board of Directors, in its discretion, and will depend on a number of factors, including our results of operations, cash flows, financial condition, operating and capital expenditure requirements. In addition, our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. As advised by our Cayman Islands counsel, under the Companies Law, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. There is no assurance that dividends of any amount will be declared by the Company to be distributed in any year. [REDACTED] should not [REDACTED] our shares with the expectation of receiving cash dividends. For further details, please see the section headed “Financial Information – Dividends” in this document.

SUMMARY

FUTURE PLANS AND USE OF [REDACTED]

Please see section headed “Business – Our Strategies” in this document for a detailed discussion of our future plans.

Our Company intends to use the net [REDACTED] from the [REDACTED] (assuming that the [REDACTED] is not exercised) of [REDACTED] (assuming that the [REDACTED] is [REDACTED], being the mid-point of the [REDACTED]) for the following purposes:

Estimated allocation of net [REDACTED]	Proposed main uses

approximately [REDACTED]%, or [REDACTED]	

	Our raised funds are mainly used for investment projects in the next two years, including our dairy farms under construction, new dairy farms and a feed mill and the purchase of necessary facilities and equipment to meet our increasing business demands and achieve sustainable growth through economies of scale. Specifically, (i) approximately [REDACTED]%, or [REDACTED] will be used to fund our dairy farms under construction and new dairy farms; and (ii) approximately [REDACTED]%, or [REDACTED], will be used to fund the construction of our feed mill. In particular:

- **Investment project for dairy farms:** we intend to continue to ramp up our scale by adding more dairy farms to capture the attractive market opportunities along China’s dairy value chain. Driven by the increasing dairy product consumption and demand of China’s consumers, we have witnessed a significant growth of the raw milk supply market in China. For details, see the section headed “Industry Overview.” In light of the significant market potential, we believe it is in the best of our interest to scale up our business operations by establishing new dairy farms to accommodate our expanding herds, thereby increasing our milk yield and achieving long-term profitable growth.

SUMMARY

Estimated allocation of net [REDACTED]

Proposed main uses

- Dairy farms under construction: our funds will be used in the next two years for the construction of the three dairy farms that we commenced building in 2020, all of which are located in the Inner Mongolia. We intend to use part of the funds for the construction of these dairy farms and the purchase of related facilities and equipment
- New dairy farms: our funds will be used in the next two years to build five new dairy farms, among which two will be located in Inner Mongolia, two will be located in Shandong and one will be located in Henan. We intend to use part of the funds for the construction of these dairy farms and the purchase of related facilities and equipment
- **Investment project for a feed mill:** we plan to build a feed mill within the next two years in Heilongjiang and acquire a complete set of production lines of concentrated feed, silos for storing feed ingredients and other equipments

approximately
[REDACTED]%, or
[REDACTED]

In light of our expanding operations, we plan to import a total of approximately 20,000 Holsteins from Australia and New Zealand, among others, in the next two years to meet the demand of our new dairy farms in the ordinary course of business

approximately
[REDACTED]%, or
[REDACTED]

Working capital and general corporate purposes

The above allocation of the net [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED]. If our net [REDACTED] are higher or lower than expected, we will increase or decrease the allocation of the net [REDACTED] on a pro rata basis for such purposes.

For further details, please see the section headed “Future Plans and Use of [REDACTED].”

SUMMARY

RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks are set out in the section headed “Risk Factors”, including but not limited to the followings:

- We rely on our largest customer for the sale of our raw milk;
- The outbreak of any diseases among our dairy cows or at neighboring farms could materially and adversely affect our business;
- Actual or perceived food safety issue or product contamination could harm our business and reputation and subject us to product liability claims and regulatory action;
- Our business and financial results are sensitive to fluctuations in market prices of the products we offer;
- Fluctuations in prices of raw materials and unstable supply of raw materials could adversely impact on our business, profitability and results of operations;
- Our inability to guarantee the supply and quality of the heifers and frozen bovine semen for dairy cattle may have an adverse effect on our business and the long-term growth;
- We may not be able to sustain our historical growth rates, and our historical performance may not be indicative of our future growth or financial results;
- We face intensive competition in our businesses and may not be able to compete successfully against our existing and future competitors;
- Our results of operations are subject to fair value adjustments on our biological asset, which can be highly volatile and are subject to a number of assumptions; and
- We may be unable to manage our future expansion and growth.

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of [REDACTED] (being the mid-point of our [REDACTED] of [REDACTED] to [REDACTED] per [REDACTED]), the total [REDACTED] expenses (including [REDACTED] commissions) payable by our Company are estimated to be approximately [REDACTED] (equivalent to approximately [REDACTED]), assuming the [REDACTED] is not exercised. These [REDACTED] expenses mainly include professional fees paid and payable to the professional parties, and commissions and incentive payable to the [REDACTED] for their services rendered in relation to the [REDACTED] and the [REDACTED].

SUMMARY

As of June 30, 2020, the [REDACTED] expenses (excluding [REDACTED] commissions) that have been charged to the combined statements of comprehensive (loss)/income of our Group in relation to the [REDACTED] were [REDACTED]. We estimate that [REDACTED] expenses of approximately [REDACTED] (including [REDACTED] commissions and incentive of approximately [REDACTED], assuming the [REDACTED] is not exercised and based on an [REDACTED] of [REDACTED] per [REDACTED]) will be incurred by our Group, of which approximately [REDACTED] is expected to be charged to our consolidated statement of comprehensive income and approximately [REDACTED] is expected to be charged against equity upon the [REDACTED].

RECENT DEVELOPMENTS

Acquisition of Fonterra China Farms Group

In order to further meet the needs of our expanding business and to achieve continuing profit growth through economies of scale, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020. Pursuant to the share purchase agreement, Youran Dairy agreed to acquire the 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. Such consideration was determined on the basis of, among other things, the adjusted net assets (after the borrowings from the immediate controlling company are converted into additional registered capital before completion) of Fonterra China Farms Group. As of the date of this document, the above mentioned acquisition has not been completed. Please see “History, Reorganization and Group Structure – Major Acquisitions, Disposals and Mergers – Proposed Acquisition of Fonterra China Farms Group” for further details.

Fonterra China Farms Group consists of Fonterra (Yutian) Dairy Farm Co., Ltd., a company established under the laws of the PRC on December 14, 2010, and Fonterra (Ying) Dairy Farm Co., Ltd., a company established under the laws of the PRC on February 11, 2014. Fonterra China Farms Group is wholly-owned by Fonterra Group, a global leading enterprise engaged in dairy products exports and milk processing, in the PRC, and is principally engaged in raw milk production.

As of June 30, 2020, Fonterra China Farms Group operated six dairy farms in China, with a herd size of 54,942 dairy cows, among which 30,304 were milkable cows and 24,638 were heifers and calves. Such six dairy farms are strategically located in Yutian, Hebei and Yingxian, Shanxi in proximity to international commercial centers such as Beijing, and also to take advantage of the ideal farming conditions in such regions.

SUMMARY

The following table sets forth certain details of operating farms of Fonterra China Farms Group as of June 30, 2020:

Region	Number of dairy farms	Approximately size (sq.m.)	Number of milkable cows	Number of calves and heifers
Yutian, Hebei	3	1,621,361	14,039	11,771
Yingxian, Shanxi	3	2,133,161	16,265	12,867
Total	6	3,754,522	30,304	24,638

The following table presents a breakdown of the milkable cows of Fonterra China Farms Group as of the dates indicated below:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>heads</i>			
Calves and heifers	29,382	23,922	24,931	24,638
Milkable cows	30,260	28,473	31,618	30,304
	<u>59,642</u>	<u>52,395</u>	<u>56,549</u>	<u>54,942</u>

The dairy farms of Fonterra China Farms Group have been designed to maximize cow comfort, with preferable layout allowing for more feeding and resting time. With the benefit of stringent health and safety requirements as well as a robust food safety and quality framework, Fonterra China Farms Group aspires to produce fresh, safe raw milk of high quality for leading downstream dairy manufacturers such as Yili and Bright. In 2017, 2018, 2019 and the first half of 2020, Fonterra China Farms Group sold 285,644 tons, 246,261 tons, 269,048 tons and 146,268 tons of raw milk, respectively. For information of the top five suppliers and the top five customers of the enlarged group with Fonterra China Farms Group, see the sections headed “Business – Our Suppliers” and “Business – Our Customers” in this document.

SUMMARY

The following table sets forth the raw milk sales value and sales volume of Fonterra China Farms Group for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
Sales value (RMB' 000)	1,034,863	930,158	1,080,509	516,506	572,056
Sales volume (tons)	285,644	246,261	269,048	136,635	146,268

In the years ended December 31, 2017, 2018, 2019 and the six months ended June 30 2020, Fonterra China Farms Group's revenue was RMB1,055.7 million, RMB957.7 million, RMB1,111.4 million and RMB587.5 million, respectively. The following tables set forth the revenue, cost of sales, gains/losses arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest and gross profit of Fonterra China Farms Group for the periods indicated. For details of Fonterra China Farms Group's financial performance during the Track Record Period, see “Financial Information – Financial Information of Fonterra China Farms Group.”

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000			(unaudited)	
Revenue	1,055,658	957,654	1,111,354	530,599	587,492
Revenue from the sales of raw milk	1,034,863	930,158	1,080,509	516,506	572,056
Revenue from the sales of bull-calves	20,735	26,913	29,863	13,505	15,014
Revenue from provision of inspection services	60	583	982	588	422
Cost of sales	(983,776)	(867,282)	(1,011,171)	(480,524)	(548,123)
Gains/(losses) arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	82,207	(12,269)	94,418	18,506	93,297
Gross profit	154,089	78,103	194,601	68,581	132,666

As advised by our PRC legal advisors, as of the Latest Practicable Date, Fonterra China Farms Group had been in compliance with all relevant PRC laws and regulations in all material respects during the Track Record Period and had obtained all necessary material license approvals and permits from the relevant regulatory authorities in respect of its operations in the PRC, including certificates for meeting animal epidemic prevention conditions and raw fresh

SUMMARY

milk purchase permits. As of the Latest Practicable Date, as advised by our PRC legal advisors, Fonterra China Farms Group did not hold any material trademarks, patents or domain names in the PRC, and did not have any intellectual property licensing arrangements with Fonterra Group.

During the Track Record Period and as of the Latest Practicable Date, there were no pending or threatened litigation matters or other proceedings, and Fonterra China Farms Group was not involved in litigation or other proceedings, that we believe would materially adversely affect the business, financial condition or results of operations of Fonterra China Farms Group as of the Latest Practicable Date. As of the Latest Practicable Date, our Directors confirm and our PRC Legal Advisor is of the opinion that Fonterra China Farms Group has complied with the applicable PRC laws and regulations in all material respects during the Track Record Period and that Fonterra China Farms Group has obtained the relevant permits, licenses, qualifications, approvals and authorizations that are material to its business operations.

Upon completion of the acquisition of Fonterra China Farms Group, we plan to immediately mobilize our internal resources to achieve a seamless integration between our raw milk business and that of Fonterra China Farms Group. Specifically, we intend to apply our modern and scientific operations and management and industry-leading standards to the dairy farms of Fonterra China Farms Group in every material aspect of dairy farming operations, which covers intelligent herd management, precision feeding, standardized milking process, eco-dairy farming and quality control systems, among other things. Leveraging our extensive dairy farming experience as well as our strengths along the upstream dairy value chain, we believe we can replicate our success and ramp up the raw milk production volume as well as average milk yield per milkable cow of Fonterra China Farms Group while achieving significant economies of scale and synergies of our Group as a whole.

Impact of the COVID-19 Outbreak

An outbreak of a respiratory disease COVID-19 was first reported in December 2019 and continues to expand across the PRC and globally. The World Health Organization, which has been closely monitoring and assessing the situation, declared the outbreak a public health emergency of international concern on January 30, 2020 and a global pandemic on March 11, 2020, respectively. In response to the pandemic, China has imposed an all-around lockdown, closing workplaces and restricting mobility and travel of people to curb the spread of the virus. As of the Latest Practicable Date, most cities in China have eased or lifted travel restrictions and resumed work and production.

SUMMARY

The outbreak of the COVID-19 has made impact on our business in many aspects, including:

- *Impact on sales of our products.* As a result of the COVID-19 outbreak, we experienced a temporary decline in our selling price of raw milk during the outbreak. In the first half of 2020, the average selling price of our raw milk (excluding the portion of SKX) slightly decreased from RMB4.61/kg in the first half of 2019 to RMB4.57/kg. During the same period, the sales volume of our raw milk was not significantly and adversely affected by the outbreak and remained an upward trend as compared to the first half of 2019. In the first half of 2020, the revenue and sales volume of our comprehensive ruminant farming solutions business also maintained an upward movement as compared to the first half of 2019. As of the Latest Practicable Date, to the best of our Directors’ knowledge, we have not cancelled any major projects in progress as a result of the COVID-19 outbreak.
- *Impact on our supply chain and production.* As affected by the COVID-19 outbreak, certain of our suppliers suffered delays in supply due to the suspension of production in early 2020; in addition, the transportation of our products was adversely affected by traffic restrictions. Given that we have maintained adequate inventory levels and kept communicating with the relevant government department for the purpose of coordinating transportation, as of the Latest Practicable Date, to the best of our Directors’ knowledge, we had fully resumed work and our ability to perform our existing contractual obligations had not been materially affected as a result of the COVID-19 outbreak.
- *Other impacts on our operations.* The COVID-19 outbreak has also had a negative impact on our daily operations. For example, some of our employees were required to work remotely due to mandatory quarantines. In addition, some of our scheduled on-site marketing activities and physical meetings with customers have been postponed or need to be conducted in other manners due to the impact of the outbreak.

We have taken various measures to mitigate the impact of the COVID-19 outbreak on our sales, production, supply chain and employees. These remedial measures include drawing up a general inventory plan and closely communicating with our suppliers to understand the status of their operations. We have also implemented various hygiene and prevention policies for our employees and customers, including wearing masks and disinfecting and other preventive measures in response to the outbreak. Thus, despite the COVID-19 outbreak, our revenue grew steadily in the first half of 2020.

SUMMARY

Based on the performance of our business in the first half of 2020 and other information known to us, we also do not expect significant financial damage or impact to our long-term commercial prospect from the COVID-19 outbreak. However, we cannot assure you that the COVID-19 outbreak will not further escalate or have a material adverse effect on our results of operations. For details, please refer to the paragraph headed “Risk Factors – Our business operations and financial performance are adversely affected by the outbreak of COVID-19, and may be materially and adversely affected by other natural disasters, epidemics, acts of war or terrorism or other factors beyond our control” in this document.

No Material Adverse Change

Our Directors confirm that, other than the foregoing, there has been no material adverse change in our financial, operational or trading positions or prospects since June 30, 2020, being the date of our combined financial statements as set out in “Appendix I – Accountants’ Report” to this document, and up to the date of this document.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this document. Certain other terms are explained in the section headed “Glossary” in this document.

[REDACTED]

“Articles of Association” or “Articles”	the amended and restated articles of association of our Company conditionally adopted on [●], 2021 and will come into effect upon [REDACTED] (as amended, supplemented or otherwise modified from time to time), a summary of which is set out in Appendix IV to this document
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board of Directors” or “Board”	our board of Directors
“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
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Cayman Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, consolidated or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

[REDACTED]

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, which for the purpose of this document and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as the same may be amended, supplemented or otherwise modified from time to time
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as the same may be amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company,” “our Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on August 21, 2020
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Convertible Note”	the convertible note issued by our Company to certain [REDACTED] Investors, particulars of which are set out in the section headed “History, Reorganization and Group Structure – [REDACTED] Investments” in this document, and collectively the “Convertible Notes”
“Director(s)”	any one of the members of the Board of our Company
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Fonterra China Farms Group”	Fonterra (Yutian) Dairy Farm Co., Ltd., a company established under the laws of the PRC on December 14, 2010, and Fonterra (Ying) Dairy Farm Co., Ltd., a company established under the laws of the PRC on February 11, 2014, both of which are wholly-owned subsidiaries of Fonterra Group
“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 16 October 2001

[REDACTED]

DEFINITIONS

“Group,” “our Group,”
“we” or “us”

Our Company and its subsidiaries from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

For avoidance of any doubt, unless otherwise indicated, the historical results of operations and financial condition of our Group for the years ended December 31, 2017, 2018 and 2019 and for the period from January 1, 2020 to January 7, 2020 presented and discussed in this document do not reflect those of SKX; and the historical results of operations and financial condition of our Group for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020 presented and discussed in this document do not reflect those of Fonterra China Farms Group

“HK\$” or “Hong Kong dollars”

Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong

[REDACTED]

“HKSCC”

Hong Kong Securities Clearing Company Limited

“HKSCC Nominees”

HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

“Hong Kong” or “HK”

the Hong Kong Special Administrative Region of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Hong Kong Stock Exchange” or The Stock Exchange of Hong Kong Limited
“Stock Exchange”

[REDACTED]

“Independent Third Party(ies)” an entity or person who is not a connected person of our
Company within the meaning ascribed under the Listing
Rules

[REDACTED]

DEFINITIONS

[REDACTED]

“Jingang Holding”

HONGKONG JINGANG TRADE HOLDING CO., LIMITED (香港金港商貿控股有限公司), a company incorporated under the laws of Hong Kong with limited liability on 17 January 2011, and a wholly-owned subsidiary of Yili

[REDACTED]

“Joint Sponsors”

Huatai Financial Holdings (Hong Kong) Limited and Credit Suisse (Hong Kong) Limited

“Latest Practicable Date”

[November 18], 2020, being the latest practicable date prior to the publication of this document for the purpose of ascertaining certain information contained in this document

DEFINITIONS

[REDACTED]

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Meadowland”	Meadowland Investment Limited Partnership, an exempted limited partnership established under the laws of the Cayman Islands on September 7, 2020, and one of our [REDACTED] Investors
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company conditionally adopted on [●], 2021 and will come into effect upon [REDACTED] (as amended, supplemented or otherwise modified from time to time), a summary of which is set out in Appendix IV to this document
“NEEQ”	National Equities Exchange and Quotations

[REDACTED]

DEFINITIONS

[REDACTED]

“PAG Entities”	means PAG I, PAG II and PAG III, collectively
“PAG I”	PAGAC Yogurt Holding I Limited, a business company incorporated under the laws of the BVI with limited liability on March 18, 2015, and one of our [REDACTED] Investors and Controlling Shareholders
“PAG II”	PAGAC Yogurt Holding II Limited, a company incorporated under the laws of Hong Kong on May 3, 2019, and one of our [REDACTED] Investors and Controlling Shareholders
“PAG III”	PAGAC Yogurt Holding III Limited, an exempted company incorporated under the laws of the Cayman Islands on October 4, 2019, and one of our [REDACTED] Investors and Controlling Shareholders
	[REDACTED]
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization of our Group in anticipation of the [REDACTED], the details of which are set out in the section headed “History, Reorganization and Group Structure” in this document
“RMB” or “Renminbi”	the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the 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) of par value US\$0.00001 each in the issued share capital of our Company

“Shareholder(s)” holder(s) of our Shares

“SKX” Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd (內蒙古賽科星繁育生物技術(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the NEEQ (stock code: 834179) which has been our subsidiary since January 8, 2020

[REDACTED]

“subsidiary” has the meaning ascribed to it in the Listing Rules

“Track Record Period” the three years ended December 31, 2019 and the six months ended June 30, 2020

[REDACTED]

“United States” or “U.S.” the United States, as defined in Regulation S

“U.S. Person” has the meaning given to it in Regulation S

“U.S. Securities Act” the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

“US\$” or “U.S. dollars” 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

DEFINITIONS

“Youran”	(i) our Group, for the purpose of the years ended December 31, 2017, 2018 and 2019; and (ii) our Group without considering the SKX Acquisition and without reflecting the results of operations and financial position of SKX and its subsidiaries from time to time, for the purpose of the six months ended June 30, 2020
“Youran BVI”	Yogurt Holding II Limited, a company established under the laws of the BVI on March 18, 2015 and a subsidiary of our Company
“Youran Dairy”	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 our Company
“Youran HK”	Yogurt Holding I (HK) Limited, a company established under the laws of Hong Kong on April 9, 2015 and a subsidiary of our Company
“%”	per cent.

GLOSSARY

This glossary contains certain technical terms used in this document in connection with our Company. Such terms and their meanings may not correspond to standard industry definitions or usage.

“A2”	A2- β -casein, a type of protein found in animals’ milk
“aerobic plate count”	the count of microbes and bacteria in raw milk, an important safety indicator of raw milk; lower aerobic plate count typically indicates improved sanitation and better health conditions
“alfalfa”	a type of perennial forage grass in the legume family Fabaceae cultivated as an important forage crop for ruminants
“annualised average milk yield per milkable cow”	the total milk production volume of a milkable cow over the period divided by total number of days for which the milkable cows are raised during the period, and then multiplied by the total number of days of the relevant year
“breeding stock”	livestock used for the purpose of breeding domestic animals by agricultural, animal husbandry production units or individuals to develop production
“bull”	a male bovine animal
“calf” or “calves”	young female cow(s) up to six months of age from birth
“cattle”	the general term for bovine animals, divided into dairy cows, beef cattle, etc. according to economic use
“CFU”	colony-forming unit, a measure of viable bacteria or fungal cells in a sample
“China Standard”	the National Food Safety Standard – Raw Milk issued by the Ministry of Health of the PRC
“concentrated feed”	feed for ruminants that contain lower crude fiber as compared to forage grass and have a certain amount of energy and protein, and that are made by blending various crops, including corn, soybean meals and cottonseed meals
“dairy cows”	calves, heifers and milkable cows

GLOSSARY

“DHA”	Docosahexaenoic acid, a primary component of the brain. More and more studies proved that it probably has a key impact on the neurotransmitters of the brain, which contributes to the smooth communication among brain cells. It is widely used by infant formulas producers as food supplements
“dry cow(s)”	milkable cow(s) that are in the dry period of a lactation cycle, during which they do not produce any raw milk
“EU Standards”	quality standards of raw milk as set forth in the Council Directive 92/46/EEC adopted in the European Union
“forage grass”	feed that contain higher crude fiber (dry matter basis)
“feed ingredients”	feed that are derived from animals, plants, microbes and minerals, used for the processing and manufacture of feed but not feed additives
“feeder cattle”	beef cattle, a type of cattle that mainly produce beef
“heifer(s)”	young female cow(s) older than six months that has not given birth to a calf or bull
“Holsteins”	a breed of large dairy cattle that have high milk yield with unique black and white patterns on their bodies and strong adaptability to various environment conditions
“Jerseys”	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
“large-scale farms” or “large-scale dairy farms”	farms with 1,000 heads and more, typically have higher levels of capital investment and use more advanced technology
“liquid milk”	drinking milk, including UHT milk, pasteurized milk and yogurt, categorized by different processing techniques
“milkable cow(s)”	dairy cow(s) that have given birth to a calf or bull, including milking cows and dry cows
“milking cow(s)”	milkable cow(s) that are in the lactation period of a lactation cycle, during which they produce raw milk
“minerals”	inorganic components of feed, which are inherent components that cannot be decomposed or synthesized through chemical reactions

GLOSSARY

“mu”	an area unit used in China, equals to approximately 667 square meters
“nutritional standard”	the standard to determine nutritional quality of raw milk, with protein content and fat content as two of the major indicators
“pasteurized milk”	raw milk that has gone through low-temperature pasteurization
“protein”	an essential part of the animal organism and an important active substance that regulates the physiological activities in the animal body
“ruminants”	A group of mammals with special gastric structure and ruminant behavior, which can take in nutrients by fermenting plant-based feed by microorganisms living in specialized stomachs. Ruminants mainly include cattle, sheep, deer and others
“safety standard”	the standard to determine the safety of raw milk, using aerobic plate count and SCC as two of the major indicators
“SCC” or “somatic cell count”	the total number of cells per milliliter in milk, an important quality indicator of milk; lower somatic cell count typically indicates improved sanitation and better health conditions
“silage”	succulent, moist feed made by storing a green crop in a silo; the crop most used for silage is corn; others are sorghum, wheat, legumes, and grass
“supplementary feed”	feed made from a variety of feed ingredients and feed additives in a certain ratio in order to supplement the nutrition of herbivores
“transition cow(s)”	dairy cow(s) that are within the period of 21 days before or after childbirth
“U.S. Standard”	the raw milk quality standards in Grade “A” premium Pasteurized Milk Ordinance issued by U.S. Department of Health and Human Services
“vitamin”	extensively involved in the body’s basic biochemical reactions and nutrient metabolism processes in the form of coenzymes and catalysts, an essential nutrient to ensure the normal function and metabolism of the body

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this document. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate,” “if” or the negative of these terms or other similar terms. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- uncertainties relating to our ability to expand our organic dairy farms and distribution network;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- uncertainties relating to our ability to comply with all relevant environmental, health and safety laws and regulations;

FORWARD-LOOKING STATEMENTS

- changes in our planned use of [REDACTED];
- uncertainties relating to our future prospects, business development, results of operations and financial condition;
- changes in our future capital needs and capital expenditure plans;
- the actions and developments of our competitors; and
- fluctuations in general economic and business conditions in China.

Any forward-looking statement made by us in this document speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an [REDACTED] in our Shares. Any of the following risks could materially and adversely affect our business, financial condition, and results of operations. The market price of our Shares could significantly decrease due to any of these risks, and you may lose all or part of your [REDACTED].

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking Statements” in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We rely on our largest customer for the sale of our raw milk.

We have built a close business relationship with Yili, one of our Controlling Shareholders and our major customers and we rely on such relationship to conduct our businesses. We entered into a framework agreement with Yili in 2015, under which we will provide long-term supply of raw milk for Yili. We derived revenues of RMB2,053.2 million, RMB 2,393.1 million, RMB2,845.4 million and RMB3,067.1 million from sales of raw milk to Yili for 2017, 2018, 2019 and the six months ended June 30, 2020, respectively, accounting for approximately 91.8%, 91.7%, 92.9% and 96.1% of our sales of raw milk produced during the same periods. We expect that raw milk sales to Yili will continue to represent a significant portion of our annual sales of raw milk produced for the foreseeable future.

We cannot assure you that we will continue to benefit from our cooperation with Yili in the future. If Yili breaches its contractual obligations to purchase our raw milk, or our relationship with Yili deteriorates or is terminated, or if we fail to maintain the relationship on commercially viable terms, we will need to source other business partners and may not be able to quickly locate them. Hence, our business, operations and financial condition could be materially and adversely affected. In addition, if Yili were to fail to make timely payments, we may be unable to recover significant amounts of trade receivables and our cash flows and financial position could be adversely affected.

The outbreak of any diseases among our dairy cows or at neighboring farms could materially and adversely affect our business.

A major outbreak of any illness or disease at any of our dairy farms could have a significant adverse impact on our raw milk production capacity and volume. The source of diseases may include our employees, our feed supplies, visitors to our dairy farms, contaminated water and pathogens transmitted through the air. We vaccinate different groups of dairy cows according to the different stages of their growth at our dairy farms. To the best

RISK FACTORS

of our knowledge, there were no outbreaks of major diseases at any of our dairy farms during the Track Record Period. However, we cannot guarantee that animal diseases, including but not limited to FMD will not occur at our dairy farms or we will not fail to monitor or detect any illness or diseases among our dairy cows or on neighboring farms. Any major outbreak of illness or diseases, including those mentioned above, at any of our dairy farms may lead to significant shortfalls in our raw milk production. We may also be required to suspend our business operations temporarily during any major outbreaks and examine all of our dairy cows. Although our insurance policies cover cattle deaths caused by diseases and we may also receive government compensation in the event of an outbreak of a disease, we cannot assure you that these will be sufficient to cover all of our losses, particularly intangible losses including damage to our reputation and corporate image. In addition, an outbreak of any dairy cows disease at neighboring farms could result in concerns of the public and our customers, which could in turn adversely impact our sales, reputation and results of operations. In the event of any outbreak, our business, financial condition and results of operations could be materially and adversely affected.

Actual or perceived food safety issue or product contamination could harm our business and reputation and subject us to product liability claims and regulatory actions.

Our results of operations and financial condition could be materially and adversely affected by product contamination or reported to be associated with any food safety incidents. During the Track Record Period, our products were not found to have contaminants or reported to be associated with any contamination incidents, and we were not subject to any product liability claims. However, we cannot assure you that contamination will not occur during the production or transportation of our products. Furthermore, the mere publication of information alleging that our products contain or have contained any contaminants, or adverse publicity about the quality of our products, could damage our reputation and have a material adverse effect on us, regardless of whether such publication or publicity has any factual basis.

When our products are delivered to our customers, they undergo standard quality and safety inspections. If our products are found to be contaminated during the inspection process, we could face delivery rejections or product returns or even claims for damages, which could reduce our sales and damage our relationships with our customers. Following the delivery of our products to our customers, our products are used in our customers’ downstream production. If their downstream products are contaminated, and if the contamination can ultimately be traced back to our products, we could be subject to product liability claims by our customers and end consumers for damages, including without limitation, medical expenses, disability and wrongful death. In addition, the contamination of our products may result in product recalls, serious damage to our reputation and brand name and consumer confidence in our products as well as loss of revenues.

In addition to product liability claims, if our products are found to be contaminated, we may be subject to regulatory actions. If we are found to violate the Food Safety Law of the PRC (中華人民共和國食品安全法), we could be subject to penalties, including monetary fines, confiscation of illegal gains, income and foodstuffs from the manufacturing or business

RISK FACTORS

activities, and of utensils, equipment, raw materials and other articles used for illegal business activities, and/or the revocation of licenses needed to conduct our business, which could materially and adversely affect our results of operations and financial condition.

Our business and financial results are sensitive to market prices of the products we offer.

The profitability of our operations is affected by the selling prices of our products. Under our raw milk supply agreements, the prices of our raw milk are generally determined by a quality-based scheme set up by our customers, where the prices of our raw milk are benchmarked against the prevailing market prices of raw milk of similar quality and attributes. Similarly, for our feed products and cow breeding products, we typically set the prices at prevailing market prices of similar products in China. Historically, prices of raw milk, feed products and cow breeding products in China have been volatile, primarily due to fluctuations in the supply and demand of these products. In addition, the market price of raw milk is subject to various other market forces and factors that are out of our control, such as the quality of raw milk, the feed price, the supply and demand of the global dairy market and the seasonality in the northern and southern hemispheres. If the prices for our products decline in the future, and we are unable to sell more products and/or reduce our cost of sales, our revenues will decrease and our profitability will be adversely affected.

Fluctuations in prices of raw materials and unstable supply of raw materials could adversely impact on our business, profitability and results of operations.

The raw materials that we require mainly include forage grass to supply our dairy farms and feed ingredients to produce feed products. Although we grow a portion of our forage grass on the ancillary feed planting bases of our dairy farms, we currently purchase the majority of raw materials from third-party suppliers, and we expect to continue to do so in the future. For instance, our cost of feed in the raw milk segment amounted to RMB1,104.0 million, RMB1,237.6 million, RMB1,437.6 million and RMB1,513.2 million in 2017, 2018 and 2019 and for the six months ended June 30, 2020, respectively, accounting for 79.2%, 79.8%, 80.6% and 79.9% of the cost of sales of our raw milk business (before raw milk fair value adjustments) respectively. Although we have maintained stable business relationships with multiple suppliers for the supply of our raw materials, we cannot assure you that they will continue their business relationship with us and deliver to us sufficient raw materials in a timely manner on commercially acceptable terms, or at all. In the event that our agreements with these suppliers are terminated, interrupted, or adversely modified, we cannot assure you that we are or will be able to secure alternative sources of raw materials with comparable prices or amounts on terms favorable to us, or at all. Any loss of our major suppliers could result in delay of our production and/or increase in our cost of sales, thereby materially and adversely affecting our business and financial position.

We are also exposed to the risk of fluctuation in market prices of raw materials. If we are unable to effectively manage the price fluctuations or transfer the increased costs to our customers or adjust our procurement strategy, any significant increase in the prices of raw materials would adversely impact our profit margin.

RISK FACTORS

Moreover, supplies of raw materials are subject to a variety of factors beyond our control. Such factors include demand and supply dynamics, suppliers’ business performance, government control, overall economic conditions, weather conditions, various plant diseases, pests and other acts of nature, all of which may have an impact on the availability of raw materials and their respective market prices. While we have not experienced any major disturbances to raw materials supply in the past, we cannot guarantee that we may continue to obtain sufficient quantities of raw materials at acceptable prices or at all.

Our inability to guarantee the supply and quality of heifers and frozen bovine semen for dairy cattle may have an adverse effect on our business and the growth prospects.

The quality and quantity of our dairy cows are important to our raw milk output. We import high quality heifers from Australia and New Zealand. Any adverse event, such as outbreak of disease, strikes, riots or economic downturns, within these countries may cause disruption or shortage of supply, deterioration of quality and price fluctuation of the heifers, which could have a material adverse effect on our business and results of operations. In addition, the expansion of our business depends heavily on our ability to import sufficient numbers of heifers, failure of which could adversely affect our growth prospects.

To genetically improve our herd of dairy cows, we mainly procure high quality frozen semen for bulls from our own breeding business. Should our supply of frozen bovine semen for dairy cattle be disrupted or the quality of such frozen bovine semen for dairy cattle be deteriorated for any reasons, the genetic quality of our herd, and in turn, the quality and yield of raw milk may decline and fail to meet the demands of our customers. Accordingly, our business, results of operations and future growth prospects may be adversely affected.

We may not be able to sustain our historical growth rates, and our historical performance may not be indicative of our future growth or financial results.

We have experienced a stable growth during the Track Record Period. Our revenue increased significantly from RMB5,091.4 million in 2017 to RMB6,333.9 million in 2018, and further to RMB7,667.8 million in 2019, representing a CAGR of 22.7% from 2017 to 2019. However, there is no assurance that we will be able to maintain our historical growth in the future. Our revenue growth may slow down or our revenues may decline for a number of reasons beyond our control, including decreasing dairy consumption, increasing competition, changing consumer preferences, slowing growth of China’s dairy industry, supply and production bottlenecks, changes in government policies or general economic conditions. If our growth declines, [REDACTED] perception of our business and business prospects may be adversely affected and the market price of our Shares would decline.

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We face intensive competition in our businesses and may not be able to compete successfully against our existing and future competitors.

We operate in highly competitive markets in China. For our raw milk business, we primarily compete with other large-scale dairy farms in China. For the ruminant feed market in China, we face direct competition with regional and foreign feed producers for our concentrated feed, while face direct competition with other forage grass producers for the forage grass production. For breeding business, we are exposed to intensive competition with domestic and foreign frozen semen providers. See the section headed “Business – Competition” in this document for details on our competitive landscape. To obtain and maintain competitive advantage in any of these business segments would require us to divert significant managerial, financial and human resources. In addition, each of our business segments is subject to rapid changes in the respective market and new market entrants. Some of our current competitors have, and future competitors may have, greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer base than we do. Our competitors may also enter into business combinations or alliances that strengthen their competitive positions. Increased competition may reduce our market share and profitability and require us to increase our marketing and promotional efforts and capital commitment in the future, which could negatively affect our results of operations or force us to incur further losses. Although we have a track record of competing effectively against our competitors, there is no assurance that we will be able to continue to do so in the future, and such competitive pressures may have a material adverse effect on our business, financial condition and results of operations.

Our results of operations are subject to fair value adjustments on our biological asset, which can be highly volatile and are subject to a number of assumptions.

We engage in agricultural activities by managing the biological transformation and harvest of our biological assets for sale or for conversion into agricultural products or into additional biological assets. Our historical results of operations, particularly our operating profit and profit of the year, have been affected by biological asset fair value adjustments on our dairy cows. Any increase (decrease) in raw milk price will positively (negatively) affect both our revenue generated from selling raw milk and gains/losses arising from biological assets fair value adjustments, hence making our results of operation volatile. For details on the biological asset fair value adjustments, see the section headed “Financial Information – Major Factors Affecting Our Results of Operations and Financial Conditions – Changes in Fair Value of Biological Assets” and “Financial Information – Description of Major Components of Our Results of Operations – Loss Arising from Changes in Fair Value less Costs to Sell of Dairy Cows”.

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The fair value of our biological assets at the end of each reporting period was determined by independent professional valuers, using a number of assumptions that may vary from time to time. The fair value of the biological assets could be affected by, among others, the accuracy of those assumptions, as well as the quality of our herd and changes in the dairy industry. Therefore, the resulting adjustments can be highly volatile. These assumptions may be more favorable than the actual historical rates. In addition, while these assumptions as adopted in the valuation process have been in line with the actual results, we cannot assure you that there will be no significant deviation in the future. For details on the valuation and the application of various assumptions, see the section headed “Financial Information – Description of Major Components of Our Results of Operations – Loss Arising from Changes in Fair Value less Costs to sell of Dairy Cows”. In particular, upward adjustments and gains so recognized do not generate any cash inflow for our operations. As a result, when evaluating our results of operations and profitability, you should consider our profits and margins without taking into account the effects of these biological assets fair value adjustments.

We may be unable to manage our future expansion and growth.

Our future growth depends on our ability to expand our production capacity and geographic coverage, and requires managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management systems and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects.

Specifically, expanding our production facilities, including our dairy farms, plantation fields and feed production facilities, requires investment and construction lead time. We will need to procure additional raw materials, construct manufacturing, production, warehousing and transportation infrastructure, and increase distribution and marketing channels to support our expansion plan. In general, there is typically a lag time of approximately 1.5 years between our investment of capital and the production and sale of our products. We incur and expect to incur additional costs in relation to our expansion, and expect that there will continue to be a time lag before we are able to generate revenue from new production facilities. Due to the fixed costs associated with new production facilities, this time lag will affect, and we expect to continue to affect, our results of operation, financial condition, net current liabilities position and cash flows.

In addition, as we expand our business into new regions, we may encounter regulatory, personnel, technique and other difficulties that may increase our expenses or may be unable to find suitable locations for our production facilities, which could delay our expansion plans or impair our ability to become profitable in these regions.

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We face risks relating to our recent acquisition of SKX and Fonterra China Farms Group.

We completed the acquisition of SKX on January 8, 2020. For details, see the section headed “History, Reorganization and Group Structure” in this document. We believe the SKX Acquisition will help us access quality frozen bovine semen for dairy cattle and embryos, advance heifer breeding techniques and know-hows, and solidify our raw milk operations, thereby improving our overall operating efficiency and profitability. While we expect that the SKX Acquisition will bring us enhanced corporate image, new business opportunities and future growth, there remain significant challenges and risks in integrating their businesses into our existing businesses, including:

- difficulties and unanticipated additional costs and expenses resulting from the integration of personnel, operations, products, services, technology, internal controls and financial reporting of SKX;
- disruption of our ongoing business, distraction of and significant time and attention required from our management and employees and increases in our expenses;
- departure of skilled professionals and management teams of SKX, as well as influence on established client relationships of SKX;
- a temporary decline of operating efficiency caused by unfamiliarity;
- unaligned interests with the other shareholders of SKX;
- potential litigations, negative consequences caused by any actual or alleged misconduct, unscrupulous business practices or non-compliance conducted by SKX and hidden or potential liabilities, costs, expenses and losses incurred by SKX;
- SKX recorded net current liabilities of RMB818.0 million, RMB1,503.5 million and RMB1,795.9 million as of December 31, 2017, 2018 and 2019, respectively. A net current liabilities position exposes us to liquidity risks; and
- the potential amortization and/or impairment for goodwill associated with the acquisition of SKX.

In addition, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire the 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. For the details, please see the section headed “History, Reorganization and Group Structure” in this document. We believe that the acquisition of Fonterra China Farms Group will be conducive to further meeting the needs of our expanding business and sustaining profitability through economies of scale. However, in respect of acquisition of Fonterra China Farms Group’s

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business, we are facing the same challenges and risks in consolidating its business into our existing business as the SKX Acquisition, including the liquidity risk we might be imposed considering the net current liabilities Fonterra China Farms Group recorded historically.

These along with other risks could lead to negative publicity, litigations, government inquiries, investigations or actions against us, and may force us to incur significant additional expenses and allocate significant managerial and other resources to improve corporate governance standards and internal control systems. Hence, our business and results of operations may be materially and adversely affected.

Failure to maintain the quality and safety of our products could have a material and adverse effect on our reputation, financial condition and results of operations.

The quality and safety of our products are critical to our success. We pay close attention to quality control, monitoring each step in the process from procurement to production and from warehouse to delivery. For more information on our quality control system, see the section headed “Business – Quality Control.” Yet, due to the scale of our operations and rapid growth of our business, maintaining consistent product quality depends significantly on the effectiveness of our quality control system, which in turn depends on a number of factors, including but not limited to the design of our quality control system, employee training to ensure that our employees adhere to and implement our quality control policies and procedures and the effectiveness of monitoring any potential violation of our quality control policies and procedures. There can be no assurance that our quality control system will always be effective. In the event of any failure in our quality control system, we may not be able to detect contaminations or defective products, and may fail to prevent such defective products from being delivered to our customers, which could cause us to suffer monetary losses or damage to our reputation.

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In addition, the quality of the products or services provided by our suppliers or service providers is subject to factors beyond our control, including the effectiveness and the efficiency of their quality control system, among others. There can be no assurance that our suppliers or service providers will always be able to adopt appropriate quality control systems and meet our stringent quality control requirements in respect of the products or services they provide. Any failure of our suppliers or service providers to provide satisfactory products or services could harm our reputation and adversely impact our operations.

Adverse publicity concerning food safety of dairy products in China could have a negative impact on the PRC dairy industry and our business.

There have been food safety incidents in China regarding contaminated dairy products produced by certain Chinese dairy manufacturers, shaking consumers’ confidence in the PRC dairy industry. Negative publicity concerning food safety of dairy products in China, whether accurate or not, could result in loss of overall consumer confidence in dairy products produced in China. The PRC dairy farming industry, providing raw milk to be processed by the downstream dairy processors, could also be adversely affected consequently, even in the cases where the relevant food safety issues result from downstream processing only.

None of our raw milk has been involved in any food safety incidents during the Track Record Period and up to the Latest Practicable Date. However, if the consumer perception and market demand for dairy products produced in China are negatively impacted by publicity about food safety incidents, in particular those associated with our existing and prospective customers, sales of our raw milk could also be adversely affected, resulting in a material adverse effect on our business, results of operations and financial condition.

Disruptions of operations at our production facilities could materially and adversely affect our business.

Our business depends on the smooth operations at our production facilities, including our dairy farms, plantation fields and feed production facilities. For example, our raw milk business depends on our ability to procure forage grass, manage our dairy farms, produce quality raw milk and timely deliver quality raw milk to our customers. Damage to or disruption at our production facilities could materially and adversely affect our business. Such damage or disruption could result from the following factors, among other things:

- utility supply disruptions, terrorism, strikes or other *force majeure* events;
- forced closing or suspension of our production facilities;
- inclement weather conditions;
- major disease outbreaks at our plantation fields, our dairy farms or our neighboring farms;

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- pollution of underground water resources;
- our failure to comply with applicable regulations and quality assurance guidelines;
- interruption of our information technology systems that facilitate the management of our dairy farms and feed production facilities;
- accidents in our production facilities, including major equipment failures or fires, which may result in suspension of operations, property damage, severe personal injuries or even fatalities;
- opposition from, or disputes with, local communities with respect to our continued operation or further development or new development of our dairy farms or plantations fields; and
- other production or distribution problems, including limitations to production capacity due to regulatory requirements, changes in the types of products produced or physical limitations that could impact continuous supply.

We did not experience any material disruptions to our production facilities during the Track Record Period. However, we cannot assure you that the events and factors mentioned above will not occur and result in a material disruption to the operations of our production facilities in the future. If we fail to take adequate steps to mitigate the likelihood or potential impact of such events or factors, or to effectively respond to such events or factors, our business, results of operations and financial condition could be materially and adversely affected.

We rely heavily on the sales of our raw milk in China and are subject to changes in consumer preferences and consumption structure.

Our success depends on our ability to anticipate, identify, interpret and react to the evolving consumption structure of the downstream dairy market in China. Sales of our products could be affected by nutritional and health-related concerns about our products, such as fat, cholesterol, calorie, sodium, lactose, sucrose, bacteria and other ingredients contained in the products. Consumer preferences and consumption structure in the downstream dairy market are constantly changing and our failure to anticipate, identify, interpret and react to these changes, or our failure to generate consumer acceptance or recognition of our new products, could lead to decreasing demand for and/or price reductions of our products, which could materially and adversely affect our business, financial condition and results of operations.

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Even if we do correctly anticipate, identify, interpret and react to these changes, there can be no assurance that demand for these new preferable products will grow to the extent that we expect, or that these desirable products will generate the returns we expect. If we are unable to respond to rapid changes in consumer preferences in a timely manner or at all, or if our competitors are able to address these concerns more effectively or efficiently, our business, financial condition and results of operations could be materially and adversely affected.

Our ability to meet working capital requirements or obtain additional financing may be limited, which could delay or prevent the implementation of our growth strategies.

We have, to date, financed our working capital and capital expenditure needs primarily by managing our inventories, receivables and payables and through capital contributions from shareholders and bank loans from local banks. Our total bank and other borrowings (excluding the data of SKX) as of December 31, 2017, 2018 and 2019 were RMB1,201.6 million, RMB1,742.0 million and RMB2,782.6 million, respectively. As of June 30, 2020, our total bank and other borrowings (including the data of SKX) were RMB5,275.7 million. See the section headed “Financial Information – Discussion of Certain Key Combined Statement of Financial Position Items of Our Group – Current assets and liabilities” and “Financial Information – Discussion of Certain Key Combined Statement of Financial Position Items of Our Group – Non-current assets and liabilities” for more information. Although we believe that our current cash and cash equivalents, and cash flow from operations will be sufficient to meet our present and reasonably anticipated cash needs, we may, in the future, require additional cash resources as we continue to expand our business operations and production facilities and implement other growth strategies. We cannot assure you that we will not experience working capital deficiencies or net cash outflows in the future. If our own financial resources are insufficient to satisfy our working capital requirements, we may seek to obtain additional credit facilities or sell additional private or public equity or debt securities.

Our ability to raise additional capital will depend on the financial success of our business, the successful implementation of our key strategic initiatives, economic and financial market conditions and other factors. There is no assurance that we will be successful in raising the required capital at favorable terms within required time period, or at all. Further equity financings may have a further dilutive effect on our Shareholders. If we require additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities, and repayment of debt may put a significant drain on our free capital allocations. If we are unsuccessful in meeting our working capital requirements or obtaining additional financing, we may not be able to continue our business operations and advance our development programs, which could impact our overall growth prospects.

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The dairy industry in China could face slower market growth.

China’s dairy industry has experienced significant growth in the past few years, with the dairy products market in China rising from RMB310.4 billion in 2014 to RMB459.4 billion in 2019, representing a CAGR of 8.2% in terms of retailing sales, according to Frost & Sullivan. This growth has been, in part, attributable to increasing demand for dairy products in China. The prices at which we sell our products and the demand for our planned new products could be influenced by the level of consumer demand for dairy products in China. We cannot assure you that China’s dairy industry will continue to grow at the same pace or at all in the future. China’s dairy industry may experience slower growth due to market saturation or competition from alternative products, such as soy-based beverages and products, which may have an impact upon the size and growth of the dairy products markets. If the demand for dairy products in China declines for any reason, including changing consumer preferences, our results of operations and expansion plans could be materially and adversely affected.

Our failure to protect our intellectual property rights may undermine our competitive position, and legal action to protect our intellectual property rights may be costly and divert our managerial resources.

We rely primarily on trademark, trade secret protection, patent, copyright law and other contractual restrictions to protect our intellectual property. These afford only limited protection and the actions we take to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary technologies or other intellectual property rights, which could have a material adverse effect on our business, financial condition or operating results. Preventing unauthorized use of proprietary technology or infringement of intellectual property rights can be difficult and expensive. In addition, litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. There is no assurance that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. Such litigation may be costly and may divert management’s attention as well as expend other resources, which could otherwise have been devoted to our business. An adverse determination in any such litigation will impair our intellectual property rights and may impact our business, prospects and reputation. The occurrence of any of the foregoing may have an adverse effect on our business, results of operations and financial condition.

We may be subject to claims by third parties for intellectual property infringement.

Our competitors and other third parties may, whether rightly or falsely, bring legal claims against us for infringing on their patents, copyrights, trademarks or other intellectual property rights. The intellectual property laws in China, which cover the validity, enforceability and scope of protection of intellectual property rights, are evolving, and litigation is becoming a more popular means to resolve commercial disputes. Given the foregoing and the increasing competition in the market, we are exposed to a higher litigation risk. Any intellectual property lawsuits against us, whether successful or not, may damage our brand and reputation.

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Defending intellectual property claims is costly and can impose a significant burden on our management and resources. Further, there is no guarantee that we can obtain favorable judgment in all legal cases. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position and results of operations could be materially and adversely affected.

We may incur higher costs in complying with the increasingly stringent environmental laws and regulations.

We conduct business in an industry that is subject to stringent PRC environmental laws and regulations. These laws and regulations require enterprises that may produce environmental waste to adopt measures to effectively control and properly dispose of waste gases, wastewater, waste residue, industrial waste, dust and other environmental waste materials. Such laws and regulations also require fee payments from producers discharging waste substances. We produce a certain amount of solid waste and other environmental waste in our production process, and are subject to restrictions relating to the discharge of such waste. We need to obtain approvals and other acceptance documents relating to the environmental impact assessment before our dairy farms and feed mills are put into operation. In the event that more stringent PRC environmental laws, regulations or government policies are imposed on us, we may incur significantly increased costs and expenses and need to allocate additional resources to comply with such requirements.

In the course of our operations, we may unknowingly emit pollutants or otherwise cause environmental damage or breach applicable environmental laws and regulations. Even though we are equipped with relevant knowledge and conduct careful and regular monitoring, such environmental issues may continue until they are brought to our attention. Any failures to comply with PRC environmental laws and regulations may lead to claims, liabilities or the suspension of our operations, and thereby adversely affect our business and results of operations.

Changes in the international trade environment, and ongoing trade conflict, may have an adverse effect on our business.

In recent years, international market conditions and regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. Changes in international trade or investment policies, treaties and tariffs, fluctuations in exchange rates or the perception that these changes could occur, could adversely affect our import trading business operations, our financial condition and results of operations. The U.S. administration has advocated and taken steps towards trade restrictions on certain goods, particularly from China. China and other countries have retaliated in response to new trade policies, treaties and tariffs implemented by the United States. For instance, in response to the tariff announcements by the United States in August 2019, China announced it would stop buying U.S. agricultural products and levied new rounds of retaliatory tariffs on U.S. products. After several rounds of trade talks between China and the United States, the two countries entered into the U.S.-China

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phase one deal in January 2020, according to which China suspended its retaliatory tariffs and agreed to increase purchases of U.S. agricultural products. However, there are uncertainties as to whether the deal will be implemented strictly or not at all, or whether China will impose additional tariffs on U.S. products in the near future. Our imported trading business operations rely heavily on importation of forage grasses, such as alfalfa, from the United States. If the import price of forage grasses surges due to increased tariffs or import restrictions, we will have to raise our selling price accordingly, which could lead to loss of customers and market share, and have an adverse effect on our business and results of operations.

Negative publicity concerning us and our business, our Shareholders, affiliates, Directors, senior management and suppliers, regardless of its accuracy, may have a material adverse effect on our reputation, business and the trading price of our Shares.

Negative publicity concerning us, our Shareholders, affiliates, Directors, senior management, suppliers and any other aspects of our business operations may arise from time to time, which may harm our brand and adversely affect public perception of our corporate image and product quality. Allegations, directly or indirectly against us, may be posted on blogs, websites and online social platforms by anyone, on an anonymous basis. We may be required to spend significant time and incur substantial costs in response to such allegations or other detrimental conducts, and there is no assurance that we will be able to conclusively refute each of them within a reasonable period of time, or at all. Our reputation may be harmed as a result of the public dissemination of malicious allegations about our personnel, business, operations, accounting, prospects or business ethics, which in turn could materially and adversely affect our business and the trading price of our Shares.

We may not be able to detect or prevent fraud, bribery or other misconduct committed by our Directors, officers, employees or third parties.

Fraud, bribery or other misconduct by our Directors, officers or employees, such as unauthorized business transactions and breach of our internal policies and procedures, or by third parties, such as breach of law, may be difficult to detect or prevent. We have implemented certain risk management systems, information technology systems and internal control procedures to monitor our operations and detect any non-compliance or misconduct. However, there can be no assurance that our measures would be sufficient to identify all fraudulent transactions or eliminate all misconduct. As a result, undetected misconduct could cause us to suffer from financial loss and sanctions imposed by governmental authorities while seriously damaging our reputation.

Changes in public health and food safety laws and regulations may adversely affect our business.

Our business operations are currently subject to extensive public health and food safety laws and regulations promulgated by a wide range of PRC authorities, such as the State Council, the State Administration for Market Regulation, the National Health Commission and the Ministry of Agriculture and Rural Affairs of the PRC.

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We cannot assure you that the relevant PRC authorities will not change the existing laws or regulations, or adopt additional or more stringent laws or regulations applicable to us and our business operations. For example, the General Office of the State Council promulgated the Notice Regarding Measures to Further Strengthen Quality and Safety of Dairy Products (關於進一步加強乳品質量安全工作的通知) on September 16, 2010, and the Opinions on Promoting the Revitalization of the Dairy Industry and Ensuring the Quality and Safety of Dairy Products (關於推進奶業振興保障乳品質量安全的意見) on June 3, 2018, which called for strengthening of legal and regulatory measures regarding quality and safety of dairy products, by imposing rigorous laws and regulations, raising the quality and safety standards and strengthening the production control of the whole process. Such future laws and regulations may require the reconfiguration or upgrading of methods and procedures for sourcing raw materials, production, processing and delivery of dairy products. We cannot accurately predict the details of such future laws and regulations, or accurately estimate their potential impact on our business operations.

The costs of complying with current or future legal or regulatory requirements may be significant, and could force us to curtail our operations or otherwise have a material adverse effect on our business, results of operations and financial condition. Failure to comply may cause us to suffer from civil damages, administrative penalties or even criminal sanctions, which could have an adverse effect on our business, financial condition and results of operations.

If we are unable to continue to benefit from favorable government policies, our results of operations could be adversely affected.

We have historically benefited from government policies that favor China’s dairy industry and feed industry. We have received government subsidies and enjoyed preferential tax treatments (such as exemption on, or preferential rates of, valued-added taxes and/or income tax) as a result of government policies which benefit the dairy industry and feed industry in order to promote, among other things, improved industrialization and specialization levels of the husbandry industry, acceleration of the breeding and promotion of fine breeds of livestock. For more information, see the section headed “Financial Information – Major Factors Affecting Our Results of Operations and Financial Condition – Our Ability to Continuously Benefit from Government Support”. We cannot assure you that we will continue receiving such governmental support or preferential tax treatments in the future, and if these government policies change, our results of operations could be adversely affected.

We require various approvals, licenses and permits to operate our business and the loss of or failure to obtain or renew any or all of these approvals, licenses and permits could adversely affect our business and results of operations.

In accordance with the laws and regulations of the PRC, we are required to maintain various approvals, licenses and permits in order to operate our business. For example, we need to obtain certificate for meeting animal epidemic prevention conditions and raw fresh milk purchase permit for our dairy farming business; we must obtain the license of value-added

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telecommunications business of the PRC for *Jumuc.com* (聚牧城), our online platform; for the construction of certain of our dairy farms and feed mills on construction lands, we shall apply for construction projects approval or registration, construction planning permit and construction commencement permit; our operation facilities are also required to obtain environmental protection assessment approval and pass the acceptance examination; we shall obtain water abstraction license to source underground water in the farms and feed mills which we operate and we must obtain grain purchase license and feed production license before carrying out feed business. We may obtain these approvals, licenses and permits only upon satisfactory compliance with the applicable laws and regulations. Most of these licenses are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

As of the Latest Practicable Date, we have obtained all key licenses, permits and approvals required under the PRC laws, save as disclosed in the section headed “Business – Licenses, Regulatory Approvals, Certificates and Compliance Records” in this document. With respect to our various non-compliance incidents, we may be subject to fines, orders to cease construction or operation of the relevant production facilities, or terminate usage of the relevant properties.

In addition, there can be no assurance that we will be able to renew all of the licenses when they expire. If we cannot obtain and maintain all licenses required to operate our business, our business could be interrupted or the continued operations of our business may be subject to fine and penalty. Furthermore, we need new approvals, licenses and permits for our expanded or newly developed dairy farms and feed mills under our expansion plans. If we are not able to obtain the required approvals, licenses and permits for our expanded or newly developed dairy farms or feed mills, we will not be able to expand the scale of our operation or produce and deliver sufficient amount of raw milk or feed products to our customers. As a result, our business, results of operations and financial condition could be materially and adversely affected.

We face the risk of obsolescence for our inventory.

Our business operations involve the storage of a range of raw milk with limited shelf lives. Given the short shelf lives of our inventories, we have implemented measures to monitor the level of inventory and minimize overstocking. Our inventory faces obsolescence risks when there are unexpected material fluctuations or abnormalities in the supply and demand of our products. Apart from material reduction in demand, goods may be returned from customers in large amounts due to product quality issues, delayed or wrong delivery and other reasons. Any such events may result in increasing inventory, which increases the risk of obsolescence.

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In addition, semen and embryo products are generally stored in a frozen state; raw milk is usually stored at specific temperature levels, and there are strict requirements on the length of transportation. Any deviations from the required storage environment may result in quality problems of such products in stock, and heighten the risk of inventory obsolescence, which may have a material and adverse effect on our business and results of operations. During the Track Record Period, we did not incur the material risk of inventory obsolescence. However, we cannot assure you that the above events and factors will not occur in the future.

If we are unable to conduct our branding and marketing activities cost-effectively, our business, prospects, results of operations and financial condition may be materially and adversely affected.

We believe that maintaining, promoting and enhancing our brand is critical to expanding our business, and the importance of brand recognition will increase as market competition increases. We market our products primarily through dairy conferences and dairy exhibitions, feed and feed processing technology exhibitions, and animal husbandry expos, and also through client referrals and word-of-mouth marketing. We have invested significantly in branding and marketing activities to promote our brand and our products and to deepen our relationships with customers. We also intend to continue increasing our selling and distribution expenses going forward. We cannot assure you, however, that our marketing expenditure will lead to expanded customer base or increased revenue, and even if so, such increases in revenue may not be sufficient to offset expenses we incur in building and maintaining our reputation and brand name.

We may have limited control over third-party contractors or service providers.

We engage third-party contractors in our business operations, primarily for the design and construction of our expanded or newly developed dairy farms. We require third-party contractors to carry out their work in accordance with the specifications and schedules of the relevant assignments as well as our quality, safety and environmental standards. We supervise and monitor the work of such third-party contractors. However, we cannot assure you that these third-party contractors will work in accordance with or meet our requirements at all times. Any failure by these third-party contractors to meet our requirements may result in sub-standard quality constructions and potential non-compliance with relevant government rules and regulations. Furthermore, in the event of any breach of contract by such contractors or if we fail to retain or replace third-party contractors on commercially viable terms, our business, results of operations and financial condition could be materially and adversely affected.

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We also engage third-party logistics service providers to deliver our products to our customers. Timely delivery and proper transportation of our products are crucial to our business. Due to their perishable nature, our products could be damaged if they are not delivered to our customers in a timely manner and under controlled environment and temperatures. Our logistics service providers may not be able to deliver our products to customers on time and in good condition due to bad weather, technical problem or any other reasons, which could affect our sales volume and business operations. Additionally, such delay or failure could also have an adverse impact on our business relationships with these customers and, as a result, our business, results of operations and financial condition could be materially and adversely affected.

We are subject to uncertainty with respect to our dairy farms that use contracted or leased collectively-owned agricultural land.

Certain of our dairy farms in operation or to be newly increased involve the occupation of collectively-owned agricultural land. According to the relevant PRC laws and regulations, large-scale farming operators of livestock, such as us, are allowed to contract or lease agricultural land from rural collective economic organizations or contractors. However, long-term contracting or leasing of collectively-owned agricultural land is subject to uncertainties such as breach or termination of agreements by the local villagers or rural collective economic organizations. Furthermore, consents from not less than two-thirds of the members of the villagers committees or of the representatives of villagers or the authorization documents from the farmer-households concerned shall be obtained to contract or lease the collectively owned agricultural land. Any defect in part of the contracting or leasing procedures for the collectively owned agricultural land contracted or leased by us may result in the uncertainties of contractor or lease agreements. See also the section headed “Business – Property – Leased properties – Dairy farms and forage grass plantation fields”. We may incur additional costs or be forced to relocate if any of our long-term leases is altered, terminated, materially breached or be alleged to be invalid.

Some of our leased properties have title defects or procedural defects, which may affect our business operations.

We lease premises for our operation of certain dairy farms and feed mills. A few of our leased properties have certain title defects, as the lessors had not completed the relevant filing procedures of land used for agricultural facilities for certain leased dairy farms, had not obtained the relevant construction planning permit for the construction of the leased building, or had constructed factory buildings on non-constructive land collectively owned by farmers. If the lessors fail or decline to rectify the title defects, we may not be able to enforce our rights to lease such properties under the respective lease agreements and we may be required to find alternatives, in which event we could only initiate the claim against the lessors under relevant property lease agreements for indemnities for their breach of the relevant leasing agreements. Although, as of the Latest Practicable Date, we are not aware of any claim or challenge brought by any third parties or governmental authorities concerning the use of our leased properties with title defects or procedural defects, in the case where we may not be able to enforce our

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rights under the respective lease agreements, we cannot assure you that suitable alternatives are readily available on commercially reasonable terms, or at all, and if we are unable to find alternatives in a timely manner, our operations may be interrupted. See also the section headed “Business – Properties – Leased Properties”.

We recorded net current liabilities as of December 31, 2017 and 2018 and June 30, 2020.

The expansion of our businesses has been capital intensive. We recorded net current liabilities of RMB97.0 million, RMB469.0 million and RMB1,856 million as of December 31, 2017 and 2018 and June 30, 2020, respectively, primarily reflecting the expenditures incurred in relation to construction of infrastructure, purchase of equipment and import of heifers for the expanded or newly developed dairy farms under our expansion plans. During the Track Record Period, we funded our liquidity and capital requirements primarily through capital contributions from our Shareholders, bank borrowings and cash generated from our operating activities. For more details on our net current liabilities, please see the section headed “Financial Information – Discussion of Certain Key Combined Statement of Financial Position Items of Our Group – Current assets and liabilities” in this document. Our future liquidity will primarily depend on our ability to maintain adequate cash inflows from our operating activities and secure adequate external financing. Our ability to generate adequate cash inflows from operating activities may be affected by decreasing sales or downward movements in the prices for our raw milk and cow feed. In addition, we may not be able to renew or refinance our existing bank borrowings or secure additional external financing. The occurrence of any of the foregoing may cause us not to have sufficient cash flow to fund our operating costs and, in that event, our business, financial condition and results of operations could be materially and adversely affected.

Our business operations and financial performance are adversely affected by the outbreak of COVID-19, and may be materially and adversely affected by other natural disasters, epidemics, acts of war or terrorism or other factors beyond our control.

Since the end of December 2019, the outbreak of COVID-19 had a material adverse effect on the PRC and global economy. At the beginning of 2020, in response to intensifying efforts to contain the spread of COVID-19, stringent measures, including mandatory quarantines, mandatory inspection, travel restrictions, suspension of public transportation, prohibition of social gatherings and work gatherings were imposed in numerous regions across the PRC, causing a noticeable reduction in regional and national economic activities, especially in the wholesale and retail sector. This outbreak in turn negatively affected our business in various aspects, including but not limited to:

- temporary decrease in the price of raw milk;
- insufficient manpower due to the failure of our employees to conduct field work as a result of delayed resumption of work;

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- delayed supply by our suppliers due to the pandemic; and
- restricted the transportation of products.

Although we have taken measures such as wearing masks and conducting disinfection and prevention efforts to tackle the pandemic, we cannot foresee whether the outbreak of COVID-19 will be effectively contained, nor can we predict the severity and duration of its impact. If the outbreak is not effectively and timely controlled, our business operations and financial condition may be materially and adversely affected due to deteriorating market outlook and sentiments, slowdown in regional and national economic growth, weakened liquidity and financial condition of our customers, or other factors that we cannot foresee. The impact of COVID-19 pandemic on our businesses may depend on many factors and future development that are highly uncertain and unpredictable, such as the final geographical area where the pandemic are spread, the lasting of the pandemic, the impact of transportation, the effectiveness of measures to control the pandemic or its impact. Any of these factors and other factors beyond our control could have an adverse effect on the overall business environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

In addition, any future potential events in the nature of force majeure, natural disasters, epidemics (including avian influenza, severe acute respiratory syndrome (SARS), H1N1 influenza virus and Ebola), war or terrorist activities or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, potential wars or terrorist attacks. Serious natural disasters may result in a tremendous loss of life, injury and destruction of assets and may disrupt our business and operations. Severe pandemic or epidemic disease outbreaks, including the recent outbreak of COVID-19 across China and around the world, could lead to widespread health crises, which may materially and adversely affect the consumption markets and the national economy. War or terrorist activities may also injure our employees, cause loss of life, or disrupt our business operations.

We may not be able to retain or secure key qualified personnel, key senior management or other personnel for our operations.

We depend on certain key qualified personnel, key senior management and other employees in our business, including those personnel set out in the section headed “Directors and Senior Management” in this document. The expertise, industry experience and contributions of our senior management are crucial to our success. There can be no assurance that such persons will continue to provide services to us or will honor the agreed upon terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain key personnel for our future operations and development may have a material adverse effect on our business, results of operations and financial condition.

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Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses.

With respect to the dairy cows raised at our dairy farms, our insurance policies generally cover, among other things, death caused by certain diseases, accidents or natural disasters, and losses incurred as a result of government orders of mass slaughters of farm animals in the relevant region. In addition, according to the Animal Epidemic Disease Prevention Law of the PRC (中華人民共和國動物防疫法), dairy farms are entitled to government compensation for losses resulting from livestock mass slaughter and destruction of animal products and relevant goods due to the prevention and control and elimination of animal diseases, and compensation for animals that die of stress caused by mandatory vaccination given in accordance with law. For further information, please see the section headed “Business – Insurance” in this document. However, there can be no assurance that the current insurance coverage and government compensation, the amount of which will be determined by the PRC government, would be sufficient to cover all of our potential losses. Furthermore, even if we do receive sufficient compensation for replacing the lost cows, there is no assurance that any replacement cows would be of the same quality as the lost ones.

We also maintain insurance coverage for our main production facilities, equipment and inventories. Some of our subsidiaries maintain insurance coverage for damages caused by boiler pressure and robbery and theft. However, these insurance policies have limits on the total amount of indemnification and do not cover all potential losses. As a result, we may be required to use our own resources to cover financial and other losses, damages and liabilities, including those caused by fire, bad weather, disease, civil strife, strikes, natural disasters, terrorist incidents, industrial accidents or other causes. Also, we do not maintain any third-party product liability insurance or occupier’s liability insurance. As a result, any product liability claims may subject us to liabilities to compensate the claimants if we are held liable. Losses incurred or payments that we may be required to make may have a material adverse effect on our business, results of operations and financial condition, to the extent that such losses or payments are not insured or the insured amount is not adequate.

Our labor costs may increase in the future and we may experience labor shortage or labor disputes.

Labor costs in China have been increasing and may continue to increase in the future. We cannot assure you that our cost of labor will not continue to increase. Any such increase could cause our production costs to increase and we may not be able to pass such increase to our customers due to competitive pricing pressures. Moreover, there can be no assurance that we will not experience any shortage of labor for our production facilities, including our dairy farms, plantation fields and feed production facilities. Any such shortage could hinder our ability to maintain or expand our business operations. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

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Further, our ability to successfully operate our business is dependent on our ability to maintain a stable workforce at our dairy farms. There were no labor disputes that materially and adversely affected our business during the Track Record Period. However, we cannot assure you that we will not be involved in any labor disputes in the future. If our operations are disrupted for any period of time as a result of labor disputes, our production volume could be reduced, which could materially and adversely affect our results of operations and hinder our growth.

Our results of operations may be adversely affected if there are failures in our intelligent management.

We rely, to a large extent, on our advanced intelligent management systems for the monitoring and management of our herds and farms, covering all processes from information collection to activity monitoring and breeding to milking. Our intelligent management system includes real-time management system of herds, feeding system, production information management system and environmental intelligent control system. For more details, please refer to the section headed “Business – Raw Milk Business – Intelligent Management of Herds” in this document. Our operating efficiency has been significantly enhanced by such information systems. We have not experienced any major information systems failure in the past. However, we cannot assure you that any damage or interruption caused by power outages, computer viruses, hardware and software failures, telecommunications failures, fires, natural disasters and other similar events relating to our information systems will not happen in the future. Additionally, restoring any damaged information systems may cause us to incur significant time and costs and require additional workforce. If any serious damage or significant interruption occurs, our operations may be disrupted and business adversely affected.

Our risk management and internal control systems may not be adequate or effective, which may have a material adverse effect on our business.

We seek to establish risk management and internal control systems consisting of an organizational framework, policies, procedures and risk management methods that are appropriate for our business operations, and seek to continue to improve these systems. For further information, see the section headed “Business – Risk Management.” However, due to the inherent limitations in the design and implementation of risk management and internal control systems, we cannot assure you that our risk management and internal control systems will be able to identify, prevent and manage all risks. Our internal control procedures are designed to monitor our operations and ensure their overall compliance. However, our internal control procedures may be unable to identify all non-compliance incidents in a timely manner or at all. It is not always possible to timely detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective.

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Our risk management and internal controls also depend on their effective implementation by our employees. Due to the large scale of our operations, we cannot assure you that such implementation will not involve any human errors or mistakes. As we are likely to offer a broader and more diverse range of services and solutions in the future, the diversification of our service offerings will require us to continue to enhance our risk management capabilities. If we fail to timely adapt our risk management policies and procedures to our changing business, our business, results of operations and financial condition could be materially and adversely affected.

Litigation or legal proceedings could expose us to liability, divert our management’s attention and negatively impact our reputation.

As of the Latest Practicable Date, we were not involved in any litigation or legal proceedings that we believe could have a material adverse effect on our business or financial condition. However, we may at times be involved in other litigation or legal proceedings during the ordinary course of business operations, or related to, among other things, product or other types of liability, labor disputes or contract disputes. If we become involved in any litigation or other legal proceedings in the future, the outcome of such proceedings could also be uncertain may adversely affect our reputation, business and financial condition. In addition, any litigation or legal proceedings could involve substantial legal expenses as well as significant time and attention of our management, diverting their attention from the operations of our Company. Please refer to the section headed “Appendix V – Statutory and General Information – Other Information – Litigation” in this document.

We are not in full compliance with social insurance and housing provident fund regulations.

Under PRC laws and regulations, we are required to make social insurance and housing provident funds contributions for the benefit of our employees. Some of our PRC subsidiaries failed to make social insurance or housing provident funds contributions to certain of their employees. During the Track Record Period, we failed to make sufficient social insurance contributions with a total amount of RMB3.6 million and failed to make sufficient housing provident fund contributions with a total amount of RMB5.8 million. For more details, please refer to the section headed “Business – Licenses, Regulatory Approvals, Certificates and Compliance Records” in this document. As advised by our PRC Legal Advisors, pursuant to the relevant PRC laws and regulations, our subsidiaries may (i) be ordered to pay or make up the outstanding social insurance contributions within a prescribed time limit and be subject to an overdue fine of 0.05% of the delayed payment per day from the date on which the payment is payable, and if such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of the overdue payment; and (ii) be ordered to pay the outstanding housing provident fund contribution within a prescribed time limit; if the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. As of the Latest Practicable Date, we had not received any administrative penalty from regulatory authorities or were be required to make up the

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outstanding contributions or pay any overdue fine due to the aforementioned matters. However, there can be no assurance that the relevant authorities would not enforce such payments, surcharges and penalties against us.

Our Controlling Shareholders may exert substantial influence over our Company and their interests may not be fully aligned with the interests of other Shareholders.

As of the Latest Practicable Date, the equity interest of the Company was held as to approximately 42.89% by PAG Entities and 40.00% by Yili, through China Youran Dairy Holding Limited and Jingang Holding, its wholly-owned subsidiaries. Immediately following the completion of the [REDACTED], PAG Entities and Yili, through China Youran Dairy Holding Limited and Jingang Holding, its wholly-owned subsidiaries, will be interested in approximately [REDACTED]% and [REDACTED]% of our issued share capital, respectively, assuming the [REDACTED] is not exercised. Therefore, each of PAG Entities and Yili will remain as our Controlling Shareholders upon the [REDACTED]. Although our business operations are run independently by our Board of Directors and management, our Controlling Shareholders, subject to our Memorandum and Articles of Association and applicable laws and regulations, will have substantial influence over our business. In addition, our Controlling Shareholders may have interests that conflict with those of the other Shareholders, and may take actions that would not be in the best interests of the other Shareholders. This may discourage, delay or even prevent a change in control of our Company, which could deprive you as Shareholders of the opportunity to receive a premium for your Shares in a sale of our Company or may reduce the market price of our Shares. For more details, see the section headed “Relationship with Controlling Shareholders” in this document.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Adverse changes in the economic, political and social conditions, as well as policies of the PRC government, could have an adverse effect on our business and prospects.

All of our revenue was derived from our businesses in the PRC during the Track Record Period. Accordingly, our business, financial condition, results of operations and prospects are, to a material extent, subject to economic, political, and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, foreign exchange controls, and resource allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for the past four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment

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of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the dairy industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be adversely affected.

The legal system of the PRC is not fully developed, and inherent uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to our business and our Shareholders.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our PRC subsidiaries are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new, and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform, and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Moreover, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China, could materially and adversely affect our business and impede our ability to continue our operations, and may further affect the legal remedies and protections available to [REDACTED], which may, in turn, adversely affect the value of your [REDACTED].

PRC regulations regarding acquisitions impose significant regulatory approval and review requirements, which could make it more difficult for us to pursue growth through acquisitions in China.

Under the PRC Anti-monopoly Law, companies undertaking certain investments and acquisitions relating to businesses in China must notify the anti-monopoly enforcement agency in advance of any transaction where the parties’ turnover around the world or in China exceed certain thresholds and the buyer would obtain control of, or decisive influence over, the other party. Under the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign

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Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, the approval of MOFCOM must be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents merge and acquire domestic companies affiliated with PRC enterprises or residents. In addition, the Provisions on Implementation of Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者並購境內企業安全審查制度的規定) issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns, and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns, are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be deemed to be a PRC tax resident under the PRC EIT Law, and as a result, our worldwide income may be subject to PRC EIT, dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to PRC withholding income tax.

We are a holding company incorporated under the laws of the Cayman Islands and indirectly hold interests in our PRC operating subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), or the EIT Law, which took effect on January 1, 2008 and amended on February 24, 2017 and December 29, 2018 separately, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10.0% withholding income tax, unless such foreign investor’s jurisdiction of tax residency has a prevailing tax treaty in effect with the PRC that provides for a different withholding income tax arrangement.

The EIT Law provides that if an enterprise incorporated outside the PRC has its “de facto management body” within the PRC, such enterprise may be deemed a “PRC resident enterprise” for tax purposes and be subject to a uniform 25% enterprise income tax on its global incomes (excluding dividends received from “resident enterprises”). “De facto management body” is defined as the body that exercises substantial overall management and control over the manufacturing and business operation, personnel, accounts, properties, etc. of an enterprise. In April 2009, the State Tax Administration of PRC, or the STA, promulgated the “Notice of the State Administration of Taxation on Issues about the Determination of Chinese – Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management” (Guo Shui Fa [2009] No. 82), which clarified the certain criteria for the determination whether the “de facto management body” of an offshore Chinese enterprise as the controlling shareholder of Mainland China enterprise. These criteria include: (i) the enterprise’s senior management personnel and department who are responsible for managing the day-to-day business operation perform their obligations primarily in the PRC; (ii) decisions

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relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC; and (iv) 1/2 (including 1/2) or more of voting directors or senior executives of the enterprise habitually reside in the PRC. Meanwhile, the determination of “de facto management” shall apply based on the principle of substance over form. The STA further issues administrative rules in July 2011 and January 2014 regarding administrative procedures for recognizing PRC resident enterprise status of a Chinese-controlled company registered abroad.

According to the aforesaid STA circulars, a Chinese-controlled company incorporated abroad could either apply for PRC resident enterprise status with the competent PRC tax authority in the place where its major Chinese investor is registered after company’s preliminary assessment and the application will be subject to approval of competent PRC tax authorities, or be recognized as a PRC resident enterprise by competent PRC tax authorities upon investigation. In this regard, there are uncertainties that whether a Chinese-invested company registered abroad would be treated as a PRC resident enterprise before obtaining the relevant approval from competent PRC tax authorities. However, there have been no official explanation notes regarding the shareholding percentage of “major controlling shareholder” of aforesaid STA circulars and no official implementation rules regarding the determination of the “de facto management body” for foreign enterprises which are not controlled by PRC enterprises.

Although this circular applies only to offshore enterprises funded by Chinese enterprises as controlling shareholders, rather than those funded by Chinese or foreign individuals or foreign enterprises as controlling shareholders (such as our Company), the determining criteria set forth in the circular may reflect STA’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of how they are funded. Although our Company is not funded by Chinese enterprises as controlling shareholders, substantial uncertainties remain as to whether our Company or any of our other non-PRC entities will be deemed a PRC resident enterprise for the EIT purposes. If we or any of our subsidiaries registered outside the PRC are to be deemed a “resident enterprise” under the EIT Law, our income tax expenses may increase significantly, and our profitability could decrease materially. If we and our direct holding companies are all recognized as PRC resident enterprise for tax purposes, dividend payment received by us and intermediate companies are exempt from PRC EIT under the condition that the direct shareholder has been holding the shares of the dividend payment company for more than 12 months. Furthermore, the EIT Law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. If we are treated as a PRC resident enterprise for PRC-tax purposes, according to aforementioned circulars issued by STA, any dividends we pay to our overseas corporate shareholders that are non-PRC resident enterprise, which do not have an establishment or place of business in PRC, or which

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have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business, shall be regarded as PRC-sourced income and as a result become subject to PRC withholding income tax at a rate of up to 10.0%. Any gains realized on the transfer of our shares by such non-PRC resident enterprise investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Under the PRC Individual Income Tax Law and its implementation rules, PRC sourced dividends paid to non-PRC individual investors are generally subject to a PRC withholding income tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of our shares are generally subject to a 20% PRC income tax. If PRC income tax were imposed on gains realized through the transfer of our shares or on dividends paid to our non-resident investors, the value of your [REDACTED] in our shares may be materially and adversely affected. Any PRC tax liability described above may be reduced under applicable tax treaties. However, it is unclear whether our shares holders whose jurisdictions of residence have tax treaties or arrangements with China, the PRC will be able to obtain the benefits of such tax treaties or arrangements, if the prerequisites provided under the relevant treaties or arrangements were not satisfied.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of the RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government’s policies, and depends, to a large extent, on domestic and international economic and political developments, as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates, and to achieve policy goals. We are subject to the risk of volatility in future exchange rates and to the PRC government’s controls on currency conversion.

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in a decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, our Shares in a foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Moreover, we are also currently required to obtain the SAFE’s approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, and results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

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Government control of currency conversion and fluctuations in the exchange rates of the Renminbi may adversely affect our business, financial condition and our ability to remit dividends.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing Chinese foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from or registration with SAFE or its local branches or designated banks is required for foreign currency conversions for payment under capital account items such as equity investments. The PRC government may also at its discretion restrict our access in the future to foreign currencies for current account transactions. Under our current corporate structure, our revenue is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. In addition, our liquidity and ability to satisfy our third-party payment and loan repayment obligations could be materially and adversely affected.

Since substantially all of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies, in particular our import trading business. This could also affect the ability of our subsidiaries in China to obtain foreign debt or equity financing, including by means of loans or capital contributions from us.

We purchase forage grasses from various overseas suppliers mainly from the U.S. and Australia and the settlement currency for our purchases is primarily in foreign currency whereas the settlement currency for all our sales is generally in Renminbi. The exchange rates of the Renminbi against foreign currencies, including the Hong Kong dollar, are affected by, among other things, changes in China’s political and economic conditions. Any fluctuations in exchange rates of the Renminbi against the U.S. dollar or other foreign currencies may cause our costs for importing forage grasses to be volatile, which may adversely affect our business and results of operations.

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PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity, and our ability to fund and expand our business.

As advised by our PRC Legal Advisors, any funds we transfer to our PRC subsidiaries, either as a shareholder loan, or as an increase in registered capital, are subject to approval by, filing with, or registration with, relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to registration with the market supervision and management department. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE or its local branches or designated banks, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount or certain criteria relating to its net asset. Any medium-or long-term loan to be provided by us to our PRC subsidiaries must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches or designated banks. We may not be able to complete such filing or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such filing or registration, our ability to use the [REDACTED] of this [REDACTED], and to capitalize our PRC operations, may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises, which allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capitals for expenditure beyond their business scope, investment in securities or investments other than banks’ principal-secured products, providing loans to non-affiliated enterprises (with the exception that such business is expressly permitted in the business license) or constructing or purchasing real estate not for self-use, except for real estate enterprises. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to, and use in, China the net [REDACTED] from this [REDACTED], which may materially and adversely affect our business, financial condition and results of operations.

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There is tax uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our Shareholders or our non-PRC holding companies.

On February 3, 2015, STA promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-PRC Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“Circular 7”), which provides comprehensive guidelines relating to, and has also heightened the Chinese tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a Chinese resident enterprise (the “Chinese Taxable Assets”). For example, Circular 7 states that where a non-resident enterprise transfers Chinese Taxable Assets indirectly, by disposing of equity interests in an overseas holding company directly or indirectly holding such Chinese Taxable Assets (other than the purchase and sales of shares in public securities market), and such transfer is deemed to be, for the purpose of avoiding EIT payment obligations, and without any other bona fide commercial purpose, the transfer may be reclassified by the Chinese tax authorities as a direct transfer of Chinese Taxable Assets. As a result, the gain derived from such transfer, which means the equity transfer price minus the cost of equity, will be subject to the PRC withholding income tax at a rate of up to 10.0%. On October 17, 2017, STA promulgated the Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告) (“Circular 37”), which came into force on December 1, 2017. Circular 37, among other things, simplifies the procedures of withholding and payment of income tax levied on non-resident enterprises.

Although Circular 7 contains certain exemptions, there is uncertainty whether any exemptions under Circular 7 will be applicable to the transfer of our Shares, such as purchasing our Shares in the open market, and selling them in a private transaction, or vice versa, or to any future acquisition by us outside of China involving Chinese Taxable Assets, or whether the Chinese tax authorities classify such transactions by applying Circular 7, provided that we are not deemed to be a PRC tax resident. Therefore, the Chinese tax authorities may deem any transfer of our Shares by those of our Shareholders that are non-resident enterprises, or any future acquisitions by us outside of China involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional Chinese tax reporting obligations or tax liabilities. In addition, if we fail to comply with Circular 7 and Circular 37, the Chinese tax authorities may take action, including requesting us to provide assistance in their investigation, or may impose a penalty on us, which could have a negative impact on our business operations.

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We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries, and on our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with, and obtain approval from, local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), or SAFE Circular 37, was promulgated by the SAFE in July 2014, requiring PRC residents (including the PRC resident individual and the PRC institution) to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established by using domestic and/or overseas assets or interests held by them legitimately for the purpose of overseas investment or financing. These regulations apply to our shareholders who are PRC residents, and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies, are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as a change of PRC shareholders, the name of a company, terms of operation, an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or to update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits, and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal, and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We are committed to complying with, and to ensuring that our Shareholders who are subject to the regulations will comply with, the relevant SAFE rules and regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that the

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SAFE or its local branches will release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas, or our cross-border investment activities, limit our subsidiaries’ ability to make distributions, pay dividends or make other payments to us, or affect our ownership structure, which could adversely affect our business and prospects. As of the Latest Practicable Date, all of our ultimately beneficial owners who are PRC citizens, have completed their registration under the SAFE Circular 37. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents, and we cannot assure you that all of our Shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update, any applicable registrations, or comply with other requirements under SAFE Circular 37 or other related rules in a timely manner.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we, or the owners of such company, as the case may be, will be able to obtain the necessary approvals, or complete the necessary filings and registrations, required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy, and could adversely affect our business and prospects.

Certain judgment obtained against us by our Shareholders may not be enforceable.

We are an exempted company incorporated in the Cayman Islands, and substantially all of our current operations are conducted in China. In addition, a majority of our current Directors and officers are nationals and residents of China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, as there are no clear statutory and judicial interpretations or guidance on a PRC court’s jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and Directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

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RISKS RELATING TO THE [REDACTED]

There has been no prior market for our Shares, and the liquidity and an active trading market may not develop.

Prior to completion of the [REDACTED], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [REDACTED]. The [REDACTED] is the result of negotiations among our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]), which may not be indicative of the price at which our Shares will be traded following completion of the [REDACTED]. The market price of our Shares may drop below the [REDACTED] at any time after completion of the [REDACTED]. Moreover, each of our Controlling Shareholders, other existing Shareholders, and the [REDACTED] (as defined below) is expected to enter into a six-month lock-up agreement, which will restrict these Shareholders from selling their Shares and therefore, reduce the available [REDACTED] for our Shares during the lock-up period. As a result, the absence of any sale of Shares by such persons during the lock-up period may cause, or at least contribute to, limited liquidity in the market for our Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares.

The market price and trading volume of our Shares may be volatile, which could result in substantial losses for [REDACTED] our Shares in the [REDACTED].

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility of the price of, and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their offerings. The trading performances of the securities of these companies at the time of, or after, their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong, and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

You will experience immediate dilution and may experience further dilution in the future.

Subsequent to the Track Record Period, our Company issued Convertible Notes to PAG III in the aggregate principal amount of US\$330.0 million, issued Convertible Notes to BCC Piano Investments, L.P. (“Bain”) in the aggregate principal amount of US\$75.0 million, issued Convertible Notes to Victory Ride Holdings Limited (“ICBC”) in the aggregate principal amount of US\$30.0 million and issued Convertible Notes to Good Virtue Limited (“BOC”) in the aggregate principal amount of US\$25.0 million. Under the Convertible Notes, the holder

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of the Convertible Notes shall have the right, but not the obligation, to convert the outstanding principal amount into such number of fully paid and non-assessable Shares of the Company at any time. Based on the number of Shares which are expected to be in issue immediately upon [REDACTED], PAG III, Bain, ICBC, and BOC are expected to be allotted and issued in aggregate [REDACTED] Shares upon conversion of the Convertible Notes, representing approximately [REDACTED]% of the enlarged issued Share capital immediately following the completion of the [REDACTED] (based on the number of Shares which are expected to be in issue immediately upon [REDACTED] and assuming that the [REDACTED] is not exercised and the Convertible Notes are not converted). The cost per [REDACTED] will be approximately US\$0.44605 per Share and represents approximately a [REDACTED]% [REDACTED] to the lowest range of the [REDACTED] of [REDACTED] per [REDACTED] and approximately a [REDACTED]% [REDACTED] to the highest range of the [REDACTED] of [REDACTED] per [REDACTED]. For more details, please see the section headed “History, Reorganization and Corporate Structure – Issuance of Convertible Notes” of this document. To the extent the Convertible Notes are partially or all converted, the shareholding percentages of the existing Shareholders in the Company would be diluted and the market price of the Shares could be negatively affected.

Potential [REDACTED] will pay a price per [REDACTED] that substantially exceeds the per [REDACTED] value of the Company’s tangible assets after subtracting the Company’s total liabilities and will therefore experience immediate dilution when potential [REDACTED] the [REDACTED] in the [REDACTED]. As a result, if the Company were to distribute its net tangible assets to the Shareholders immediately following the [REDACTED], potential [REDACTED] would receive less than the amount they paid for their Shares.

We may need to raise additional funds in the future to finance further expansion or new developments relating to our existing operation or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in the Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers, Controlling Shareholders and [REDACTED] Investors, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers, Controlling Shareholders and [REDACTED] Investors, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders and certain Shares held by the [REDACTED] Investors are subject to certain lock-up periods. While we are currently not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

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If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares, the market price and trading volume of our Shares may decline.

The trading market for our Shares will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Shares, the price of our Shares would likely decline. If one or more of these analysts cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We have discretion as to how we will use the net [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.

Our management may utilize the net [REDACTED] of the [REDACTED] in ways you may not agree with or that do not yield favorable return to our Shareholders. We plan to use the net [REDACTED] from the [REDACTED] to build new operating dairy farms and feed mills, purchase dairy cows and for other general corporate purposes. For details of our use of [REDACTED], please see the section headed “Future Plans and Use of [REDACTED]”. However, our management will have discretion as to the actual application of our net [REDACTED]. You are entrusting your funds to our management, team, upon whose judgment you must depend to determine the specific uses for the net [REDACTED] from the [REDACTED].

[REDACTED] may experience difficulties in enforcing Shareholder rights.

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. The corporate affairs of our Company are governed by the Memorandum and Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take legal action against our Company and/or our Directors, actions by minority Shareholders and the fiduciary duties of our Directors to our Company under Cayman Islands laws are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of the Shareholders and the fiduciary duties of our Directors under Cayman Islands laws may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors reside. In particular, the Cayman Islands has a less developed body of securities laws. As a result of all of the above, Shareholders may have more difficulty in exercising their rights in the face of actions taken by the management of our Company, Directors or major Shareholders than they would as shareholders of a Hong Kong company or company incorporated in other jurisdictions.

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There can be no assurance if and when we will pay dividends in the future.

Our ability to pay dividends will depend on factors including whether we are able to generate sufficient earnings. Distributions of dividends will be determined by our Board at their discretion in accordance with relevant regulations and our Memorandum of Association. In addition, our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows, financial condition, operating and capital expenditure requirements, distributable profits, our Memorandum and Articles of Association, and any applicable laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See the section headed “Financial Information – Dividend Policy” in this document for additional details regarding our dividend policy.

We cannot assure you of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to the dairy industry in China. Such information and statistics have been derived from a third-party report commissioned by us and publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, Joint Sponsors, [REDACTED] [REDACTED], [REDACTED] and [REDACTED], the [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this document being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. You should consider carefully the importance placed on such information or statistics.

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Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim,” “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and similar expressions, as they relate to the Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. [REDACTED] should not place undue reliance on such forward-looking information.

You should rely only on this document and not place any reliance on any information contained in press articles or other media in making your [REDACTED] decision.

There may be, subsequent to the date of this document but prior to the completion of the [REDACTED], press and media coverage regarding us and the [REDACTED], which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective [REDACTED] are cautioned to make their [REDACTED] decisions on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your [REDACTED] decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective [REDACTED] should not rely on any such information, reports or publications in making their decisions as to whether to [REDACTED] our [REDACTED]. By applying to [REDACTED] our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].

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Certain information relating to Yili, which is obtained from the annual reports, announcements or other circulars of Yili contained in this document, may not be unduly relied upon.

Certain information relating to Yili was obtained from the annual reports, announcements or other circulars or other public documents filed by Yili with the Shanghai Stock Exchange. While our Directors have taken all reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, such information has not been independently verified by us nor reviewed or audited by the reporting accountants and may be incomplete or out-of-date. The Company, the [REDACTED], their respective directors and advisors or any other parties involved in the [REDACTED] make no representation as to the accuracy or completeness of such information, take no responsibility for the contents of the said information and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of such information. Accordingly, such information should not be unduly relied upon.

WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation for the [REDACTED], our Company has sought the following waivers from strict compliance with the relevant provision of the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. As of the Latest Practicable Date, none of our executive Directors is ordinarily resident in Hong Kong. Furthermore, the business operations of our Group are primarily located in the PRC. Due to the business requirements of our Group, none of our Directors has been, is or will be based in Hong Kong.

We have applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules on the following grounds:

- (a) our Group’s principal business operations are located in the PRC;
- (b) our Directors and members of our Group’s senior management are, and expect to continue to be, based primarily in the PRC; and
- (c) for the purposes of the management and operations of our Group, the appointment of additional executive Directors who are ordinarily resident in Hong Kong would not only increase the administrative expenses of our Group, but would also reduce the effectiveness and responsiveness of the Board in making decisions for our Group, especially when business decisions are required to be made within a short period of time. In addition, appointing new executive Directors, who may not be familiar with the operations of our Group, to the Board for the sole purpose of satisfying the requirement of Rule 8.12 of the Listing Rules may not be in the best interest of our Company and our shareholders as a whole.

We have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we will appoint two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that we comply with the Listing Rules at all times. The two authorized representatives are Mr. Dong Jiping, our executive Director and vice president, and Ms. Yu Wing Sze (余詠詩) of TMF Hong Kong Limited, our company secretary. Ms. Yu is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile or e-mail;

WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (b) each of the authorized representatives has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times and as when the Stock Exchange wishes to contact the members of the Board for any matter. In addition, we have provided all of our Directors’ mobile phone numbers, office phone numbers and e-mail addresses to the Stock Exchange;
- (c) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange in Hong Kong within reasonable notice; and
- (d) in compliance with Rule 3A.19 of the Listing Rules, we retained Lego Corporate Finance Limited as our compliance advisor, they will act as an additional channel of communication with the Stock Exchange.

WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1) IN RELATION TO PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE THIRD SCHEDULE TO THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

The accountants’ report of our Group set out in Appendix I to this document (the “**Accountants’ Report**”) contains the audited combined results of our Group for the three years ended December 31, 2017, 2018 and 2019 [and for the nine months ended September 30, 2020]. The unaudited financial information of our Group for the financial year [ended] December 31, 2020 and the commentary on the results for the year are set out in Appendix [IIIA] to this document.

Rule 4.04(1) of the Listing Rules requires that the combined results of our Group in respect of each of the three financial years immediately preceding the issue of the document be included in the Accountants’ Report to this document.

Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all [REDACTED] to include an accountants’ report which contains the matters specified in the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that we include in this document a statement as to the gross trading income or sales turnover (as may be appropriate) of our Group during each of the three financial years immediately preceding the issue of this document.

WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that we include in this document a report by the auditors with respect to profits and losses of our Group for each of the three financial years ended immediately preceding the issue of this document and the assets and liabilities of our Group as at the end of each of the three financial years ended immediately preceding the issue of this document.

Section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance provides that the SFC may issue, subject to such conditions (if any) as it thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of those requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

Rule 13.49(1) of the Listing Rules requires our Company to publish its preliminary annual results within the three months after the end of our financial year. Rule 13.49(1) is not applicable to the year [ended] December 31, 2020 in relation to the publishing of our preliminary annual results within the three months after the end of the year [ended] December 31, 2020 as (i) our Company [has] included our unaudited financial information for the financial year ended December 31, 2020 and a commentary on the results for the year in Appendix [IIIA] to this document. Such financial information is prepared in compliance with the content requirements as for a preliminary annual results announcement under Rule 13.49 of the Listing Rules; and (ii) our Company is not in breach of our constitutional documents or laws and regulations of the Cayman Islands or other regulatory requirements regarding our obligation to publish preliminary annual results announcements.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the Accountants’ Report for the full financial year [ended] December 31, 2020 in this document and the publication of the preliminary financial results for the year [ended] December 31, 2020 on the following grounds:

- (a) the Reporting Accountants have prepared the Accountants’ Report for the three financial years ended December 31, 2017, December 31, 2018 and December 31, 2019 [and the nine months ended September 30, 2020], which has been included in this document;
- (b) our Company shall be listed on the Stock Exchange within [REDACTED] after December 31, 2020, being the latest financial year end of our Company;
- (c) strict compliance with Rule 4.04(1) of the Listing Rules would be unduly burdensome as there would not be sufficient time for the Reporting Accountants to update and finalise the Accountants’ Report to cover such additional period for

WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

inclusion in this document within a short period of time. Our Directors consider that the benefits of such work to the investing public may not justify the additional work and expenses involved and the delay in the [REDACTED], given that it is expected that there would be no material change in the financial position of our Group [since September 30, 2020] and up to the date of this document;

- (d) [our Company has included its unaudited financial information for the financial year ended December 31, 2020 and a commentary on the results for the year in Appendix [IIIA] to this document]. Such financial information (a) is prepared in compliance with the content requirements as for a preliminary results announcement under Rule 13.49 of the Listing Rules; and (b) has been agreed with the Reporting Accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants; and
- (e) our Directors confirm that all information necessary for potential [REDACTED] to make an informed assessment of our business, assets and liabilities, financial position, management and prospects has been included in this document and that, as such, any waiver from strict compliance with Rule 4.04(1) of the Listing Rules will not prejudice the interest of the investing public.

The Stock Exchange [has granted] us a waiver from strict compliance with Rule 4.04(1) of the Listing Rules on the conditions that (i) the [REDACTED] shall not be later than [REDACTED] after the latest financial year end of our Company (i.e. on or before [REDACTED]); (ii) we have obtained a certificate of exemption from the SFC from similar requirements under section 342(1) in relation to paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; (iii) information that meets the content requirement for a preliminary annual results announcement under Rule 13.49(2) of the Listing Rules, including, among others, unaudited financial statements for the year ended December 31, 2020 and a commentary on the results for the year, shall be included in this document, and such financial information has been agreed with the Reporting Accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants; and (iv) we are not in breach of its constitutional documents or laws and regulations of the Cayman Islands or other regulatory requirements regarding its obligation to publish preliminary results announcement.

In connection with a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance mentioned above, an application has been made to the SFC for the certificate of exemption from strict compliance with section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and

WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Miscellaneous Provisions) Ordinance in relation to the inclusion of the Accountants’ Report for the full financial year [ended] December 31, 2020 in this document on the grounds that strict compliance with the above requirements would be unduly burdensome, and the exemption would not prejudice the interest of the investing public given the following:

- (a) strict compliance with section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance would be unduly burdensome in order for the audited results of our Group for the year [ended] December 31, 2020 to be finalised shortly after the 2020 year end. If the full year results of our Group for 2020 are to be included in this document, there will be a considerable delay in the [REDACTED]. If the financial information is required to be audited up to December 31, 2020, our Company and the reporting accountants would have to undertake a considerable amount of work to prepare, update and finalise the Accountants’ Report to cover such additional period within a short period of time. Our Directors consider that the benefits of such work to the prospective [REDACTED] of our Company may not justify the additional work and expenses involved and the delay in the [REDACTED], given that it is expected that there would be no significant change in the financial position of our Group [since September 30, 2020], being the expiry of the period reported on by Deloitte Touche Tohmatsu, the reporting accountants of our Company (the “**Reporting Accountants**”);
- (b) our Company [has] included its [REDACTED] and a commentary on the results for the year in Appendix IIIA to this document. Such [REDACTED] (a) is prepared in compliance with the content requirements as for preliminary results announcements under Rule 13.49 of the Listing Rules; and (b) has been agreed with the Reporting Accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants; and
- (c) our Directors believe that an exemption from strict compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance would not prejudice the interests of the investing public and consider that the information contained in the Accountants’ Report of our Group (as set out in Appendix I to this document), the [REDACTED] (as set out in Appendix III to this document) [and the unaudited preliminary financial information for the year ended December 31, 2020 (as set out in Appendix [IIIA] to this document)] already provided potential [REDACTED] with all information that is reasonably necessary for the potential [REDACTED] to make an informed assessment of the business, assets and liabilities, financial position, management and prospects of our Group.

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A certificate of exemption [has been granted] by the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (i) this document will be issued on or before [REDACTED] and the Shares will be [REDACTED] on or before [REDACTED]; and (ii) the particulars of the exemption are set out in this document.

Our Directors have confirmed that they have ensured that sufficient due diligence has been performed and that up to the Latest Practicable Date, [there has been no material adverse change in the financial or trading position of our Company since [September 30, 2020] (being the date to which the latest combined financial statements of the Group were made up), including the three months up to December 31, 2020 and there has been no event since [September 30,] 2020, including the three months up to December 31, 2020, which would materially affect the information shown in the Accountants’ Report (as set out in Appendix I to this document)].

WAIVER IN RELATION TO PRO FORMA FINANCIAL INFORMATION

Rule 4.05A of the Listing Rules states that if an applicant acquires any material subsidiary or business during the trading record period and such an acquisition if made by a listed issuer would have been classified at the date of application as a major transaction or a very substantial acquisition under the Listing Rules, it must disclose pre-acquisition financial information from the commencement of the trading record period to the date of acquisition. Rule 4.29 of the Listing Rules provides that where an issuer includes pro forma financial information in any document (whether or not such disclosure of pro forma financial information is required under the Listing Rules), that information must comply with Rules 4.29(1) to (6) of the Listing Rules and a report in the terms of Rule 4.29(7) of the Listing Rules must be included in the relevant document. In particular, Rule 4.29(6) requires an issuer to include in its pro forma financial information any adjustments made, which must be (a) clearly shown and explained; (b) directly attributable to the [REDACTED] and not relating to future events or decisions; (c) factually supportable; and (d) in respect of a pro forma profit or cash flow statement, clearly identified as to those adjustments which are expected to have a continuing effect on the issuer and those which are not.

On July 9, 2019, our Company entered into a share purchase agreement with certain shareholders of SKX, pursuant to which our Company agreed to purchase approximately 58.36% of the equity interest of SKX (the “**SKX Acquisition**”). The SKX Acquisition was completed on January 8, 2020, which constitutes an acquisition of our Group within the Track Record Period. Based on the historical financial information of SKX, such acquisition has triggered the disclosure thresholds of Rule 4.05A. Therefore, this document also includes the pre-acquisition financial information of SKX from January 1, 2017 up to January 7, 2020, for details of which please see “Appendix I – Accountants’ Report – III” of this document.

WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

As part of the [REDACTED], our Company intends to offer the [REDACTED] in the [REDACTED], including [REDACTED] to QIBs in the United States in reliance on Rule 144A or other exemptions under the U.S. Securities Act. Although the financial disclosure standards of the U.S. Securities and Exchange Commission (the “SEC”) are not strictly applicable to private [REDACTED] under Rule 144A, consistent with disclosure practices and [REDACTED] expectations for a Rule 144A [REDACTED], the disclosure of our Company in this document is expected to be generally consistent with such disclosure standards. In particular, Rule 11-01(a)(2) of Article 11 of Regulation S-X (“**Rule 11-01(a)(2)**”) requires a company offering securities to include in its [REDACTED] pro forma financial statements if a “significant business combination has occurred” after the date of the most recent balance sheet. The SKX Acquisition would be considered as a “significant business combination” after the date of the balance sheet as of December 31, 2019 under Rule 11-01(a)(2) and disclosure pursuant to the requirements set out in Rule 11-01(a)(2) in a Rule 144A [REDACTED] (as is in our Company’s case) would be consistent with [REDACTED] expectations.

To comply with the requirements of Rule 4.05A of the Listing Rules and to be consistent with the disclosure standards of the SEC, as well as to give [REDACTED] a more comprehensive picture of the impact of the SKX Acquisition on our Group, this document includes: (i) audited historical financial information of SKX for the years ended December 31, 2017, 2018 and 2019 and the period from January 1, 2020 to January 7, 2020 (see “Appendix I – Accountants’ Report – III” to this document); (ii) a discussion and analysis of the historical financial information of SKX for the years ended December 31, 2017, 2018 and 2019 (see the section headed “Financial Information – Financial Information of SKX” of this document); and (iii) unaudited pro forma combined statements of profit or loss of the enlarged Group with SKX for the year ended December 31, 2019, assuming the SKX Acquisition was completed on January 1, 2019, prepared with reference to the Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (see “Appendix III – Unaudited Pro Forma Financial Information” and the section headed “Financial Information – Summary of Pro Forma Financial Information of the Enlarged Group” of this document).

The unaudited pro forma combined statements of profit or loss for the year ended December 31, 2019, assuming the SKX Acquisition was completed on January 1, 2019, contained in this document was prepared based on (i) the audited financial information of our Group for the year ended December 31, 2019 as set out in Appendix I to this Document, and (ii) the audited financial information of SKX for the year ended December 31, 2019 as set out in Appendix I to this document, which were prepared in accordance with the accounting policies conforming with IFRS and after having incorporated the unaudited pro forma adjustments described in the accompanying notes to section (B) of Appendix III to this document. Deloitte Touche Tohmatsu has performed procedures in relation to the unaudited pro forma financial information as set forth in this document in accordance with Hong Kong Standard on Assurance Engagement 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in the Prospectus” issued by the HKICPA and their report is set forth in Appendix III to this document.

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Our Company believes that the abovementioned unaudited pro forma combined statements of profit or loss of the enlarged Group with SKX for the year ended December 31, 2019 is material information for [REDACTED]. Such pro forma financial information, together with the historical financial statements of our Group and SKX, provides [REDACTED] with information relevant to the continuing impact of the SKX Acquisition by showing how the transaction might have affected our Company’s historical financial statements for the most recent financial year up until the completion of the SKX Acquisition. In addition, our Company is of the view that such pro forma information is not misleading as it is intended only to illustrate the isolated and objectively measurable effects of the SKX Acquisition and is prepared with reference to the AG 7 issued by the HKICPA.

Accordingly we have applied for, and the Stock Exchange [has granted] us, a waiver from strict compliance with Rule 4.29(6)(b) of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute partially-exempt continuing connected transactions and non-exempt continuing connected transactions for our Company under the Listing Rules following the completion of the [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange [has granted], waivers from strict compliance with the relevant requirements set out in Chapter 14A of the Listing Rules for such partially-exempt continuing connected transactions and non-exempt continuing connected transactions of our Company. Please refer to the section headed “Continuing Connected Transactions” in this document for details of such continuing connected transactions and the waivers.

[REDACTED]

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE LISTING RULES
AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

[REDACTED]

WAIVER IN RELATION TO PUBLIC FLOAT REQUIREMENTS

The Company has applied to the Stock Exchange to request the Stock Exchange to exercise its discretion under 8.08(1)(d), and the Stock Exchange [has granted] the Company a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules.

Rule 8.08(1)(a) of the Listing Rules requires that there shall be an open market for the securities for which listing is sought, and that a sufficient public float of an issuer’s listed securities shall be maintained. This normally means that at least 25% of the issuer’s total issued share capital must at all times be held by the public. Pursuant to Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange may, subject to certain conditions and at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10 billion.

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Based on the minimum [REDACTED] of [REDACTED] and assuming that the [REDACTED] is not exercised and the Convertible Notes are not converted, we expect that our market capitalization will be no less than approximately [REDACTED] at the time of [REDACTED].

Accordingly, our minimum public float shall be the highest of:

- (i) [REDACTED]% of the Company’s total issued share capital;
- (ii) such percentage of Shares to be held by the public immediately after the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and the Convertible Notes are not converted); and
- (iii) such percentage of Shares to be held by the public immediately after the completion of the [REDACTED] (as increased by the Shares to be issued upon any exercise of the [REDACTED] and/or conversion of the Convertible Notes) provided that the highest of (i), (ii) and (iii) above is below the minimum public requirement of 25% under Rule 8.08(1) of the Listing Rules.

In order to support the application of this waiver, we have confirmed to the Stock Exchange that:

- (i) we will have an expected market capitalization at the time of [REDACTED] of over HK\$10 billion;
- (ii) the quantity and scale of the Shares would enable the market to operate properly with a lower percentage of public float;
- (iii) we will make appropriate disclosure of the lower percentage of public float as approved by the Stock Exchange in this document; and
- (iv) we will confirm sufficiency of public float in our successive annual reports after the [REDACTED].

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Zhang Xiaodong (張小東)	No. 19, Quanxing Road Economical and Technological Development Zone Langfang City, Hebei Province China	Chinese
Mr. Dong Jiping (董計平)	No. 31, Quanyuan Lane Yuquan District Hohhot, Inner Mongolia China	Chinese
Non-executive Directors		
Mr. Zhang Yujun (張玉軍)	No. 301, Unit 2, Building 11 Jinchuan Power Town, Jinhai Road Huimin District Hohhot, Inner Mongolia China	Chinese
Mr. Xu Jun (徐軍)	No.103, Building 14 Juhua Four Seasons Qiaohua Century Town East University Road Saihan District Hohhot, Inner Mongolia China	Chinese
Mr. Xu, Zhan Kevin (許湛)	No. 102, Building 1 Lane No. 183, Huaihai West Road Shanghai China	Chinese (Hong Kong)
Mr. Qiu Zhongwei (邱中偉)	29G, Building 1, Park Avenue No. 6 Chaoyang Park South Road Chaoyang District Beijing China	Chinese (Hong Kong)

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality

Independent Non-executive Directors

Ms. Xie Xiaoyan (謝曉燕)	No.14, Unit 2, Building 28 Inner Mongolia Agricultural University Xinjian East Street, Saihan District Hohhot, Inner Mongolia China	Chinese
Mr. Yao Feng (姚峰)	No. 416, Gate 4 Building 5, Cuiwei Zhongli Haidian District Beijing China	Chinese
Mr. Shen Jianzhong (沈建忠)	Room 5028, United 3, Building 56 North Malianwa Road Haidian District Beijing China	Chinese

For further information regarding our Directors, please see the section headed “Directors and Senior Management” of this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Huatai Financial Holdings (Hong Kong) Limited

62/F, The Center
99 Queen’s Road Central
Central
Hong Kong

Credit Suisse (Hong Kong) Limited

Level 88, International Commerce Centre
One Austin Road West
Kowloon
Hong Kong

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal Advisors to our Company

as to Hong Kong and U.S. laws:

Davis Polk & Wardwell

18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

as to PRC law:

Tian Yuan Law Firm

10/F, China Pacific Insurance Plaza B
28, Fengsheng Lane
Xicheng District, Beijing
PRC

as to Cayman Islands law:

Ogier

11/F, Central Tower
28 Queen’s Road Central
Central
Hong Kong

**Legal Advisors to the Joint Sponsors and
the [REDACTED]**

as to Hong Kong and U.S. laws:

Sidley Austin

39/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

as to PRC law:

Beijing Dentons Law Offices, LLP

7/F, Building D, Parkview Green FangCaoDi
No.9, Dongdaqiao Road
Chaoyang District, Beijing
China

**Auditor and Reporting Accountants
to our Group**

Deloitte Touche Tohmatsu

Certified Public Accountants

35/F One Pacific Place
88 Queensway
Admiralty
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

**Reporting Accountants on the historical
financial information of
Fonterra China Farms Group**

KPMG
Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central
Hong Kong

Industry Consultant

**Frost & Sullivan
(Beijing) Inc.**
Room 1018, Tower B
Greenland Center
500 Yunjin Road
Xuhui District
Shanghai, 200232
China

Biological Asset Appraiser

**Jones Lang LaSalle Corporate
Appraisal and Advisory Limited**
7/F, One Taikoo Place
979 King’s Road
Hong Kong

[REDACTED]

CORPORATE INFORMATION

Registered Office	89 Nexus Way Camana Bay, Grand Cayman KY1-9009, Cayman Islands
Principal Place of Business in Hong Kong	31/F., Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
Headquarters and Principal Place of Business in China	No. 169, Hexi Road, Saihan District Hohhot, Inner Mongolia China
Company Secretary	Ms. Yu Wing Sze (余詠詩) (<i>ACIS, ACS</i>) TMF Hong Kong Limited 31/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
Authorized Representative(s)	Mr. Dong Jiping (董計平) No. 31, Quanyuan Lane Yuquan District Hohhot, Inner Mongolia China Ms. Yu Wing Sze (余詠詩) (<i>ACIS, ACS</i>) TMF Hong Kong Limited 31/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
Audit Committee	Ms. Xie Xiaoyan (謝曉燕) (<i>Chairman</i>) Mr. Yao Feng (姚峰) Mr. Qiu Zhongwei (邱中偉)
Remuneration Committee	Mr. Shen Jianzhong (沈建忠) (<i>Chairman</i>) Ms. Xie Xiaoyan (謝曉燕) Mr. Xu Jun (徐軍)
Nomination Committee	Mr. Yao Feng (姚峰) (<i>Chairman</i>) Mr. Shen Jianzhong (沈建忠) Mr. Xu, Zhan Kevin (許湛)

CORPORATE INFORMATION

Compliance Advisor

Lego Corporate Finance Limited

Room 1601, 16/F,
China Building
29 Queen’s Road Central
Hong Kong

**Principal Share Registrar and
Transfer Office**

Ogier Global (Cayman) Limited

89 Nexus Way
Camana Bay
Grand Cayman, KY1-9009
Cayman Islands

[REDACTED]

Principal Bank

**Bank of Communications Inner Mongolia
Region Branch**

Fengye Mansion, No.110, Daxue Road West
Hohhot, Inner Mongolia
China

Company Website

www.yourandairy.com (the information
contained in this website does not form part
of this document)

REGULATORY OVERVIEW

A summary of the main PRC laws, rules and regulations applicable to our current business and operation is set out below.

POLICIES RELATING TO FOREIGN INVESTMENT

Foreign investments in various industries in the PRC shall be subject to the Catalogue of Industries for Encouraged Foreign Investment (2019 Version) (鼓勵外商投資產業目錄(2019年版)) (the “Encouraged Catalogue”) which was promulgated on June 30, 2019 and implemented on July 30, 2019 and Special Administrative Measures for the Market Entry of Foreign Investment (2020 Version) (外商投資准入特別管理措施(負面清單)(2020年版)) (the “Negative List”) which was promulgated on June 23, 2020 and implemented on July 23, 2020. According to the Encouraged Catalogue and Negative List, foreign investment industries are classified into two categories, (i) industries in which foreign investments are encouraged by the Encouraged Catalogue; and (ii) industries in which foreign investments are restricted or prohibited by the Negative List. Based on the foregoing, the industries our PRC subsidiaries engaging in are not restricted or prohibited by the Negative list.

POLICIES RELATING TO MODERN HUSBANDRY AND DAIRY INDUSTRY

The State Council of the PRC (中華人民共和國國務院) (the “State Council”), the Ministry of Agriculture and Rural Affairs of the PRC (中華人民共和國農業農村部) (formerly known as “the Ministry of Agriculture of the PRC”, 原中華人民共和國農業部) (the “MOA”), the National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會) (the “NDRC”) and the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (the “MIIT”) have promulgated a series of policies aiming at promoting the development of modern husbandry and dairy industry. These policies include the Opinions of the State Council on the Promotion of Sustainable and Healthy Development of Husbandry (國務院關於促進畜牧業持續健康發展的意見) promulgated by the State Council on January 26, 2007, the Opinions of the State Council on the Promotion of Sustainable and Healthy Development of the Dairy Industry (國務院關於促進奶業持續健康發展的意見) promulgated by the State Council on September 27, 2007, the Notice of the General Office of the State Council Regarding the Transmittal of the Outlines of the Restructuring and Revitalization Plan for the Dairy Industry Issued by NDRC and Other Ministries (國務院辦公廳關於轉發發展改革委員會等部門奶業整頓和振興規劃綱要的通知) issued by the General Office of the State Council on November 7, 2008, the Dairy Product Industrial Policies (2009 Version) (乳製品工業產業政策(2009年版)) promulgated by the MIIT and the NDRC on June 26, 2009, the Opinions of the MOA on the Promotion of the Development of Modern Livestock and Poultry Breeding Industry (農業部關於促進現代畜禽種業發展的意見) promulgated by MOA on June 22, 2016, the Opinions of the General Office of the State Council on Promotion of Dairy Industry and the Safeguard of Dairy Products Quality and Safety (國務院辦公廳關於推進奶業振興保障乳品質量安全的意見) promulgated by the General Office of the State Council on June 3, 2018, and the Several Opinions on Further Promotion of the Revitalization of Dairy Industry (關於進一步促進奶業振興的若干意見) promulgated on December 24, 2018.

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The foregoing governmental documents call for consolidation, improvement of industrialization and specialization level of the animal husbandry industry and dairy industry, acceleration of the breeding and promotion of fine breeds of livestock and poultry, increase in the milk yield of dairy cows, transformation of breeding and raising pattern of livestock and poultry, strengthening the quality and safety supervision of fresh milk and promoting the production of high-quality forages and feed. Moreover, these governmental documents also set forth various governmental preferential policies and incentives relating to husbandry and dairy industry.

LARGE-SCALE ANIMAL RAISING AND BREEDING INDUSTRY

Record Filing of Livestock and Poultry Breeding Farms

The Animal Husbandry Law of PRC (中華人民共和國畜牧法) (the “Animal Husbandry Law”), which became effective on July 1, 2006 and amended on April 24, 2015, stipulates the conditions that a livestock or poultry breeding farm shall meet, and requires the owner of a breeding farm to file the name and address of the farm, strains and livestock and poultry as well as scale of breeding for record with the animal husbandry and veterinary medicine authority under the local people’s government at the county level where the farm is located, and to obtain labels and codes for the livestock and poultry.

The following are the conditions that a livestock or poultry breeding farm should meet: (i) to have production premises and supporting facilities commensurate with its scale of breeding; (ii) to have animal husbandry and veterinary technicians in its service; (iii) to possess the conditions for epidemic prevention, as provided for by laws and administrative regulations and prescribed by the animal husbandry and veterinary medicine authority under the State Council; (iv) to have such facilities as methane-generating pits for comprehensive use of, or other facilities for innocuous treatment of, the feces of livestock and poultry, waste water and other solid wastes; and (v) to meet other conditions provided for by laws and administrative regulations.

The detailed rules of the labels of livestock and poultry and their breeding files are regulated by the Administrative Measures for the Labels of Livestock and Poultry and Breeding Files (畜禽標識和養殖檔案管理辦法), which was promulgated by the MOA on June 26, 2006 and became effective on July 1, 2006.

License for Production and Operation of Breeding Livestock and Poultry

Pursuant to the Animal Husbandry Law, entities or individuals that intend to engage in production and operation in the breeding or in the commercial production of young livestock and poultry shall obtain the license for production and operation of breeding livestock and poultry. For obtaining the license for production and operation of such genetic material as the ova, frozen sperms and embryos of livestock, an application shall be submitted to the administrative department for animal husbandry and veterinary medicine under the people’s

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government at the provincial level; while the license for production and operation of other breeding livestock and poultry shall be issued after examination by the administrative department for animal husbandry and veterinary medicine under the local people’s government at or above the county level.

Disease Prevention

The Law on Animal Epidemic Prevention of the PRC (中華人民共和國動物防疫法), which was promulgated on July 3, 1997 and latest amended on April 24, 2015 and the Measures for the Examination of Animal Epidemic Prevention Conditions (動物防疫條件審查辦法), which was promulgated by MOA on January 21, 2010 and became effective on May 1, 2010, stipulate the conditions for prevention of animal epidemics that an animal breeding farm shall meet and require the operators of an animal breeding farm to apply to the administrative departments for veterinary medicine under the people’s government at the county level for a certificate for meeting animal epidemic prevention conditions. For the applicants that passes the examination, the certificate for meeting animal epidemic prevention conditions shall be issued.

According to the Law on Animal Epidemic Prevention of the PRC, animal epidemic prevention institutions shall monitor the outbreak and spread of animal epidemic; and the entities and individuals engaged in animal raising, slaughtering, operation, isolation or transportation shall immediately report to the local administrative departments for veterinary medicine, animal health supervision institutions or animal epidemic prevention and control institutions immediately once they find the animals have contracted epidemics or suspect epidemics, and they shall have the animals isolated and take other control measures, to prevent the spread of the epidemic.

Where animals are eradicated and animal products and relevant goods are destroyed through mandatory measures taken in the course of prevention, control and elimination of animal epidemics, people’s governments at or above the county level shall provide compensation. The specific rates and measures for compensation shall be determined and adopted by the department of finance under the State Council together with the departments concerned.

Water Resource

Pursuant to the Water Law of the PRC (中華人民共和國水法) promulgated on January 21, 1988 and latest amended on July 2, 2016, the Regulations on the Administration of the Water Abstraction Licensing and the Levy of Water Resources Fees (取水許可和水資源費徵收管理條例) promulgated on February 21, 2006 and amended on March 1, 2017 and the Measures for the Administration of Water Abstraction Licensing (取水許可管理辦法) promulgated on April 9, 2008 and latest amended on December 22, 2017, any entity or individual that abstracts water resources shall, except for certain circumstances, apply for and obtain a water abstraction license and pay water resources fees. An applicant may not build water abstraction engineering structures or facilities until its application for water abstraction has been approved by the

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approval authority. After the construction of water abstraction engineering structures or facilities is completed and upon satisfactory inspection, the approval authority will issue the water abstraction license. A water abstraction entity or individual shall abstract water according to the approved planned volume and pay water resources fees, and for water abstraction that exceeds the planned volume, water resources fees shall be charged progressively on the excessive part.

Prevention and Control of Pollution

The Regulations on the Prevention and Control of Large-scale Livestock and Poultry Breeding Pollution (畜禽規模養殖污染防治條例), issued by the State Council on November 11, 2013 and implemented since January 1, 2014, provides that, the construction, reconstruction and expansion of livestock and poultry farms and breeding districts shall meet the requirements of animal epidemic prevention and in compliance with the development plan of animal husbandry and pollution prevention and control plan of livestock and poultry breeding, and such farms and districts must undergo environmental impact assessment. In the livestock and poultry farms and breeding districts there shall be relevant facilities for feces of livestock and poultry, shunting sewage and rains, storage of feces and sewage, and comprehensive utilisation and harmless treatment facilities for anaerobic digestion and stack retting of feces, organic fertiliser processing, methane producing, separation and delivery of dregs and fluid of methane, sewage treatment and corpse treatment.

FOOD SAFETY STANDARDS

The Food Safety Law of the PRC (中華人民共和國食品安全法) (the “Food Safety Law”) was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會) (the “NPC”) on February 28, 2009 and was latest amended on December 29, 2018. The Regulation on the Implementation of the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例) was promulgated by the State Council on July 20, 2009 and was latest amended on October 11, 2019.

According to the Food Safety Law, national food safety standards shall be developed and published by the health administrative department of the State Council in conjunction with the food safety supervision and administration department of the State Council. Food safety standards shall be mandatorily executed. No mandatory food standards other than food safety standards shall be developed. The State encourages food production enterprises to develop standards more stringent than the national or local food safety standards for their own application.

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PRODUCT QUALITY

Product Quality Law in General

The Product Quality Law of the PRC (中華人民共和國產品質量法) (the “**Product Quality Law**”) promulgated by the Standing Committee of the NPC on February 22, 1993 and latest amended on December 29, 2018 is the principal law governing the supervision and administration of product quality and applies to all production and marketing activities within the territory of the PRC.

According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell.

The manufacturer shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products of the manufacturer unless the manufacturer is able to prove that: (i) it has not circulated the product; (ii) the defect did not exist at the time when the product was circulated; or (iii) the state of scientific or technological knowledge at the time when the product was circulated was not sufficient to detect the existence of the defect.

The seller will be liable to compensate for any bodily harm or damage to property (other than defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller.

Any manufacturer or seller that produces or sells products not up to the relevant national or sectoral standards for ensuring human health, personal safety and safety of property shall be ordered to suspend production, confiscate the products illegally produced, and be imposed a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licenses shall be revoked. Where a criminal offence is constituted, the offenders will be pursued for criminal liabilities.

Agriculture Products Safety

The Law of the PRC on Quality and Safety of Agricultural Products (中華人民共和國農產品質量安全法) (the “**Agricultural Products Safety Law**”), which was promulgated by the Standing Committee of the NPC on April 29, 2006 and amended on October 26, 2018, governs the supervision and administration of the quality and safety of primary agricultural products, namely plants, animals, microorganisms and other products obtained in the course of agricultural activities. The Agricultural Products Safety Law regulates the agricultural products in the following aspects to ensure that they meet the requirements necessary to protect people’s health and safety, including: (i) the quality and safety standards of agricultural product; (ii) the production places of agricultural products; (iii) the production of agricultural products; and (iv) the packing and labelling of agricultural products.

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According to the Agricultural Products Safety Law, producers of agricultural products shall reasonably use chemical products in order to avoid contaminating production places of agricultural products. The agricultural producers shall also ensure that the preservatives, additives and other chemicals used in the process of production, packaging, preservation, storage and transportation of agricultural products shall be in conformity with the relevant compulsory technical specifications set by the State.

Quality of Dairy Products

According to the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (乳品質量安全監督管理條例), which was promulgated by the State Council and became effective on October 9, 2008, dairy animal breeders, fresh milk purchasers, dairy products production enterprises and sellers are the first responsible persons who shall assume responsibility for the quality safety of the dairy products which they produce, purchase, transport and sell. Fresh milk must comply with the national safety standards governing the quality of dairy product, which are developed by the competent health department of the State Council and amended from time to time in accordance with the results of risk monitoring and risk assessments. It is forbidden: (i) to add any substance during the process of production, purchase, storage, transport and sale of fresh milk; or (ii) to add any non-edible chemical substance or any other substance that may be hazardous to the human health during the production of dairy products.

According to the Administrative Measures for Fresh Milk Production and Procurement (生鮮乳生產收購管理辦法), which was promulgated by MOA and became effective on November 7, 2008, dairy animal breeders, purchasers of fresh milk and transporters of fresh milk are the first responsible persons who shall assume responsibility for the quality safety of the fresh milk that they produce, purchase, transport or sell. Fresh milk produced, purchased, stored, transported or sold shall comply with the national quality safety standards for dairy products. No substance is permitted to be added in during the processes of production, procurement, storage, transportation and sale of fresh milk. Entities or individuals engaged in the breeding of dairy cows shall not add animal-based substances (excluding milk and dairy products) to animal feed, feed additives or veterinary drugs, nor shall they add any substances that are harmful or potentially harmful to the humans or animals. Dairy products producers, dairy animal breeders, production cooperatives for farmers of dairy animals who wishes to open fresh milk purchase stations shall apply to the administrative department for animal husbandry and veterinary medicine under the people’s government at the county level where they are located for a raw fresh milk purchase license. Such raw fresh milk purchase licenses are valid for a period of two years. The owner of any vehicle used for transporting fresh milk must obtain for such vehicle a permit for transportation of fresh milk issued by the animal husbandry and veterinary medicine authority under the people’s government at the county level where such vehicle is registered.

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FEED PRODUCTION

According to the Regulations on Administration of Feed and Feed Additives (飼料和飼料添加劑管理條例), which became effective on May 29, 1999 and latest amended on March 1, 2017, and the Measures for the Administration of Feed and Feed Additives Production Licensing (飼料和飼料添加劑生產許可管理辦法), which became effective on July 1, 2012 and latest amended on November 30, 2017, applicants for the establishment of feed, including single ingredient feed, concentrated feed, compound feed and concentrate supplement, production enterprises shall file applications with the feed administration departments under people’s governments of provinces, autonomous regions and municipalities directly under the central government for a production license. Such production license is valid for a period of five years.

Regulations on Administration of Grain Distribution (糧食流通管理條例), which was promulgated on May 26, 2004 and subsequently amended on July 18, 2013 and February 6, 2016, provides that an operator shall not engage in grain purchase activities until it has obtained the license for grain purchase.

DISTRIBUTION OF VETERINARY DRUGS

According to the Regulations on Administration of Veterinary Drugs (獸藥管理條例), which was promulgated by the State Council on May 21, 1987 and latest amended on March 27, 2020, on meeting the requirements therein shall an veterinary drug distributor apply to the administrative department for veterinary medicine of the people’s government of the city or county for the veterinary drug distribution license. In the veterinary drug distribution license shall clearly state, among others, the scope of distribution, place of business, expiry date. Such license is valid for a period of five years.

PRODUCTION SAFETY

The PRC Work Safety Law (中華人民共和國安全生產法) (the “**Work Safety Law**”), was promulgated on June 29, 2002, came into effect on November 1, 2002 and was revised on August 27, 2009 and August 31, 2014 respectively. It governs the supervision and administration of production safety in the PRC. The Work Safety Law requires a production entity to meet the relevant requirements such as providing its staff with education and training, strengthening work safety control, setting up and improving the responsibility system and rules and regulations for work safety, improving the conditions for work safety, promoting the standardization of work safety, raising the level of work safety and ensuring work safety. Any production entity that fails to meet the legal requirements shall not be allowed to engage in production activities in the PRC. Violation of the Work Safety Law may result in fines, penalties, suspension or cease of operations, or even criminal liabilities in severe cases.

REGULATORY OVERVIEW

LAND USE

Land related laws and regulations mainly include the Land Administration Law (中華人民共和國土地管理法) which was promulgated by the Standing Committee of NPC on June 25, 1986, latest amended on August 26, 2019 and became effective as of January 1, 2020, the Rules for Implementation of the Land Administration Law (中華人民共和國土地管理法實施條例) which was promulgated by the State Council on January 4, 1991 and latest amended on July 29, 2014, the Provisional Regulations of the PRC Concerning the Assignment and Transfer of the Right to Use State Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) which became effective on May 19, 1990, the Law on Land Contract in Rural Areas of the PRC (中華人民共和國農村土地承包法) which was promulgated on August 29, 2002, latest amended on December 29, 2018 and became effective on January 1, 2019, and the Measures for the Administration of the Circulation of the Right to Rural land Contractual Management (農村土地承包經營權流轉管理辦法) promulgated by MOA on January 19, 2005 and became effective on March 1, 2005.

Land Used for Agricultural Facilities

According to the Notice of the Ministry of Natural Resources and MOA on Relevant Issues Concerning the Administration of Land Used for Agriculture Facilities (自然資源部、農業農村部關於設施農業用地管理有關問題的通知), which became effective on December 17, 2019 in replacement of the Notice of the Ministry of Land and Resources and the MOA on Further Support for the Healthy Development of Facility Agriculture (國土資源部、農業部關於進一步支持設施農業健康發展的通知) which was effective since September 29, 2014, land used for agricultural facilities in nature are different from land used for non-agricultural construction project and are treated and administered as agricultural land. Land used for agricultural facilities includes facility land directly used for crop cultivation in agricultural production and livestock and poultry breeding and aquaculture. Land used for agricultural facilities shall be filed for record with township governments by the rural collective economic organization or operator, and the township governments shall regularly collect and hand over the information to the natural resources governmental authority at the county level.

ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), which was promulgated by the Standing Committee of the NPC on December 26, 1989, and amended on April 24, 2014, and came into force on January 1, 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. According to the Environmental Protection Law, enterprises and other manufacturers shall prevent and reduce environmental pollution and ecological damage as well as take the liabilities for the damages caused.

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Construction Project Environmental Protection

The Environmental Impact Assessment Law (中華人民共和國環境影響評價法), which was promulgated by the Standing Committee of NPC on October 28, 2002 and was latest amended on December 29, 2018, the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), which was promulgated by the State Council on November 29, 1998 and was amended on July 16, 2017, and the Interim Measures for the Completion Inspections of Environment Protection Facilities of Construction Projects (建設項目竣工環境保護驗收暫行辦法), which was promulgated and became effective on November 20, 2017, require enterprises that planning construction projects to provide assessment reports, statements or registration forms on the environmental impact of such projects. The assessment reports or statements must be approved by the competent environmental protection authorities prior to the commencement of any construction work, while the registration forms must be submitted to the competent environmental protection authorities for recordation. Unless otherwise provided by laws and regulations, enterprises with construction projects, which are required to make assessment reports or statements, shall undertake acceptance inspections of the environmental protection facilities upon the completion of the construction. A construction project may be formally put into production or use only if its corresponding environmental protection facilities have passed the acceptance examination.

Prevention and Control of Pollution

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (排污許可管理辦法(試行)), which became effective on January 10, 2018 and amended on August 22, 2019, and the Catalogue of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (2019 Version) (固定污染源排污許可分類管理名錄(2019年版)), based on factors such as the amount of pollutants produced, the amount of pollutants discharged and the impact on the environment, pollutant discharge units are subject to three different level of pollutant discharge permit administration, namely priority administration, and simplified administration and registration administration. It is not required for units applicable for registration administration to apply for the pollutant discharge license, but they shall fill in and submit a pollution discharge registration form on the national pollution discharge license management information platform.

ONLINE TRADING

Pursuant to Provisions on the Administration of Foreign-Invested Telecom Enterprises (外商投資電信企業管理規定), which became effective on January 1, 2002 and was latest amended on February 6, 2016, and the Measures for the Administration of Telecommunications Business Operation Licenses (電信業務經營許可管理辦法) promulgated by MIIT on July 3, 2017 and became effective on September 1, 2017, foreign investor may, with joint investment of a Chinese investor, establish enterprise within PRC for operation of telecom services. To operate value-added telecoms services, a value-added telecommunication service operating license shall be obtained. The Circular of the Ministry of Industry and Information Technology

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on Liberalizing the Restrictions on Foreign Shareholding Percentages in Online Data Processing and Transaction Processing Business (For-profit E-commerce Business) (工業和信息化部關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告), which became effective on June 19, 2015, liberalized the restrictions on foreign shareholding percentages in online data processing and transaction processing business (for-profit e-commerce business) nationwide to up to 100%.

IMPORT AND EXPORT OF GOODS

Pursuant to the Customs Law of the PRC (中華人民共和國海關法) promulgated on January 22, 1987 and latest amended on November 4, 2017 and became effective on November 5, 2017, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

Pursuant to the Administrative Measures for the Inspection, Quarantine and Supervision of Imported and Exported Feedstuff and Feed Additives (進出口飼料和飼料添加劑檢驗檢疫監督管理辦法), which became effective on September 1, 2009 and was latest amended on November 23, 2018, the General Administration of Customs adopts a registration system for production enterprises of countries and regions allowed to export feed to China. Imported feed shall come from registered overseas production enterprises. the General Administration of Customs adopts a record-filing management over feed importing enterprises. The feed importing enterprise shall file for record with the customs at the place of domicile of the enterprise before or at the time of the first application for inspection and quarantine.

INCORPORATION, OPERATION AND MANAGEMENT OF CORPORATE ENTITIES

The establishment, operation and management of corporate entities in China are governed by the PRC Company Law (中華人民共和國公司法), which was promulgated by the Standing Committee of the NPC on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. Pursuant to the PRC Company Law, companies are classified into two categories, namely limited liability companies and limited companies by shares. The PRC Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares. According to the PRC Company Law, the provisions otherwise prescribed by the laws on foreign investment shall prevail.

Before 2020, the establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Law of the PRC on wholly Foreign-owned Enterprises (中華人民共和國外資企業法), which was promulgated and became effective on April 12, 1986 and amended on October 31, 2000 and September 3, 2016, and the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (中

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華人民共和國外資企業法實施細則), which was promulgated on December 12, 1990 and amended on April 12, 2001 and February 19, 2014, and the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) which became effective on October 8, 2016 and amended on July 30, 2017 and June 29, 2018.

Since the Foreign Investment Law of the PRC (中華人民共和國外商投資法) (the “Foreign Investment Law”) promulgated by the NPC on March 15, 2019 became into force on January 1, 2020, the Law of the PRC on Wholly Foreign-owned Enterprises has been repealed simultaneously. The Foreign Investment Law sets out the definition of foreign investment and the framework for promotion, protection and administration of foreign investment activities.

Since the Implementing Regulations of the Foreign Investment Law of the PRC (中華人民共和國外商投資法實施條例) promulgated on December 26, 2019 by the State Council became effective on January 1, 2020, the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises has been repealed simultaneously. Pursuant to the Implementing Regulations of the Foreign Investment Law of the PRC, the foreign-invested enterprises, established according to the Law of the PRC on Wholly Foreign-owned Enterprises prior to the implementation of the Foreign Investment Law, may adjust their organization form, structure, etc. pursuant to the provisions of the PRC Company Law and other related laws, and complete change registration legally. Alternatively, they may choose to retain their current organization form, structure, etc. within five years after the implementation of the Foreign Investment Law.

Since the Measures on Reporting Foreign Investment Information (外商投資信息報告辦法) promulgated on December 30, 2019 by the MOFCOM and State Administration for Market Regulation became effective on January 1, 2020, the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises has been repealed simultaneously. Pursuant to the Measures on Reporting Foreign Investment Information, foreign investors or foreign investment enterprises shall report the investment information through submitting initial reports, change reports, deregistration reports, annual reports, etc. to the competent commerce departments via the enterprise registration system and the National Enterprise Credit Information Publicity System.

Pursuant to Provisions Regarding Mergers and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”) which was promulgated by the MOFCOM, the SASAC, the SAT, the SAIC, the CSRC and the SAFE on August 8, 2006 and became effective as of September 8, 2006, and subsequently amended by the MOFCOM on June 22, 2009, which requires that a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for a new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor established a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested

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enterprise. According to the Article 11 of the M&A Rules, where a domestic company, domestic enterprise, or a domestic natural person, through an overseas company legally established or controlled by it, acquires a domestic company affiliated thereto, an approval from the MOFCOM is required.

TAXATION

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”) promulgated on March 16, 2007, became effective on January 1, 2008 and amended on February 24, 2017, December 29, 2018 respectively and the Implementation Rules of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “Implementation Rules”) promulgate on December 6, 2007 and amended on April 23, 2019, enterprises are classified into resident enterprises and non-resident enterprises. An EIT rate of 25% is applied to the resident enterprise on its global income. A reduced EIT rate of 10% is applied on the income generated in the PRC by a non-resident enterprise with no PRC institution, or by a non-resident enterprise whose income has no substantial nexus with its PRC institutions.

According to the EIT Law and Implementation Rules, income of an enterprise generated from farming cattle and poultry or primary process of agricultural products will be exempted from enterprise income tax.

Value-added Tax

All entities and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, the sale of service, intangible assets and real estate and the importation of goods within the territory of the PRC shall pay value-added tax (the “VAT”) in accordance with the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the “Provisional Regulations on VAT”) and its implementation rules. The Provisional Regulations on VAT was promulgated by the State Council on December 13, 1993 which became effective on January 1, 1994 and subsequently amended on November 5, 2008, February 6, 2016 and November 19, 2017 respectively. Pursuant to the Provisional Regulations on VAT and its implementation rules, VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17%, 11% or 6% in certain limited circumstances depending on the product type. Self-produced agricultural products sold by agricultural producers shall be exempt from value-added tax.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (財政部、稅務總局關於調整增值稅稅率的通知) which was promulgated on April 4, 2018 and became effective on May 1, 2018, the tax rates of 17% and 11% applicable to any taxpayer’s VAT taxable sale or import of goods shall be adjusted to 16% and 10%, respectively.

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Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation and the General Administration of Customs of the PRC on Relevant Policies for Deepening the Value-Added Tax Reform (財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告), which was promulgated on March 20, 2019 and became effective on April 1, 2019, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on the Exemption of Value-added Tax on Feed Products (財政部、國家稅務總局關於飼料產品免徵增值稅問題的通知) promulgated on July 12, 2001 and effective on August 1, 2001, mixed feed, compound feed, compound premix, concentrated feed and single bulk feed shall be exempt from value-added tax.

FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “Foreign Exchange Administration Rules”). It was promulgated by the State Council of the PRC on January 29, 1996, became effective on April 1, 1996 and was amended on January 14, 1997 and August 5, 2008. Pursuant to the Foreign Exchange Administration Rules, the payment in and transfer of foreign exchange for current international transactions shall not be subject to government control or restriction. Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions. Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. While convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans are subject to registration with SAFE and approval or filing with the relevant governmental authorities (if necessary).

In November 2012, SAFE promulgated the Circular of SAFE on Further Improving and Adjusting the Foreign Exchange Policies on Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) and its appendix which provides for and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including, among others, foreign exchange registration, account opening, reinvestment with legal income, purchase, payment and settlement of foreign exchange.

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Pursuant to the Circular of SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the “SAFE Circular 13”) which became effective on June 1, 2015 and amended on December 30, 2019, the foreign exchange registration under domestic and overseas direct investment is directly reviewed and handled by banks in accordance with the SAFE Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

Dividend Distribution

Pursuant to the EIT Law, non-resident enterprises which have not set up agencies or offices in the PRC, or agencies or offices are set up but there is no actual relationship with the income obtained by the agencies or offices, shall pay enterprise income tax in relation to the income originating from China at the tax rate of 20%. However, the Implementation Rules reduced the rate from 20% to 10%.

Pursuant to the Arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “Arrangement”) which was signed on August 21, 2006 and was latest amended by the Protocol V to the Arrangement (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》第五議定書) signed on July 19, 2019, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The Notice of the State Administration of Taxation on Issues relating to the Administration of the Dividend Provision in Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知) (the “Notice 81”) was promulgated on February 20, 2009 by the State Administration of Taxation. The Notice 81 reaffirms the qualification for a dividend recipient to enjoy a tax preferential levied at 5% rate as follows: (i) the recipient of the dividend must be a corporation; (ii) the recipient’s ownership in the PRC company must meet the prescribed direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; (iii) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential.

EMPLOYMENT, SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

Employment

According to the PRC Labour Law (中華人民共和國勞動法) promulgated on July 5, 1994, became effective on January 1, 1995 and amended on August 27, 2009 and December 29, 2018, workers are entitled to fair employment, choice of occupation, labour remuneration, leave, a safe workplace, a sanitation system, social insurance and welfare and certain other rights. Employers shall establish and improve their work safety and sanitation system, educate employees on safety and sanitation and provide employees with a working environment that meets the national work safety and sanitation standards.

REGULATORY OVERVIEW

The PRC Labour Contract Law (中華人民共和國勞動合同法) (the “Labour Contract Law”) was promulgated on June 29, 2007, amended on December 28, 2012 and became effective on July 1, 2013, and its implementation regulations were implemented on September 18, 2008. According to the Labour Contract Law and its implementation regulations, labour contracts must be executed in writing to establish labour relationships between employers and employees. A labour contract shall include essential terms, such as the duration of the labour contract, work content and workplace, working hours and holiday, work remuneration, social insurance, labour protection and labour terms as well as prevention of occupational hazards. Employees who fulfill certain criteria, including having continuously worked for the same employer for 10 years or more, may demand that the employer execute an unfixed-term labour contract. Wages paid by employers may not be lower than the local minimum wage standard. Both employers and employees must perform their respective obligations stipulated in the labour contracts.

Social Insurance and Housing Provident Fund

Pursuant to the PRC Social Insurance Law (中華人民共和國社會保險法) which was promulgated on October 28, 2010 and amended on December 29, 2018, employers in the PRC must register with the relevant social insurance authority and make contributions to a number of social insurance funds, including the basic pension insurance fund, basic medical insurance fund, unemployment insurance fund, maternity insurance fund and work-related injury insurance fund. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees.

Pursuant to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated on April 3, 1999 and amended on March 24, 2019, employers shall undertake the registration with the administrative center of housing provident funds and pay the funds for their employees.

INTELLECTUAL PROPERTY

Trademark

According to the Trademark Law of the PRC (中華人民共和國商標法) (the “Trademark Law”), which was promulgated by the Standing Committee of the NPC on August 23, 1982 and last amended on April 23, 2019, the trademark registrants shall be entitled to the right to the exclusive use of their trademarks and shall be protected by law. A registered trademark is valid for ten years commencing on the date of registration approval. If a trademark registrant wishes to use a trademark after the expiration of the term of the registered trademark, he could conduct the renewal procedure in accordance with laws.

REGULATORY OVERVIEW

Patent

According to the Patent Law of the PRC (中華人民共和國專利法) (the “**Patent Law**”) promulgated on March 12, 1984 and became effective on April 1, 1985 and was amended on September 4, 1992, August 25, 2000 and December 27, 2008 and which became effective on October 1, 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment (as the case may be).

The patent system in China uses the “first to file” principle, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China.

Domain Names

Pursuant to the Measures for the Administration of Internet Domain Names (互聯網域名管理辦法), which was promulgated by the MIIT on August 24, 2017 and became effective on November 1, 2017, domain name registration services shall be subject to the principle of “first apply, first registered”. The domain names registered or used by an organization or individual shall not contain any contents prohibited by laws and administrative regulations. A domain name registration applicant shall provide the domain name registration service agency with truthful, accurate and complete identity information on the domain name holder.

Copyright

According to the Copyright Law of the PRC (中華人民共和國著作權法) (the “**Copyright Law**”), which was promulgated by the Standing Committee of the NPC on 7 September 1990, became effective on 1 June 1991 and amended on 27 October 2001, 26 February 2010 and 11 November 2020, “Work(s)” mentioned in the Copyright Law include work(s) of literature, art, natural science, social science, engineering technology, etc., existing in any forms of written works, fine art, computer software, etc. Chinese citizens, legal persons, or other organizations shall enjoy copyright in their works, whether published or not, in accordance with the Copyright Law. The author(s) of work(s) is a citizen who creates a work or, with respect to a work created under the sponsorship of, and according to the intention of, any legal person or any other organization who bears the responsibility for the work, such legal person or other organization shall be deemed the author of the work.

INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this document are derived from various government and other publicly available sources, and from the market research report prepared by Frost & Sullivan, an independent industry consultant, that we commissioned (the “Frost & Sullivan Report”). The information extracted from the Frost & Sullivan Report should not be considered as a basis for [REDACTED] in the [REDACTED] or as an opinion of Frost & Sullivan with respect to the value of any securities or the advisability of [REDACTED] in our Company. We believe that the sources of this information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. The information has not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective directors, officers or representatives, nor is any representation given as to the accuracy or completeness of such information and statistics. Accordingly, you should not place undue reliance on such information and statistics. For discussions of risks relating to our industries, see the section headed “Risk Factors – Risks Relating to Our Business and Industry.”

SOURCES OF INFORMATION

In connection with the [REDACTED], we have engaged Frost & Sullivan, an independent market research consulting firm, to conduct a detailed analysis and prepare an industry report on the dairy industry in China. Frost & Sullivan is an independent global consulting firm founded in the United States in 1961. It is principally engaged in the provision of market research consultancy services, conducting industry research, and providing market and enterprise strategies and consultancy services across various industries. We incurred a total of RMB670,000 in fees and expenses in connection with the preparation of the Frost & Sullivan Report. The payment of such amount was not contingent on our successful [REDACTED] or on the results of the Frost & Sullivan Report. Except for the Frost & Sullivan Report, we did not commission any other industry report in connection with the [REDACTED].

We have extracted certain information from the Frost & Sullivan Report in this section and elsewhere in this document to provide a comprehensive presentation of the markets in which we operate. We believe such information facilitates an understanding of such markets for potential [REDACTED]. Our Directors confirm that, after taking reasonable care, there is no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an adverse impact on such information.

INDUSTRY OVERVIEW

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the target research markets. Primary research involved interviewing industry insiders such as leading market players, suppliers, customers, and recognized third-party industry associations. Secondary research involved reviewing company reports, independent research reports, and data based on Frost & Sullivan’s own research database. Frost & Sullivan has independently verified the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan’s research may be affected by the accuracy of assumptions used and the choice of primary and secondary sources.

OVERVIEW OF THE GLOBAL DAIRY INDUSTRY

The global dairy industry is highly fragmented. According to Frost & Sullivan, we were the world’s largest raw milk supplier, both in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020. The following diagram illustrates the top five industry comparables in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020, respectively.

Global Top Five Industry Comparables, 1H 2020

Ranking	Dairy Farming Companies	Herd Size of Dairy Cows (Thousand Heads)	Ranking	Dairy Farming Companies	Raw Milk Production Volume (Thousand Tons)
1	The Group	287.0	1	The Group	769.3
2	Company A	235.9	2	Company A	750.0
3	Company B	195.0	2	Company B	750.0
4	Company C	180.0	4	Company C	590.0
4	Company D	175.0	5	Company D	500.0
Top Five		1,072.9	Top Five		3,359.3

Notes:

- (1) The Group’s data are the sum of audited data of Youran and SKX.
- (2) Company A is a Hong Kong-listed company which is principally engaged in the production and sales of raw milk and liquid milk.
- (3) Company B is a multinational dairy products, food and beverage company headquartered in Saudi Arabia, which produces dairy products including liquid milk and milk powder, as well as food and beverage such as juices and bakery products.
- (4) Company C is a private dairy farming company and raw milk supplier headquartered in the United States, principally engaged in the production of raw milk and various other dairy products.
- (5) Company D is a private dairy farming company and raw milk supplier headquartered in the United States, principally engaged in the production of raw milk.

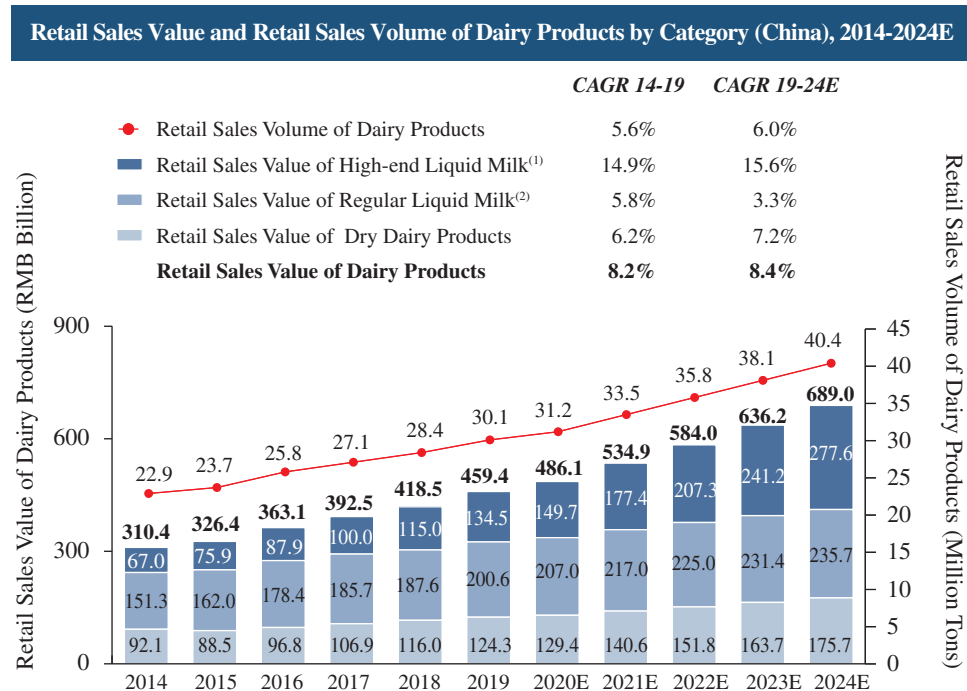
Source: Frost & Sullivan

INDUSTRY OVERVIEW

OVERVIEW OF DAIRY INDUSTRY IN CHINA

Overview

China’s dairy industry has been undergoing significant growth in recent years, driven by increasing dairy product consumption and demand of end consumers. As illustrated in the diagram below, the growing dairy product consumption from downstream customers has been driving the demand for raw milk. According to the Frost & Sullivan Report, the retail sales volume of dairy products in China has grown from 22.9 million tons in 2014 (16.7 kilogram per capita) to 30.1 million tons in 2019 (21.5 kilogram per capita), and is expected to further increase to 40.4 million tons in 2024 (28.5 kilogram per capita). In terms of retail sales value, the market has grown from RMB310.4 billion in 2014 to RMB459.4 billion in 2019, and is expected to reach RMB689.0 billion in 2024, representing a CAGR of 8.4% from 2019 to 2024. High-end liquid milk has achieved significant market acceptance in recent years. The retail sales value of high-end liquid milk has grown from RMB67.0 billion in 2014 to RMB134.5 billion in 2019, and it is expected to further grow at a CAGR of 15.6% to RMB277.6 billion in 2024, which represents a significant higher growth rate as compared to that of regular liquid milk.



Notes:

- (1) liquid milk with a retail price of no less than RMB20/L in 2019.
- (2) liquid milk with a retail price of less than RMB20/L in 2019.

Source: National Bureau of Statistics, Frost & Sullivan

Compared to the dairy product market in developed countries, China’s dairy product market is still underpenetrated, and has significant growth potential. Unlike consumers in developed countries who relatively prefer dry dairy products, Chinese consumers prefer liquid milk. According to Frost & Sullivan, in terms of the equivalent of liquid milk, per capita dairy product consumption in China was 40.7 kilogram in 2019, which was only 16.4% of that in the European Union and 17.9% of that in the United States. We expect dairy product consumption in China to continue to grow rapidly with increasing disposable income and consumption upgrade.

INDUSTRY OVERVIEW

Comparison of the business scope of major industry comparables in China

The leading players in China’s downstream dairy market are scaling and growing rapidly, which requires suppliers with larger size and broader footprints to meet their high demand. Demand in the downstream dairy market is driving rapid growth of the upstream dairy value chain, particularly benefiting those large-scale industry players with their business layout covering the full upstream dairy value chain, including breeding companies, feed manufacturers and dairy farms. As competition in the upstream dairy market is becoming increasingly intensified, the advantages of the top players are gradually prominent.

With scientific dairy farm management systems and modern production procedures, large-scale integrated dairy farms with their business operations spanning the entire upstream value chain, including feed, breeding and dairy farming business, are uniquely positioned to seize the market opportunities in the dairy industry. Set forth below is a comparison of business segments of major industry comparables in China.

Companies	Business Segments in Upstream Dairy Value Chain			
	Dairy Breeding	Concentrated Feed	Forage Grass	Dairy Farming
The Group	✓	✓	✓	✓
Company A				✓
Company E				✓
Company F				✓
Company G				✓

Notes:

- (1) Company E is a Hong Kong-listed dairy farming company and liquid milk supplier and is principally engaged in the production of raw milk and liquid milk.
- (2) Company F is a Hong Kong-listed dairy farming company principally engaged in the operation of dairy farms and import trading of livestock, including raw milk production, and the import of dairy cows.
- (3) Company G is a Hong Kong-listed dairy farming company, principally engaged in raw milk production.

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Key Growth Drivers of Dairy Industry in China

- *Increase in per capita disposable income.* With the increase in per capita disposable income, the level of consumption has increased, and more and more Chinese consumers are willing to consume dairy products. According to Frost & Sullivan, the retail sales value of dairy products increased from RMB310.9 billion in 2014 to RMB459.4 billion in 2019, and is expected to increase to RMB689.0 billion in 2024 at a CAGR of 8.4%.
- *Continuous consumption upgrade.* Continuous consumption upgrade in China drives the demand for dairy products, especially the demand for high-end dairy products with rich nutrients. The retail sales value of high-end liquid milk increased from RMB67.0 billion in 2014 to RMB134.5 billion in 2019, and is expected to increase to RMB277.6 billion in 2024 at a CAGR of 15.6%, according to Frost & Sullivan.
- *Rising health awareness.* Chinese consumers, especially the young generation, have become more health-conscious and placed greater importance on balanced diet and diversified nutrients. As such, the demand for diversified and differentiated dairy products will be increasingly heightened. Dairy products with high nutritional value have become a popular dietary staple in China. In addition, the distinct nutritional needs of particular age groups have also contributed to the development of specialty dairy products in China. For example, specialty dairy products with high nutritional value, such as organic milk, Jersey milk and yogurt, have gained wide popularity in China. The evolving consumer preferences and consumption structure present significant market opportunities for industry participants in the dairy value chain and drive dairy market growth. Furthermore, COVID-19 pandemic has greatly changed Chinese consumers’ consumption consciousness, making them more rational and focus on health. With the pandemic prevention and control becoming regular, the dairy consumption has rapidly recovered, which has brought new growth opportunities for the long-term development of the dairy market.
- *Thriving new retail models.* Dairy manufacturers leverage the thriving online retail model and China’s fast and convenient delivery network to penetrate into regional markets. The emergence of data-driven new retail models and the efficient supply chain have driven the sales of products with limited shelf lives and offered superior customer experience. These have transformed the dairy industry in China and is expected to drive up dairy product sales.
- *Supportive government policies.* The PRC government has been a key advocate in promoting the development of the dairy industry. For example, in 2018, the Chinese government issued the “Opinions on Revitalization of the Dairy Industry and Ensuring Quality and Safety of Dairy Products” (關於推進奶業振興保障乳製品質量安全的意見), which clearly promoted the development of standardized, scaled dairy farming, large-scale breeding of quality dairy cows, and promoting the production of high-quality forage grass. Such kinds of government policies will contribute to the sustainable development of the dairy industry.

INDUSTRY OVERVIEW

Future Trends for Dairy Industry in China

- *Consumers’ growing food safety concerns.* Chinese consumers are paying more attention to the safety, quality and nutritional value of dairy products. The growing food safety concerns about dairy products call for more stringent quality control over raw milk procurement and production. Accordingly, large-scale dairy farms that leverage modern management procedures and standard production process to deliver safe, high-quality raw milk are expected to enjoy significant growth and market shares.
- *Increasing presence of large-scale dairy farms.* Large-scale dairy farms with over 1,000 dairy cows are expected to scale up their presence. Thanks to abundant resources, advanced technologies and standardized management procedures, large-scale dairy farms are able to produce large quantities of safe and high-quality raw milk in an economical manner. In addition, the PRC government also introduced supportive regulations and policies, such as the Outlines of the Restructuring and Revitalization Plan for the Dairy Industry (奶業整頓和振興規劃綱要), which encourage the development of large-scale dairy farms.
- *Consumers’ demand for diverse dairy products.* As a result of the continuous urbanization, the increase in per capita disposable income and changes in the age structure of the Chinese population, Chinese consumers’ demand for dairy products has also evolved. The downstream dairy product market has witnessed a shift in consumer preference towards high-end specialty dairy products, which is expected to diversify and drive the development of dairy product market.
- *Digital transformation of the dairy industry.* The dairy industry in China has undergone digital transformation and many dairy manufacturers and dairy farms are now equipped with cutting-edge technologies such as data analytics, cloud computing and artificial intelligence. In particular, technology is revamping the way how dairy farms manage their daily operations to enhance supply chain management and improve operational efficiency of dairy farms. At the same time, dairy manufacturers are likely to leverage data analytics to identify consumption patterns in China and address consumers’ changing demands.
- *Diversification of downstream market demands.* The dairy industry in China is currently dominated by large conglomerates, such as Yili. While such dairy conglomerates are expected to continue to drive the development of dairy market in China, regional and specialized dairy manufacturers will also become active in the market to address consumers’ growing demands for specialty dairy products.
- *Long-term strategic synergies of upstream and downstream markets.* Increasing competition in the dairy market in China has driven dairy manufacturers, dairy farms and other market participants along the dairy value chain to optimize their business operations. More dairy manufacturers are expected to adopt scientific management systems and integrated business models and strategically collaborate with upstream and/or downstream market players to remain competitive in the market and achieve long-term profit growth.

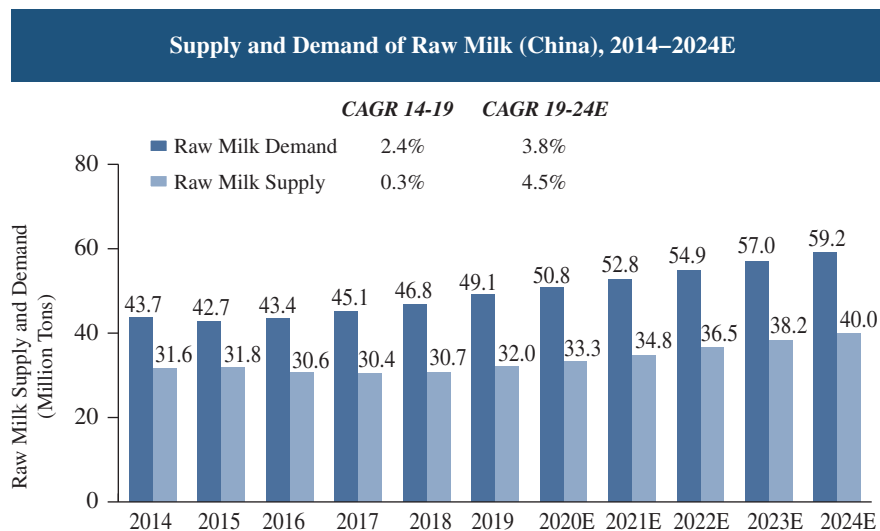
INDUSTRY OVERVIEW

RAW MILK SUPPLY MARKET IN CHINA

Raw Milk Supply

China’s raw milk demand (including domestic production volume of raw milk and net imports of milk products converted into fresh milk) has grown steadily in the past few years, from 43.7 million tons in 2014 to 49.1 million tons in 2019. Driven by the increasing demand for dairy products from Chinese consumers, raw milk demand in China is expected to continue to grow and reach 59.2 million tons in 2024, representing a CAGR of 3.8% from 2019 to 2024.

On the supply side, raw milk production volume in China remained relatively stable during 2014 to 2019. China’s raw milk supply dropped from 31.8 million tons in 2015 to 30.4 million tons in 2017. The decrease was primarily attributable to the decline in the total number of dairy cows due to the exit of a large number of small-scale dairy farms in light of the drop in raw milk price in 2014. With the transformation of China’s dairy industry led by sophisticated medium- and large-scale dairy farms, the raw milk supply in China has gradually recovered since 2018. Due to the increasing average milk yield and the rising number of dairy cows, the raw milk supply is expected to grow at a CAGR of 4.5% from 32.0 million tons in 2019 to 40.0 million tons in 2024.

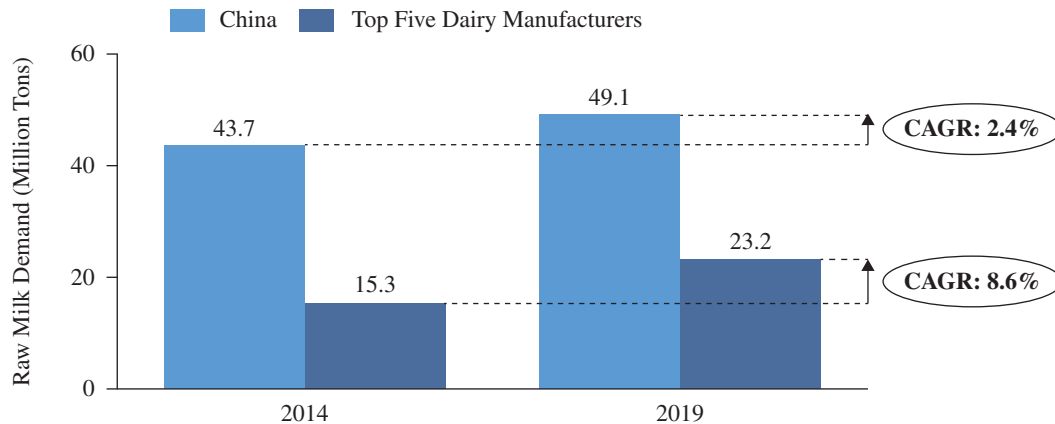


Source: National Bureau of Statistics, Frost & Sullivan

As illustrated in the diagram above, raw milk demand in China has outstripped raw milk supply over the years, and the shortfall in supply will reach approximately 19.2 million tons in 2024. Major leading downstream dairy manufacturers are driving the demand for raw milk in China. From 2014 to 2019, the CAGR of the demand for raw milk of top five dairy manufacturers in terms of raw milk purchase volume reached 8.6%, which was higher than the industry average of 2.4%.

INDUSTRY OVERVIEW

Comparison between the Raw Milk Demand of China and Top Five Dairy Manufacturers, 2014, 2019



Source: Frost & Sullivan

In particular, the demand and supply of high-end raw milk have witnessed a phase of rapid growth as the downstream consumption of high-end liquid milk continues to increase. In terms of retail sales value, the proportion of high-end liquid milk in all liquid milk increased from 30.7% in 2014 to 40.1% in 2019, and is expected to grow further to more than 50% in 2024. Unlike other ordinary dairy products, high-end liquid milk can only be processed from high-end raw milk to maintain its nutrient value and flavors. Thus, it is expected that the popularity of high-end liquid milk in the downstream dairy market will also continue to drive demand for high-end raw milk, which will further bring huge market opportunities for large-scale dairy farms with matched production capacities.

Raw Milk Quality

Protein content, fat content, aerobic plate count and somatic cell count are the four major indicators of raw milk quality. Higher protein and fat content generally indicate higher quality. Lower aerobic plate count and somatic cell count indicate improved sanitation and better health conditions. According to Frost & Sullivan, medium- to large-scale dairy farms in China, with advanced management techniques and superior breed of dairy cows, can typically produce raw milk of quality significantly above the industry standard.

Set forth below are comparisons of the raw milk industry quality standards in China, the EU Standards and the U.S. standards and the major raw milk quality indices of our Group.

Major Companies/Nations	Protein Content (%)	Fat Content (%)	Aerobic Plate Count (CFU/ml)	Somatic Cell Count (CFU/ml)
The Group ⁽¹⁾	>3.3%	>3.9%	<13,000	<170,000
China's Premium Milk Initiative ⁽²⁾	≥3.1%	≥3.3%	<100,000	<300,000
Average of selected large-scale dairy farms ⁽³⁾	3.2%	3.9%	60,600	227,500
PRC national standards ⁽⁴⁾	≥2.8%	≥3.1%	<2,000,000	N/A
U.S. standards ⁽⁵⁾	≥3.2%	≥3.5%	<100,000	<750,000
EU Standards	N/A	N/A	<100,000	<400,000
Japan standards ⁽⁶⁾	≥3.2%	≥3.8%	N/A	N/A

INDUSTRY OVERVIEW

Notes:

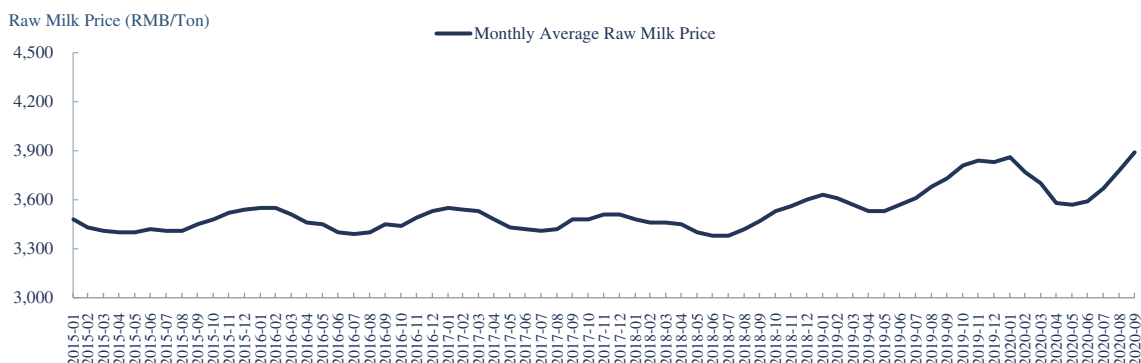
- (1) Information on indicators is based on the test reports issued by Yili upon sampling test on our raw milk in 2019.
- (2) As set forth in China’s Premium Milk Initiative in 2017.
- (3) Including 230 large-scale dairy farms selected and monitored by the PRC National Dairy Cow Industry and Technology System (中國國家奶牛產業技術體系), a joint initiative between the Ministry of Agriculture and Rural Affairs of China and the PRC Ministry of Finance to promote the development of China’s dairy farming industry. The data is for 2019.
- (4) As set forth in China Standard published in 2010.
- (5) As set forth in “A” Pasteurized Milk Ordinance issued by U.S. Department of Health and Human Services in 2011.
- (6) As set forth in Standard Table of Food Composition issued by Ministry of Education, Culture, Sports, Science and Technology in 2015. Data of Japan is the standard of Holstein raw milk, in which the fat content refers to the fatty acid, triacyl-glycerol equivalents.

Source: National Bureau of Statistics, Ministry of Agriculture and Rural Affairs of China, U.S. Department of Health and Human Services, Council of European Union, Ministry of Education, Culture, Sports, Science and Technology, Frost & Sullivan.

Raw Milk Price

The raw milk price in China has predominately maintained an upward momentum in recent years, with the monthly average raw milk price rising from RMB3,480 per ton in January 2015 to RMB3,830 per ton in December 2019, and further increased to RMB3,890 per ton in September 2020. The raw milk price in China depends on the dynamics of supply and demand. In particular, the expansion of top dairy manufacturers is driving the price of raw milk and other dairy products. In addition, the raw milk price is also subject to its quality. Due to its high quality and relative scarcity, the price of high-end specialty raw milk is usually higher than the average market price.

Set forth below is the monthly raw milk price trend in China from January 2015 to September 2020.



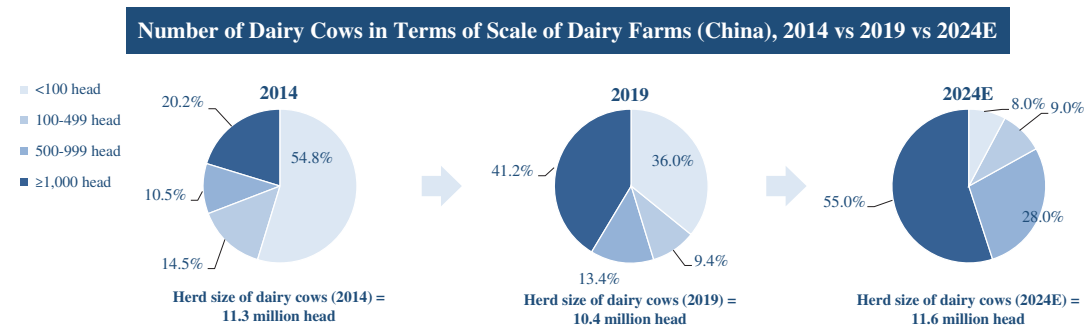
Source: Ministry of Agriculture and Rural Affairs of China

INDUSTRY OVERVIEW

Dairy Farming

Dairy farming is largely affected by climate. In general, dairy cows prefer cool and dry weather over hot and humid weather. Therefore the herd size of dairy cows in northern areas of China is generally larger than that of southern areas. The latitude zone spanning from 40° to 50° latitude, known as the Golden Raw Milk Belt, is generally considered ideal for dairy farming. Many global leading dairy producers locate their dairy farms around the Golden Raw Milk Belt to leverage the preferable climate environment and abundant natural resources. Large areas in Inner Mongolia and Heilongjiang are within this area.

In recent years, the introduction of supportive government policies, such as the “Outlines of Rectification and Rejuvenation Plan for the Dairy Industry” (奶業整頓和振興規劃綱要), encouraged the development of large-scale dairy farms and promoted larger scale of dairy farming, with an increasing numbers of dairy cows housed in large-scale dairy farms. As of 2014, large-scale dairy farms with more than 1,000 dairy cows housed 20.2% of total dairy cows in China, which increased to 41.2% by the end of 2019. Driven by the growing demand of consumers for premium raw milk as well as dairy manufacturers’ shifting focus on securing direct, stable and reliable supply of raw milk, large-scale dairy farms are ramping up to a dominant market position and are expected to house 55.0% of total dairy cows in China at the end of 2024. Set forth below is the share of dairy farms by scale at the end of 2014, 2019 and 2024.



Source: National Bureau of Statistics, Frost & Sullivan

Large-scale dairy farms with more than 1,000 dairy cows typically receive higher levels of capital investments, utilize more advanced technologies and employ more advanced and standardized farming methods, which enable them to achieve higher quality milk and higher milk yield than farms of a smaller scale. Large-scale dairy farms are more efficient, environment-friendly and are in line with the national policy of sustainable development. The increasing presence of large-scale dairy farms, combined with growing demand from downstream consumption, supportive government policies and expanding growing of high-quality forage grass, have been driving the expansion of herd size in China. The number of dairy cows in China is expected to increase from 10.4 million in 2019 to 11.6 million in 2024.

INDUSTRY OVERVIEW

Key Growth Drivers of Raw Milk Supply Market in China

- *Growing demand in downstream dairy product market.* With Chinese consumers’ increasing demand for a wide array of safe, diverse dairy products, dairy manufacturers have a strong incentive to strengthen quality control and source high-quality raw milk from large-scale dairy farms that are able to secure stable and reliable supply. In addition, the growing demand for high-end liquid milk in the downstream dairy product market in China has further driven the sales of fresh, high-end raw milk, and propelled the development of the raw milk supply market in China.
- *Improved operational efficiency.* Through increasing adoption of modern management procedures and cutting-edge technologies, dairy farms in China have been optimizing business operations, which has largely improved operational efficiency. In addition, the transformation of China’s dairy industry, featured by the exit of small-scale dairy farms and the prevalence of medium-and large-scale dairy farms, has further driven economies of scale and the operational efficiency in the entire industry through the empowerment of dairy farming by medium-and large-scale dairy farms.
- *Increased average milk yield per dairy cow driven by technologies.* With the enhanced basic management of dairy farms, it is necessary to conduct research and development and make breakthroughs in selective breeding and precise nutrition of dairy cows with a view to increase average milk yield per dairy cow in the future. Scientific selection and breeding is conducive to breeding healthy and high-yield dairy cows, thereby steadily increasing the average milk yield per dairy cow. In addition, the scientific feed formula can accurately meet the production needs of dairy cows, and fully developing and utilising local feed resources can help achieve the optimization of technology, economy and effect.
- *Supportive government policies.* The PRC government has promulgated a series of encouraging policies to support the development of the raw milk supply market in China. For example, the State Council of the PRC promulgated the Opinions on Revitalization of the Dairy Industry and Ensuring Quality and Safety of Dairy Products (關於推進奶業振興保障乳品質量安全的意見), which calls for large-scale standardized dairy farming operations and self-sufficiency of milk supply in China, which is expected to boost the raw milk supply market in China.

INDUSTRY OVERVIEW

Future Trends for Raw Milk Supply Market in China

- *Further rising market concentration.* Market concentration has been trending in China’s raw milk supply market. The proportion of scaled dairy farms with no less than 100 dairy cows in China has increased from 45.2% in 2014 to 64.0% in 2019, according to Frost & Sullivan. Looking forward, dairy farms in China are expected to further scale up their business operation to enjoy benefits brought by economics of scale and improved operational efficiency.
- *Intelligent dairy farm management.* Scaled business operation makes it possible for large-scale dairy farms in China to achieve the intelligent management of the dairy farm in a cost-effective way and help improve milk yield and quality. Through intelligent management, players in the dairy value chain, including dairy farms, are expected to obtain more comprehensive data and technology support, which will help them to improve operational efficiency in various aspects. Accordingly, the PRC government and Chinese dairy farms are investing more resources in research and development on cutting-edge dairy farming technologies and methods to significantly optimize the business operations of dairy farms in China.
- *Integration of dairy value chain.* To ensure stable supply and control the product safety and quality, large-scale dairy manufacturers are moving upwards on the value chain and integrating with industry participants in the upstream value chain.
- *Heightened entry barriers.* Dairy farms, especially large-scale dairy farms, require significant substantial investments in fixed assets and dairy farms, and the technology and capital barriers of the raw milk supply market are relatively high. Pioneers in this market have occupied the valuable and scarce resources required for dairy farming, such as ideally located pastures, which further heightened the entry barriers.

INDUSTRY OVERVIEW

Competitive Landscape of Raw Milk Supply Market in China

The raw milk supply market in China is highly fragmented. The top five industry comparables accounted for only 8.2% of the market share in terms of herd size of dairy cows as of June 30, 2020. We ranked No. 1 with a market share of 2.7%, according to Frost & Sullivan. We were also the No. 1 player in terms of raw milk production volume with a market share of 4.7% for the same period. We produced 195,500 tons of specialty raw milk in the first half of 2020, ranking No. 1 in China, according to Frost & Sullivan. The following diagram illustrates the market share of China’s top five industry comparables in terms of herd size of dairy cows as at June 30, 2020 and raw milk production volume in the first half of 2020, respectively.

Top 5 Industry Comparables in Terms of Herd Size of Dairy Cows and Raw Milk Production Volume (China), 1H 2020

Ranking	Industry Comparables	Herd Size of Dairy Cows (Thousand Heads)	Market Share (%)	Ranking	Industry Comparables	Raw Milk Production Volume (Thousand Tons)	Market Share (%)
1	The Group	287.0	2.7%	1	The Group	769.3	4.7%
2	Company A	235.9	2.3%	2	Company A	750.0	4.6%
3	Company H	140.0	1.3%	3	Company H	350.0	2.1%
4	Company E	107.9	1.0%	4	Company E	309.0	1.9%
5	Company I	90.0	0.9%	5	Company J	288.7	1.8%
Top Five		860.8	8.2%	Top Five		2,467.0	15.1%
Total		10,470.8	100.0%	Total		16,352.9	100.0%

Notes:

- (1) The Group’s data are on a consolidated post-SKX Acquisition basis.
- (2) Company H is a private dairy producer and mainly engages in forage grass growing, feed production, raw milk production and liquid milk production.
- (3) Company I is a subsidiary of a dairy producer. It is principally engaged in the provision of raw milk production and forage grass growing.
- (4) Company J is a subsidiary owned by a private international dairy producer. It is principally engaged in production of raw milk and liquid milk products.

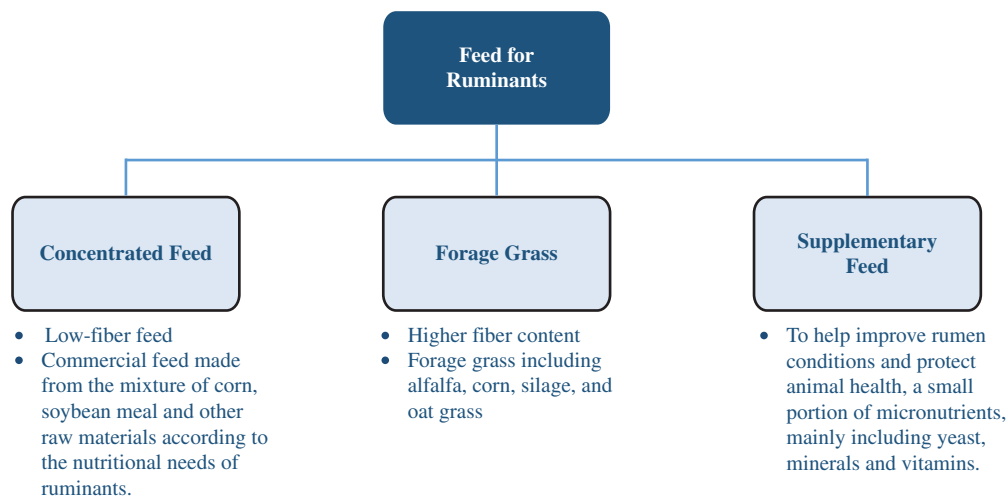
Source: Frost & Sullivan

According to Frost & Sullivan, large-scale dairy farms generally have higher milk yield leveraging their significant operational efficiency. We had an average milk yield per milkable cow (excluding Jerseys) of 10.4 tons per annum in 2019, which significantly surpassed the national average of 7.8 tons per annum for the same year.

INDUSTRY OVERVIEW

RUMINANT FEED MARKET IN CHINA

Ruminants, including dairy cow, beef cattle, sheep and dairy goats, are mammals that are able to acquire nutrients from plant-based food by fermenting it in a specialized stomach prior to digestion. To meet all of their energy to grow, reproduce and stay healthy, ruminants are commonly fed with three types of feed, that are forage grass, concentrated feed and supplementary feed. Forage grass, such as alfalfa, oat grass and corn silage, has higher fiber content. Concentrated feed is lower fiber feed and primarily consists of corn and soybean meal. Ingredients to be processed into concentrated feed are mostly commodities and are easily accessible nationwide. In addition, supplementary feed supplements minerals and vitamins that ruminants need and help improve nutritional quality. The daily feed consumption varies among different ruminants. In terms of dairy cows, for example, concentrated feed typically accounts for approximately 40% to 50% of a cow’s daily feed consumption, while forage grass and supplementary feed takes up the remaining portion.

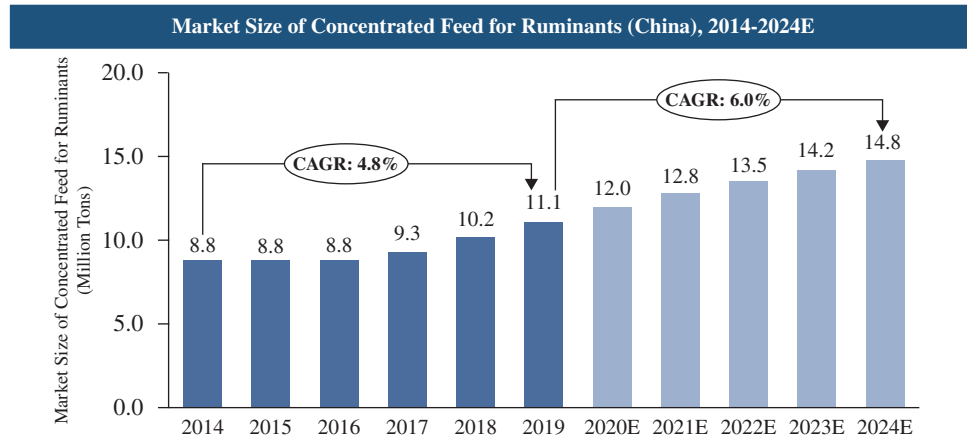


Concentrated Feed for Ruminants

Concentrated feed for ruminants comes in a perplexing variety of different individual ingredients, descriptions and forms, such as premixes, concentrates and concentrate supplements. Concentrated feed provides the essential extra energy and protein for ruminants to support modern production levels. Due to its high efficiency and performance in improving the average milk yield per dairy cow, concentrated feed has enjoyed growing popularity among an increasing number of large-scale dairy farms. The demand of concentrated feed for dairy cows has drastically increased from 5.6 million tons in 2014 to 8.1 million tons in 2019 at a CAGR of 7.5%, and is expected to further reach 14.5 million tons in 2024, representing a CAGR of 12.4% from 2019 to 2024. In addition, the expansion of ruminant herd size, especially the increasing prevalence of scale farming of ruminants, in China, has also driven the consumption of and demand for concentrated feed, which contributed to the growth of the

INDUSTRY OVERVIEW

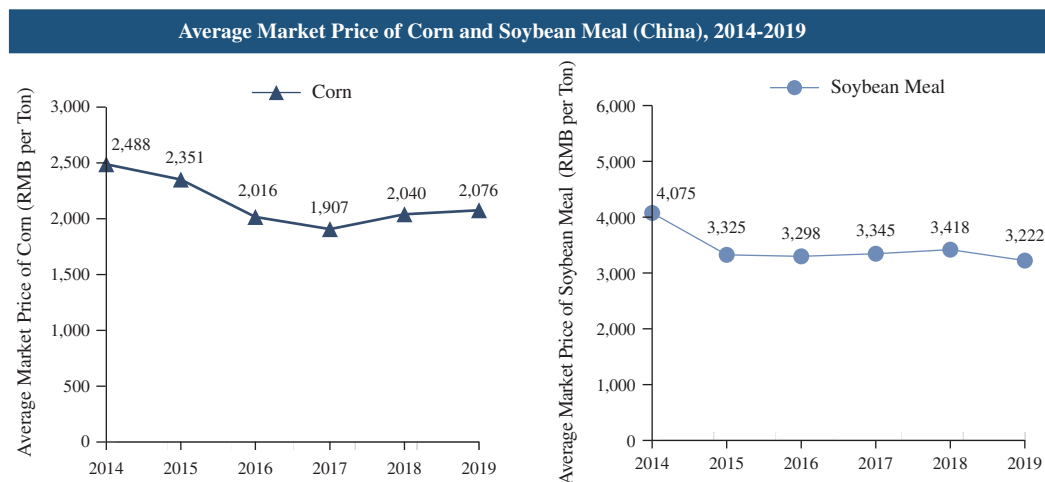
market for concentrated feed for ruminants. The production volume of concentrated feed for ruminants has increased at a CAGR of 4.8% from 8.8 million tons in 2014 to 11.1 million tons in 2019, and is expected to further increase to 14.8 million tons in 2024, representing a CAGR of 6.0% from 2019 to 2024.



Source: China Feed Industry Association, Frost & Sullivan

Feed Ingredient Price

Ingredients to be processed into concentrated feed typically include corn, soybean meal, etc that are commodities easily accessible nationwide. The market price for corn and soybean meal are subject to various factors, including demand and supply dynamics, government policies, weather conditions, pests and other acts of nature. For the past few years, the market price for both corn and soybean meal has been relatively stable with a mild downtrend, and it is expected to remain steady or slightly decline from 2019 to 2024, according to Frost & Sullivan. The following diagrams illustrate the historical market price in China for corn and soybean meal for the periods indicated:



Source: Ministry of Agriculture and Rural Affairs of China

INDUSTRY OVERVIEW

For the impact of the price dynamics of feed ingredients on our business and results of operations, see the section headed “Risk Factors – Fluctuations in prices of feed or raw materials and unstable supply of feed or raw materials could adversely impact our business, profitability and results of operations” and “Financial Information-Major Factors Affecting Our Results of Operations and Financial Condition – Our Ability to Manage Costs and Improve Operational Efficiency”.

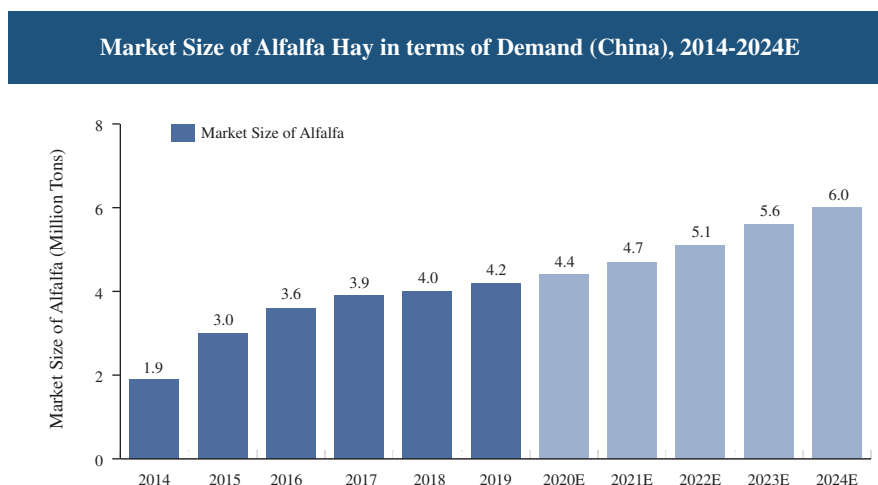
Demand and Supply of Forage Grass—Taking Alfalfa Hay as an Example

Alfalfa is a high-quality forage crop grown across regions such as northwest and northern China. It is rich in protein, fiber, vitamins and minerals. As one of the most important feed components for dairy cows, alfalfa plays a crucial role in increasing the milk yield as well as the protein level of the raw milk produced. The majority of alfalfa used by a dairy farm is usually fed to the milking cows, with the remaining minority portion fed to heifers and calves.

In China, alfalfa is widely used by scaled dairy farms with a herd size of no less than 100 dairy cows. Driven by the increasing number of scaled dairy farms, the demand for alfalfa hay in China has grown accordingly. The market size in terms of demand for alfalfa hay increased from 1.9 million tons in 2014 to 4.2 million tons in 2019 and is expected to reach 6.0 million tons in 2024, representing a CAGR of 7.2% from 2019 to 2024.

In addition, the increasingly enhanced requirements on the standards for dairy farming and the quality and quantity of raw milk in Chinese dairy farms, especially in modern large-scale dairy farms, also drove the growth of domestic demand for high-quality alfalfa hay, the demand of high-quality alfalfa hay is expected to achieve a higher growth rate.

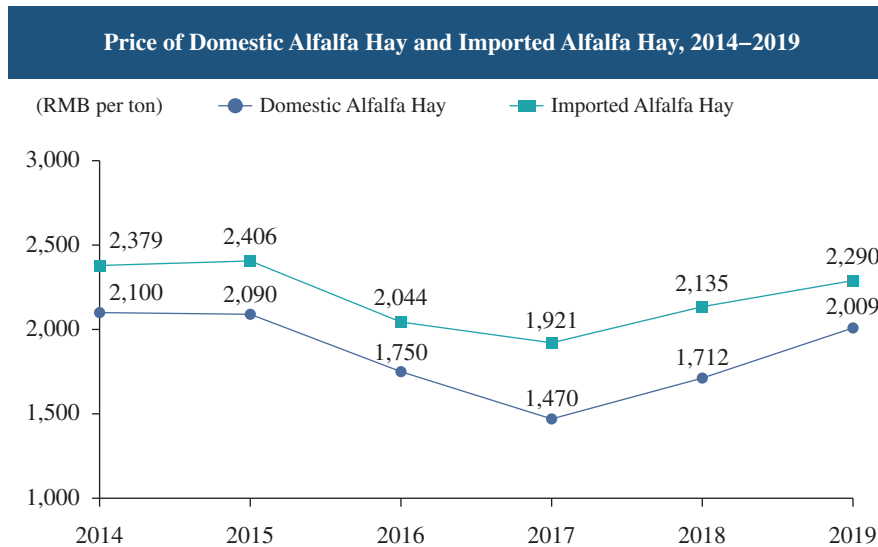
The Chart below illustrates the market size of alfalfa hay in terms of demand in China from 2014 to 2024.



Source: Ministry of Agriculture and Rural Affairs of China, China Customs, Frost & Sullivan

INDUSTRY OVERVIEW

In accordance with the classification standards of alfalfa hay quality in China, most of the alfalfa imported into China is of “premium” or “primary” grades, while most domestically grown alfalfa would be of “primary” or “secondary” grades. As a result, dairy farms usually need to pay higher prices for import alfalfa, which constitutes a significant component of the raw milk production costs for domestic dairy farms. Looking ahead, the price gap between domestically grown alfalfa and import alfalfa is expected to narrow with improvement in quality of domestically grown alfalfa. The following diagram illustrates the respective prices for domestically grown alfalfa and import alfalfa for the periods indicated:



Source: China Customs, Frost & Sullivan

Competitive Landscape of Ruminant Feed Market in China

The ruminant feed market in China is highly competitive with approximately 1,000 feed suppliers as of December 31, 2019. Most of the market participants focus their business on one market segment, either providing concentrated feed for ruminants or forage grass products, primarily alfalfa, to dairy farms, which makes China’s ruminant feed market relatively fragmented.

In the market segment of concentrated feed for ruminants in China, we are the No. 1 player in 2019 in terms of sales volume, with a market share of 6.4%. The following diagram illustrates the market shares of the top five players in terms of sales volume in the market segment of concentrated feed for ruminants in China in 2019.

INDUSTRY OVERVIEW

Top 5 Concentrated Feed for Ruminants Providers in Terms of Sales Volume (China), 2019

Ranking	Concentrated feed for ruminants providers	Sales volume of concentrated feed for ruminants (thousand tons)	Market Share (%)
1	The Group	709.2	6.4%
2	Company K	448.0	4.0%
3	Company L	360.0	3.2%
4	Company M	337.1	3.0%
5	Company N	300.0	2.7%
	Top Five	2,154.3	19.3%
	Total	11,089.0	100.0%

Notes:

- (1) The Group’s data is audited and is provided by the Group.
- (2) Company K is an A-share listed feed and animal husbandry company, which is principally engaged in production of feed and trading of feed ingredients, poultry farming, hog farming, etc.
- (3) Company L is private feed company, which principally engaged in provision of ruminant feed, related techniques and services, etc.
- (4) Company M is an A-share listed agricultural company, which is principally engaged in feed production, hog products and seed products.
- (5) Company N is a wholly owned subsidiary of a Hong Kong-listed multinational company, which mainly provides a wide range of feed products for livestock and aquatic animals.

Source: Frost & Sullivan

In addition, we are also a leading supplier of forage grass, mainly alfalfa hay and oat grass, in China, and we ranked first in terms of sales volume of alfalfa hay in 2019, with a market share of 3.6%. The following diagram illustrates the market shares of the top five players in terms of sales volume in the alfalfa hay market in China in 2019.

Top 5 Alfalfa Hay Suppliers in Terms of Sales Volume (China), 2019

Ranking	Alfalfa hay supplier	Total Sales Volume of alfalfa hay (thousand tons)	Market Share (%)
1	The Group	152.4	3.6%
2	Company O	137.2	3.2%
3	Company P	78.3	1.8%
4	Company Q	54.0	1.3%
5	Company R	49.0	1.2%
	Top Five	470.9	11.1%
	Total	4,248.0	100.0%

Notes:

- (1) The Group’s data is audited and is provided by the Group.
- (2) Company O is a wholly owned subsidiary company of a A-share listed agricultural company, which is primarily engaged in growing, processing, sales and research and development of forage grass.
- (3) Company P is a wholly-owned subsidiary of a stated-owned agricultural company, which is principally engaged in the import of alfalfa hay and the growing, processing and sales of forage grass.

INDUSTRY OVERVIEW

- (4) Company Q is a private feed supplier, principally engaged in the import of feed and grain.
- (5) Company R is a private feed supplier, which is principally engaged in the import of alfalfa hay and the processing and sales of silage.

Source: Frost & Sullivan

Future Trends for Ruminant Feed Market in China

- *Increasing industry concentration.* Increasingly intensified market competition is likely to weed out small-scale ruminant feed providers as they lack resources and technological capabilities to produce nutritive, well-balanced feed. With heightened requests for safe, quality feed from downstream industry participants, the ruminant feed market in China is expected to become more concentrated in the future.
- *Growing focus on quality and nutrition.* As downstream industry participants pay more attention to the safety and quality of dairy products, feed providers have been focusing on researching and developing formulas to produce feed of higher nutritive value. Feed providers are also expected to continue to innovate and expand product offerings to meet the diverse, evolving downstream needs.
- *Holistic solutions as a new business model.* Holistic solutions that effectively integrate ruminant feed products and a broad range of dairy farming services have transformed the traditional pure-play model for ruminant feed. Comprehensive dairy farming services help dairy farms improve productivity and profitability in addition to enhancing the functions and effectiveness of ruminant feed products. It is expected that dairy farming services will become an integral part of ruminant feed providers’ offerings and those ruminant feed providers capable of providing holistic solutions are expected to obtain predominant market shares.

FROZEN BOVINE SEMEN FOR DAIRY CATTLE MARKET IN CHINA

Frozen semen is a breeding product stored at low temperature by adding cryoprotectants for artificial insemination after unfreezing. Frozen bovine semen for dairy cattle is widely used by dairy farms to produce calves. By scientifically collecting semen from selected high quality breeding bulls, dairy farms leverage high-quality frozen semen to improve genetic quality of herds and cow fertility. To increase the production of female calves, a number of frozen bovine semen for dairy cattle producers have adopted sex-sorting techniques to produce sex-sorted frozen bovine semen for dairy cattle. A typical sex-sorting technique separates X-and Y-chromosome-bearing sperms by using a flow cytometer, which are then inseminated to produce calves. With technological advancements, sex-sorted frozen bovine semen for dairy cattle was able to achieve birth rate of female calves of approximately 90% in 2019, which allows dairy farms to aggressively grow their herds.

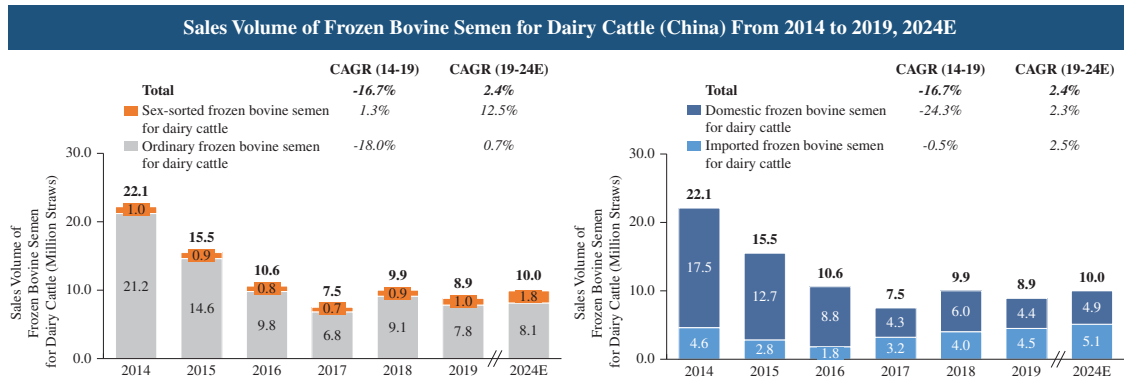
INDUSTRY OVERVIEW

Thanks to technological advancements and the PRC government’s supportive policies and subsidies, the frozen bovine semen for dairy cattle market in China had experienced a rapid growth and had peaked in around 2014. However, there has been a decrease in the demand for frozen bovine semen for dairy cattle in China since 2015. The dose of frozen bovine semen for dairy cattle in use is related to the farming level, the quality of frozen bovine semen for dairy cattle, and the level of breeding technology. In general, by adopting the same breeding technology, the higher the quality of frozen bovine semen for dairy cattle is, the lesser the dose of frozen bovine semen for dairy cattle is necessary to make a cow successfully pregnant. Therefore, in the case of slower growth in the herds, the improvement in the quality of frozen bovine semen for dairy cattle will lead to less dose of frozen bovine semen for dairy cattle, thereby lowering the demand for frozen bovine semen for dairy cattle. Moreover, the subsidies for fine breeds of dairy cattle were cancelled by the PRC government in 2016. The sales volume of frozen bovine semen for dairy cattle in China had significantly dropped from 22.1 million straws in 2014 down to 7.5 million straws in 2017. Nevertheless, with the recovery of the raw milk supply market and expansion of herd size in China, the frozen bovine semen for dairy cattle market has trended upward. In particular, to effectively grow herds, sex-sorted frozen bovine semen for dairy cattle is expected to enjoy growing popularity among dairy farms in China. The sales volume of sex-sorted frozen bovine semen for dairy cattle is expected to increase from 1.0 million straws in 2019 to 1.8 million straws in 2024, representing a CAGR of 12.5% from 2019 to 2024.

In terms of the source of frozen bovine semen for dairy cattle, Chinese dairy farms have primarily been served by domestic breeding companies, which had leveraged the government subsidies to enjoy overwhelming price advantages over the breeding products of foreign suppliers. Yet the PRC government cut off the subsidies in 2016 due to the oversupply in the market. As a result, foreign suppliers of high-quality frozen bovine semen for dairy cattle have been taking market shares away from their Chinese competitors. Nevertheless, with comparatively lower price and continuous quality improvement, it is expected that domestically produced frozen bovine semen for dairy cattle will still have a predominant market position while the volume of imported frozen bovine semen for dairy cattle will grow along with the increasing demand for frozen bovine semen for dairy cattle in China.

The following diagram illustrates the historical and estimated sales volume of frozen bovine semen for dairy cattle in China, with a breakdown by the variety and source of frozen semen.

INDUSTRY OVERVIEW



Source: National Animal Husbandry Service, China Customs, Frost & Sullivan

Competitive Landscape of Frozen Bovine Semen for Dairy Cattle Market in China

The frozen bovine semen for dairy cattle market in China is relatively concentrated. The top five players in terms of sales volume in the industry accounted for 42.9% of the market share in 2019. SKX ranked No. 1 with a market share of 9.5%. The following diagram illustrates the market shares of the top five players in terms of sales volume of frozen bovine semen for dairy cattle in 2019.

Top 5 Providers of Frozen Dairy Semen for Dairy Cattle in Terms of Sales Volume (China), 2019

Ranking	Providers of Frozen Bovine semen for Dairy Cattle	Sales Volume of Frozen Dairy Semen (thousand straws)	Market Share (%)
1	SKX	839.8	9.5%
2	Company S	800.0	9.0%
3	Company T	780.0	8.8%
4	Company U	700.0	7.9%
5	Company V	680.0	7.7%
Top Five		3,799.8	42.9%
Total		8,858.0	100.0%

Notes:

- (1) The sales volume of frozen bovine semen for dairy cattle refers to the sales volume of domestically produced and imported frozen bovine semen for dairy cattle.
- (2) SKX data is audited and provided by SKX.
- (3) Company S is a joint venture a world-leading provider of genetic material for artificial insemination of cattle and dairy farm management services in China.
- (4) Company T is a joint venture of a world-leading provider of cattle genetics and breeding products and solutions in China.
- (5) Company U is a leading service provider in China specialized in cattle genetics and breeding.
- (6) Company V is a wholly owned PRC subsidiary of a world-leading provider of bovine genetic material and services.

Source: Frost & Sullivan

INDUSTRY OVERVIEW

In addition, SKX is also the No.1 player in 2019 in the sex-sorted frozen bovine semen for dairy cattle market in China. We had a market share of 22.2% in 2019. The following diagram illustrates the market shares of top five players in China in 2019 in terms of sales volume of sex-sorted frozen bovine semen for dairy cattle.

Top 5 Sex-sorted Frozen Dairy Semen Providers in Terms of Sales Volume (China), 2019

Ranking	Sexed-sorted frozen dairy semen providers	Sales volume of sexed-sorted frozen dairy semen (Thousand straws)	Market Share (%)
1	SKX	227.6	22.2%
2	Company S	100.0	9.8%
3	Company T	90.0	8.8%
4	Company V	90.0	8.8%
5	Company W	80.0	7.8%
	Top Five	587.6	57.4%
	Total	1,024.0	100.0%

Notes:

- (1) The sales volume of sex-sorted frozen bovine semen for dairy cattle refers to the sales volume of domestically produced and imported sex-sorted frozen bovine semen for dairy cattle.
- (2) SKX’s data is audited and provided by SKX.
- (3) Company W is a leading supplier of dairy breeding products and services in China.

Source: Frost & Sullivan

Future Trends for Frozen Bovine Semen for Dairy Cattle Market in China

- *Accelerated adoption of sex-sorted techniques.* With technological innovations and an increasing number of large-scale pastures, the demands of dairy farms in China for frozen semen are expected to increase. In particular, it is to expedite adoption of sex-sorted frozen bovine semen for dairy cattle to enhance cow reproductive capability, improve the genetic quality of herds and increase operational efficiency.
- *Continuous technology innovation.* The increasing adoption of technologies will contribute to significant breakthroughs in breeding techniques and methods, such as genomic selection, gene editing, ovum pick-up and in vitro fertilization. Continuous technology innovations will drive China’s frozen bovine semen for dairy cattle market and improve the overall genetic quality of dairy herd in China.
- *Closer cooperation with downstream industry participants.* Downstream industry participants, such as dairy farms and dairy manufacturers, have become more aware of the important role of high-quality frozen bovine semen for dairy cattle in advancing fertility and raw milk quality. As a result, they are seeking to establish a closer relationship with breeding companies to secure quality frozen bovine semen for dairy cattle, leading to business integration and synergies among feed and breeding in the upstream dairy value chain.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

OVERVIEW

We are a leader in China’s upstream dairy market and one of a select number of dairy farming companies around the world with a business layout covering the entire upstream dairy industry. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in the first half of 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

Founded in 1984, we were once a wholly-owned subsidiary of Yili. With nearly 40 years of experience in the dairy industry and in-depth research and development, our business has grown to cover the entire upstream dairy value chain from breeding, feed to raw milk production.

MILESTONES

The table below sets out the milestones of the development of our Group.

Time	Milestone
April 1984	Hohhot Compound Feed Factory (呼和浩特市配合飼料廠), our predecessor, commenced its construction
June 1988	Hohhot Compound Feed Factory started its trial production
July 2000	Yili acquired Hohhot Compound Feed Factory and established Inner Mongolia Yili Feed Co. Ltd. (內蒙古伊利飼料有限責任公司) (currently known as Inner Mongolia Muquan Yuanxing Feed Co., Ltd. (內蒙古牧泉元興飼料有限責任公司) (“ Muquan Yuanxing ”)) to develop modern, professional and standardized feed business, which is now one of our principal operating subsidiaries
August 2007	Youran Dairy (previously known as Inner Mongolia Yili Animal Husbandry Development Co., Ltd. (內蒙古伊利畜牧發展有限責任公司)), our principal operating subsidiary, was established
December 2015	Our Group completed spin-off from Yili and PAG invested in our Group
January 2020	We completed the acquisition of SKX to expand our raw milk business and entered the dairy breeding business
October 2020	We entered into a share purchase agreement to acquire two entities comprising the Fonterra China Farms Group to expand our raw milk business

HISTORY, REORGANIZATION AND GROUP STRUCTURE

OUR MAJOR SUBSIDIARIES

The following table sets out the principal business activities and the date and place of incorporation of each member of our Group that made a material contribution to our results of operations during the Track Record Period:

<u>Name of subsidiary</u>	<u>Date of incorporation</u>	<u>Place of incorporation</u>	<u>Principal business activities</u>
Youran Dairy	August 2007	PRC	Dairy farming and supply of raw milk
SKX	July 2006	PRC	Dairy farming, supply of raw milk and dairy breeding business
Muquan Yuanxing	July 2000	PRC	Production and supply of feed

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 21, 2020, with an authorized share capital of US\$100,000 divided into 10,000,000,000 Shares of US\$0.00001 each.

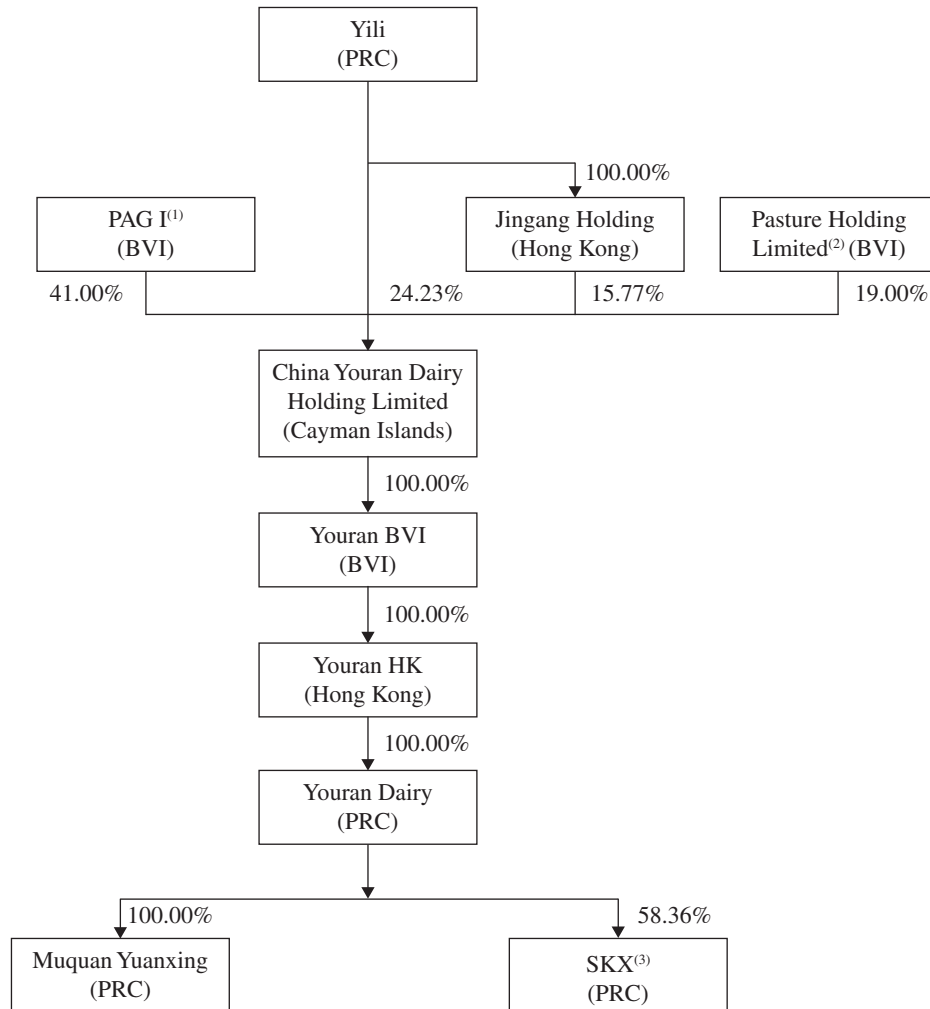
Our Company underwent a series of shareholding changes in connection with corporate reorganization and [REDACTED] investments. For further details, please refer to the paragraphs headed “– Reorganization” and “– The [REDACTED] Investments” in this section below.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

REORGANIZATION

Corporate Chart immediately prior to the Reorganization

Our Group has undergone a corporate reorganization in preparation of the [REDACTED]. The following chart sets forth the simplified corporate structure of our Group immediately before the Reorganization:



Notes:

- (1) For further information about PAG I, please refer to the paragraph headed “– The [REDACTED] Investments – Background Information about the [REDACTED] Investors – The PAG Entities” in this section below.
- (2) For further information about Pasture Holding Limited (“Pasture”), please refer to the paragraph headed “– The [REDACTED] Investments – Background Information about the [REDACTED] Investors – Meadowland” in this section below.
- (3) SKX is a company established under the laws of the PRC, whose shares are listed on the NEEQ (stock code: 834179). SKX is held as to 58.36% by Youran Dairy and 41.64% by other minority shareholders.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Step 1: Incorporation of our Company

As part of the Reorganization of our Group, our Company was incorporated as an exempted company with limited liability on August 21, 2020 under the laws of the Cayman Islands with an authorized share capital of US\$100,000 divided into 10,000,000,000 Shares of US\$0.00001 each. China Youran Dairy Holding Limited (the “**Old Cayman Holdco**”) was the sole shareholder of our Company, holding one Share with a par value of US\$0.00001.

Step 2: Transfer of the entire issued share capital of Youran BVI to our Company

On October 27, 2020, the Old Cayman Holdco (as transferor) and our Company (as transferee) entered into an instrument of transfer, pursuant to which the Old Cayman Holdco transferred 100 ordinary shares (constituting the entire issued share capital) in Youran BVI to our Company in consideration for (i) the issuance and allotment of 3,301,999,999 Shares with a par value of US\$0.00001 each by our Company; and (ii) the transfer of one ordinary Share with a par value of US\$0.00001 which was already held by the Old Cayman Holdco. Immediately upon such transfer and the issuance becoming effective, the Old Cayman Holdco held 100% of the total issued shares in our Company, which in turn held 100% of the total issued shares in Youran BVI.

Step 3: Exchange of shares held by PAG I, Jingang Holding and Pasture in Old Cayman Holdco for shares of our Company

On October 27, 2020, the Old Cayman Holdco and each of PAG I, Jingang Holding and Pasture entered into a share exchange agreement, pursuant to which (i) PAG I agreed to redeem its 6,769 ordinary shares held in the Old Cayman Holdco, and in exchange, Old Cayman Holdco agreed to transfer 1,353,800,000 Shares to PAG I; (ii) Jingang Holding agreed to redeem its 2,604 ordinary shares held in the Old Cayman Holdco, and in exchange, the Old Cayman Holdco agreed to transfer 520,800,000 Shares to Jingang Holding; and (iii) Pasture agreed to redeem its 3,137 ordinary shares held in the Old Cayman Holdco, and in exchange, the Old Cayman Holdco agreed to transfer 627,400,000 Shares to Pasture. The above share redemptions and share transfers were properly and legally completed and settled on October 27, 2020.

Step 4: Transfer of Shares by Pasture to Meadowland

On October 28, 2020, Pasture transferred its entire 627,400,000 Shares to Meadowland for a total consideration of RMB1,097,950,000. The consideration was determined with reference to, among others, the initial investment contribution of the transferor.

Step 5: Transfer of the Shares from PAG I and Meadowland to PAG II

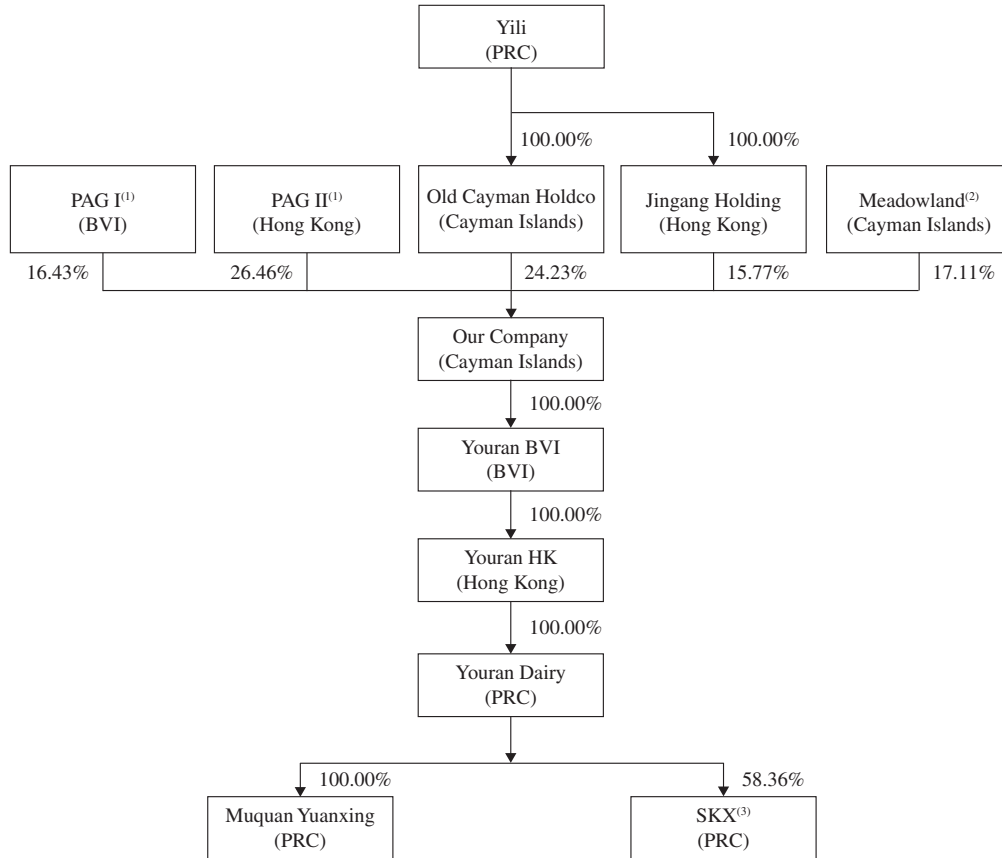
On November 3, 2020, our Company, and each of PAG I, Meadowland and PAG II entered into a share purchase agreement, pursuant to which (i) PAG I agreed to transfer 811,423,349 Shares, representing approximately 24.57% of the entire issued share capital of our Company, to PAG II for a total consideration of US\$325 million; (ii) Meadowland agreed to transfer 62,417,181 Shares to PAG II, representing approximately 1.89% of the entire issued share capital of our Company, for a total consideration of US\$25 million. The above transfers were properly and legally completed and settled on November 4, 2020. Such considerations were determined with reference to, among others, the timing of the share transfer and the valuation of our Group at the time of the share transfer.

Upon completion of the aforesaid transfers, our Company was owned as to approximately 16.43% by PAG I, 26.46% by PAG II, 24.23% by the Old Cayman Holdco, 15.77% by Jingang Holding and 17.11% by Meadowland.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Corporate Chart immediately upon Completion of the Reorganization

Immediately following the reorganization steps above, the simplified corporate structure of our Group was as follows:



Notes:

- (1) For further information about PAG I and PAG II, please refer to the paragraph headed “– The [REDACTED] Investments – Background Information about the [REDACTED] Investors – The PAG Entities” in this section below.
- (2) For further information about Meadowland, please refer to the paragraph headed “– The [REDACTED] Investments – Background Information about the [REDACTED] Investors – Meadowland” in this section below.
- (3) SKX is a company established under the laws of the PRC, whose shares are listed on the NEEQ (stock code: 834179). SKX is held as to 58.36% by Youran Dairy and 41.64% by other minority shareholders.

As advised by Cayman Islands and BVI legal advisors to our Company, the above transfer of Shares was not subject to any regulatory approval in the Cayman Islands or the BVI.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

REASONS FOR THE [REDACTED] ON THE STOCK EXCHANGE

We intend to strengthen our position in the market, expand our product portfolio through innovation, and develop our international business by building on our strong domestic presence and developing our global partnering resources. Our Directors believe that the [REDACTED] will help us achieve these objectives, including further enhancing our image in China and overseas and providing additional funding for our expansion and potential new facilities and acquisitions. The Board believes that a [REDACTED] on the Stock Exchange, on which shares of a number of industry comparables are traded, will improve the trading liquidity of our Shares and more appropriately reflect the value of our Group by connecting with the international capital markets. In addition, the Stock Exchange’s investor profile tends to be more receptive to issuers with operations primarily in China.

THE [REDACTED] INVESTMENTS

Issuance of Ordinary Shares

We underwent the following rounds of [REDACTED] Investments:

(1) Allotment and Issuance of Shares of the Old Cayman Holdco to Yili and PAG I

On March 24, 2016, the Old Cayman Holdco, Yili and PAG I entered into a share subscription agreement, pursuant to which Yili and PAG I agreed to subscribe for 4,000 and 5,999 shares of the Old Cayman Holdco for a consideration of RMB1,400 million and approximately RMB2,100 million, respectively. The allotment and issuance of 4,000 shares by the Old Cayman Holdco to Yili was completed and the consideration was settled on April 12, 2016. The allotment and issuance of 5,999 shares by the Old Cayman Holdco to PAG I was completed on April 12, 2016 and fully paid up to 6,000 shares (of which 4,100 shares, including the one existing share of the Old Cayman Holdco already held by PAG I were fully paid on April 20, 2016, and the remaining 1,900 shares were fully paid as described in paragraph (2) headed “Transfer of Shares of the Old Cayman Holdco from PAG I to Pasture” below). Together with this one existing share, PAG I held 60% of the enlarged issued share capital of the Old Cayman Holdco.

(2) Transfer of Shares of the Old Cayman Holdco from PAG I to Pasture

On April 13, 2016, PAG I, Pasture and the Old Cayman Holdco entered into a sale and purchase agreement in respect of 19% issued shares of the Old Cayman Holdco, pursuant to which PAG I agreed to transfer 1,900 shares of the Old Cayman Holdco to Pasture for a consideration of RMB665 million. The shares were transferred on April 21, 2016 and the consideration was paid in full to the Old Cayman Holdco on April 19, 2016.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

(3) Allotment and Issuance of Shares of the Old Cayman Holdco to Jingang Holding, PAG I and Pasture

On December 30, 2019, the Old Cayman Holdco, Jingang Holding, PAG I, Pasture and Yili entered into a share subscription agreement, pursuant to which Jingang Holding, PAG I and Pasture agreed to subscribe pro rata to their shareholding in the Old Cayman Holdco prior to such subscription for 2,604, 2,669 and 1,237 shares of the Old Cayman Holdco for a consideration of approximately RMB911 million, RMB934 million and RMB433 million, respectively. The allotment and issuance of shares by the Old Cayman Holdco to Jingang Holding was completed on January 14, 2020 and the consideration was paid in full on January 15, 2020. The allotment and issuance of shares by the Old Cayman Holdco to PAG I was completed on January 14, 2020, and the consideration was partially paid on January 15, 2020 with remaining paid on June 16, 2020. The allotment and issuance of shares by the Old Cayman Holdco to Pasture was completed on January 14, 2020 and the consideration was paid in full on June 12, 2020.

(4) Transfer of Shares from PAG I and Meadowland to PAG II

For further details, please refer to the paragraph headed “– Reorganization – Step 5: Transfer of the Shares from PAG I and Meadowland to PAG II” in this section.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

A summary of the [REDACTED] Investments mention above and their principal terms are as set out below:

Name of investor	Date of the agreement in relation to the [REDACTED] investment	Amount of consideration paid	Basis of consideration	Payment date of the consideration	Effective cost per Share paid	Discount to the mid-point of the [REDACTED] of HK\$[REDACTED]	Use of net proceeds and its utilisation by our Company	Effective shareholding upon [REDACTED] ⁽²⁾	Lock-up period ⁽³⁾	Strategic benefits brought to our Group by the investor
PAG I	March 24, 2016	RMB1,435,000,000	Based on commercial negotiations with reference to the initial investment contribution of the transferor	April 12, 2016 and April 20, 2016	RMB1.75 ⁽¹⁾	[[REDACTED]]%	The proceeds have been used for our general working capital purposes	Approximately [REDACTED] Shares, representing approximately [REDACTED]% of the issued Shares of our Company upon [REDACTED]	The Shares held by each of [REDACTED] Investor are not subject to any lock-up period after [REDACTED] under the terms of the relevant [REDACTED] Investments.	At the time of the [REDACTED] Investments, our Directors were of the view that our Company could benefit from the additional capital that would be provided by the [REDACTED] Investors' investments in our Company and the [REDACTED] Investors' knowledge and experience.
	December 30, 2019	RMB934,150,000		January 15, 2020 and June 16, 2020						
PAG II	November 3, 2020	US\$350 million	Based on commercial negotiations with reference to the timing of the share transfer and the valuation of our Group at the time of the share transfer	November 4, 2020	US\$0.4	[[REDACTED]]%	Not applicable as the proceeds of the relevant transfer were not received by our Company	Approximately [REDACTED] Shares, representing [REDACTED]% of the issued Shares of our Company upon [REDACTED]	The Shares held by each of [REDACTED] Investor are not subject to any lock-up period after [REDACTED] under the terms of the relevant [REDACTED] Investments.	

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Name of investor	Date of the agreement in relation to the investment [REDACTED]	Amount of consideration paid	Basis of consideration	Payment date of the consideration	Effective cost per Share paid	Discount to the mid-point of the [REDACTED] of HK\$(REDACTED)	Use of net proceeds and its utilisation by our Company	Effective shareholding upon [REDACTED] ⁽²⁾	Lock-up period ⁽³⁾	Strategic benefits brought to our Group by the investor
Pasture	April 13, 2016	RMB665,000,000	Based on commercial negotiations with reference to the initial investment contribution of the transferor	April 19, 2016	RMB1.75 ⁽¹⁾	[[REDACTED]](%)	The proceeds have been used for our general working capital purposes	Approximately [REDACTED] Shares, representing approximately [REDACTED]% of the issued Shares of our Company upon [REDACTED]	The Shares held by each of [REDACTED] Investor are not subject to any lock-up period after [REDACTED] under the terms of the relevant [REDACTED] Investments.	
	December 30, 2019	RMB432,950,000		June 12, 2020						

Notes:

- (1) Calculated based on the total amount of consideration paid divided by the number of shares held by such [REDACTED] Investor after the exchange of shares in the Old Cayman Holdco with Shares in our Company, which were completed on October 27, 2020. For further details, please refer to the paragraph headed “– Reorganization – Step 3: Exchange of shares held by PAG I, Jingang Holding and Pasture in Old Cayman Holdco for shares of our Company” of this section.
- (2) Upon completion of the [REDACTED], assuming the [REDACTED] is not exercised and the Convertible Notes are not converted.
- (3) For further information about other shareholder lock-up arrangements, please refer to the section headed “[REDACTED]” in this document.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Rights of [REDACTED] Investors of the Shares

The principal special rights granted to the [REDACTED] Investors of the Shares include customary protective provisions, pre-emption rights, tag-along rights, rights of distribution of profits and information rights. All special rights granted to the [REDACTED] Investors will terminate upon completion of the [REDACTED].

Issuance of Convertible Notes

(5) Issuance of Convertible Notes to PAG III, Bain, ICBC and BOC

On November 3, 2020, our Company as issuer and PAG III as purchaser entered into a subscription agreement for the subscription of a Convertible Note in the principal amount of US\$330 million. Our Company issued such Convertible Note to PAG III on November 4, 2020.

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

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

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

The subscription agreements mentioned above are collectively referred to as the “Subscription Agreements” and each a “Subscription Agreement”.

A summary of the principal terms and conditions of the Convertible Notes (which have substantially the same terms) are set out below:

[REDACTED] Investor	PAG III	ICBC	BOC	Bain
Issuance date of the Convertible Note	November 4, 2020	November 11, 2020	November 20, 2020	November 20, 2020
Amount of consideration paid	US\$330 million	US\$30 million	US\$25 million	US\$75 million
Basis of consideration	The consideration represents 100% of the principal amount of the Convertible Note subscribed for by each [REDACTED] Investor.			
Payment date of the consideration	November 5, 2020	November 11, 2020	November 20, 2020	November 20, 2020
Interest and interest payment dates	(i) The rate of cash interest (“Cash Interest”) on the outstanding principal amount of the Convertible Notes is 4% per annum. (ii) Our Company shall pay to the holders in cash all accrued and unpaid Cash Interest on March 31, June 30, September 30 and December 31 of each year, commencing on December 31, 2020.			

HISTORY, REORGANIZATION AND GROUP STRUCTURE

[REDACTED] Investor	PAG III	ICBC	BOC	Bain
	(iii) The Cash Interest shall accrue on a daily basis on the principal amount outstanding on any given day and shall begin to accrue on the principal amount starting from the issuance date based on the actual number of days elapsed over a base year of 365 days. The Cash Interest shall not accrue on the capitalized PIK Interest (as defined below). (iv) The rate of pay-in-kind interest (“PIK Interest”) on the outstanding principal amount of the Convertible Notes is 6% per annum. (v) On each anniversary of the issuance date, the accrued PIK Interest shall capitalize and be added into the then-outstanding principal amount, whereupon PIK Interest shall accrue on the then-outstanding principal amount plus any capitalized amount of PIK Interest at the same rate. Accrued and capitalized PIK Interest on any portion of the principal amount that is converted into Conversion Shares (as defined below) shall be waived upon the completion of such conversion. (vi) The PIK Interest shall accrue on a daily basis on the principal amount outstanding on any given day and shall begin to accrue on the principal amount starting from the issuance date based on the actual number days elapsed over a base year of 365 days.			
Maturity date	November 4, 2023, and may be extended to November 4, 2025.			
Conversion right	The holders of the Convertible Notes shall have the right (“ Conversion Right ”), but not the obligation, to convert the outstanding principal amount of the Convertible Notes into such number of Shares (“ Conversion Shares ”) pursuant to the terms of the Convertible Notes.			
Determination of the number of Conversion Shares	The number of Conversion Shares to be issued by our Company to the holders shall be equal to the quotient of (i) the principal amount of the relevant Convertible Note subject to the Conversion Right divided by (ii) the conversion price, rounded to the nearest whole share, and shall be free from all taxes and encumbrances.			
Conversion price	The initial conversion price upon issuance of the Convertible Note shall be US\$0.44605 per Share. Thereafter, subject to anti-dilution adjustments, 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 immediately following the third anniversary of the relevant issuance date.			
Effective cost per Share paid	US\$0.44605			
Discount to the mid-point of the [REDACTED] of HK\$[REDACTED]	[REDACTED]%			
Use of net proceeds and its utilization by our Company	The proceeds will be used for our general working capital purposes.			
Effective shareholding upon [REDACTED], assuming (1) all the Convertible Notes are fully converted into Shares at a conversion price of US\$0.44605; (2) [REDACTED] Shares are issued pursuant to the [REDACTED]; and (3) no exercise of the [REDACTED]	Approximately [REDACTED] Shares, representing approximately [REDACTED]% of the total issued shares of our Company upon [REDACTED]	Approximately [REDACTED] Shares, representing approximately [REDACTED]% of the total issued shares of our Company upon [REDACTED]	Approximately [REDACTED] Shares, representing approximately [REDACTED]% of the total issued shares of our Company upon [REDACTED]	Approximately [REDACTED] Shares, representing approximately [REDACTED]% of the total issued shares of our Company upon [REDACTED]
Lock-up period	The Conversion Shares to be held by each of PAG III, Bain, ICBC or BOC upon conversion of their respective Convertible Note are not subject to any lock-up period after [REDACTED].			
Strategic benefits brought to our Group by the investor	At the time of the [REDACTED] Investments, our Directors were of the view that our Company could benefit from the additional capital that would be provided by the [REDACTED] Investors’ investments in our Company and the [REDACTED] Investors’ knowledge and experience.			

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Rights of [REDACTED] Investors of the Convertible Notes

The principal special rights granted to the [REDACTED] Investors include customary negative covenants and information rights. All special rights granted to the [REDACTED] Investors will terminate upon completion of the [REDACTED].

Public Float

Yili holds indirectly, through its wholly-owned subsidiaries the Old Cayman Holdco and Jingang Holding, [REDACTED]% of the issued share capital of our Company immediately following completion of the [REDACTED] (assuming no Convertible Notes are converted into Shares and the [REDACTED] is not exercised). As such, Yili will be considered a core connected person of our Company under the Listing Rules, and such Shares will not be considered as part of the public float.

PAG I and PAG II collectively will hold approximately [REDACTED]% of the issued share capital of our Company immediately following completion of the [REDACTED] (assuming no Convertible Notes are converted into Shares and the [REDACTED] is not exercised). PAG III, a close associate of PAG I and PAG II, will hold approximately [REDACTED]% of the issued share capital of our Company immediately following completion of the [REDACTED], assuming all Convertible Notes are fully converted into Shares and the [REDACTED] is not exercised. As such, each of PAG I, PAG II and PAG III will be considered a core connected person of our Company under the Listing Rules, and the Shares held by each of them will not be considered as part of the public float.

Meadowland is an exempted limited partnership established under the laws of the Cayman Islands and will hold approximately [REDACTED]% of the issued share capital of our Company immediately following completion of the [REDACTED] (assuming no Convertible Notes are converted into Shares and the [REDACTED] is not exercised). As such, Meadowland will be considered a core connected person of our Company under the Listing Rules, and the Shares held by Meadowland will not be considered as part of the public float.

Assuming full conversion of Convertible Notes immediately following completion of the [REDACTED] (but assuming the [REDACTED] is not exercised), [REDACTED]%, [REDACTED]% and [REDACTED]% of the issued share capital of our Company held by Yili, the PAG Entities and Meadowland, respectively, will not be considered as part of the public float.

To the best of the Directors’ knowledge, the Shares to be held by the other [REDACTED] Investors upon the full conversion of the Convertible Notes will be counted towards the public float.

Joint Sponsors’ Confirmation

The last round of the [REDACTED] Investments was completed on November 20, 2020. On the basis that (i) the [REDACTED] is expected to take place on [REDACTED] and will be more than 120 clear days after the completion of the last round of the [REDACTED] Investments, and (ii) the [REDACTED] Investors shall have the same information right as the general public after the [REDACTED], the Joint Sponsors have confirmed that, based on the

HISTORY, REORGANIZATION AND GROUP STRUCTURE

documents provided by our Company relating to the [REDACTED] Investments, the [REDACTED] Investments are in compliance with the Interim Guidance on [REDACTED] Investments issued in October 2010 and updated in March 2017 in the Guidance Letter GL29-12 by the Stock Exchange, Guidance Letter HKEX-GL43-12 issued in October 2012 and updated in July 2013 and March 2017 by the Stock Exchange and the Guidance Letter HKEX-GL44-12 issued in October 2012 and updated in March 2017 by the Stock Exchange.

Background Information about the [REDACTED] Investors

The background information of our [REDACTED] Investors is set out below.

The PAG Entities

PAG I is a business company duly incorporated and validly existing under the laws of the British Virgin Islands. PAG II is a company established under the laws of Hong Kong. PAG III is an exempted company incorporated under the laws of the Cayman Islands. Each of PAG I, PAG II and PAG III are wholly-owned subsidiaries of discretionary funds managed by PAG Capital Limited (“PAG”). Founded in 2002, PAG is today one of Asia’s largest independent alternative investment managers, focusing on private equity, real estate and absolute returns, with over US\$40 billion under management as of the Latest Practicable Date. PAG employs a thematic approach to investing in private equity, seeking to back businesses with leading market positions, proven performance, committed management teams and great potential. As an independent alternative investment manager, PAG is not involved in the daily operations of our Group.

As at the Latest Practicable Date, PAG is a Controlling Shareholder of our Company.

Meadowland and Pasture

Meadowland is an exempted limited partnership established under the laws of the Cayman Islands. Cloud Up Development Company Limited is the general partner of Meadowland, and is wholly-owned by Ms. Hao Meirong (郝美蓉), an Independent Third Party. Pasture is the limited partner of Meadowland. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Pasture is owned by certain employees or members of senior management of either Yili or our Group, all of whom are Independent Third Parties, except for Mr. Zhang Yujun (張玉軍), our chairman and non-executive Director, Mr. Zhang Xiaodong (張小東), our executive Director and chief executive officer, Mr. Dong Jiping (董計平), our executive Director and vice president, and Mr. Xu Jun (徐軍), our non-executive Director, each of whom is individually interested in less than 1% shareholding interest in Pasture.

Bain

Bain is an exempted limited partnership established under the laws of the Cayman Islands managed by Bain Capital and its affiliates. Bain Capital is one of the world’s foremost alternative investment firms.

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ICBC

ICBC is an investment holding company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of ICBC International Holdings Limited (“ICBCIH”). ICBCIH, together with its group companies, is the offshore investment services platform of Industrial and Commercial Bank of China Limited, based in Hong Kong, and the holding company of ICBC International Capital Limited and ICBC International Securities Limited. The group companies of ICBCIH mainly render a variety of investment-related services, including listing sponsorship and underwriting, equity financing, bond underwriting, direct investment, securities sales and brokerage and asset management.

BOC

BOC is a wholly-owned subsidiary of Bank of China Group Investment Limited, which is in turn a wholly-owned subsidiary of Bank of China Limited. Bank of China Limited is a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Stock Exchange (stock code: 3988) and the Shanghai Stock Exchange (stock code: 601988), respectively.

CAPITALIZATION TABLE

The following table illustrates the capitalizations of our Company immediately prior to and upon completion of the [REDACTED] (assuming that the [REDACTED] is not exercised:

Shareholders	Immediately prior to the completion of the [REDACTED]				Upon completion of the [REDACTED]			
	Aggregate number of Shares (assuming the Convertible Notes are not converted)	Shareholding Percentage	Aggregate number of Shares (assuming the Convertible Notes are fully converted at the conversion price of US\$0.44605)	Shareholding Percentage	Aggregate number of Shares (assuming the Convertible Notes are not converted)	Shareholding Percentage	Aggregate number of Shares (assuming the Convertible Notes are fully converted at the conversion price of US\$0.44605)	Shareholding Percentage
Yili ⁽¹⁾	1,320,800,000	40.00%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
The PAG Entities ⁽²⁾	1,416,217,181	42.89%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
Meadowland Public Shareholders	564,982,819	17.11%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
	—	—	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
Total	3,302,000,000	100.00%	[REDACTED]	100.00%	[REDACTED]	100.00%	[REDACTED]	100.00%

- (1) Yili indirectly holds 800,000,000 Shares through its wholly-owned subsidiary China Youran Dairy Holding Limited and 520,800,000 Shares through its wholly-owned subsidiary Jingang Holding.
- (2) Includes 542,376,651 Shares held by PAG I, 873,840,530 Shares held by PAG II, and, as applicable, [REDACTED] Shares to be held by PAG III upon full conversion of the Convertible Notes at the conversion price of US\$0.44605.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

We have been actively seeking opportunities to diversify the business structure of our Group and have made the following major acquisitions.

Acquisition of SKX

On July 9, 2019, Youran Dairy entered into a share purchase agreement with the then shareholders of SKX, who were Independent Third Parties, pursuant to which Youran Dairy agreed to purchase and the then shareholders of SKX agreed to sell 536,066,738 shares of SKX, representing approximately 58.36% of the equity interest of SKX, to Youran Dairy at a consideration of approximately RMB2.28 billion. Such consideration was determined based on, among other things, the assets and liabilities of SKX after arms’ length negotiations between the parties, and taking into account the strategic synergies between our Group and SKX. Approximately 95.0% of the consideration was paid with the available cash of Youran Dairy during the period between January 8, 2020 and September 3, 2020, and the remaining will be paid with cash on January 8, 2021 (one year after the date of the sale of shares).

The Directors, after conducting due diligence of SKX, were of the view that the acquisition of SKX was in line with the overall development strategy of our Company and in the interest of our Company and our Shareholders as a whole due to the following reasons: (i) the acquisition of SKX would provide us with a favorable chance of entering the dairy breeding business; and (ii) we will benefit from such acquisition in respect of the national policy, industry development, as well as our Company and SKX’s development strategies. To the best of our Directors’ knowledge, SKX had been in compliance with all applicable regulations in connection with its listing on the NEEQ in all material respects.

The above acquisition has been properly and legally completed and all necessary regulatory approvals have been obtained.

Proposed Acquisition of Fonterra China Farms Group

Youran Dairy entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group, who is an Independent Third Party, on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire the entire equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. Such consideration was determined on the basis of, among other things, the adjusted net assets (after the borrowings from the immediate controlling company are converted into additional registered capital before completion) of Fonterra China Farms Group. The above acquisition is expected to be completed in the first half of 2021.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

As of the Latest Practicable Date, Fonterra China Farms Group comprises Fonterra (Yutian) Dairy Farm Co., Ltd., a company established under the laws of the PRC on December 14, 2010, and Fonterra (Ying) Dairy Farm Co., Ltd., a company established under the laws of the PRC on February 11, 2014, both of which are wholly-owned subsidiaries of Fonterra Group, a global leading enterprise engaged in dairy products exports and milk processing and is principally engaged in raw milk production.

Save as disclosed above, during the Track Record Period and until the Latest Practicable Date, we did not conduct any major acquisitions, disposals or mergers.

HISTORICAL DIVIDEND DISTRIBUTION

Pursuant to commercial arrangements among our Company and our existing shareholders, on November 4, 2020, our Company declared a dividend of US\$180,348,072 (approximately RMB1,191,163,000) to the shareholders of our Company existing immediately before the completion of the Reorganization out of our Company’s share premium, which was fully paid to such shareholders on November 5, 2020.

PRC REGULATORY REQUIREMENTS

As advised by our PRC Legal Advisors, the reorganization and acquisitions in respect of the PRC companies in our Group as described above have been granted all regulatory approvals, registrations or filings in accordance with PRC laws and regulations.

M&A Rules

According to the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) jointly issued by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the State Administration of Taxation (國家稅務總局), the China Securities Regulatory Commission (中國證券監督管理委員會) (the “CSRC”), the State Administration for Industry and Commerce (國家工商行政管理總局) and the State Administration of Foreign Exchange (國家外匯管理局) on August 8, 2006 and effective as at September 8, 2006 and subsequently amended on June 22, 2009, where a domestic natural person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of MOFCOM; and where a domestic natural person holds an equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》) promulgated by Foreign Investment Department of MOFCOM in December 2008, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or a new investor, the M&A Rules shall not apply to the transfer of an equity interest in an existing foreign-invested enterprise from the domestic shareholder to the foreign investor.

As advised by our PRC Legal Advisors, prior approvals from the CSRC and other PRC governmental authorities for the [REDACTED] are not required.

SAFE Registration in the PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 37”), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular 13”), promulgated by SAFE and became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

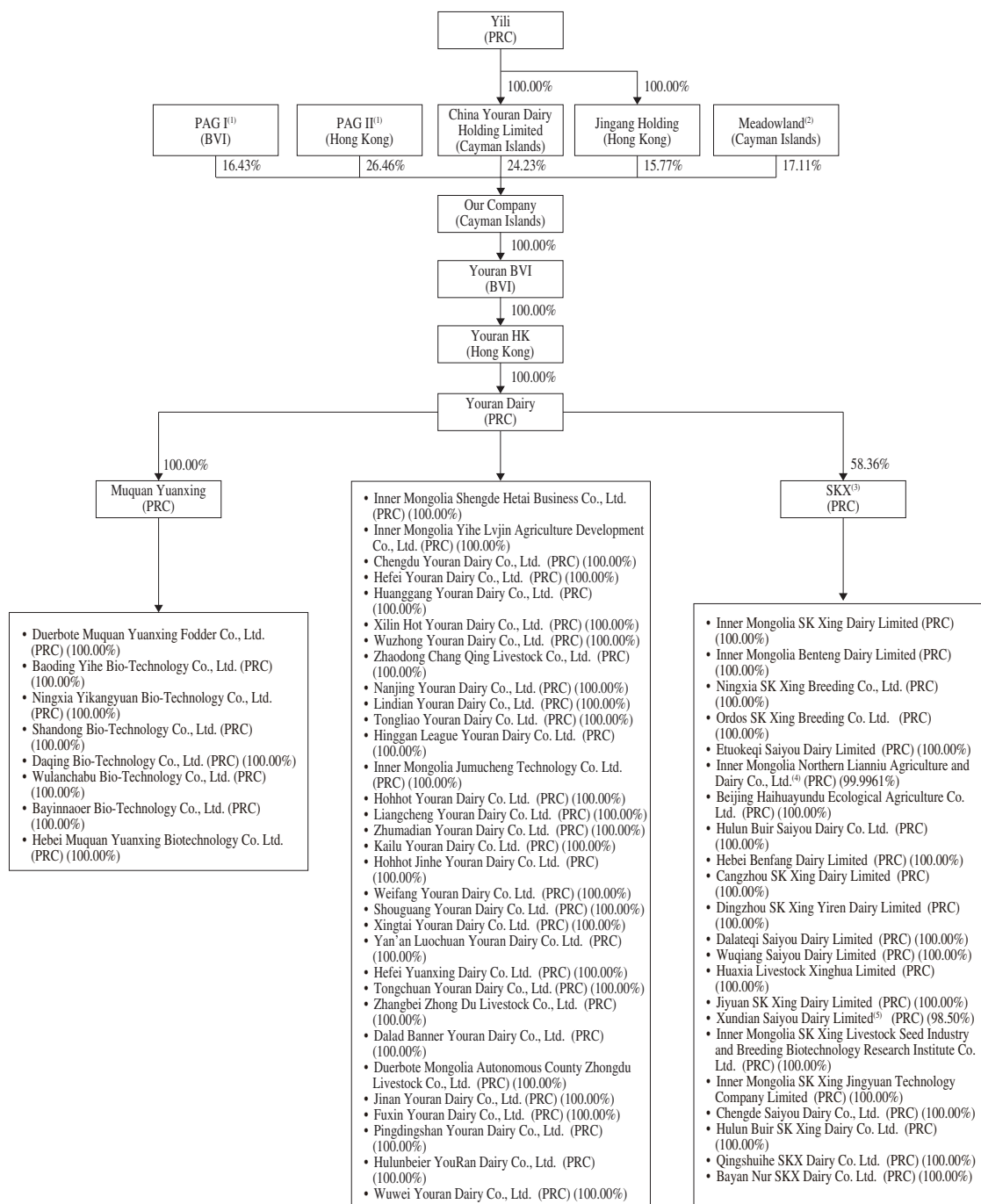
As advised by our PRC Legal Advisors, our shareholders are overseas institutional investors, PRC resident and offshore entities established by PRC entities by way of offshore investments through applicable legal procedures. The establishment of all the offshore entities by PRC entities have completed the SAFE registration for overseas investments according to PRC laws, and the PRC resident has completed the registration under SAFE Circular 37 on May 22, 2020.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

CORPORATE STRUCTURE

Corporate Chart immediately prior to the completion of the [REDACTED]

The corporate structure of our Group and our subsidiaries immediately prior to the completion of the [REDACTED] was as follows:



HISTORY, REORGANIZATION AND GROUP STRUCTURE

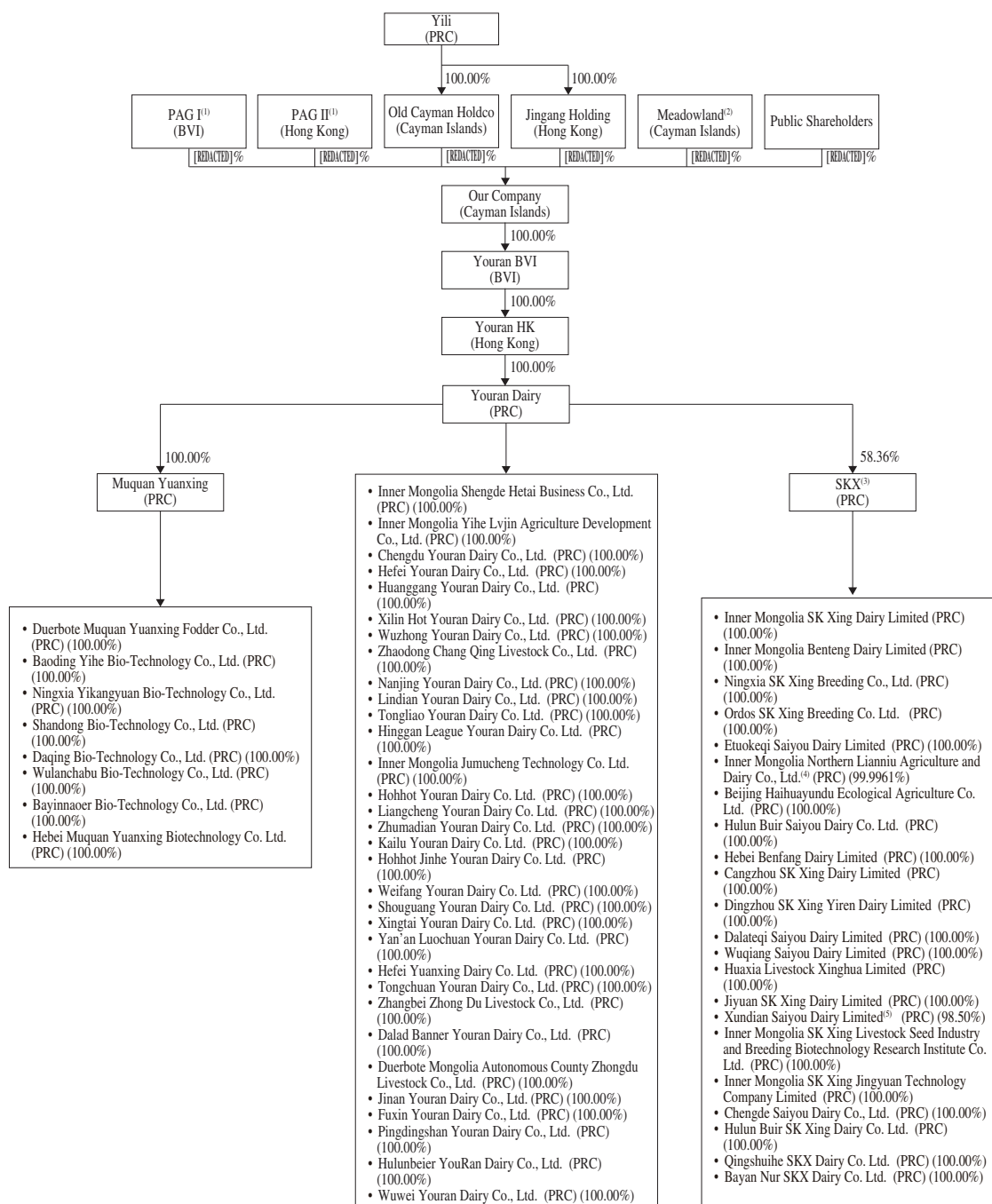
Notes:

- (1) For further information about PAG I and PAG II, please refer to the paragraph headed “– The [REDACTED] Investments – Background Information about the [REDACTED] Investors – The PAG Entities” in this section below.
- (2) For further information about Meadowland, please refer to the paragraph headed “– The [REDACTED] Investments – Background Information about the [REDACTED] Investors – Meadowland” in this section below.
- (3) SKX is a company established under the laws of the PRC, whose shares are listed on the NEEQ (stock code: 834179). SKX is held as to 58.36% by Youran Dairy and 41.64% by other minority shareholders.
- (4) Inner Mongolia Northern Lianniu Agriculture and Dairy Co., Ltd. (內蒙古北方聯牛農牧業有限公司) is held as to 99.9961% by SKX and 0.0039% by Xu Yun, an Independent Third Party.
- (5) Xundian Saiyou Dairy Limited (尋甸賽優牧業有限公司) is held as to 98.5% by SKX and 1.5% by Xundian Tangniu Dairy Limited (尋甸唐牛牧業有限公司), an Independent Third Party.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Corporate Chart immediately following completion of the [REDACTED]

The following diagram illustrates the corporate structure of our Group immediately following completion of the [REDACTED], assuming that (1) the [REDACTED] is not exercised, (2) the Convertible Notes are not converted, and (3) the acquisition of Fonterra China Farms Group is not completed.



Notes (1) to (5): Please refer to the chart contained under the paragraph headed “– Corporate Chart immediately prior to the [REDACTED]” in this section above.

* English name included for identification purposes only.

BUSINESS

OVERVIEW

We are a leader in China’s upstream dairy market and one of a select number of dairy farming companies around the world with a business layout covering the entire upstream dairy industry. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in the first half of 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

Founded in 1984, we were once a wholly-owned subsidiary of Yili, the world’s fifth largest* and fast-growing large-scale dairy manufacturer, until we were spun off from Yili in 2015. With nearly 40 years of experience in the dairy industry and in-depth research and development, we have gained insights into market demands and trends, which enable us to develop and offer diversified products and services catering to evolving customer demands. Our business has grown to cover the entire upstream dairy value chain from breeding, feed to raw milk production, and we have maintained a leading position and achieved rapid growth in each of our core business lines:

Business Segments	Business Lines	Business Highlights
Raw milk	Raw milk business	We provide raw milk to large-scale dairy manufacturers for further processing into premium dairy products. We are the world’s largest raw milk provider in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020, according to Frost & Sullivan.
Comprehensive ruminant farming solutions	Feed business	We provide nutritious concentrated feed and forage grass for dairy farms that meet the demands of ruminants for their growth and production, and offer auxiliary ruminant farming support services, such as ruminant nutrition, breeding technique, and ruminant healthcare. According to Frost & Sullivan, we are the largest concentrated feed provider for ruminants in China in terms of sales volume of concentrated ruminant feed in 2019. In addition, we are also a leading supplier of forage grass, mainly alfalfa hay and oat grass, in China in 2019 with the largest market share in terms of sales volume of alfalfa hay, our major type of forage grass.

*Source: “Global Dairy Top 20” in 2020 published by the Rabobank Nederland in August 2020.

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Business Segments	Business Lines	Business Highlights
	Breeding business	We provide dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas through our subsidiary, SKX. SKX is the largest dairy breeding company in China in terms of sales volume of frozen bovine semen for dairy cattle in 2019, according to Frost & Sullivan.
	Ruminant farming products marketplace business	We provide ruminant farming products purchased from selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, through our online retail platform, <i>Jumuc.com</i> , and offline pick-up stores, to diversify our product offerings and further address our customers’ business needs.

Raw milk business

We provide raw milk to large-scale dairy manufacturers for further processing into premium dairy products. In the first half of 2020, revenue from our raw milk business accounted for 59.7% of our total revenue. As of June 30, 2020, we had 65 dairy farms in operation with 287,045 dairy cows, on a consolidated post-SKX Acquisition basis. In addition, as of June 30, 2020, we had six dairy farms under construction, which are expected to commence operation within the next two years. Most of our dairy farms are located in the Golden Raw Milk Belt, a geographic area spanning from 40 to 50 degrees north latitude, which is an ideal latitudinal zone for dairy farming and quality raw milk production. We also strategically locate our dairy farms to accommodate demands of our downstream customers to ensure freshness of raw milk and convenient transportation.

By adopting the industry-leading management system and technology, we have achieved long-term and stable growth in the raw milk business. During the Track Record Period, our raw milk production volume and average milk yield per milkable cow had continuously improved. Raw milk production volume of Youran increased from 321,872 tons in the first half of 2019 to 431,578 tons in the first half of 2020. Annualised average milk yield per milkable cow of Youran (excluding Jerseys) increased from 10.7 tons in the first half of 2019 to 11.3 tons in the first half of 2020. Our advanced management and operating capabilities for raw milk business also enabled us to quickly integrate the raw milk business of SKX and improve its operation. Raw milk production volume of SKX increased from 298,054 tons in the first half of 2019 to 350,226 tons in the first half of 2020. Annualised average milk yield of milkable cows of SKX increased from 8.9 tons in the first half of 2019 to 9.9 tons in the first half of 2020.

BUSINESS

We offer a variety of raw milk products. Besides our premium raw milk, we also offer specialty raw milk, such as jersey milk, DHA milk, A2 milk and organic milk. We continue to develop and expand our specialty raw milk offerings through a variety of advanced and practical techniques and means to meet customers’ growing demand for specialty raw milk. We introduce overseas purebred Jerseys and conduct researches on their scientific breeding methods and nutritional requirements to produce high protein-content, good-tasting Jersey milk; we study the metabolism mechanism of DHA in cows and use coating techniques to make DHA efficiently absorbed and converted into raw milk rich in DHA; we select cows with A2- β -casein gene using genetic testing and raise them scientifically to produce A2 milk rich in A2- β -casein; and we follow the laws of nature during the farming processes, pay attention to animal welfare and health, and adopt raising and farming management practices that meet the natural behavior and living conditions of animals to produce organic milk as certified by China and the EU standards. Our revenue from specialty raw milk has been steadily increasing since we commenced to sell specialty raw milk. In the six months ended June 30, 2020, our sales revenue from specialty raw milk accounted for 31.6% of our total revenue from raw milk business. According to Frost & Sullivan, we are the largest provider of specialty raw milk in China in terms of the production volume of specialty raw milk in the first half of 2020.

We are dedicated to producing high-quality raw milk. Raw milk quality is mainly determined by various nutrition and health factors, including protein content, fat content and aerobic plate count and somatic cell count. Key indicators of our raw milk meet or exceed the quality standards of the United States, the European Union and Japan as well as China’s Premium Milk Initiative (中國國家優質乳工程). We are the largest raw milk supplier of Yili. Meanwhile, our products are also widely used by Bright and other large-scale dairy manufacturers in their production of premium dairy products.

Feed business

We have accumulated extensive knowledge of ruminant nutrition from nearly 40 years of business operations and research, which, together with our own dairy farming experience, enables us to obtain deep insights into nutritional needs of ruminants. We strive to provide high-quality and customized comprehensive ruminant farming solutions to dairy farms. In the first half of 2020, revenue from our feed business accounted for 37.0% of our total revenue. As one of a select number of companies in the upstream dairy industry in China that have their own proprietary research and development technologies and teams, we evaluate ruminant nutrient requirements and supply based on the identification of specific conditions, such as ruminant species, life cycles, seasonality, specific demands at each stage and overall production performance and life span; we take into consideration customers’ requirements on production performance, and we have built a leading ruminant nutrient database in China. We are also one of a select number of companies focusing on both ruminant farming and feed studies in China. Our huge ruminant herd size provided an experimental basis for the development of new feed and allowed us to detect feed performance and conduct the research and development of high-quality and characterized feed products.

We offer a wide selection of high-quality concentrated feed spanning the full life cycle of dairy cows, beef cattle, sheep, dairy goats and other ruminants. As of the Latest Practicable Date, we operated seven feed mills and cooperated with five third-party feed manufacturers. In 2019, we achieved total concentrated feed yield of 797,932 tons. As of the end of 2019, we

BUSINESS

provided leading comprehensive ruminant farming solutions to over 500 dairy farms in China, serving over 1 million ruminants. Our leading systematic dairy farming services include farm planning and design, data analysis, performance analysis, precise nutrition, efficient breeding, milking hall management and epidemic prevention, which can promote and improve the farming performance and efficiency.

We also supply value-for-money forage grass, mainly alfalfa hay and oat grass, to dairy farm customers through large-scale forage grass farming and trading. According to Frost & Sullivan, we had the largest market share of 3.6% in China in 2019 in terms of sales volume of alfalfa hay, our major type of forage grass. In addition, we imported 188,173 tons of alfalfa hay in 2019, which made us the biggest alfalfa hay importer in China.

Breeding business

We provide dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas through our subsidiary, SKX. SKX is the largest dairy breeding company in China in terms of sales volume of frozen bovine semen for dairy cattle in 2019, according to Frost & Sullivan. Through our controlling interest in SKX, we have obtained leading cow genetic improvement and sex-sorting technologies, high-quality breeding bulls and a strong research and development team. We carry out dairy breeding business mainly in China, while we cooperate with frozen semen production bases in the United States to conduct research and development. We are one of a select of breeding companies in China that operates an overseas bull station. By virtue of our strengths in breeding and reproduction, we continue to improve the genetic merits of our own dairy herds, and enhance the overall genetic traits of dairy herds in China.

OUR BUSINESS

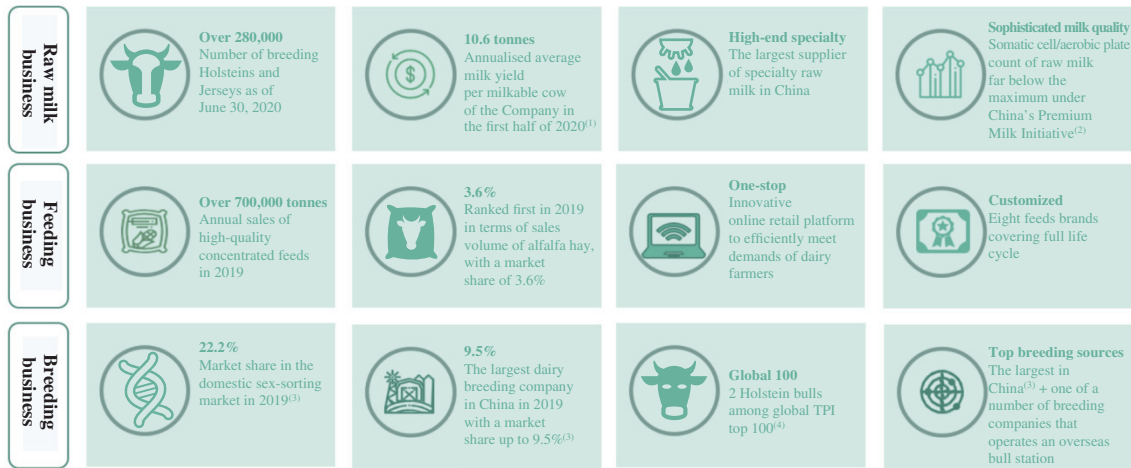
Our business covers the entire upstream dairy value chain, with a comprehensive portfolio of products and service, thereby supporting the development of large-scale dairy manufacturers, dairy farms and other market participants. Driven by techniques and through resource sharing and big data analysis, we have established an integrated farming model to enhance the yield and quality of our raw milk. We leverage our extensive dairy farming experience and engage in vigorous research and development to offer high-quality and customized feeding and breeding solutions to our dairy farm customers. At the same time, customers’ feedbacks on our offerings enable us to continuously perfect our products and services as well as our comprehensive ruminant farming solutions. We believe as we achieve synergies among our business segments and interact with our customers, we will further achieve significant growth.

We attach great importance to the environmentally friendly and pollution-free operation model with the integration of plantation and feed and are devoted to the sustainable development of dairy farms. We vigorously develop new technologies and we have built a modern, large-scale and centralized farm production and management system, in order to increase productivity and efficiency of dairy farms.

BUSINESS

OUR SCALE

The following chart shows the scale and characteristics of our business.



Notes:

- (1) The statistical basis of annualised average milk yield per milkable cow in the first half of 2020 is “annual yield/total breeding days of milkable cows in the whole year * 366 days”, on a consolidated post-SKX Acquisition basis, excluding Jerseys.
- (2) The average microbe and somatic cell count of raw milk of the Company in the first half of 2020 were 14,000 CFU/ml and 171,000 CFU/ml (including SKX), which is below the maximum content of 100,000 CFU/ml and 300,000 CFU/ml under China's Premium Milk Initiative.
- (3) According to Frost & Sullivan.
- (4) Based on the ranking of the Holstein Association USA.

As a leader in China's upstream dairy value chain, we benefit from the rapid growth of the dairy industry in China. The number of our dairy cows grew from 102,268 as of December 31, 2017 to 152,037 as of December 31, 2019, and our raw milk sales volume increased from 526,953 tons in 2017 to 655,786 tons in 2019, with a CAGR of 11.6%. As of June 30, 2020, the number of our dairy cows reached 287,045 on a consolidated post-SKX Acquisition basis and our raw milk sales volume was 753,586 tons in the first half of 2020. In the meantime, the sales volume of our concentrated feed increased from 599,331 tons in 2017 to 709,221 tons in 2019.

During the Track Record Period, we recorded steady financial growth. Our revenue grew from RMB5,091.4 million for the year ended December 31, 2017 to RMB6,333.9 million for the year ended December 31, 2018 and further to RMB7,667.8 million for the year ended December 31, 2019, with a CAGR of 22.7% from 2017 to 2019. Our revenue grew from RMB3,436.8 million in the six months ended June 30, 2019 to RMB5,344.4 million in the six months ended June 30, 2020 on a consolidated post-SKX Acquisition basis. Our net profit was RMB277.9 million, RMB652.9 million and RMB801.9 million for the years ended December

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31, 2017, 2018 and 2019, respectively, representing a CAGR of 69.9% from 2017 to 2019. Our net profit grew from RMB365.3 million in the six months ended June 30, 2019 to RMB744.1 million in the six months ended June 30, 2020 on a consolidated post-SKX Acquisition basis.

OUR STRENGTHS

Leading upstream dairy products and services provider

We are the largest provider of comprehensive products and services along the upstream dairy value chain in terms of total revenue in the first half of 2020, according to Frost & Sullivan.

- *Raw milk business.* We are the largest raw milk provider globally in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020, according to Frost & Sullivan. As of June 30, 2020, we operated 65 large-scale modern dairy farms across 14 provinces in China. Our revenue from raw milk business accounted for 59.7% of our total revenue in the first half of 2020. With scientific management and operation of our dairy farms, we produce a variety of high-quality raw milk products that cater to increasing demands of dairy manufacturers driven by dairy consumption upgrades in China.
- *Feed business.* According to Frost & Sullivan, we are the largest ruminant feed provider in China in terms of sales volume of concentrate ruminant feed in 2019. For the year ended December 31, 2019, we sold over 700 thousand tons of concentrate ruminant feed. In addition, we are also a leading supplier of forage grass, mainly alfalfa hay and oat grass, in China and we ranked first in China in 2019 in terms of sales volume of alfalfa hay, our major type of forage grass, with a market share of 3.6%. We are also the largest alfalfa hay importer in China. Our revenue from our feed business accounted for 37.0% of our total revenue in the first half of 2020. We are committed to the research and development of new comprehensive ruminant farming solutions to meet the growing demands of dairy farms and improve raw milk quality in China.
- *Breeding business.* SKX is the largest dairy breeding company in China in terms of sales of frozen bovine semen for dairy cattle in 2019. According to Frost & Sullivan, SKX has market shares of 9.5% in the frozen bovine semen for dairy cattle market in China and 22.2% in the sex-sorted frozen bovine semen for dairy cattle market in 2019. Our acquisition of the controlling interest in SKX in early 2020 has brought us leading cow genetic improvement and sex-sorting technologies, and we have since ventured into the dairy breeding industry in China to capture more market opportunities.

BUSINESS

Driven by increasing urbanization and consumption upgrades, the dairy market in China has witnessed increasing consumer demand, especially for premium and specialty dairy products, and has realized significant growth in recent years. The rapid growth and consumption structural adjustments in the downstream dairy market have propelled the development of China’s upstream dairy market, leading to a growing demand for high-quality raw milk and effective feeding and breeding solutions. As a leader in the upstream dairy value chain in China, we are well-positioned to capture the significant opportunities driven by the development of China’s dairy industry.

Comprehensive business coverage along the upstream dairy value chain achieving compelling synergies

We are one of a select number of dairy farming companies around the world with a business layout covering the entire upstream dairy value chain, which spans raw milk, feed and breeding businesses. We enjoy compelling synergies across our business lines, which not only help expand our product and service offerings but also improve the standards in the upstream dairy value chain.

Our integrated farming model facilitates the sharing of resources, technology and talent, and drives the growth of our raw milk, feed and breeding businesses. Our breeding business provides modern and scientific breeding techniques that improve reproductive rate of dairy herds and raw milk yields, and our feed business supplies high-quality ruminant feed, crucial for the growth, welfare and maintenance of productivity of our dairy cows. With better feed and breeds, we are able to enhance raw milk quality and yield. In the first half of 2020, raw milk production volume of Youran reached 431,578 tons and its annualised average milk yield per milkable cow (excluding Jerseys) amounted to 11.3 tons. During the same periods, raw milk production volume of SKX reached 350,226 tons and its annualised average milk yield per milkable cow amounted to 9.9 tons. In addition, our raw milk outperforms the standards of the United States, the European Union and Japan as well as China’s Premium Milk Initiative (中國國家優質乳工程) in terms of protein content, fat content, aerobic plate count and somatic cell count.

In addition, we are committed to lifting the various standards and promoting the organic growth of the upstream dairy industry. We select semen from high-quality Holstein bulls and leverage our leading sex-sorting technologies to improve the genetic traits of dairy herds in China. With a wealth of experience in dairy farming and ruminant feed research and development, we have established a leading ruminant nutrient database in China, enabling us to offer high-quality, customized and comprehensive ruminant farming solutions. We are one of a select number of SQF-certified dairy farming and feed manufacturers in China that maintains high global standards in production, processing, preparation and treatment of feed products. We also contribute to the establishment of eco-farming standards in the upstream dairy industry in China.

BUSINESS

Modern and scientific operations and management with leading research and development capabilities

We pioneered to employ scientific dairy farm management principles and adopt the industry-leading management process and techniques to enhance our operational efficiency and product quality. We are the first dairy farming company in the world to adopt the Total Productive Maintenance, or TPM, to establish a sustainable and standardized management model with industrial characteristics. In 2020, we passed a health inspection conducted by Japan Association of Plant Engineering (日本設備管理協會), becoming the first worldwide in the ruminant feed and animal husbandry industry. In addition, we rely heavily on our advanced and intelligent management system to monitor and manage our herd and dairy farms, from information collection to activity monitoring, and from breeding to milking. We achieve our long-term and stable development through scientific, standardized and refined management. Average milk yield per milkable cow of Youran (excluding Jerseys) continuously increased and reached 9.9 tons, 10.0 tons, 10.4 tons and 11.3 tons (annualised average milk yield per milkable cow) in 2017, 2018, 2019 and the first half of 2020, respectively. Our advanced management and operating abilities also enabled us to quickly integrate the raw milk business of SKX and improve its operations. Raw milk production volume of SKX increased from 298,054 tons in the first half of 2019 to 350,226 tons in the first half of 2020. Annualised average milk yield per milkable cow of SKX increased from 8.9 tons in the first half of 2019 to 9.9 tons in the first half of 2020. In addition, the modern and scientific operations and management of our dairy farms also secure the quality of our raw milk products. Certified by the world’s leading food safety and quality management system, the SQF Certification, we have demonstrated to our customers that our raw milk is produced in accordance with the highest standards recognized worldwide, which represents our commitment to producing safe and high quality raw milk.

We are devoted to research and development efforts in the upstream dairy industry, including productivity of cows, nutrition value of feed, dairy farms planning and sex-sorting technologies as well as exploration and practice on integrated farming model and eco-farming standards. We are one of a select number of companies in the upstream dairy industry in China with an in-house research and development team. As of June 30, 2020, our research and development team consisted of 151 personnel, including 38 core research and development personnel and 113 technical staff, all of whom have extensive industry experience. We attach great importance to maintaining a talent pool and providing trainings to our employees. We have carried out in-depth cooperation with the Ohio State University in the United States, and we select and dispatch outstanding employees to large-scale farms in the United States for studies. Currently, more than 30 such outstanding employees have returned to China after studying and are holding important positions in our Group. In addition, we have established extensive cooperation with well-known universities and research institutions, including China Agricultural University and the Institute of Animal Sciences of Chinese Academy of Agricultural Sciences, to promote the transformation and application of advanced farming technology and research and development results. As of the Latest Practicable Date, we have obtained 51 core patented technologies, covering each of our business lines. Leveraging our in-house research and development team, we continue to enrich our comprehensive ruminant

BUSINESS

farming solutions and have successively launched proprietary products, such as structural calf feed, rumen bypass soybean meal and premixes. Moreover, we have built a leading ruminant nutrient database in China and developed leading genetic improvement technology and sex-sorting technology.

Strategic location of large-scale dairy farms and feed mills

The scale and location of dairy farms and feed mills are critical to raw milk production and feed production. As one of the earliest companies operating large-scale dairy farms in China, we have leveraged our first-mover advantage to consistently secure expansive farmland suitable for dairy farming and feed production, including the construction of new large-scale dairy farms and feed mills as well as the expansion of existing dairy farms and feed mills. As of June 30, 2020, we operated 65 large-scale modern dairy farms across 14 provinces in China, including 40 large-scale dairy farms with a planned and designed herd size of over 5,000 each, on a consolidated post-SKX Acquisition basis. As of June 30, 2020, we operated seven feed mills across China and cooperated with five third-party feed manufacturers.

We emphasize not only the size of dairy farms and feed mills but also their strategic location. Most of dairy farms are located in the Golden Raw Milk Belt that spans from 40 to 50 degrees north latitude. Given its clean environment, mild climate, sufficient sunlight and abundant natural resources, the Golden Raw Milk Belt is ideal for growing forage grass and raising dairy herds. We also locate our dairy farms in economically vibrant regions, to accommodate our downstream customers’ demands. We leverage an extensive transportation network to deliver fresh products and provide convenient services. Similarly, we established feed mills in proximity to our dairy farm customers, and hence we are able to provide our customers with fresh feed and address their other farming needs in a timely and efficient manner.

High-quality customer base

We supply raw milk to large-scale dairy manufacturers, including Yili, Bright and other large-scale dairy manufacturers, for further processing into premium dairy products. Specifically, we were spun off from Yili in 2015 and have entered into a long-term strategic framework agreement with Yili. As Yili’s strategic partner and largest raw milk supplier, we provided Yili with a stable supply of high-quality raw milk during the Track Record Period. For the years ended December 31, 2017, 2018 and 2019, the raw milk supplied by us to Yili accounted for no more than 10% of its purchase of raw milk, and for the six months ended June 30, 2020, the raw milk supplied by us to Yili accounted for no more than 25% of its purchase of raw milk. Our various high-quality raw milk is widely used in Yili’s popular products, such as *Satine*, *Ambrosial* and *QQ Star*. According to Frost & Sullivan, China’s dairy market is expected to reach RMB689.0 billion in terms of retail sales in 2024, with a CAGR of 8.4% from 2019 to 2024. We believe, as a leader in China’s dairy industry, Yili has the potential to continuously expand its large market share, and increase its demand for raw milk. By virtue of our strategic relationship with Yili, we believe we will remain Yili’s trusted partner and are well-positioned to seize business opportunities brought by the development of the downstream dairy market. For details on our strategic relationship with Yili, see the section headed “– Our Customers – Our Relationship with Yili”.

BUSINESS

As of the end of 2019, we provided leading and comprehensive ruminant farming solutions to over 500 dairy farms in China, serving over 1 million ruminants. Leveraging our rich experience in dairy farming and big data analysis, we have obtained insights into the needs of large-scale dairy farms. We offer dairy farms with high-quality feed products and comprehensive ruminant farming support services. In 2019, we established 22 demonstration dairy farms in China. Through offering ruminant farming support services, such as ruminant nutrition, breeding technique and ruminant healthcare, we have successfully improved herd management and economic returns of such farms. In the six months ended June 30, 2020, annualised average milk yield of such demonstration dairy farms was improved by 5.5% as compared with 2019 and the feed cost per kilogram of milk decreased by 2.5%.

Visionary and experienced management team with strong shareholder support

Led by a visionary and experienced management team, we have become a leader in the upstream dairy market in China. Our executive officers have on average over 17 years of industry experience in ruminant feed production and sales, forage grass growing, animal nutrition and the dairy products industry. With deep insight in China’s dairy industry, our management team is able to identify customer needs and timely formulate business strategies to address customer needs and capture market opportunities, thereby promoting the healthy development of China’s dairy industry.

We have formed a strategic partnership with our major shareholder Yili, with which we share a common interest in promoting the development of China’s dairy market. Through our partnership with Yili, we are able to secure long-term raw milk demand and stable revenue sources, and by leveraging Yili’s leading brand, we are able to attract and acquire more customers. At the same time, our strategic investor PAG has provided us with strategic opportunities and access to international network and resources that have supported our rapid business growth.

OUR STRATEGIES

We pursue green and sustainable development through integrated farming to improve soil quality, and ensure the health and longevity of cows by educating employees to live in harmony with them with an aim to promote the development of the dairy industry in China while achieving sustainable growth and maximizing shareholder interests. We plan to achieve this goal by implementing the following business strategies.

Expanding scale: continue to strategically expand our business size and maintain our market leadership

Driven by the strong support of various national policies on revitalization of the dairy industry and raising consumer health awareness, China’s dairy industry has witnessed rapid growth, which has further stimulated the increasing demand in the upstream dairy value chain for integrated products and services. On the one hand, we believe that our Group can benefit from the business expansion and rapid growth of our existing downstream customers to sustain

BUSINESS

profit growth. We will take advantage of existing resources to raise the number of cattle and the proportion of milkable cows, and strive to obtain scarce farming land resources by virtue of the change of the national revitalization policy for dairy industry. On the other hand, we will also continue to strategically expand the scale and coverage of our raw milk business and leverage our established brand reputation among our downstream customers to consistently broaden our customer base and attract more large customers. In terms of our feed business, we will expand our footprints in markets with huge growth potentials. By replicating our standardized feed mill construction and operations, we will improve the product quality and expand our market share.

We will adhere to the concept of high-standard construction, high-level operation, high-yield output and high-quality products and services in the field of dairy farming and selectively seek strategic alliance, investment and acquisition in the field of outstanding comprehensive ruminant farming solutions. This will supplement and enhance our existing businesses, speed up our development through the synergies with investees and consolidate and enhance our market leadership.

Optimizing structure: optimize our product and service portfolio and enhance our core competitiveness

With increasing urbanization and disposable income, changes in population structure and enhanced public health awareness, dairy consumers in China have developed an increased appetite for premium and specialty dairy products. The upgrading food consumption has promoted the healthy, pure natural, high-end and personalized development of the dairy market. Through genetic selection of dairy cows and introduction of quality breeds, and our relentless research efforts on the long-term nutrition metabolism mechanism, breeding techniques as well as specialized nutritional feed formulas, we will continue to develop specialty raw milk that caters to consumers’ requirements on quality, taste and benefits. We will also maintain the reasonable proportion of revenue from new businesses to enhance our core competitiveness.

Through the systematic studies on development of dairy farming and leveraging our own dairy farming experience from raising over 280,000 dairy cows, we believe that the health and longevity of cows are the key factors determining the future of the dairy farming industry. As a result, we will provide quality feed covering the full lifecycle of ruminants and focus on the development of high-tech products, such as premixes and functional feed to consolidate our leading position in the ruminant feed industry.

Through acquiring the controlling interest in SKX in early 2020, we set foot in dairy breeding business and commenced to offer a broad selection of quality breeding products including frozen bovine semen for dairy cattle and embryos, which further expanded our product offerings and enhanced our competitive edges in genetic improvement technology and sex-sorting technology. We plan to grow our breeding business leveraging our extensive dairy farming experience. In addition, we intend to continue improve the genetic traits of dairy cows by virtue of our competitive breeding technologies, thereby driving the continuous innovations and development of our raw milk products.

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Improving efficiency: further enhance our operational efficiency through modern and scientific management practices

We will select world-class Holstein bulls to breed dairy cows and continue to explore new breeding technologies, such as gene blocking, genomic testing, sex-sorting and embryo transfer, to enhance genetic potential and improve genetic traits and productivity of dairy herds, and increase the percentage of cows with an average yield of over 12 tons in 305 days. We plan to further optimize the structure of our dairy farms, and to accelerate the construction of large-scale dairy farms with a capacity of up to 10,000 dairy cows per farm. We will continue to improve our herd structure and increase the proportion of milkable cows to achieve the structural adjustment and continuous improvement of our dairy farms.

We will also promote the wide implementation of refined operation, cultivate efficient talents and develop standardized process management and control. Through the rapid and standardized replication of dairy farms and feed mills, we will swiftly improve the organizational capability. In addition, we will constantly carry out exploration and practice in digitalization based on years of industrial experience. We plan to cooperate with domestic and overseas leading companies to effectively integrate industry-leading management experience, standardized processes and farming techniques with our business through continuous digitalization and build efficient operation and management capabilities. We intend to apply cutting-edge technologies, such as the Internet of Things, big data, artificial intelligence and image identification, to achieve digital management over dairy farming, covering full lifecycle of dairy cows, thereby building intelligent dairy farms and driving the development of the industry.

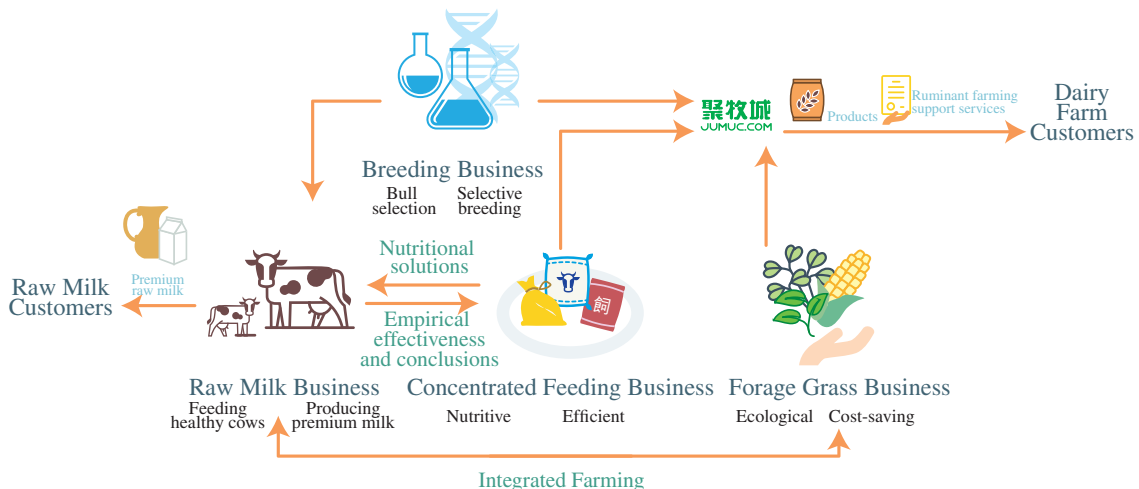
In addition, with the continuous improvement of farming techniques in the industry, we believe customers have higher requirements on technical services. We consider the technical services capability as an important strategy in the future. On the one hand, we will selectively recruit and foster a technical talent team with international horizons and carry out effective cooperation with world-leading institutions. On the other hand, through our own experience and international talent pool, we will improve our technical capabilities, operate and manage our dairy farms in a more efficient manner and accumulate technical know-how and experience, thereby creating value for our customers.

Promoting synergies: leverage advantages of resources along the upstream value chain to strengthen synergies across businesses and drive the upgrade of industry standards and service offerings

We will focus on the upstream value chain in the dairy industry and continuously develop advantages in the value chain. Based on our ruminant nutrition knowledge accumulated from nearly 40 years of breeding experience in ruminant nutrition and leveraging our massive ruminant nutrient database, we intend to build a smart nutrient research and development platform and focus on developing high-return products catering to demands of ruminant farming in the future and improving nutrient standards by leveraging AI bionic technology and the largest ruminant nutrient data center in China.

We will also focus on the studies of forage grass species and plantation techniques, and conduct seed selection, plantation, species studies and plantation techniques studies on our plantation fields to explore forage grass with high yield and quality and set out standards on eco-farming in the industry.

OUR BUSINESS MODEL



BUSINESS

The following table sets forth the components of our revenue by business segments for the period.

	For the year ended December 31,						For the six months ended June 30,			
	2017		2018		2019		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(RMB'000, except for percentages)										
Raw milk	2,237,474	43.9	2,610,333	41.2	3,063,615	40.0	1,453,840	42.3	3,192,968	59.7
Comprehensive										
ruminant farming										
solutions	2,853,971	56.1	3,723,587	58.8	4,604,203	60.0	1,983,002	57.7	2,151,459	40.3
Total	5,091,445	100.0	6,333,920	100.0	7,667,818	100.0	3,436,842	100.0	5,344,427	100.0

RAW MILK BUSINESS

We are the largest raw milk provider in the world in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020, according to Frost & Sullivan. We are dedicated to the production and sales of premium raw milk to leading dairy manufacturers, such as Yili and Bright, for further processing into high-end dairy products. Our premium raw milk is widely used in a variety of popular dairy products in China, including *Satine*, *Ambrosial* and *QQ Star*. As of June 30, 2020, we operated 65 modern dairy farms primarily located in the Golden Raw Milk Belt, with 287,045 dairy cows on a consolidated post-SKX Acquisition basis.

Leveraging our economies of scale, superior breeding technologies, nutritious feed and scientific feeding techniques, modern dairy farming equipment and strict quality control, we are able to produce high-quality raw milk and achieve high yields. During the Track Record Period, our raw milk production volume and average milk yield per milkable cow had continuously improved. Our average milk yield per milkable cow (excluding Jerseys) reached 9.9 tons, 10.0 tons and 10.4 tons in 2017, 2018 and 2019, respectively, which were higher than the industry average, according to Frost & Sullivan. In 2017, 2018 and 2019, our raw milk production volume approximated 539,707 tons, 588,558 tons and 670,196 tons, respectively. During the same periods, SKX's raw milk production volume approximated 496,547 tons, 571,426 tons and 617,775 tons, respectively. In the six months ended June 30, 2020, our raw milk production volume was 769,260 tons on a consolidated post-SKX Acquisition basis.

BUSINESS

Youran’s revenues from sales of raw milk were RMB2,237.5 million, RMB2,610.3 million and RMB3,063.6 million for the years ended December 31, 2017, 2018 and 2019, respectively, accounting for 43.9%, 41.2% and 40.0% of its total revenues for the same periods. Among Youran’s revenues from sales of raw milk, 37.2%, 50.3% and 49.0% were derived from sales of specialty raw milk. SKX’s revenues from sales of raw milk were RMB1,740.8 million, RMB2,037.5 million and RMB2,347.6 million for the years ended December 31, 2017, 2018 and 2019, respectively, accounting for 93.7%, 96.8% and 97.5% of its total revenues for the same periods. In the six months ended June 30, 2020, our revenue from sales of raw milk was RMB3,193.0 million on a consolidated post-SKX Acquisition basis.

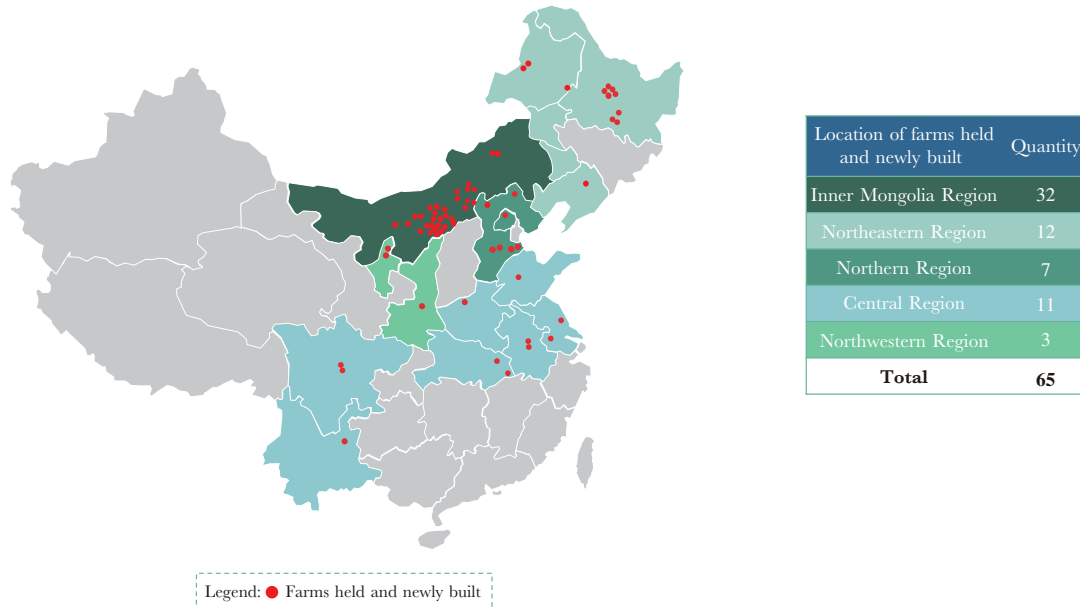
Our Dairy Farms

As of June 30, 2020, we operated 65 modern dairy farms across 14 provinces in China on a consolidated post-SKX Acquisition basis, with an aggregate gross land area of approximately 29,976,495 sq.m. With the support of policies issued by the Chinese government, we vigorously developed large-scale dairy farms to improve our economies of scales and operational efficiency. As of June 30, 2020, we had a total of 40 large-scale dairy farms with a designed herd size of over 5,000 heads, accounting for approximately 61.5% of our dairy farms. As of June 30, 2020, 60 of our 65 farms were owned by us whereas the other five were leased from third parties.

We attach great importance on the location of our dairy farms. On the one hand, most of our dairy farms are strategically located within the Golden Raw Milk Belt, the latitude zone ideal for dairy farming. We leverage the mild climate and abundant natural resources within the Golden Raw Milk Belt, such as wide grasslands, sufficient feed and plentiful fresh water, to ensure high milk yield and quality. On the other hand, we locate our dairy farms in proximity to major dairy products processing plants in order to deliver fresh products and offer convenient services to our customers. Our dairy farms are generally located within approximately 100 kilometers of the closest processing plant of our key customers. Meanwhile, we also pay attention to ancillary land for feed plantation to ensure sufficient supply of quality feed and achieve the effective integration and synergies across feed plantation and dairy farming.

BUSINESS

The following map shows the locations of our dairy farms in operation as of June 30, 2020.



The following table sets forth certain details of our major operating farms as of June 30, 2020:

Region	Number of dairy farms	Size (sq.m.)	Designed capacity (number of dairy cows)	Number of milkable cows ⁽¹⁾	Number of calves and heifers ⁽¹⁾
Inner Mongolia Region	32	13,415,149	155,500	76,533	66,133
Northeastern Region	12	6,198,207	54,000	24,732	27,209
Central Region	11	4,796,346	51,400	23,380	22,174
Northern Region	7	3,974,071	37,800	17,126	14,158
Northwestern Region	3	1,592,721	21,000	8,589	7,011
Total	65	29,976,495	319,700	150,360	136,685

Note:

- (1) Including the number of dairy cows that we purchased in advance for newly-constructed dairy farms under construction and to commence commercial production.

BUSINESS

We will continue to increase our overall production capacity and increase profitability through economies of scale by building new dairy farms. As of June 30, 2020, we have commenced the construction of six new dairy farms in Inner Mongolia, Henan and Gansu, and we expect each farm to have a capacity of 10,000 to 12,000 dairy cows and achieve raw milk production volume of 200 tons per day. We fund the construction of these new dairy farms primarily through the [REDACTED] from this [REDACTED] cash flow from operations and loans from banks.

The table below summarizes the details of our dairy farms under construction as of June 30, 2020:

<u>Farm</u>	<u>Location</u>	<u>Commencement of construction</u>	<u>Expected commencement of commercial production</u>	<u>Designed capacity (number of dairy cows)</u>	<u>Expected Size (square meters)</u>
Hulun Buir Farm I	Hulun Buir, Inner Mongolia	2019	2020	12,000	1,176,819
Pingdingshan Farm	Pingdingshan, Henan	2019	2020	12,000	1,085,314
Wuwei Farm	Wuwei, Gansu	2020	2021	12,000	1,234,115
Hulun Buir Farm II	Hulun Buir, Inner Mongolia	2020	2021	12,000	1,028,429
Hinggan League Farm	Hinggan League, Inner Mongolia	2020	2021	12,000	1,197,223
Hulun Buir Farm III	Hulun Buir, Inner Mongolia	2020	2021	12,000	875,991

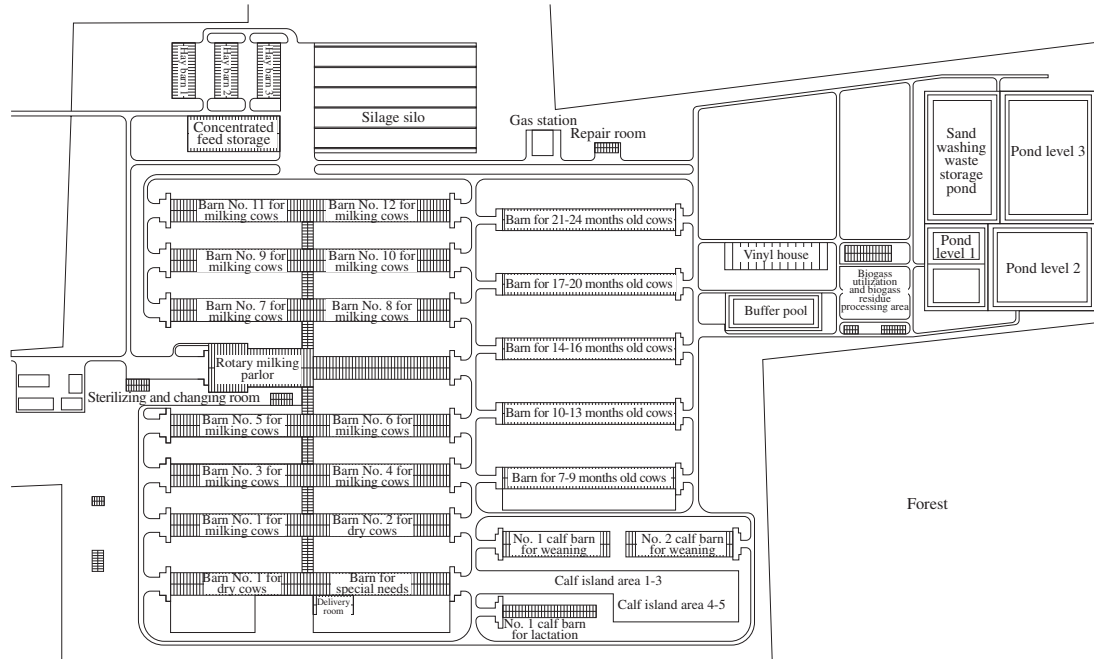
In addition, we may from time to time explore attractive opportunities to strategically acquire dairy farms to meet our growing business demands. For example, we entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020, pursuant to which we agreed to acquire the 100% equity interest of Fonterra China Farms Group collectively. Upon completion of the acquisition, we will acquire the six dairy farms currently under operations of Fonterra China Farms Group and effectively consolidate such dairy farms into our raw milk business, which we believe will enable us to achieve significant economies of scale and synergies of our Group as a whole. For details, see the section headed “Summary—Recent Developments—Acquisition of Fonterra China Farms Group”.

Farm Layout

We believe farm layout is crucial for herd management and cattle welfare. Our standard dairy farms have a modern and scientific layout, maximizing milk yield and productivity. Our standard farm design includes milking halls, barns for calves, milking cows and dairy cows of special needs, waste treatment facilities and feed warehouses.

BUSINESS

Below is a sample layout of our standard dairy farm design:



Our Dairy Cows

We are committed to nourishing healthy cows and producing premium raw milk. Inspired by such belief, we continue to improve our productivity and operational efficiency by optimizing the genetic traits and herd structure. We use artificial insemination technology for dairy breeding and we select suitable semen to optimize the genetic mix of our dairy cows. We mainly source high-quality frozen bovine semen for dairy cattle from our own breeding business. For more details regarding our breeding business and our breeding products, see the section headed “– Comprehensive Ruminant Farming Solutions – Breeding”. When selecting the semen, we primarily refer to the Total Performance Index, or TPI, published by Holstein Association USA, Inc. The TPI identifies sires which excel in production, health and conformation, and selects elite sires which represent the best combination of desired traits. We only use frozen semen from top sires with high TPI scores. We also take into account factors such as the yield and nutritional content of the raw milk of a sire’s previous offsprings, and the age and fertility of the sire. We selectively use sex-sorted frozen semen to achieve significantly higher female birth rates, thereby growing outperforming dairy herds. In the meantime, we also select high-quality pure-bred heifers from Australia and New Zealand that are healthy and productive to expand our herds and comprehensively improve the genetic traits of herds.

BUSINESS

As of June 30, 2020, we had a herd size of 287,045 dairy cows, including 277,259 Holsteins and 9,786 Jerseys, on a consolidated post-SKX Acquisition basis. Holsteins are generally larger in size and have the world’s highest milk yield per milkable cow, while Jerseys are smaller with better feed conversion ratio and higher fat and protein content in their milk. The diagram below illustrates certain information of Holsteins and Jerseys, and the relevant data were derived from our Company.



Holsteins



Jerseys

Annual Yield		
(kg/cow/year) ⁽¹⁾	10,580	6,235
Protein content (%) ⁽²⁾	3.30	4.01
Fat content (%) ⁽²⁾	3.86	5.66

Notes: (1) Calculated based on our total milk yield in the first half of 2020 divided by the total number of days for which the milkable cows are raised for such period, and then multiplied by 366 days.

(2) Our Company’s weighted average annualized data for the first half of 2020.

Herd structure is crucial for raw milk productivity. We have an optimal herd structure that is ideal for stable milk yields and sustainable herd expansion. Our dairy cows consist of milkable cows, calves and heifers. A female calf becomes a heifer after six months of her birth and further grows to become a milkable cow once she gives birth to her first calf. For the benefit of its welfare and milk quality and yield, each milkable cow that is pregnant enjoys a dry period of approximately 60 days immediately prior to milking.

As of June 30, 2020, on a consolidated post-SKX Acquisition basis, we had 150,360 milkable cows and 136,685 calves and heifers, accounting for 52.4% and 47.6% of the total heads of our dairy cows, respectively. The following table presents a breakdown of our dairy cows as of the dates indicated below:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	(heads)			
Calves and heifers	45,907	65,488	74,082	136,685
Milkable cows	56,361	61,857	77,955	150,360
Total	102,268	127,345	152,037	287,045

BUSINESS

We have adopted a culling program on our dairy herds to maintain the quality and yield of our raw milk. Culling refers to the removal of cows from a herd through sale and other means when they no longer meet our criteria for milk yield or fertility to optimize the dairy herds. The number of dairy cows that were culled through the culling program in 2017, 2018 and 2019 was 22,218, 21,971 and 24,832, respectively. The number of dairy cows that were culled through the culling program in the six months ended June 30, 2020 was 30,094 on a consolidated post-SKX Acquisition basis. As a complement to our controlled breeding efforts, our culling program improves the genetic quality, fertility and raw milk yield of our herds.

Intelligent Herd Management

We largely rely on advanced, intelligent management systems to monitor and manage our herds and dairy farms, from data collection to activity monitoring, and from breeding to milking. We have installed intelligent management systems in most of our dairy farms, which mainly include:

- *Real-time herd management system:* our real-time herd management system allows us to monitor each cow, including its health indicators, genetic information and medical history. The system generates various types of reminders, such as dry period reminders, insemination reminders, and weaning reminders, to refine our herd management.
- *Feeding system:* our feeding system keeps the details of our feed formulas customized for different groups of dairy cows. By tracking every step of the entire feeding process, we are able to monitor the application of our feed formulas and secure sufficient, well-balanced feed for our dairy cows.
- *Production information management system:* our production information management system generally keeps detailed records of each dairy cow’s milk yield. Such data provide us with insights into the overall milk yields at our dairy farms and the productivity of each dairy cow.
- *Intelligent environment control system:* through our intelligent environment control system, we achieved real-time monitoring on the farm environment, including the temperature and humidity, to ensure an excellent habitat environment for our cows.

To further streamline our herd management, we are building a comprehensive herd management program, which will integrate the above intelligent management systems and consolidate all data from our 65 dairy farms into a single network. Such comprehensive herd management program allows for centralized data monitoring, collection and analysis, which helps standardize dairy farm management.

BUSINESS

Herd Health and Welfare

We attach great importance to our herd health and welfare and adopt extremely high standards in the management of cow health. We have in place a comprehensive set of internal management procedures, which combined with our sound ancillary facilities, helps maintain the overall health of our herds and the cleanness of the farm environment. Our effective internal management procedures and our regular evaluation and assessment ensure that potential risks are under control during the entire process. Based on our internal management procedures, we have adopted the following measures to ensure the health of our cows:

- *Strict protocol for entering the farm and production facility.* We have developed a strict disinfection process for employees entering our dairy farms and production facilities. Employees are required to change clothes and disinfect themselves before entering the production facilities, and vehicles must be disinfected before entering dairy farms. In addition, unauthorized vehicles, personnel, animals and equipment are prohibited from entering dairy farms.
- *Disinfection of equipment and facilities.* We have established stringent procedures for disinfecting facilities and equipment. We disinfect our employee dormitories, milking halls, machines and equipment, and our veterinary hospitals on a regular basis. Employees are required to wear masks, hats and gloves when handling dairy cows or milk.
- *Quarantine and treatment of sick and dead cows.* We have established stringent procedures for the disposal of sick and dead cows. We promptly quarantine any sick dairy cows in separate barns and our veterinary specialists inspect them on a regular basis. We collect biopsy samples and carry out testing in our laboratories to determine the cause and severity of the disease. Where medical treatment is not feasible or cost-effective, dairy cows that died from illness will be harmlessly treated, and the affected areas will be thoroughly disinfected. Dairy cows that have been cured of any disease are milked in a separate milking hall until their milk passes all of our tests and examinations.
- *Disease control measures.* Diseases like mastitis are the major threats to herds and dairy farms. We have adopted several disease control measures, including testing on causes of mastitis and symptomatic treatment based on testing results and the use of qualified dry milk medicines during the dry period to reduce pathogen violation to breasts during the dry period.
- *Disease control training for new staff.* We require all of our new staff to complete mandatory disease control training before they begin working at our dairy farms. Continuing disease control trainings are given to all employees at our dairy farms on a quarterly basis.

BUSINESS

In addition, we believe that a comfortable environment leads to healthier dairy cows and higher raw milk yield. We are devoted to building a comfortable and pleasant living environment for our dairy cows, and we carefully design our farm layout and set out facilities and equipment. We primarily adopted the following measures to improve the welfare of herds. Our spacious barns allow dairy cows to freely walk, forage and rest. We lay soft bedding to increase the amount of time our dairy cows spend lying down and resting. We also cover the floor of our barns with straw to keep our dairy cows warm. The placement of facilities and equipment inside our barns give full consideration to the health and welfare of our dairy cows, and we try our best to avoid sharp edges or protrusions that might hurt our dairy cows. We also utilize non-slip grooves to prevent them from slipping and injuring their feet. Furthermore, we equip all of our cow barns with body scratching machines and barn cleaning loaders. Our automated scrapers continuously clean up cow manure and our spreaders regularly spread bedding materials to level cow bedding. Moreover, we vary the type and design of facilities in our dairy farms according to their location to provide our dairy cows with an ideal living environment. For example, our dairy farms located in the northern part of China are installed with roller shutters and electric hot water tanks to keep our dairy cows warm. We use cooling facilities such as sprinkler and ventilation systems to improve air circulation and reduce temperatures in the barns in high-temperature summer days.

Our Superior Feed

Feed quality is crucial to raw milk quality and output. We feed our dairy cows with a well-balanced mixture of concentrated feed and forage grass that are rich in nutrients. Concentrated feed for our dairy cows is primarily made from corn, soybean meal and cotton meal, and forage grass mainly consists of corn silage, oat grass and alfalfa. In order to ensure the quality of feed, we grow and produce a portion of forage grass on the ancillary forage grass plantation bases of our dairy farms, and we primarily source our cow feed from our own feed business and well-recognized third-party suppliers in China and overseas. For details about our feed business, please refer to the paragraph headed “– Comprehensive Ruminant Farming Solutions – Feed” in this section.

The required nutritional intake varies among dairy cow based on their age, stage of lactation and productivity. To ensure that our dairy cows are fed on a balanced diet containing the type and amount of nutrients suitable for their stage of growth, we have adopted a grouping feeding method at our dairy farms. Our dairy cows are grouped according to their physical conditions, and each group is fed with customized feed of different nutritional value. We also add certain supplements to our feed, mainly vitamin and mineral supplements, to further improve dairy cows’ daily nutritional intake and digestion.

BUSINESS

Our Premium Raw Milk

We set out our raw milk business with premium raw milk offerings, and have been expanding our product offerings according to customers’ evolving needs. The growing market acceptance and popularity of premium dairy products among end consumers has driven the demand for specialty raw milk products. Accordingly, we also offer specialty raw milk, such as Jersey milk, DHA milk, A2 milk and organic milk. We will continue our research and development efforts and expand our specialty raw milk offerings to meet the increasing customer demand.

In 2017, 2018 and 2019, Youran sold approximately 526,953 tons, 572,093 tons and 655,786 tons of raw milk, respectively. In the same periods, SKX sold approximately 484,763 tons, 554,995 tons and 605,020 tons of raw milk, respectively. In the six months ended June 30, 2020, we sold approximately 753,586 tons of raw milk on a consolidated post-SKX Acquisition basis. In 2019, Youran sold 383,071 tons and 272,715 tons of premium raw milk and specialty raw milk, respectively, accounting for 58.4% and 41.6% of its total sales volume.

Through years of research and development, we have successfully launched the following products:

Products	Type	Key Features and Benefits
Premium Raw Milk		raw milk above the industry standards of both the PRC and the European Union
Specialty Raw Milk	Jersey Milk	raw milk from imported pure-bred Jersey cows with silky smooth and creamy texture, and an average protein content of 3.8%
	DHA Milk	specialty raw milk rich in DHA, which is a valuable nutrient essential for brain and eye health
	A2 Milk	raw milk with A2- β -casein, which is more suitable for the digestive system of human body, easier to digest and absorb, and can relieve the discomfort caused by lactose intolerance
	Organic Milk	raw milk that meets the organic standards of both the PRC and the European Union

BUSINESS

With diverse raw milk offerings, we are able to timely respond to changes in consumption structure and supply-demand dynamics in the downstream dairy market and capture market opportunities. In addition, based on our cooperation with downstream dairy manufacturers, our specialty raw milk enjoys higher price premiums than premium raw milk to achieve higher profit margins. As we continue to expand our specialty raw milk offerings through our research and development efforts, we believe we will continue to grow our revenues while improving our overall profitability.

We assess the quality of our raw milk primarily with four indicators commonly recognized in the industry, namely protein content, fat content, aerobic plate count and somatic cell count. Based on the data in 2019, our raw milk has average aerobic plate count and somatic cell count as low as 13,000 CFU/ml and 170,000 CFU/ml, significantly lower than the EU Standards, which is among the highest industry standards for raw milk safety in the world. In addition, our raw milk has high nutritional value, with average protein content and fat content as high as 3.3% and 3.9%, respectively, exceeding the standards set forth in China’s Premium Milk Initiative (中國國家優質乳工程) and the United States, Japan and the European Union standards.

The table below sets forth comparisons between the average quality indicators of our raw milk and various industry standards.

	Protein Content⁽⁸⁾	Fat Content⁽⁹⁾	Aerobic Plate Count⁽¹⁰⁾	Somatic Cell Count⁽¹¹⁾
	(%)	(%)	(CFU/ml)	(CFU/ml)
Our products ⁽¹⁾	>3.3	>3.9	<13,000	<170,000
China’s Premium Milk Initiative (中國國家優質乳工程) ⁽²⁾	≥3.1	≥3.3	<100,000	<300,000
Average of selected large-scale dairy farms ⁽³⁾	3.2	3.9	60,600	227,500
PRC national standard ⁽⁴⁾	≥2.8	≥3.1	<2,000,000	N/A
U.S. standards ⁽⁵⁾	≥3.2	≥3.5	<100,000	<750,000
EU Standards	N/A	N/A	<100,000	<400,000
Japan standards ⁽⁶⁾	≥3.2	≥3.8	N/A	N/A

Notes:

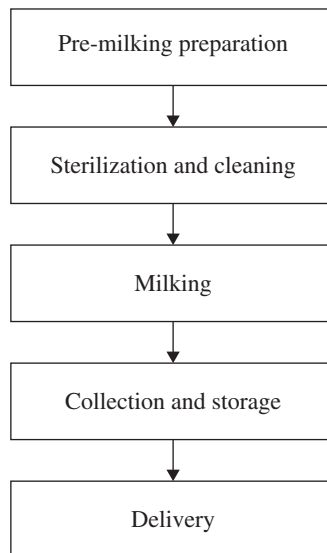
- (1) Information on indicators is based on the test reports issued by Yili upon sampling test on our raw milk in 2019.
- (2) As set forth in China’s Premium Milk Initiative in 2017.
- (3) Including 230 large-scale dairy farms selected and monitored by the PRC National Dairy Cow Industry and Technology System (中國國家奶牛產業技術體系), a joint initiative between the MOA and the PRC Ministry of Finance to promote the development of China’s dairy farming industry. The data is for 2019.
- (4) As set forth in China Standard published in 2010.

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- (5) As set forth in “A” Pasteurized Milk Ordinance issued by U.S. Department of Health and Human Services in 2011.
- (6) As set forth in Standard Table of Food Composition issued by Ministry of Education, Culture, Sports, Science and Technology in 2015. Data of Japan is the standard of Holstein raw milk, in which the fat content refers to the fatty acid, triacyl-glycerol equivalents.
- (7) Fat content and protein content are two major indicators used to determine the nutritional value of raw milk. Generally, a higher fat and protein content indicates higher quality.
- (8) Aerobic plate count and somatic cell count are two of the major indicators used to determine safety quality of raw milk. Generally, a lower somatic cell count indicates better animal health, while a lower aerobic plate count indicates improved sanitation. The PRC national Standard does not impose a maximum somatic cell count requirement.

Production Process

We milk our milking cows three to four times each day through an automated and sanitary process. The standard milk production process comprises the following steps:



- *Pre-milking preparation.* Before the milking process starts, our dairy workers will massage the milking cows’ udders to stimulate milk flow. To ensure the safety and quality of raw milk, we discard the first three squeezes of raw milk from the milking cows. At this stage, our dairy workers also closely check the health condition of the milking cows’ udders as well as the first three squeezes of milk to determine if there are any lumps in the milk.

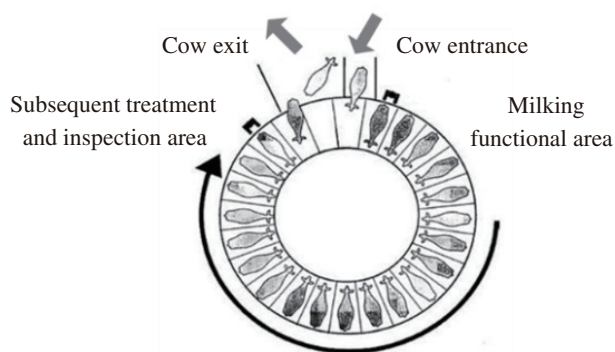
BUSINESS

- *Sterilization and cleaning.* We require our dairy workers to perform sterilization and cleaning to minimize risk of infection. We first clean and sterilize the udders and teats of our milking cows and the teat cups. Immediately after sterilization, we then wipe dry the udders and teats with dry towels. The pre-milking sterilization and cleaning process helps us secure the safety and pureness of our raw milk and maintain the health of our dairy cows.
- *Milking.* Upon sterilization and cleaning, our dairy workers commence the milking process by attaching the silicon teat cups to our milking cows’ udders. We leverage our automated milking system to monitor milk flow and record milk yield. Our automated milking system helps prevent overmilking for the benefit of health and welfare of our dairy cows. The milking process automatically ends when our milking system identifies that the milk yield has reached a certain level.
- *Collection and storage.* Fresh raw milk is immediately cooled to between 2°C and 4°C, the ideal temperature for raw milk storage, and is automatically transported through pipes directly to our central milk tank. We stir the raw milk stored in our milk tank on time to make sure that nutrients are evenly distributed. We carry out rigorous testing and inspection before the raw milk leaves our dairy farms, including a sensory test, boiling test, tasting test, alcohol test, acidity test and antibiotics residual test. These tests are designed to ensure that our raw milk meet our high standards and national standards and that the raw milk does not contain any prohibited substances such as antibiotics.
- *Delivery.* We transfer the raw milk through closed pipes from our central milk tank to the delivery trucks of our customers (in the event our customers choose to receive raw milk at our dairy farms) or the delivery trucks of third-party logistics services providers, then deliver the raw milk to our customers. We strive to deliver our raw milk to our customers within 24 hours from milking to maintain the freshness of raw milk.

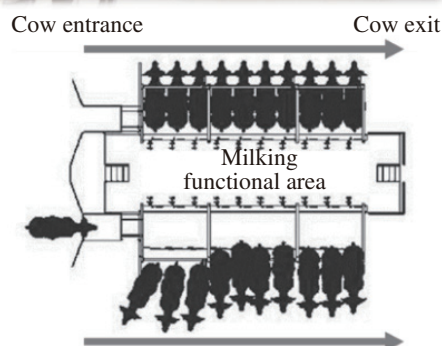
BUSINESS

Milking Parlors

Our dairy farms are equipped with rotary milking parlors or parallel milking parlors purchased from top suppliers. With faster cow traffic and a simplified overview of the milking stalls, our rotary milking parlors enable us to streamline our milking routine and provide a high level of cow comfort. Parallel milking parlors allow for a large number of milking stalls in the same space and ensure an optimal, customized milking position for high output. As raw milk we have milked is directly transferred to our milk tank, the milking process is insulated from human contact. Moreover, our dairy farms are equipped with power and water supplies as well as a complete set of emergency plans to ensure the normal operation of our business. During the Track Record Period, we did not experience any material or prolonged interruption in our operations.



Rotary milking parlors and their operation model



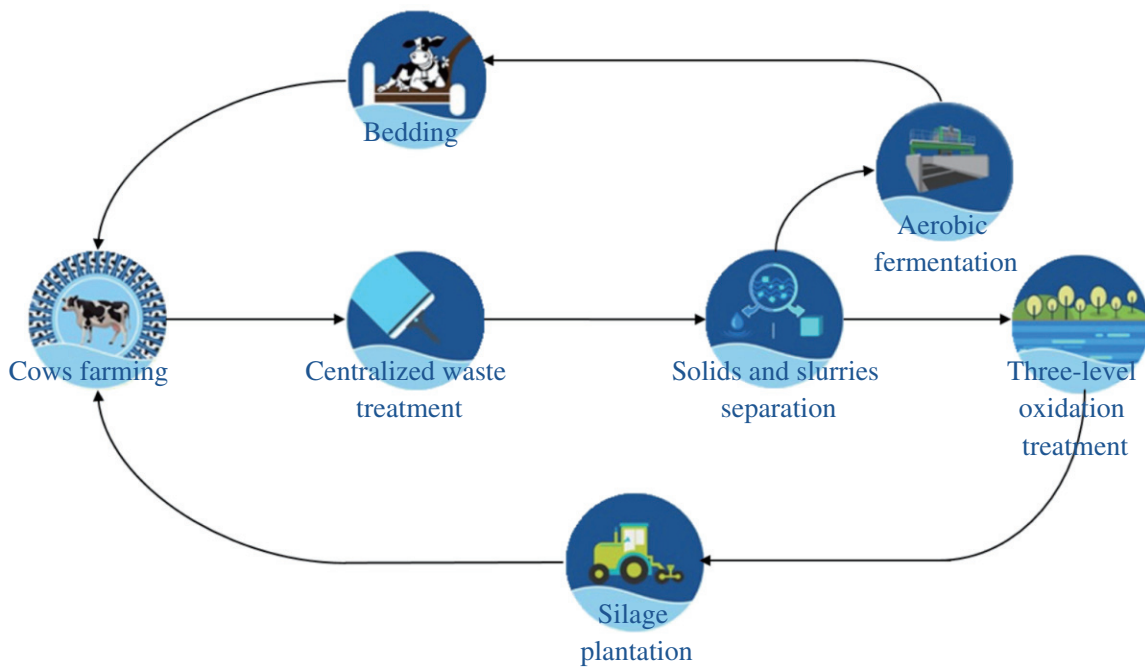
Parallel milking parlors and their operation model

BUSINESS

Eco-dairy Farming

We have been driving the sustainable growth of our raw milk business through eco-dairy farming. Our integrated farming model facilitates the sharing of resources across our various business segments and allows for the effective waste management at our dairy farms, which is critical to daily operations of large-scale dairy farms and environmental protection. We have installed cow waste recycling and treatment facilities at our dairy farms to process cow manure. We regularly clean cow waste in barns with scrapers and separate manure solids from slurries. Through our advanced harmless treatment technology, we convert recycled manure solids into bedding materials, which protect the environment and improve the comfort of cow bedding. We also convert slurry manure into organic liquid fertilizers and apply them in our ancillary feed planting base for the plantation of forage grass, which helps increase crop productivity and soil fertility. Through our efficient integrated farming model, we not only maximize the recycling of cow manure and improve the economic benefits of our production and operation, but also guarantee environmental protection to promote sustainable development.

The following diagram illustrates our eco-dairy farming practices:



BUSINESS

COMPREHENSIVE RUMINANT FARMING SOLUTIONS

Through nearly 40 years of unwavering focus on ruminant studies, we have gained invaluable nutrition research experience and profound industry insights. Our extensive dairy farming experience, combined with our advanced data analytics and robust technical capabilities, allow us to timely and effectively address dairy farms’ complex and evolving demands. We support dairy farms with our holistic and professional comprehensive ruminant farming solutions. Leveraging our years of dairy experience and profound insights, we can accurately identify the demands and pain points in all key links in the ordinary course of business of our customers. We combined our industry insights with strong technical strength and introduced various ruminant farming support services, including:

- *Site selection and design of dairy farms.* We provide advisory services to dairy farms with respect to site selection and design of dairy farms to help them achieve operational efficiency and enhance profitability.
- *Ruminant nutrition.* We assist dairy farms in improving milk yield and quality through scientific feeding techniques. Our ruminant nutrition services are tailored for dairy cows at different growth stages to tackle their specific needs. We also help increase feed intake of dry cows and transition cows to ensure they obtain abundant nutrition for growth and milking.
- *Breeding techniques.* We leverage our advanced breeding techniques and know-how to help dairy farms improve fertility rate of dairy cows and female calf rate. We tailor our breeding services according to health conditions, and conformation traits of the dairy cows and the breeds of the sire.
- *Ruminant fitness.* By virtue of our extensive dairy farming experience, our professional team assists dairy farms in preventing and treating diseases, such as mastitis and laminitis that are common to dairy cows.
- *Milk production.* We help dairy farms optimize their milking process to enhance milk quality and improve milking efficiency. With our modern management techniques and operating procedures, we offer insights and know-how on inspection of milking equipment and facilities, detection of mastitis and milk quality control, among others.

In addition, we also help dairy farms establish standard operational procedures to improve their production and management levels. As of the Latest Practicable Date, we had not charged customers for our ruminant farming support services. We tailor comprehensive ruminant farming solutions for our customers based on their actual operational demands and pain points and match the sales of our ruminant farming products accordingly. Currently, we are principally engaged in the following businesses and offer customers relevant ruminant farming products:

- *Feed business.* Our feed business includes processing and distribution of concentrated feed, large-scale forage grass growing and trading. Our feed business provides high-quality concentrated feed and forage grass to dairy farms, including our own dairy farms.

BUSINESS

- *Breeding business.* Our breeding business consists primarily of the production, import and sale of breeding products such as frozen semen and embryos of cattle and other ruminants. We provide quality frozen semen and embryos to dairy farms, including our own dairy farms, to improve genetic quality and productivity of herds.
- *Ruminant farming products marketplace business.* Through our online retail platform, *Jumuc.com*, and offline pick-up stores, we are mainly engaged in the sales of ruminant farming products, including veterinary drugs, husbandry equipment and other ruminant farming products.

Our services and products, combined with our leading position in the fields of ruminant farming and nutrient research, translate into a loyal customer base and propel the sales of our ruminant farming products. The effective integration and synergies across our ruminant farming products and ruminant farming support services helps maximize the value of our products and services, while offering attractive customer experience.

Our revenues derived from comprehensive ruminant farming solutions were RMB2,854.0 million, RMB3,723.6 million, RMB4,604.2 million and RMB2,151.5 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, accounting for 56.1%, 58.8%, 60.0% and 40.3% of our total revenues for the same periods.

Feed Business

According to Frost & Sullivan, we are a leading player in China’s ruminant feed market, driving the research and development of nutrient feed in China. We primarily engage in the processing and distribution of concentrated feed, large-scale forage grass growing and trading. We provide dairy farms with a diverse selection of concentrated feed and forage grass tailored to ruminants of different varieties, breeds and growth stages. Our large-scale dairy farming operation enables us to obtain a wealth of data for our strong nutrition database. Leveraging our database, we have obtained valuable data on the nutritional requirements of ruminants of different breeds at different growth stages and on the nutritional content of feed, whereby achieving ideal feed formula and precision feeding. With our safe and high-quality feed products, profound industry insights and know-how, we have built strong brand reputation among our customers. As of June 30, 2020, we had supplied a variety of feed products to over 1,000 customers across 25 provinces in China.

Concentrated Feed

According to Frost & Sullivan, we had the largest market share of 6.4% in China in 2019 in terms of sales volume of concentrated feed for ruminants. We commenced to process and distribute concentrated feed in 1988. We offer a variety of concentrated feed under eight brands, which are customized for different ruminants, including dairy cows, beef cattle, sheep and dairy goats. Set forth below is a summary of our concentrated feed brands and features.

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Brand	Breed	Applicable Herds	Brand Positioning
Rubeiyou (乳倍優)	Dairy cows, beef cattle and sheep	Full lifecycle other than calves and lambs	One of a select number of China’s first premix brand that adopts high manufacturing standards
Dute (犏特)	Dairy cows	Calves	Pioneering brand in China that caters to the specific needs of calves
Kangshunbao (康順寶)	Dairy cows	Dry cows and transition cows	Pioneering brand that improves dairy cows’ overall health and lifespan
Airuite (艾瑞特)	Dairy cows, beef cattle and sheep	Primarily milking cows, dry cows, transition cows and fattening cattle and sheep	Preeminent brand that enhances ruminants’ overall health and milk yield
Yuanxing (元興)	Dairy cows	Heifers and milking cows	Leading brand that has served one of the most heads of dairy cows in China
Dairuite (戴瑞特)	Dairy cows	Full lifecycle	Customized brand favored by Chinese large-scale dairy manufacturers
Xiletege (喜樂特格)	Beef cattle and sheep	Full lifecycle	Healthy and effective green brand
Daruike (達瑞科)	Dairy goats	Full lifecycle	Healthy and effective green brand

Our extensive dairy farming experience, combined with our robust nutrient database, enables us to produce concentrated feed that is suitable for the ruminant herds in China. Our large-scale dairy farming operation allows us to obtain numerous data for our strong nutrient database. By virtue of our database, we have obtained valuable data insights into nutritional needs of ruminants of different breeds and at different growth stages, and nutritional content of feed, which allow for optimal formulas and precision feeding. For details of our nutrient database, see the section headed “– Research and Development.”

We endeavor to research and develop proprietary formulas of concentrated feed that effectively address customers’ pain points and challenges, and we have a strong research and development team dedicated to formula development. For example, to tackle the issue of increasing the weight of calves by 1 kg per day, which is a shared concern among our customers, our research and development team conducted numerous studies, and successfully introduced structural calf feed under the brand of Dute (犏特) in December 2017. Such structural calf feed increases the weight of calves by 1 kg each day and significantly enhances

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the overall health of calves. Leveraging our extensive industry expertise and deep understanding of the demands of different ruminants, we have introduced more than 50 proprietary formulas for concentrated feed, covering the full lifecycle of ruminants. In particular, our proprietary feed formulas for dairy cows provide well-balanced nutrition that support different stages of cow growth and improve their overall health conditions. For example, our proprietary *Kangshunbao 13/13X*, an anti-heat stress product exclusively designed for transition cows, takes into consideration of seasonal characteristics and can effectively protect transition cows against heat stress, and help them maintain health conditions and improve fertility. We typically market our concentrated feed only after trials at our own dairy farms to ensure its safety and effectiveness.

As of June 30, 2020, we operated seven feed mills across China and cooperated with five third-party feed manufacturers. We market and sell our products across the Golden Raw Milk Belt in China. The following table sets forth the information of our feed mills as of June 30, 2020.

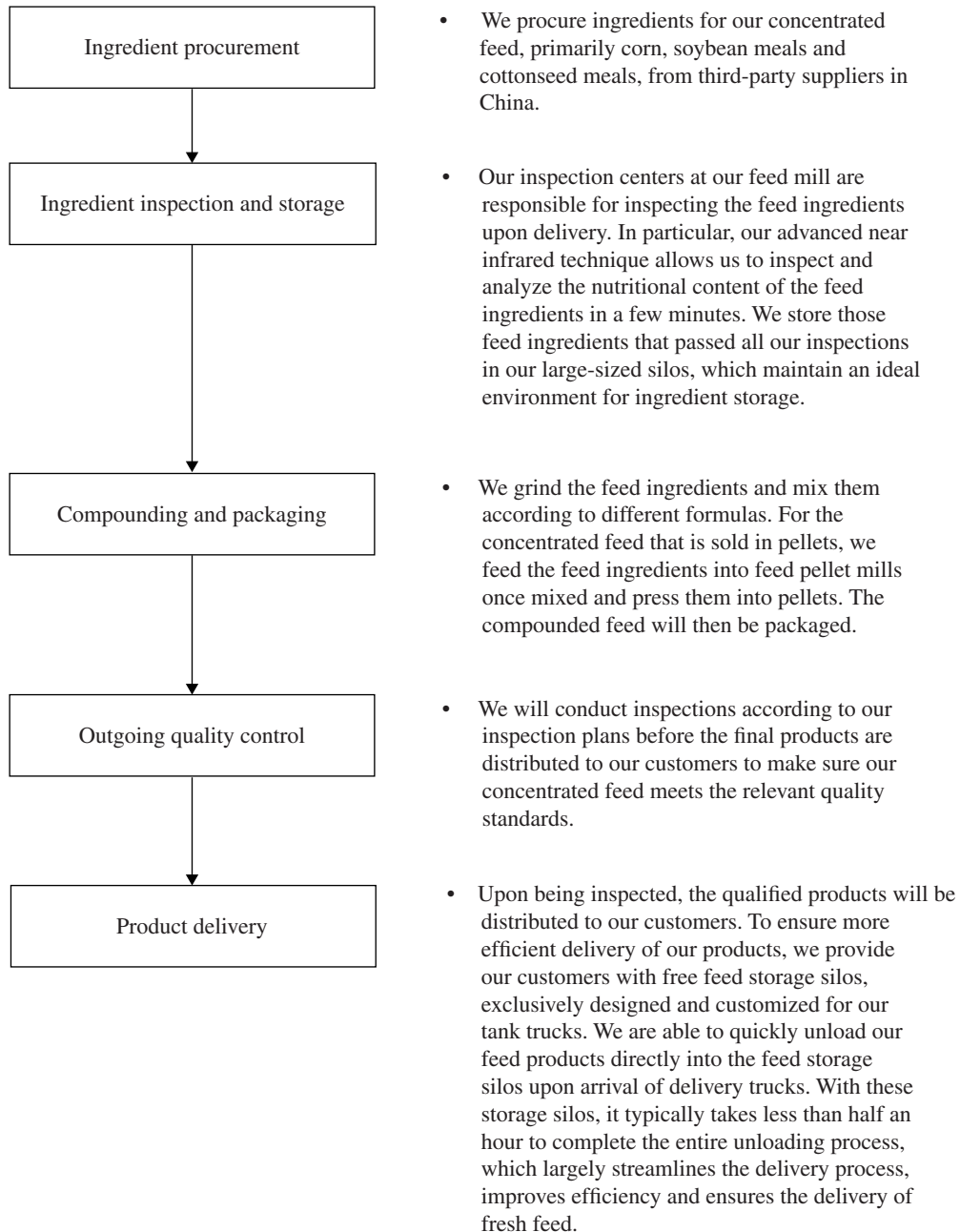
	Feed mills	Commencement of commercial production/ cooperation
Self-operated	Feed mill in Hohhot, Inner Mongolia	1988
	Feed mill in Dorbet, Heilongjiang	2004
	Feed mill in Bayannur, Inner Mongolia	2007
	Feed mill in Ulanqab, Inner Mongolia	2011
	Feed mill in Chifeng, Inner Mongolia	2018
	Feed mill in Wuzhong, Ningxia	2018
	Feed mill in Baoding, Hebei	2015
Third-party feed manufacturers	Feed mill in Binzhou, Shandong	2014
	Feed mill in Xi'an, Shaanxi	2014
	Feed mill in Jiaozuo, Henan	2018
	Feed mill in Hefei, Anhui	2019
	Feed mill in Kunming, Yunnan	2019

Our feed mills are equipped with advanced facilities and automated systems that help streamline and optimize the entire production process. We have installed large-sized silos to store ingredients for concentrated feed at our feed mills. The silos are temperature-sensitive in order to secure the most suitable environment for ingredient storage. Our silos are equipped with air hammers to prevent feed ingredients from forming lumps. We have established a China National Accreditation Service, or CNAS, accredited central laboratory and 12 testing centers in China, capable of carrying out testing on more than 300 indicators. Our central laboratory and testing centers are equipped with more than 200 advanced inspection facilities, which help us ensure the safety and quality of our feed. For example, we leverage our advanced near infrared analyzer to quickly detect product indicators. We also adopt our near infrared technique during the production process, and we timely adjust our feed formulas based on the inspection results to secure accurate delivery of nutrients in our concentrated feed. In addition, the routine operation of our feed mills is supported by automated central control systems. Our

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central control systems are able to monitor the entire production process on a real-time basis, from equipment operation and automatic feed formula matching to data recording. With our advanced, automated equipment and facilities, we are able to provide safer, higher-quality concentrated feed.

We have established a comprehensive set of standard production process. By setting out high standards, our commitment to producing safe, reliable concentrated feed is deeply embedded in the entire production process. Our standard production procedures mainly include the following steps:



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We have in place a heightened safety management system that enables us to effectively control safety risks throughout the entire production process. We are one of a select number of feed producers in China that possesses the SQF certification, which demonstrates our commitment to producing safe, high-quality feed products. For further details of our SQF certification, see the section headed “– Quality Control.” Through our certified, rigorous system that meets the standard for food production, we are able to deliver safe, precise nutrients to different ruminants.

In 2017, 2018 and 2019 and the six months ended June 30, 2020, we produced 624,809 tons, 754,279 tons, 797,932 tons and 458,425 tons of concentrated feed, respectively, among which the concentrated feed produced in our self-operated feed mills reached 541,807 tons, 642,338 tons, 646,148 tons and 360,623 tons, accounting for 86.7%, 85.2%, 81.0% and 78.7% of the total output of our concentrated feed for the same period, respectively. In 2017, 2018 and 2019 and the six months ended June 30, 2020, sales volume of our concentrated feed reached 599,331 tons, 684,388 tons, 709,221 tons and 339,600 tons, respectively. The following table sets forth the capacity, actual output and utilization rate of production facilities in our seven self-operated feed mills for the relevant periods.

	For the year ended December 31,									For the six months ended June 30,		
	2017			2018			2019			2020		
	Capacity ⁽¹⁾	Actual output	Utilization rate (%) ⁽²⁾	Capacity ⁽¹⁾	Actual output	Utilization rate (%) ⁽²⁾	Capacity ⁽¹⁾	Actual output	Utilization rate (%) ⁽²⁾	Capacity ⁽¹⁾	Actual output	Utilization rate (%) ⁽²⁾
<i>(in tons, except for percentage)</i>												
Concentrated feed	669,000	541,807	81.0	813,000	642,338	79.0	813,000	646,148	79.5	406,500	360,623	88.7

Notes:

- (1) During a given period, capacity is calculated based on the mixed capacity of the mixing machine, and the calculation formula is as follows: capacity per hour * 20 hours a day * 300 days (or 150 days in the event the relevant period is six months).
- (2) During a given period, utilization rate is calculated as the actual output for the relevant period divided by the maximum capacity for such period.

Forage Grass

Forage grass, which accounts for approximately 50% to 60% of an average dairy cow’s daily feed consumption, is the primary source of fiber for dairy cows, and helps maintain the health of dairy cows. High fiber content in forage grass also improves milk yield of dairy cows. To secure high-quality feed for our dairy cows and capitalize on tremendous market potential along the upstream dairy value chain, we commenced forage grass trading business since 2013 and began to grow and process forage grass at large scale in 2014. Through years of operation,

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we have become a leading forage grass supplier in China. Leveraging our reliable sources of forage grass in China and overseas accumulated through our years of operations, and our advanced growing and processing techniques, we provide forage grass products, such as quality alfalfa hay, for dairy farms in China to meet their increasing demand for high-quality forage grass as the dairy farming standards and milk quality and yield requirements continue to be enhanced.

Forage Grass Growing

Chinese dairy farms have historically been underserved by domestic suppliers in both quantity and quality of their forage grass due to outdated growing and processing techniques in China, and therefore they have relied largely on quality imported forage grass. In light of potential market opportunities for domestic forage grass growing and to address the long-standing supply shortage of forage grass, we set out growing and processing forage grass, mainly alfalfa and oat grass, in 2014 with seeds from the United States and Canada.

As of June 30, 2020, we operated two core forage grass plantation fields in China, with an aggregate land area of 55,530 mu. In addition, to fully leverage the synergies across our dairy farming practice and forage grass growing, we also established eight ancillary forage grass plantation bases in proximity to our dairy farms with an aggregate land area of 75,035 mu to achieve the long-term sustainable development of our integrated farming model. We take advantage of the scientific layout of our core plantation fields to improve the quality and production volume of our forage grass and achieve operational efficiency. Key factors affecting the production volume and operational efficiency of a plantation field include climate, location, equipment, harvest method and preservation techniques. According to Frost & Sullivan, our core plantation fields are located in the climatic zone generally considered one of the most ideal for forage grass growth with favorable soil conditions.

The table below sets forth certain details of our two core forage grass plantation fields as of June 30, 2020.

<u>Core plantation fields</u>	<u>Location</u>	<u>Commencement of commercial production</u>	<u>Size (mu)</u>
Taiben Plantation Field	Ar Horqin Banner, Inner Mongolia	2014	37,247
Central Plantation Field	Ar Horqin Banner, Inner Mongolia	2019	18,283

We equip our core plantation fields with more than 200 advanced equipment to facilitate the sowing, growing, harvesting and processing of forage grass. The entire growing process is highly automated, which significantly supports our large-scale forage grass growing practice. For example, we have adopted an automated center pivot irrigation that can be remotely operated, thereby largely reducing labor costs. The irrigation system also reduces water runoff and soil erosion that can occur with ground irrigation.

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In general, alfalfa grows for four to six years after sowing. Afterwards, we rotate crops to reduce soil erosion and increase soil fertility and alfalfa yield. We typically harvest alfalfa three times a year. Upon harvest, we make alfalfa into alfalfa hay or silage based on customers’ needs and climate conditions. Oat grass usually grows for only one year, and hence we sow and harvest the plant in the same year. Upon harvest, we make forage grass into forage grass hay. Then we will store the forage grass hay at our warehouses for subsequent sales to our customers. We monitor the temperature and moisture level at our warehouses on a regular basis to secure an ideal environment for forage grass storage.

We have accumulated invaluable experience and know-how in forage grass growing through years of large-scale operations and we have developed various advanced techniques, such as alfalfa winter survival, seedling care and silaging. We are dedicated to improving the variety of forage grass and standardizing the production process, to drive the development of forage grass farming market in China.

In 2017, 2018 and 2019 and the six months ended June 30, 2020, we harvested 55,752 tons, 48,724 tons, 99,670 tons and 87,583 tons of forage grass, respectively.

Forage Grass Trading

In order to cater to the diversified needs of our customers, we select well-known domestic and overseas suppliers of forage grass and source high quality forage grass produced domestically and overseas from them. According to Frost & Sullivan, we were one of the largest forage grass importers in China in terms of import volume in 2019. We mainly imported forage grass such as alfalfa hay and oat grass from the United States and Australia due to the premium quality and resell them in China. We also feed our own herds with imported forage grass.

We identify in advance the production performance and brand preferences of dairy cows in China, and we visit different high-quality alfalfa hay production areas to select high-quality forage grass for our customers. We have selected 12 prestigious suppliers located in areas producing high-quality alfalfa hay in the United States based on the quantity and quality of their alfalfa hay supplied in the past to ensure that we can always deliver fresh and quality forage grass to our customers. In addition, we take into consideration factors such as the different harvest seasons for forage grass grown in different areas in the United States when entering into supply agreements with our suppliers.

We take into account various factors, including demands and business operations of our customers, our inventory and the then market conditions, when we make our procurement plan. Upon internal review and approval of the procurement plan, we enter into supply agreements with our overseas suppliers. Then, the imported forage grass is shipped by our suppliers from the United States to China by sea. Upon delivery to the arrival port, our customs clearance agent is responsible for handling the customs clearance. The customs clearance agent will then arrange for transportation of the imported forage grass by truck to our customers, while some customers opt for pick-up at the arrival port. Our customers will inspect the imported forage grass upon arrival at their dairy farms. The imported forage grass that fails our customers’ inspection will be handled according to our supply agreement.

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In 2017, 2018 and 2019 and the six months ended June 30, 2020, we imported 123,180 tons, 165,655 tons, 188,173 tons and 124,580 tons of alfalfa hay.

During the Track Record Period, we sold most of high-quality forage grass grown by ourselves and purchased from domestic and overseas suppliers to our external customers, and the remaining portion was internally sold to our own dairy farms. The proportion of internal and external sales of forage grass during the Track Record Period depends on a series of factors, such as the market condition, our business scale and customer demand, and also affected by other factors. For example, upon our acquisition of the controlling interest in SKX in January 2020, part of external sales became internal sales. We sought to continuously achieve business growth while meeting the requirements of our increasingly expanding dairy farming scale and the booming customer demand.

Breeding

Through our acquisition of the controlling interest in SKX, a leading dairy farming and herd breeding enterprise in China in January 2020, we have become the largest dairy breeding company in China. Our breeding business focuses primarily on the production, import trade and sales of frozen bovine semen and embryos. We provide our customers with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas and the sources of frozen bovine semen covers North America, Europe and other regions. During the Track Record Period, SKX offered frozen bovine semen from 27 sires that are among the Top 100 TPI International Bulls. In addition, SKX also cultivates top sires through selective breeding. In 2019, SKX cultivated a sire that ranked the first in the national genetic groups. Furthermore, SKX have a total of five sires ranking among top 20 in China. With world-class breeds and world-leading core technologies and products, we are dedicated to improving the genetic quality of dairy herds in China, thereby empowering the dairy farming industry.

We conduct our breeding business mainly through our subsidiary SKX. Founded in 2006, SKX is the only breeding company in China that has a certificate for commercial production of sex-sorted frozen semen, and enjoys a predominant market position after years of technique development and improvement and business development. According to Frost & Sullivan, SKX is the largest dairy breeding company in China in terms of sales volume of frozen dairy semen in 2019, with a market share of 9.5%. We acquired approximately 58.36% of the equity interest in SKX in January 2020. For details of our acquisition of the controlling interest in SKX, see the section headed “History, Reorganization and Group Structure – Major Acquisitions, Disposals and Mergers”. Our controlling interest in SKX enables us to access quality frozen bovine semen and embryos and other breeding products, advanced dairy cow breeding techniques and professional services capabilities, and solidify our raw milk business.

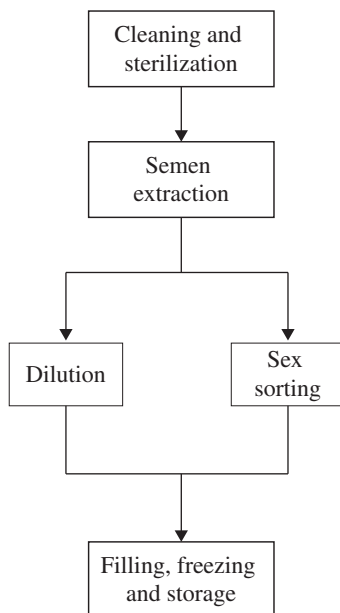
We operate two bull stations in Inner Mongolia, China and Wisconsin, the United States. As of the Latest Practicable Date, we had 113 sires with high Genomic Total Performance Index, or GTPI, scores of over 2,500 at our bull station in Inner Mongolia, China that are registered with the National Association of Animal Breeders of the United States. Our bull station in Wisconsin, the United States allows us to access top foreign breeds and enhance the diversity of our bovine gene pool. Through our ongoing efforts and the development and application of core technologies, we have bred two sires that are among the Top 100 TPI International Bulls.

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We have 14 advanced sperm sorters that were sourced from the United States. With the support of 18 patented technologies with respect to production, research and development of sex-sorted frozen semen, we significantly improve productivity and the accuracy of sex sorting, and in turn enhance the quality of our sex-sorted frozen bovine semen. Leveraging our industry-leading equipment and techniques, we continue to improve the quality of breeding products for dairy cattle and other ruminants and expand product offerings.

The key breeding products we provide primarily include frozen bovine semen and embryos. We offer both regular frozen bovine semen and sex-sorted frozen bovine semen, which are primarily used for artificial insemination to produce calves. Our sex-sorted frozen bovine semen for dairy cattle can achieve a birth rate of gender-specific calves of 93% and are widely used by our customers to aggressively produce female calves and expand herds. In 2019, SKX sold a total of approximately 928,088 straws of frozen bovine semen, among which 839,797 straws were frozen bovine semen for dairy cattle. In the same year, the sales volume of sex-sorted frozen bovine semen was approximately 253,507 straws, representing 27.3% of the total sales of frozen bovine semen. In addition to the frozen bovine semen products, we also provide cow embryos, which are primarily used for embryo transplants to produce female calves of high fertility and sires.

We follow the PRC national standards to produce our frozen semen products. For our frozen bovine semen products, we generally take the following steps to prepare frozen bovine semen:



- The extraction process begins with our workers cleaning and disinfecting sires, sites, equipment and facilities.
- We collect semen with a collection receptacle and analyze the sperm density and motility of the semen and screen for contaminants in our laboratories. If the sperm collected does not meet our quality standards, it will be discarded immediately.
- For ordinary frozen semen products, we dilute the sperm that meet our quality standards in a special solution to improve the survival rate of the sperm and extend their lifespan during the cooling process; for sex-sorted frozen semen products, we use our proprietary technique to dye X- and Y-chromosome-bearing sperm while enhancing energy replenishment. Subsequently, we use a sperm sorter to accurately and efficiently separate the dyed bovine sperm, and adjust the density of the sperm separated and cryopreserve them. During the entire sex-sorting process, we also rely on our proprietary technique to significantly improve sperm survival time.
- Afterwards, the bovine semen is filled into plastic straws and labelled simultaneously. The bovine semen filled into straws will then be placed in a freezing machine for programmed cooling. Our freezing machine can gradually cool the straws filled with bovine semen from around 5 °C to about around -130 °C within a few minutes, after which the frozen straws are transferred to liquid nitrogen containers at around -196 °C for long-term storage.

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We place strong emphasis on technology innovation to enhance the quality and competitiveness of our breeding products. As of the Latest Practicable Date, we held 17 patents and were licensed to use one patent through SKX and were entitled to use one patent therein with permission, and we also participated in the formulation of two national standards and one local standard with respect to sex-sorted frozen bovine semen. For details, please see the section headed “– Intellectual Property”. Supported by seven patents, SKX proprietary *Super Sex-sorting Technique* (超級性控技術) launched in 2014 largely increases sperm survival rate by 30% and extends sperm life from the previous four to six hours to six to eight hours. Through our cutting-edge, proprietary *Super Sex-sorting Technique* (超級性控技術), SKX have applied sex-sorted frozen semen from heifers to dairy cows that have given two to three births.

In addition, we cooperate with governments, universities and research institutions to achieve significant integration and synergies. SKX established Inner Mongolia SKX Breeding Bio-tech Research Institute, the national and local joint engineering center on herd sex-sorting technologies, the research center of herd sex-sorting and biological engineering technology and the post-doctoral and academician scientific research working station in Inner Mongolia Autonomous Region in 2015 and appointed industry experts and professors from the Chinese Academy of Sciences, China Agricultural University, Inner Mongolia University and other universities and research institutions for the research institutes in 2017. Through the deep integration of industries, universities and research institutions, we further consolidated our scientific research and technical strength, making us a leader widely recognized in dairy breeding technology innovation.

Ruminant Farming Products Marketplace Business

To diversify our offerings and further address our customers’ business needs, we set out selling ruminant farming products purchased from different selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms. We leverage our deep understanding of our customers’ challenges and pain points to continuously expand our product offerings. As of June 30, 2020, we offered more than 1,000 ruminant farming products, covering core business operations of dairy farms. As an integral part of our comprehensive ruminant farming solutions, our ruminant farming products marketplace business has further enhanced our brand image and improved customer loyalty. Our customers can place orders for our ruminant farming products at any time and any place on our online platform *Jumuc.com*, and we will arrange delivery for them at the nearest offline pick-up stores based on the orders received. For details of our online retail platform as well as our offline pick-up stores, see the section headed “– Sales and Marketing.”

QUALITY CONTROL

Quality control is one of our core values and is vital to our business. We have obtained the SQF certification, which is one of the world’s leading food safety and quality management systems. The SQF certification establishes a rigorous and credible product safety management system. With respect to our raw milk business, the SQF certification sets detailed standards and procedures for our raw milk production. It covers each phase of our core dairy farming

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operations, spanning the location and design of our dairy farms, dairy farming practices, water and waste management, purchase and use of medications, feed and agricultural chemicals, dairy cow identification and traceability and storage and transport. Through the certification of the SQF certification, we have demonstrated to our customers that our raw milk has been produced, prepared and handled according to the high standards that are well accepted worldwide. In addition, we are also one of a select number of feed producers in China that is certified to the SQF certification, which represents our commitment to producing safe and high-quality feed products. The SQF certification sets forth a series of stringent requirements over construction and control of product handling and storage areas, personnel processing practices, quality control and separation of responsibilities during the process flow and storage and transport, among others, leading to the same high standards as food production.

We established a complete set of internal quality management systems based on the SQF certification and other domestic and overseas quality management standards, which provide a supportive framework for the implementation of our quality policies. Our quality management systems cover the routine business operation of all business lines and functional departments and regulate our business procedures with strict quality control and safety management measures. In addition, our quality management systems also set out the responsibilities of each person-in-charge throughout the entire procedures to ensure the effective implementation of our quality control measures. As the cornerstone of our product quality and brand image, our quality management systems facilitate us in achieving our strategic targets.

We regard selection and management of suppliers as an integral part of our quality control over the supply chain. We maintain a list of qualified suppliers, who have a proven record of reliable and stable supply, and we only partner with such qualified suppliers. We have established a complete set of supplier screening policies, which have set forth detailed requirements on the duties and control procedures of all functional departments. Before engaging a new supplier, our procurement department pre-screens supplier applications based on their product quality, sales volume, customer profile, production capacity, reliability, quality control systems, and market reputation. In addition, we sample their products or conduct on-site inspections to ensure that they and their products meet our quality standards. We periodically review and evaluate the performance of our suppliers and we will eliminate those who fail our evaluations from the list. We primarily engage third-party logistics service providers to deliver products to our customers. We require our logistics service providers to maintain a suitable environment and high sanitation standards in their vehicles, and we conduct periodic inspection on the condition of the delivery trucks.

We maintain a dedicated quality control department at each of our business lines, which is responsible for designing, managing and supervising the implementation of our quality control system. As of the Latest Practicable Date, we had 241 quality control specialists, substantially all of whom have professional qualifications with respect to food inspection, dairy product inspection and disease inspection. Our quality control specialists closely monitor our production process. As of the Latest Practicable Date, we had not received any complaints about the quality of our product nor have we been subject to any product dispute or recall that could have a material adverse effect on our financial condition or results of operations.

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OUR SUPPLIERS

Our suppliers primarily include suppliers of feed ingredients and forage grass, ruminant farming products and farm construction services and equipment. The procurement of raw materials is primarily conducted through our centralized procurement department, which is responsible for purchasing raw materials, selecting eligible suppliers and coordinating with our quality control department to ensure that the raw materials meet our standards.

Feed Ingredients and Forage Grass Suppliers

Feed ingredients and forage grass account for a significant portion of our procurement. We purchase forage grass from eligible suppliers to feed our dairy cows and feed ingredients are further processed into our concentrated feed products. We have a diverse pool of quality feed ingredients and forage grass suppliers in China and overseas. We typically purchase feed materials from domestic suppliers and acquire oat grass and corn silage primarily from the places where local farms are located in. Our alfalfa hay and a small amount of oat grass are primarily purchased from overseas suppliers.

We carefully select and manage our feed ingredients and forage grass suppliers to ensure reliable and high-quality supplies. We evaluate feed ingredients and forage grass suppliers based on their market reputation and ranking, industry experience, quality control system, and source control measures. We conduct thorough sample test or on-site inspection on feed ingredients and forage grass suppliers to ensure that they and their feed products meet our quality standards. We also conduct periodic reviews and evaluations on the overall performance of our feed suppliers.

Below is a summary of the typical supply agreements we entered into with our suppliers.

- *Term.* For most of the feed ingredients and forage grass, we forecast the purchase price and determine the purchase cycle based on market conditions, and enter into short-term supply agreements with selected suppliers. We also enter into one-year supply agreements with our suppliers.
- *Quality.* Our supply agreements specify a set of quality criteria in respect of different feed, such as the applicable national standards and specifications stated in the supply agreements.
- *Quantity.* Quantity is typically agreed in the supply agreements.
- *Pricing.* The prices of feed ingredients and forage grass are usually predetermined and set out in the supply agreements.

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- *Payment terms.* Payment is typically made on a one-off basis after delivery and our inspection of the feed. For imported forage grass, we settle the payment through a sight letter of credit. We arrange for payment under the sight letter of credit once we receive the shipping and the title documents from our foreign suppliers.
- *Inspection.* Upon delivery, we inspect different ingredients according to our inspection plans to ensure that their quality meets the relevant requirements.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, purchases from the top five suppliers of our Group accounted for 9.1%, 11.3%, 6.8% and 9.0% of our total purchase, respectively. In addition, to provide a prudent analysis on concentration of our suppliers upon completion of our acquisition of Fonterra China Farms Group, and for illustrative purposes in this section headed “– Our Suppliers,” we consolidate the historical results of operations and financial condition of our Group and those of Fonterra China Farms Group, and aggregate the purchases of our Group and Fonterra China Farms Group if such purchases were derived from the same supplier during the Track Record Period. On this combined and aggregate basis, purchases from the top five suppliers of the enlarged group after aggregating Fonterra China Farms Group accounted for 7.8%, 10.2%, 6.2% and 8.4% of total purchase of the enlarged group after aggregating Fonterra China Farms Group, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

During the Track Record Period, we have not experienced any significant fluctuation in prices set by our suppliers, material breach of contract on the part of our suppliers, delay in delivery of our orders from our suppliers.

OUR CUSTOMERS

Our customers mainly include dairy manufacturers and dairy farms. We sell premium raw milk to large-scale dairy manufacturers and offer comprehensive ruminant farming solutions to dairy farms in China.

The following table sets forth certain information about our customers:

<u>Business segments</u>	<u>Product types</u>	<u>Major customers</u>	<u>Use of our products</u>
Raw milk	Raw milk	Large-scale dairy manufacturers	Production of downstream dairy products
Comprehensive ruminant farming solutions	Feed products Breeding products Ruminant farming products	Dairy farms	Ruminant farming operations

The top five customers of our Group contributed to 49.7%, 47.6%, 50.4% and 63.4% of our total revenue in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. Yili, our Controlling Shareholder and largest customer, contributed to 40.3%, 37.8%, 37.1% and 57.4% of our total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. See the section headed “Risk Factors – Risk Relating to Our Business and Industry – We rely on our largest customer for the sale of our raw milk.”

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The table below set forth a breakdown of the top five customers of our Group during the Track Record Period.

Ranking	Customers	Categories of products/services purchased	Principal business	Year of commencement of business relationship	Amount of revenue (RMB'000)	As a percentage of our total revenue (%)
For the year ended December 31, 2017						
1	Yili	Raw milk and consumables	Production and sales of dairy products	2007	2,053,364	40.3
2	Customer B	Raw milk	Production and sales of dairy products	2016	172,193	3.4
3	SKX	Comprehensive ruminant farming solutions	Sales of milk	2016	156,931	3.1
4	Customer D	Comprehensive ruminant farming solutions	Sales of milk	2016	99,404	2.0
5	Customer E	Comprehensive ruminant farming solutions	Sales of milk	2017	50,524	1.0
For the year ended December 31, 2018						
1	Yili	Raw milk and consumables	Production and sales of dairy products	2007	2,393,175	37.8
2	SKX	Comprehensive ruminant farming solutions	Sales of milk	2016	206,262	3.3

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Ranking	Customers	Categories of products/services purchased	Principal business	Year of commencement of business relationship	Amount of revenue (RMB'000)	As a percentage of our total revenue (%)
3	Customer B	Raw milk	Production and sales of dairy products	2016	176,612	2.8
4	Customer F	Comprehensive ruminant farming solutions	Sales of milk	2015	124,503	2.0
5	Customer D	Comprehensive ruminant farming solutions	Sales of milk	2016	111,824	1.8
For the year ended December 31, 2019						
1	Yili	Raw milk	Production and sales of dairy products	2007	2,845,380	37.1
2	SKX	Comprehensive ruminant farming solutions	Sales of milk	2016	504,737	6.6
3	Customer B	Raw milk	Production and sales of dairy products	2016	192,967	2.5
4	Customer F	Comprehensive ruminant farming solutions	Sales of milk	2015	189,582	2.5
5	Customer D	Comprehensive ruminant farming solutions	Sales of milk	2016	131,381	1.7

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Ranking	Customers	Categories of products/services purchased	Principal business	Year of commencement of business relationship	Amount of revenue (RMB'000)	As a percentage of our total revenue (%)
For the six months ended June 30, 2020						
1	Yili	Raw milk	Production and sales of dairy products	2007	3,067,087	57.4
2	Customer F	Comprehensive ruminant farming solutions	Sales of milk	2015	98,877	1.9
3	Customer B	Raw milk	Production and sales of dairy products	2016	87,743	1.6
4	Customer D	Comprehensive ruminant farming solutions	Sales of milk	2016	71,785	1.3
5	Customer G	Comprehensive ruminant farming solutions	Sales of milk	2018	63,430	1.2

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In addition, to provide a prudent analysis on concentration of our customers upon completion of our acquisition of Fonterra China Farms Group, and for illustrative purposes in this section headed “– Our Customers,” we consolidate the historical results of operations and financial condition of our Group and those of Fonterra China Farms Group, and aggregate the revenues of our Group and Fonterra China Farms Group if such revenues were derived from the same customer during the Track Record Period. On this combined and aggregate basis, the following table sets forth a breakdown of the top five customers of the enlarged group after aggregating Fonterra China Farms Group during the Track Record Period.

Rank	Customers	Categories of products/services purchased	Principal business	Year of commencement of the business relationship	Amount of revenue (RMB'000)	As a percentage of our total revenue
For the year ended December 31, 2017						
1	Yili	Raw milk and consumables	Production and sales of dairy products	2007	2,414,775	39.3
2	Customer B	Raw milk	Production and sales of dairy products	2016	237,943	3.9
3	SKX	Comprehensive ruminant farming solutions	Sales of milk	2016	156,931	2.6
4	Customer H	Raw milk	Production and sales of dairy products	2013	128,612	2.1
5	Customer D	Comprehensive ruminant farming solutions	Sales of milk	2016	99,404	1.6
For the year ended December 31, 2018						
1	Yili	Raw milk and consumables	Production and sales of dairy products	2007	2,655,968	41.9
2	Customer B	Raw milk	Production and sales of dairy products	2016	225,364	3.6

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Rank	Customers	Categories of products/services purchased	Principal business	Year of commencement of the business relationship	Amount of revenue (RMB'000)	As a percentage of our total revenue
3	SKX	Comprehensive ruminant farming solutions	Sales of milk	2016	206,262	3.3
4	Customer H	Raw milk	Production and sales of dairy products	2013	139,842	2.2
5	Customer F	Comprehensive ruminant farming solutions	Sales of milk	2015	124,503	2.0
For the year ended December 31, 2019						
1	Yili	Raw milk	Production and sales of dairy products	2007	2,967,646	38.7
2	SKX	Comprehensive ruminant farming solutions	Sales of milk	2016	504,737	6.6
3	Customer B	Raw milk	Production and sales of dairy products	2016	251,059	3.3
4	Customer F	Comprehensive ruminant farming solutions	Sales of milk	2015	189,582	2.5
5	Customer H	Raw milk	Production and sales of dairy products	2013	163,194	2.1

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Rank	Customers	Categories of products/services purchased	Principal business	Year of commencement of the business relationship	Amount of revenue (RMB'000)	As a percentage of our total revenue
For the six months ended June 30, 2020						
1	Yili	Raw milk	Production and sales of dairy products	2007	3,143,412	58.8
2	Customer B	Raw milk	Production and sales of dairy products	2016	157,116	2.9
3	Customer F	Comprehensive ruminant farming solutions	Sales of milk	2015	98,877	1.9
4	Customer D	Comprehensive ruminant farming solutions	Sales of milk	2016	71,785	1.3
5	Customer G	Comprehensive ruminant farming solutions	Sales of milk	2018	63,430	1.2

Other than Yili, as further discussed in the below section headed “ – Our Relationship with Yili,” none of the above major customers were our suppliers at the same time during the Track Record Period. In addition, our Directors confirm that except as disclosed above, as of the Latest Practicable Date, none of the above major customers were connected persons and none of our Directors or their associates or our existing Shareholders who, to the knowledge of our directors, owned more than 5% of our issued share capital, had any interest in any of our five largest customers.

Our Relationship with Yili

Founded in 1984, we were a subsidiary of Yili, the world’s fifth largest* and fast-growing dairy manufacturer, until our business operations were spun off from Yili in 2015. We have maintained a long-term and stable relationship with Yili which has remained as one of our Controlling Shareholders since our inception. For further details on our relationship with Yili, please refer to the section headed “History, Reorganization and Group Structure – History and Development” in this document.

*Source: “Global Dairy Top 20” in 2020 published by the Rabobank Nederland in August 2020.

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During the Track Record Period, Yili was our largest customer. In 2017, 2018 and 2019 and the six months ended June 30, 2020, we derived revenue of RMB2,053.2 million, RMB2,393.1 million, RMB2,845.4 million and RMB3,067.1 million from sales of raw milk to Yili, respectively, accounting for 91.8%, 91.7%, 92.9% and 96.1% of our raw milk revenue during the same periods. During the Track Record Period, substantially all of our revenue from raw milk business was generated from Yili, which was mainly due to the characteristics of China’s dairy industry. According to Frost & Sullivan, the upstream and downstream industry players in China’s dairy industry are highly interdependent. On the one hand, as the competitive landscape in China’s downstream market has been increasingly concentrated, raw milk suppliers mainly sell their products to a limited number of top dairy manufacturers in the downstream. On the other hand, large-scale dairy manufacturers typically incline to establish long-term, stable relationships with trustful raw milk suppliers in the upstream to secure stable supply and product safety and quality.

Furthermore, we believe that as our Controlling Shareholder, Yili has a deep understanding of and strong confidence on the qualifications, operational capabilities and quality control of our Group. Therefore, Yili has purchased raw milk from us since the Group commenced its raw milk business, which propelled the rapid development of our Group since its inception. In the meantime, we had witnessed a continuous growth momentum for Yili’s purchase volume of our raw milk due to its vast business scale and strong demand for high quality raw milk during the Track Record Period.

On [●], our Company entered into long-term framework agreements with Yili, pursuant to which our Group (including our subsidiaries from time to time) supplies raw milk to Yili and its associates on a long-term basis (the “Raw Milk Purchase and Sale Framework Agreement”). We shall supply 70% of our raw milk production to Yili each year under the Raw Milk Purchase and Sale Framework Agreement. In addition, Yili also agrees to buy all of the remaining 30% of our raw milk production volume so long as our Group is willing and able to supply raw milk to Yili. Therefore, we expect that raw milk sales to Yili will continue to represent a significant portion of our annual sales of raw milk produced in the foreseeable future.

Also, we were the largest raw milk supplier of Yili during the Track Record Period. For the years ended December 31, 2017, 2018 and 2019, the raw milk supplied by us to Yili accounted for no more than 10% of its purchase of raw milk, and for the six months ended June 30, 2020, the raw milk supplied by us to Yili accounted for no more than 25% of its purchase of raw milk. During the six months ended June 30, 2020, our raw milk supply to Yili had experienced relatively significant increase, which was mainly attributable to the consolidation of SKX. In addition, we were the largest specialty raw milk supplier of Yili during the Track Record Period. Our premium raw milk has been used for the production of Yili’s premium dairy products under its popular brands such as *Satine*, *Ambrosial* and *QQ Star*.

During the Track Record Period, Yili was also a supplier of our Group, from which we procured dairy products such as milk powder required for our operations. We purchased such dairy products from Yili and its associates mainly to leverage Yili’s economies of scale and bargaining power to reduce procurement costs, thereby maintaining our competitiveness. For details, see the section headed “Continuing Connected Transactions – Summary of Our

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Continuing Connected Transactions – A. Partially-exempt Continuing Connected Transactions – Dairy Products Purchase Framework Agreement.” During the Track Record Period, Yili was not among our top five suppliers.

We believe that our mutually beneficial, stable and long-term business relationship with Yili has been driving and will continue to drive our business growth. Having considered Yili’s business scale and its strong, growing demand for premium raw milk as well as our leading market position, our Directors believe that Yili’s expanding business operations also depend on our steady supply of raw milk, which represents a stable revenue stream and an enormous growth opportunity for us. In addition, we have benefited significantly and expect to continue to benefit from Yili’s strong brand recognition, which can further enhance our brand image.

Raw Milk Purchase and Sale Framework Agreement

- *Term.* The Raw Milk Purchase and Sale Framework Agreement shall have a term of three years commencing from [●].
- *Minimum quantity requirement.* We are committed to a minimum supply of 70% of our annual production volume of raw milk to Yili, and Yili agrees to buy all of the remaining 30% of our raw milk production volume so long as we are willing and able to supply raw milk to Yili.
- *Quality.* The raw milk sold to Yili must meet all applicable national quality standards and specifications stated in the supply agreements. We are also required to meet Yili’s policies relating to raw milk procurement, including sanitary and quality control requirements. During the contract period, Yili has the right to conduct periodic on-site inspections on our premises and request us to rectify any quality control deficiencies or defects. We will be held responsible for any substandard raw milk if we fail to rectify such deficiencies or defects. In addition, we are subject to liquidated damages for contamination in the raw milk as a result of our negligence or misconduct.
- *Pricing.* The minimum price of raw milk provided by us to Yili shall not be lower than the price Yili offered to other dairy farms of similar scale in nearby locations, or in the absence of such nearby dairy farms, comparable dairy farms in other regions with price adjustments reflecting the different price levels across regions.
- *Payment terms.* (i) the payment of milk purchased for the first 20 days in the month shall be settled by the end of the month; and (ii) the payment of milk purchased for other dates in the month shall be settled by the 10th day of the next month.
- *Inspection and return policy.* Upon our delivery, Yili has the right to inspect and sample our products before accepting them, and reject any spoiled raw milk or substandard raw milk that failed the various inspections. Both Yili and us may submit samples to third-party laboratories for additional inspections to resolve any quality disputes.

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Customer Support and Services

We are committed to providing first-class customer support and services along with our high-quality products to our customers. We offer a wide array of ruminant farming support services, spanning ruminant nutrition, breeding technique and ruminant healthcare. The organic integration of our ruminant farming products and support services further addresses customers’ business needs and improve their overall business operations, while also promoting the sales of ruminant farming products. Meanwhile, we attach great importance to after-sales service to provide our customers with a complete customer experience.

SALES AND MARKETING

We primarily leverage our large customers, who are the major industry players in various business segments along the dairy value chain in China, to drive our sales. With broadened geographic reach, expanded business operations and evolving customer relationships, our major customers have a growing demand for quality upstream products, such as specialty raw milk and safe feed, representing significant market potential for us to achieve sustainable growth.

We continuously seek to develop our brand and product portfolio to meet evolving customer preferences and target key growth markets. Our dedicated sales teams are regularly in contact with our customers to understand our customers’ needs and market changes. Also, given that customers of our ruminant farming products, especially large animal-husbandry companies and large-scale farms, are a relatively specialized community, we believe that word-of-mouth referral is another powerful tool to increase our repeat customers and attract new customers for our ruminant farming products. Our integrated business model, comprehensive product offerings and one-stop customer services, combined with our leadership in the industry, translates into a highly effective and efficient sales process that leads to a growing, loyal and nationwide customer base with attractive cross-selling opportunities across all of our products.

We dedicate sales teams to establishing and maintaining long-standing relationships with downstream customers. As of June 30, 2020, our sales teams consisted of 237 employees with substantial knowledge about our products, technology and the industry, and an average five years of professional experience working with us. We provide sales services by geographic locations and customer size to maximize sales efficiency.

In addition, we continued to drive the sales of our products through online retail platform *Jumuc.com* and offline *ruminant farming products marketplace*. We opened our first offline pick-up store in Tangshan, Hebei in June 2014, and have since then expanded our store network. As of June 30, 2020, we had 27 offline pick-up stores in operation, spanning across 26 cities in 15 provinces and municipalities. We strategically locate our offline pick-up stores close to our customers for the convenience of delivery and pick-up. To conform to the emerging, technology-driven new retail model in China, we established our online retail platform *Jumuc.com*, in 2016. Our online retail platform offers feed, breeding products and

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various ruminant farming products. We also sell our own products through the online retail platform. As of June 30, 2020, we offered more than 1,000 products on our online platform. Our customers can place orders at any time and any place on our online platform *Jumuc.com*, and we will arrange delivery for them at the nearest offline pick-up stores based on the orders received. Customers may also pick up their products in the nearest offline pick-up stores.

We engage in a variety of marketing and promotional campaigns to promote brand recognition of our products, including the following:

- Organizing and attending dairy and breeding industry conferences, including dairy expos, agricultural expos and dairy farming seminars;
- Engaging online marketing;
- Organizing open-house events at our dairy farms and production facilities to demonstrate our stringent safety control and advanced production processes; and
- Participating in philanthropic and public interest activities to further develop trust in our brand.

RESEARCH AND DEVELOPMENT

Our focus on research and development has fueled our growth and enabled us to continuously improve our existing offerings and develop new products to develop product offerings to keep up with rapid development in the dairy industry in China.

Since our establishment, we have focused on improving the comfort of dairy cows and other animal benefits. We cater to the specific nutrition needs of dairy cows at different growth stages and are devoted to providing full lifecycle care to dairy cows. With respect to calves, we focus our research and development efforts mainly on improving the immune system, enhancing survival rates and promoting growth of calves. We believe maintaining good health of calves can help improve their survival rates and subsequent productivity. With respect to milking cows, we have been optimizing our feed formulas and leveraging advanced feed production techniques to lower the morbidity of milking cows and improve milk yield and quality. For dry cows and transition cows, we place an emphasis on developing products that effectively address potential postpartum diseases and improve the immune system. We have established a research and development center in Hohhot, Inner Mongolia, focusing on the research and development of feed products that can enhance overall health and extend the lifespan of dairy cows.

We have also devoted substantial resources and efforts in developing our nutrient database. With the growing adoption of cutting-edge technologies such as the near infrared technique in inspection and evaluation of feed products, we have obtained valuable data insights into the nutritional content of feed and established a large-sized nutrient database. Our nutrient database allows us to effectively monitor the quality of our feed products and ensure

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our product delivery at a consistent level of safety and quality. It also enables us to analyze and trace our feed products, which significantly lower quality risks. Leveraging the numerous nutritional content data accumulated in our nutrient database, we are able to optimize our feed formulas and achieve cost efficiency.

In addition, we have been focusing on the research and development of cutting-edge technologies for our breeding business segment to improve the genetic level of the Chinese herd. We continue to deepen the development of sex-sorting technology to expand the suitable population of dairy cows and increase the fertility rate of sex-sorted frozen bovine semen for dairy cattle. In addition, we adopted the “superovulation and embryo transfer” comprehensive breeding program (MOET technology) to explore and utilize high-quality provenance, and quickly cultivated high-quality bulls and core seed cows. In addition, we adopted the high-efficiency “ovum pick-up-in vitro fertilization-embryo transfer” technology (OPU-IVF-ET technology) for dairy cows and combined it with the whole-genome detection of dairy cows to improve the selection intensity of bulls and quickly establish the core herd of cows.

As of June 30, 2020, our technical research and development team consisted of 151 staff, including 38 core research and development personnel and 113 ordinary technicians, who have extensive industry-related experience.

COMPETITION

The dairy industry in China is highly competitive and the competitive landscape varies in various business areas of the value chain of the dairy industry. The raw milk supply market in China is highly fragmented. We mainly compete with other large-scale dairy farms in China. According to Frost & Sullivan, the top five players in the industry accounted for only 8.2% of the market share in terms of herd size of dairy cows as of June 30, 2020. For more details, see the section headed “Industry Overview – Raw Milk Supply Market in China – Competitive Landscape of Raw Milk Supply Market in China.” According to Frost & Sullivan, large-scale dairy farms with over 1,000 head of dairy cows generally have a higher milk yield and produce raw milk of better quality than those of the smaller dairy farms. The proportion of large-scale dairy farms in China is expected to grow in the future, despite the relatively high entry barrier of the investment in large-scale dairy farms such as substantial capital investment, management experience and government support. Nevertheless, we believe our operating scale, complete value chain layout, premium quality of our raw milk, strategically located network of dairy farms, long-term strategic cooperation with Yili, and strong research and development capabilities allow us to effectively compete with other dairy farms in China.

With respect to the ruminant feed market in China, most of the market participants focus their business on a single local market, which makes China’s ruminant feed market relatively fragmented. We face direct competition from domestic and foreign-invested feed producers in terms of concentrated feed and from other forage grass suppliers in terms of forage grass products. According to Frost & Sullivan, we were the largest player in the ruminant concentrated feed market in China, and we occupied the largest market share, accounting for 6.4%, in China in 2019 in terms of the sales volume of concentrated feed for ruminants. We are also a leading supplier of forage grass, mainly representing alfalfa hay and oat grass, in

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China and ranked first in China in terms of sales volume of alfalfa hay, our major type of forage grass, in 2019 with a market share of 3.6%. We believe our robust technological capabilities, powerful data analytics and deep understanding of ruminants of different breeds and ages enable us to compete effectively in China’s ruminant feed market.

The frozen bovine semen for dairy cattle market is relatively concentrated in China, with the top five players in terms of sales volume accounting for approximately 42.9% of the market shares in 2019. SKX is the largest dairy breeding company in China in terms of the sales volume of frozen bovine semen for dairy cattle in 2019, according to Frost & Sullivan. We believe our extensive global footprint and strong research and development capabilities will continue to help us maintain our competitive edge over other frozen bovine semen for dairy cattle providers in China.

SAFETY AND ENVIRONMENTAL MATTERS

Workplace Safety

We attach great importance to the health and safety of our employees, and always regard caring for the lives of employees and related parties as one of our core concepts. To this end, we have compiled a set of safety management manuals to guide our daily business operations and prevent potential safety risks. We have identified a series of safety red lines and required all employees to comply with relevant requirements. For example, we require employees to take measures to prevent falling when working at heights. We also require employees to obtain approval before canceling or closing safety facilities. Our safety management manual covers the core production and operation links of our business lines, including construction project management, production operation, construction operations, facility and equipment management, management of related parties, occupational health and emergency response. Meanwhile, we also have detailed regulations on the investigation of potential safety risks and hidden dangers, and the reporting and management procedures after the occurrence of safety incidents. We are subject to the PRC laws and regulations regarding labor, safety and work-related incidents. We provide safety protection to our employees working in our production facilities, which includes providing them with adequate safety equipment and ensuring that our production facilities have adequate precautionary measures. We inspect all equipment and facilities and arrange necessary maintenance on a routine basis. We also provide safety-related trainings according to the requirements of our safety management manual to relevant employees on a regular basis to increase their awareness of work safety. We examine and evaluate our safety management system on a regular basis, and continuously improve and perfect our safety management system based on the examination and evaluation results. As of the Latest Practicable Date, we have complied with the PRC workplace safety regulatory requirements in all material respects and have not had any incidents which have materially and adversely affected our operations.

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Environmental Protection

In order to make our business operations comply with the requirements of relevant environmental protection laws and regulations, and to make full and reasonable use of various resources and energy, control and eliminate pollution, and create a good working environment, we have formulated strict environmental protection management methods to guide the environmental protection in our business operations. Our environmental protection management methods have detailed requirements on the design and construction of construction projects, daily operation, pollution discharge, and noise emission management in business operations. Our business operations do not generate hazardous waste or pollutants that have a significant adverse effect on the environment. The primary waste generated from our operations includes water waste and cow manure, which are treated in compliance with applicable environmental standards in our dairy farms. We have implemented a set of recycling processes at our production facilities. For details on our waste recycling, see the section headed “– Raw Milk Business-Eco-dairy Farming.” According to our environmental protection management measures, we regularly conduct internal audits and assessments of our environmental protection work to continuously improve our environmental protection.

We shall comply with environmental protection laws and regulations promulgated by the PRC government. We are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing new dairy farms and feed mills. Upon completion of the construction of our dairy farms and feed mills, we are required to go through and pass an environmental completion acceptance inspection from environmental supervision agencies or conduct the acceptance inspection by forming a written report and making it public for each of our dairy farms and feed mills prior to starting formal production (the “Inspection”). Depending on the requirements of government authorities, we may commence trial production before the Inspection. As advised by our PRC Legal Advisors, our operations are currently conducted in compliance with the PRC environmental protection laws and regulations in all material respects, except as disclosed in “– License, Regulatory Approvals, Certificates and Compliance Records” below.

As of the Latest Practicable Date, we had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially adversely affected our production.

INTELLECTUAL PROPERTY

We regard our copyrights, trademarks, trade secrets and other intellectual property rights as critical to our business operations. In this regard, we rely primarily on a combination of patents, copyrights, trademarks, trade secret and anti-unfair competition laws and contractual rights, such as confidentially agreement, to protect our intellectual property rights.

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As of the Latest Practicable Date, we had obtained 235 registered trademarks and 51 patents in China. In addition, we had registered 18 domain names and eight copyrights in China. For detailed information about our material intellectual property, see “Appendix V – Statutory and General Information – Further Information about our Business – Intellectual Property Rights of our Group.”

With respect to proprietary know-how which is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality arrangements to safeguard our interests. Please see the section headed “Risk Factors – Risks Relating to Our Business and Industry--Our failure to protect our intellectual property rights may undermine our competitive position, and legal action to protect our intellectual property rights may be costly and divert our management resources” for more information on risks relating to our intellectual property.

As of the Latest Practicable Date, we had not been subject to any material disputes or claims for infringement upon third parties’ intellectual property rights in the PRC.

PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our dairy farms, plantation fields for forage grass, production facilities, offices, warehouses and employee dormitories.

As of June 30, 2020, each of our properties had a carrying amount below 15% of our combined total assets. On this basis, no property valuation report in respect of our Group’s property interests is required in reliance upon the exemption provided by Rule 5.01A of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Therefore, this document is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

Owned Properties

As of the Latest Practicable Date, we had obtained the state-owned land use right for 19 parcels of land with a total site area of 771,491.21 square meters, and building ownership right for buildings and units with a total gross floor area of 102,550.9 square meters. Except as disclosed in “– License, Regulatory Approvals, Certificates and Compliance Record – Defects on the Incomplete Construction Procedures for the Construction of Buildings and Facilities in Use” we have obtained the land use right or building ownership right for all of our land or buildings and units. For details on other incidents of non-compliance relating to our owned properties, see the section headed “– License, Regulatory Approvals, Certificates and Compliance Record”.

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As of the Latest Practicable Date, we had five projects under development on construction land, including integrated service facilities on two dairy farms and three projects related to feed mills. Our PRC Legal Advisors has advised that, as of the Latest Practicable Date, we have obtained the relevant approvals and permits as required at the current stage for all of these properties under development.

Leased Properties

Dairy farms and forage grass plantation fields

As of the Latest Practicable Date, we contractually leased or contracted 19 parcels of state-owned land with a total area of approximately 111,984,100 square meters and 141 parcels of collectively owned land with a total area of approximately 140,460,880 square meters, which were mainly used as our dairy farms, related feed crops and forage grass plantation fields. As of the Latest Practicable Date, among all the contractually leased or contracted land, an aggregate gross land area of approximately 29,836,390 square meters are used for our dairy farms we operate, and the rest are used for ancillary forage grass plantation bases, forage grass plantation fields and other purposes, and in terms of area ratio, there were defects in land lease or contract procedures for 5.74% of the land used for the dairy farms and 1.91% of the land used for forage grass or feed plantation and others. Such defects are mainly due to the failure of the lessors or the contractees to provide the procedural documents, including consents from not less than two-thirds of the members of the villagers committees or of the representatives of the villagers or the authorization documents from the farmer-households concerned, evidencing the procedure of leasing or contracting of the collectively owned agricultural land was completed. If the lessors or the contractees did not fulfill such procedures and failed to rectify, the relevant contractor or lease agreements may not be enforceable under PRC laws. Given that (i) as of the Latest Practicable Date, we have not received any complaints or claims regarding the lease and use of the above-mentioned land, (ii) we have received written confirmations from the lessors or contractees confirming that as of the date of the written confirmations, the requisite land lease or contract procedures had been completed, and there had been no assertion or disputes in relation to the lease, contract and use of the relevant lands used by us; and (iii) the relevant properties represent a minor portion of the total area of our properties, our Directors and our PRC legal Advisors are of the view that such defects are unlikely to have a material and adverse effect on the Group’s operations.

Feed mills

As of the Latest Practicable Date, we have leased two properties totaling 24,972.24 sq.m. in Hebei and Inner Mongolia from third parties, which were mainly used for production facilities of concentrated feed and offices. In respect of the properties leased by us in Hebei, the lessor had not obtained the construction project planning permit for the properties constructed on construction land with a total gross floor area of approximately 7,640.98 sq.m., and the properties with a total gross floor area of approximately 6,051 sq.m. was constructed on non-constructive land collectively owned by farmers. As advised by our PRC Legal Advisors, we, as the lessee, are not subject to administrative penalties for the lessors’ failure

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to fulfill its obligation to rectify aforementioned title defects, however, if the lessors fail or decline to rectify the title defects, we may not be able to enforce our rights to lease such properties under the lease agreements, and we may be required to find alternatives. Our Directors are of the view that we are able to find alternatives, if required, on the relevant terms within a reasonable period of time, and such defects are highly unlikely to have a material and adverse effect on the Group’s operations.

EMPLOYEES

As of June 30, 2020, we had 7,411 full-time employees, and approximately 37.1% of our full-time employees were based in Hohhot, Inner Mongolia, while the remaining 62.9% were based in various other cities in the PRC. The following table sets forth the number of our full-time employees by function as of June 30, 2020.

Function	Number of Employees	% of Total Number of Full-time Employees
Management personnel	906	12.2
Functional personnel	1,009	13.6
Technician	2,203	29.7
Salesperson	237	3.2
Technical engineering personnel	2,383	32.2
Logistics workers	673	9.1
Total	7,411	100.0

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

We primarily recruit our employees through on-campus job fairs, recruitment agencies and online channels. We are devoted to fostering our expert team to continuously improve modern production levels and keep up with the industry trends. We provide regular training and

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reviews to our employees to enhance their performance. Every year we select and dispatch outstanding employees to modern, large-scale dairy farms in the United States for advanced studies, which we believe has contributed to the overall improvement of our dairy farm management and productivity.

We enter into standard confidentiality and employment agreements with our key personnel. The contracts with our key personnel typically include a standard non-compete agreement that prohibits the employee from competing with us, directly or indirectly, during the non-compete agreement period. For further details regarding the terms of confidentiality and employment agreements with our key management, please refer to the section headed “Directors and Senior Management” in this document.

As required by PRC laws and regulations, we participate in housing provident fund and various employee social insurance plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans. We or agents engaged by us are required under PRC laws and regulations to contribute to employee social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees.

Our employees did not negotiate their employment terms through labor unions or collective bargaining agreements. We believe that we maintain a good working relationship with our employees and we have not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

LEGAL PROCEEDINGS

We are subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. Most of the legal proceedings involve disputes over sale and purchase contracts.

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation and compliance.

LICENSE, REGULATORY APPROVALS, CERTIFICATES AND COMPLIANCE RECORD

Save for the non-compliance incidents disclosed below, as advised by our PRC legal advisors, our Group has been in compliance with all relevant PRC laws and regulations in all material respects and has obtained all necessary material license, approvals and permits from the relevant regulatory authorities in respect of our operations in the PRC as of the Latest Practicable Date, including a permit for the production and business operation of breeding livestock and poultry, certificates for meeting animal epidemic prevention conditions, raw

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fresh milk purchase permits, a grain purchase license and feed production license which are material to our operations in the PRC, and we have also obtained a license for our value-added telecommunications business of the PRC for Jumuc.com (聚牧城), our online platform.

Defects on the Incomplete Construction Procedures for the Construction of the buildings and facilities in use

As of the Latest Practicable Date, we had not completed construction procedures for the construction of buildings located at (i) one of our feed mills in Inner Mongolia with a total floor area of 2,945.91 square meters that are used as our raw materials warehouse and laboratory for such feed mill, and (ii) one of our dairy farms located in Inner Mongolia with a total floor area of 24,951.31 square meters that are used for our offices, barns, milking halls and feed warehouses. As of the Latest Practicable Date, we have obtained the construction land planning permit, the construction planning permit for the defect buildings located at both the above-mentioned feed mill and dairy farm and the construction commencement permit for the defect buildings located at the above-mentioned feed mill, but not yet passed the completion inspection and acceptance. Our Directors are of the view that such defects do not affect the safety conditions of these buildings or the Group’ activities therein.

Reasons for Non-compliance

The delay in completing the construction procedures for the construction of the buildings and facilities in use was mainly due to the relevant staff’s (i) misunderstandings of the provisions of laws, and (ii) lack of timely or smooth communication with local government authorities.

Potential Legal Consequence

As advised by our PRC Legal Advisors, according to the Regulations on the Quality Management of Construction Projects (《建設工程質量管理條例》), where the owner of a construction project, commences construction without obtaining a construction license, it may be ordered to cease construction and make corrections within a time limit and be imposed a fine of not less than 1% but not more than 2% of the contractual project price. In addition, the owner of the construction may be ordered to make corrections, and shall be imposed a fine of not less than 2% but not more than 4% of the contractual project price for delivering the project for use before organizing the acceptance inspection.

Our Directors believe that the non-compliance incidents will not have a material and adverse effect on our business or operating performance, taking into account that (i) during the Track Record Period and as at the Latest Practicable Date, we had not received any rectification notice or any administrative penalties by the competent governmental authorities in connection with such non-compliance incidents; (ii) as advised by our PRC Legal Advisors, the likelihood that we would be imposed any administrative penalties which will have a material and adverse effect on the Group’s operation in connection with such non-compliance incidents is low; (iii) we are in the process of applying to the competent authorities for the pending procedures; and

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(iv) we have obtained written confirmation issued by or interviewed with the respective competent government authorities confirming that we will not be subject to any administrative penalties for such non-compliance incidents, and we may continue using the defective buildings and facilities. Therefore, we have also not made any provision for potential economic losses that may arise from the non-compliance incidents.

Latest Status and Rectification Measures

We are in the process of applying to the relevant authorities for the pending licenses and are closely following up on the completion of the relevant construction procedures. In this regard, we have obtained confirmation from the competent government authorities that (1) we will not be subject to any administrative penalties for such non-compliance incident; and (2) we may legally continue using the relevant properties.

Matters on failure to obtain environmental protection assessment approval or complete the environmental protection acceptance examination procedure before commencement of production

As of the Latest Practicable Date, among our 65 dairy farms in operation, we failed to obtain environmental protection assessment approval and complete the environmental protection acceptance examination procedure for expanded or reconstructed facilities in one dairy farm in Hebei, and failed to complete the environmental protection acceptance examination procedure before commencement of production for three dairy farms located in Hebei and Ningxia, all of which were operated by SKX before we acquired the controlling interest in SKX in January 2020.

Reasons for Non-compliance

The failure to obtain environmental protection assessment approval and complete the environmental protection acceptance examination procedure for certain expended or reconstructed facilities in one Hebei dairy farm was mainly due to the relevant staff’s (i) misunderstandings of the provisions of laws, and (ii) lack of timely or smooth communication with local government authorities.

For the other two dairy farms located in Hebei that failed to complete the environmental protection acceptance examination procedure before commencement of production, the reasons for such non-compliance are respectively as follows: (i) One dairy farm was newly acquired in 2019 by SKX, and the non-compliance in environmental acceptance existed before the acquisition. SKX has embarked on rectification of the non-compliance after the acquisition of the dairy farm. (ii) The biogas facilities as part of the environmental protection facilities of the other dairy farm was constructed by a third party construction team who delayed the construction of such biogas facilities and affected our progress of the environmental protection acceptance examination of the dairy farm as a whole.

For the farm located in Ningxia, the Crescent Lake Dairy Farming Base in Xingqing District, Yinchuan City where it is located was constructed under the local government’s unified planning. Therefore, the relevant environmental protection acceptance examination procedure on all the dairy farms within the Crescent Lake Dairy Farming Base is led by the

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government. Such environmental protection acceptance examination was conducted on the Crescent Lake Dairy Farming Base as a whole, and no individual dairy farm was allowed to go through such procedure separately until August 2020.

Potential Legal Consequence

As advised by our PRC Legal Advisors, in accordance with the Regulations on the Administration of Construction Project Environmental Protection and other relevant laws, where a construction unit commences construction without environmental protection assessment approval, the competent ecological environment government authority may order the construction unit to cease construction, and shall, according to the circumstances of the illegalities committed and the harmful consequences thereof, impose a fine of not less than 1% but not more than 5% of the total investment of the construction project on the construction unit, and may order the construction unit to make restitution; and where the environmental protection facilities have not undergone acceptance inspection before commencement of production, the competent ecological environment government authority may order the construction unit to make correction within a stipulated period and impose a fine ranging from RMB0.2 million to RMB1 million; where correction is not made within the stipulated period, a fine ranging from RMB1 million to RMB2 million shall be imposed; where the construction project causes significant environmental pollution or ecological damage, the production or use shall be suspended, or the project shall be closed down upon approval by the relevant government authorities.

Our Directors believe that the non-compliance incidents will not have a material and adverse effect on our business or operating performance, taking into account that (i) during the Track Record Period and as at the Latest Practicable Date, we had not received any rectification notice or any administrative penalties by the competent governmental authorities in connection with such non-compliance incidents; (ii) as advised by our PRC Legal Advisors, the likelihood that we would be imposed any administrative penalties which will have a material and adverse effect on the Group’s operation in connection with such non-compliance incidents is low; (iii) we have initiated the process of application to the competent authorities for the pending procedures; and (iv) we have consulted with competent government authorities and have learned from the competent government authorities that we will not be subject to administrative penalties before completing such environmental protection assessment and acceptance examination procedure. Therefore, we have also not made any provision for potential economic losses that may arise from the non-compliance incidents.

Latest Status and Rectification Measures

We have initiated the application of relevant environmental assessment or acceptance procedures for the non-compliance of relevant farms. Particularly for the farm located in Ningxia, we started to go through the relevant procedures immediately after individual acceptance on any single farm was allowed in the base where we are located.

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Matters on Non-compliance in Making Social Insurance and Housing Provident Funds Contributions for Employees

During the Track Record Period and up to the Latest Practicable Date, we failed to make social insurance and housing provident funds contributions with the full amount for our employees in strict compliance with relevant laws and regulations. During the Track Record Period, we failed to make sufficient social insurance contributions with a total amount of RMB3.6 million and failed to make sufficient housing provident fund contributions with a total amount of RMB5.8 million.

Reasons for Non-compliance

During the Track Record Period, we failed to make social insurance and housing provident funds contributions with the full amount for our employees in strict compliance with relevant laws and regulations, which was mainly because (i) employees at the positions involved have a higher turnover, and (ii) relevant employees are reluctant to afford their parts of social insurance and housing provident funds as they have contributed to other medical insurance programs.

Potential Legal Consequence

As advised by our PRC Legal Advisors, in accordance with relevant provisions of the Social Insurance Law of the PRC, if we fail to make the full contribution of social insurance premiums on time, the local social insurance agencies may require us to pay the overdue amount within a prescribed period and may impose a fine equivalent to 0.05% of the overdue payment per day from the date on which the payment is payable. If such payment is not made within the prescribed period, the competent authority may further impose a fine from one to three times the amount of the overdue payment.

As advised by our PRC legal advisors, in accordance with the Regulations on the Administration of Housing Provident Fund, if we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the overdue payment within a prescribed period, and if the payment is not made within such period, an application may be made to the PRC courts for compulsory enforcement.

Our Directors believe that the non-compliance incidents will not have a material and adverse effect on our business or operating performance, considering that (i) during the Track Record Period and as at the Latest Practicable Date, we had not received any notice from the competent government authority requesting us to make up the difference or impose a fine or other major administrative penalties in connection with such non-compliance incidents; (ii) as advised by our PRC Legal Advisors, the likelihood that we would be ordered by the competent government authorities to comprehensively make up the shortfall for social insurance and housing provident contributions and be imposed any material administrative penalties which will have a material and adverse effect on the Group’s operation in connection with such non-compliance incidents is low; and (iii) we are also not aware of any employees who lodged

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complaints with the Group about social insurance and housing provident funds or caused labor disputes with the Group. Therefore, we have also not made any provision for potential economic losses that may arise from the non-compliance incidents.

Latest Status and Rectification Measures

We have obtained confirmation from competent local government authorities on matters related to the contribution of social insurance that there was no penalty imposed by the competent government authorities arising from violations of social security-related regulations. Our Directors confirmed that as of the Latest Practicable Date, we have not received any written notices from social insurance authorities requiring us to make contribution or supplement social insurance for a prescribed period. We undertake that if the competent social insurance authorities require us to make contribution or supplement due social insurance for a prescribed period, we will follow and implement the requirements in a timely manner.

We have also obtained confirmation from competent local government authorities on matters related to the contribution of housing provident funds that there was no penalty imposed by the competent government authorities arising from violations of housing fund-related regulations. Our Directors confirmed that as of the Latest Practicable Date, we have not received any written notices from the housing provident fund management center requiring us to make contribution or supplement housing provident funds for a prescribed period. We commit that if the competent housing provident fund management center requires us to make contribution or supplement due housing provident funds for a prescribed period, we will follow and implement the requirements in a timely manner.

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operation. For more details, see the section headed “Risk Factors.” We have devoted ourselves to establishing and maintaining risk management systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems. Our risk management measures include:

- Our Board is responsible for monitoring our internal control system and for reviewing its effectiveness, and maintaining the Company’s risk management at an appropriate and effective level;
- As the responsible department for risk management, our audit department evaluates the risks faced by the Company every year, and prepares a risk assessment report based on the evaluation results and submits it to the audit committee and the Board for compliance and approval. We will refer to the approved risk assessment report when formulating or revising the Company’s development plan and targets for the coming year;

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- We require all departments to proactively identify the risks they face and various internal and external factors that affect the occurrence of the risks, and make a summary according to the risk classification;
- In addition, we also require the person in charge of the audit department to formulate a complete set of monitoring procedures and plans to achieve effective risk monitoring; and
- We will engage external professional advisors, where necessary, and work with our internal audit and legal team to conduct regular review to ensure the effectiveness of all registrations, licenses, permits, filings and approvals and timely renew the same.

Our Directors were not aware of any material internal control weaknesses or incidents during the Track Record Period and up to the Latest Practicable Date. In addition, in view of (i) the nature of the non-compliance incidents disclosed in the section headed “– Licenses, Regulatory Approvals, Certificates and Compliance Records”, (ii) the remedial measures taken by us in respect of such non-compliance incidents, and (iii) that our Directors consider such past non-compliance incidents have not had any material adverse impact on our over business operation and financial performance, our Directors consider, and the Joint Sponsors also concur, that such non-compliance incidents will not affect the suitability of our Directors and our Company’s [REDACTED] under the Listing Rules.

INSURANCE

With respect to the dairy cows raised at our dairy farms, our insurance policies generally cover, among other things, death caused by certain diseases, accidents or natural disasters, and losses incurred as a result of government orders of mass slaughters of farm animals in the relevant region. The insurance premiums payable by us are subject to a series of factors such as age and lactation periods of the heifers or milkable cows. Upon the occurrence of an insurable event, the maximum compensation under the insurance policies would generally cover some of our costs to purchase a replacement heifer.

When we engage third-party logistics service providers for delivery of our products to our customers in China, we typically require logistics service providers to obtain insurance. Such insurance generally covers product contamination and damages occurring during the course of transportation.

Since it is not required by PRC law, and doing so would not be consistent with the usual industry practice in the PRC, we do not carry any product liability insurance. Please refer to the section headed “Risk Factors – Risks Relating to Our Business and Industry – Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses” in this document for more details.

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We also maintain insurance coverage for our main production facilities, equipment and inventories. Some of our subsidiaries are insured from damages caused by boiler pressure and robbery and theft. As of the Latest Practicable Date, no incident has occurred as a result of which we would have to make any significant claims under these insurance policies. Meanwhile, we maintain mandatory social security insurance policies for our employees in China pursuant to PRC laws and make contributions to mandatory social security funds for our employees.

AWARDS AND RECOGNITION

During the Track Record Period, we have received awards and recognition for the quality and popularity of our products and brands. Some of the significant awards and recognition we have received are set forth below.

<u>Award/Recognition</u>	<u>Award Year</u>	<u>Awarding Institution/Authority</u>
List of 2020 Dairy Industry of China “Rongzhi Chuangyou” Brand Enterprises (2020年中國奶業“融智創優”品牌企業名錄)	2020	Dairy Association of China (中國奶業協會)
Standardized Demonstration Ranch for Livestock Breeding (畜禽類養殖標準化示範牧場)	2019	Ministry of Agriculture and Rural Affairs of the People’s Republic of China (中國國家農業農村部)
Leading Enterprise in Autonomous Region (自治區龍頭企業)	2019	People’s Government of Inner Mongolia Autonomous Region (內蒙古自治區人民政府)
Key Leading Enterprise (重點龍頭企業)	2019	People’s Government of Hohhot (呼和浩特人民政府)
Pillar Enterprise in Dairy Industry (奶業脊樑企業)	2018	Dairy Association of China (中國奶業協會)

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, the equity interest of our Company was controlled as to 42.89% by the PAG Entities and 40.0% by Yili. Immediately following the completion of the [REDACTED], the PAG Entities and Yili will be interested in approximately [REDACTED]% and [REDACTED]% of our issued share capital, respectively, assuming the [REDACTED] is not exercised and the Convertible Notes are not converted. Therefore, each of the PAG Entities and Yili will remain as our Controlling Shareholders as defined under the Listing Rules upon [REDACTED].

Yili is principally engaged in the production and sales of dairy products, whereas PAG is one of Asia’s largest independent alternative investment managers, focusing on private equity, real estate and absolute returns.

YILI

During the Track Record Period and as of the Latest Practicable Date, one of our Controlling Shareholders, Yili, holds interests in a diverse range of businesses through various companies in which it is interested. Such businesses include sale of animals and by-products, production and sale of organic fertilizers; agricultural and livestock services, agricultural and livestock consulting services. As such businesses are different from our main businesses, we consider that there are clear delineation between our businesses and such investments of Yili.

As of the Latest Practicable Date, Yili, together with its subsidiaries and their respective associates also have 19.5% interest in Ningxia Liken Dairy Limited (寧夏利墾牧業有限責任公司) (“**Ningxia Liken**”), 19.5% interest in Zhongli (Xing’an Meng) Dairy Limited (中利(興安盟)牧業有限公司) (“**Zhongli Dairy**”) and approximately 16.6% interest in China ZhongDi Dairy Holdings Limited (中國中地乳業控股有限公司) (“**ZhongDi Dairy**”), each of which is involved in the production of raw milk (the “**Excluded Business**”).

Furthermore, (i) Wholesome Harvest Limited (the “**Offeror**”), a wholly-owned subsidiary of Jingang Holding, (ii) Jingang Holding and (iii) certain other current shareholders of ZhongDi Dairy (the “**ZhongDi Selling Shareholders**”) entered into a share subscription agreement on September 27, 2020 (the “**Share Subscription Agreement**”), pursuant to which (i) Jingang Holding and ZhongDi Selling Shareholders have conditionally agreed to transfer their respective shares in ZhongDi Dairy to the Offeror; and (ii) Jingang Holding has conditionally agreed to contribute a capital injection to the Offeror, in exchange for 1,898,841,522 ordinary shares to be issued by the Offeror. Upon completion of the share subscription in accordance with the terms and conditions of the Share Subscription Agreement (the “**Completion**”), Yili will indirectly hold approximately 43.75% of the total issued share capital of ZhongDi Dairy through Jingang Holding and the Offeror. Pursuant to Rule 26.1 of the Takeovers Code, upon the Completion, the Offeror is required to make a mandatory conditional cash offer for all the issued shares of ZhongDi Dairy (other than those already

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

owned and/or agreed to be acquired by the Offeror). For further details about the conditional mandatory cash offer for all the issued shares of ZhongDi Dairy, please refer to the joint announcement dated September 27, 2020 published by the Offeror and ZhongDi Dairy.

Delineation of Our Business from the Excluded Business

Set out below are details of each of Ningxia Liken, Zhongli Dairy and ZhongDi Dairy:

Ningxia Liken

- Ningxia Liken, established in March 2020, has commenced building two dairy farms in Shizuishan City, the Ningxia Hui Autonomous Region. As of the Latest Practicable Date, it has not yet commenced commercial operations and does not currently record income.

Zhongli Dairy

- Zhongli Dairy, established in April 2020, has commenced building a dairy farm in the Huhe Horse Ranch, Horqin Right Front Banner, Hinggan League. As of the Latest Practicable Date, it has not yet commenced commercial operations and does not currently record income.

ZhongDi Dairy

- ZhongDi Dairy was established in 2014 and is principally engaged in dairy farming in China, participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, producing and selling premium raw milk, importing and selling dairy cows of quality breeds and breeding stock, as well as conducting an import trading business in alfalfa hay and other animal husbandry-related products. Its shares are listed on the Stock Exchange (stock code: 1492).
- According to the 2020 interim report of ZhongDi Dairy, as of June 30, 2020, ZhongDi Dairy operated eight dairy farms which had 38,331 milkable cows; the number of calves and heifers was 27,708 as of June 30, 2020, which aggregately represents approximately 23.0% of our total herd size of dairy cows as of June 30, 2020.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Although the Excluded Business might compete with the raw milk business segment of our Group, we believe we are able to maintain a mutually beneficial and complementary relationship with Yili:

Mutually beneficial relationship

- (1) According to the Raw Milk Purchase and Sale Framework Agreement, (a) Yili and its associates agree to purchase from our Group raw milk that meets the relevant national standards as applicable and the quality requirements of Yili and its associates from our Group, (b) our Group agrees to sell at least 70% of our annual production of raw milk to Yili and its associates if the raw milk meets the relevant national standards as applicable from time to time and the quality requirements of Yili and its associates; and (c) Yili and its associates agree to buy all of the remaining 30% raw milk production volume of our Group so long as our Group is willing and able to supply such amount.
- (2) The Raw Milk Purchase and Sale Framework Agreement may only be terminated with both parties’ consent and cannot be terminated by Yili unilaterally, thus securing for our Group a stable source of revenue and long-term customer.
- (3) Our Group has maintained close cooperation with Yili in respect of raw milk supply to provide more comprehensive products and services for our respective customers. In light of the different strengths and focuses between our Group and Yili, we believe our strategic cooperation relationship with Yili will facilitate Yili to prioritize our benefits, which will generate positive impact on our operations and financial performance.
- (4) We believe our relationship with Yili is mutually complementary and beneficial. We are Yili’s largest raw milk supplier during the three years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020. As such, it is also important for Yili to maintain a long-term and mutually beneficial relationship with our Group in order to secure a stable supply of raw milk with high quality to support its own business operation.

Limited competition

- (5) There is only limited competition between our Group and the Excluded Business since the combined supply of raw milk by our Group and the Excluded Business is relatively small compared to the total demand of Yili. In 2017, 2018 and 2019, raw milk supplied by us to Yili accounted for less than 10% of its raw milk purchased, and for the six months ended June 30, 2020, raw milk supplied by us to Yili accounted for less than 25% of its raw milk purchased. On the other hand, the sales volume of raw milk of the companies involved in the Excluded Business accounted for less than 7% of the raw milk purchase amount of Yili in the six months ended

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

June 30, 2020. Such supply by our Group and the Excluded Business are still insufficient to fully meet Yili’s demand for raw milk and therefore there is little competition between our Group and the Excluded Business for customers.

- (6) Although raw milk business is one of our principal businesses, the Excluded Business is only peripheral to Yili. For the three years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020, Yili’s operating revenue amounted to approximately RMB67,547 million, RMB78,976 million, RMB90,009 million and RMB47,344 million, respectively, and the revenue of the Excluded Business only represented approximately 1.5%, 1.7%, 1.7% and 1.8% of Yili’s operating revenue for the same periods, respectively. To our best knowledge, Yili does not intend to actively engage in the management or operations of the Excluded Business, nor does it intend to substantially expand the current scope of the Excluded Business. Yili’s principal business has been and will always be the manufacture of dairy products, rather than the sale of raw milk. The only reason for Yili to hold interests in the Excluded Business is to secure additional supply of raw milk in order to satisfy its growing demand for the production of dairy products, and is not to compete with our Group.
- (7) Other than ZhongDi Dairy, neither Ningxia Liken nor Zhongli Dairy has commenced commercial operations as of the Latest Practicable Date. The scale of the proposed business operations of both Ningxia Liken and Zhongli Dairy is also immaterial as compared to that of our Group. Finally, the dairy farms of Ningxia Liken are located in Shizuishan City, Ningxia Hui Autonomous Region. As of the Latest Practicable Date, our Group does not operate any dairy farms in Shizuishan City, Ningxia Hui Autonomous Region.
- (8) Our Group operates a more diversified range of businesses compared with the Excluded Business, which mainly focuses on the sale of raw milk. In addition to raw milk, we also have the comprehensive ruminant farming solutions business segment, which includes the feed and breeding business lines, accounting for approximately 56.1%, 58.8%, 60.0% and 40.3% of our total revenue for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. The comprehensive ruminant farming solutions business of our Group does not compete with ZhongDi Dairy since our import trading business does not include alfalfa hay and other animal husbandry-related products. There is therefore no competition between the comprehensive ruminant farming solutions business of our Group and the Excluded Business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Industry norm

- (9) According to Frost & Sullivan, it is common and within industry norm for large conglomerates, such as Yili, to hold interests in raw milk suppliers in the PRC. Most of Yili’s competitors hold interests (including controlling interests) in multiple raw milk suppliers, and some of these raw milk suppliers are also listed on the Stock Exchange.

Based on the above, our Directors are of the view that there is no material business competition between the Excluded Business and our Group.

THE PAG ENTITIES

Save for their interests in our Company, the PAG Entities have no interests in any other companies that compete or are likely to compete, either directly or indirectly, with the business of our Group during the Track Record Period and as at the Latest Practicable Date.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders after the [REDACTED].

Management Independence

Our management and operational decisions are made by our Board and senior management. Upon [REDACTED], our Board will consist of nine Directors comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. Our senior management team comprises Mr. Zhang Xiaodong (張小東), our executive Director and president, Mr. Jiang Guangjun (姜廣軍), our vice president, Mr. Dong Jiping (董計平), our executive Director and vice president, Mr. Xu Yanfei (許燕飛), our vice president and Mr. Yang Ming (楊明), our vice president.

Mr. Zhang Yujun (張玉軍), the chairman of the Board and a non-executive Director, serves as an assistant to the president of Yili and a president of the liquid milk division of Yili. Mr. Xu Jun (徐軍), our non-executive Director, serves as an assistant to the president of Yili. None of our Directors or senior management team members hold directorship or senior management position in Yili.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Directors are of the view that our Board and senior management team are able to manage our business independently from the Controlling Shareholders and their respective close associates for the following reasons:

- (a) our Board of Directors consists of nine Directors, seven of whom do not hold any management positions in Yili, and there is no overlap between the Board and the board of directors of Yili. As of the Latest Practicable Date, except for Mr. Zhang Yujun and Mr. Xu Jun (both being the non-executive Directors without involving in the daily operation and management of our Company), our Company and Yili were managed by different management members;
- (b) each Director is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his or her personal interests;
- (c) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (d) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (e) according to the Articles of Association, in respect of any contract or arrangement or any other proposal whatsoever in which a Director or any of his or her close associates (or, if required by the Listing Rules, his or her other associates) has any material interest, such Director shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting;
- (f) where a Shareholders’ meeting is held to consider a proposed transaction in which any Controlling Shareholder has a material interest, the Controlling Shareholder shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting; and
- (g) our Company has appointed Lego Corporate Finance Limited as our compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors’ duties and corporate governance.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team is able to perform the managerial role in our Group independently.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational Independence

Our Group (through our subsidiaries) holds all relevant licenses that are material in relation to our business operations in their own names. We have sufficient operational capacity in terms of capital, plants and machinery equipment, facilities, premises and employees to operate our business independently from our Controlling Shareholders. We also adopted a set of internal control procedures to maintain effective and independent operation of our business.

Raw Milk Purchase and Sale Framework Agreement

During the Track Record Period, Yili was the largest customer of our raw milk supply business segment, and our sales of raw milk to Yili amounted to approximately RMB2,053.2 million, RMB2,393.1 million, RMB2,845.4 million and RMB3,067.1 million, respectively for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, representing approximately 91.8%, 91.7%, 92.9% and 96.1% of the revenue generated from our raw milk supply segment in total, respectively, and 40.3%, 37.8%, 37.1% and 57.4% of our total revenue, respectively. We have also entered into the Raw Milk Purchase and Sale Framework Agreement with Yili, pursuant to which we will provide long-term supply of raw milk to Yili. For details, please see the section headed “Continuing Connected Transactions – Summary of Our Continuing Connected Transactions – B. Non-exempt continuing connected transactions” to this document.

We believe that our relationship with Yili is in line with industry practice and may be properly managed because of the following:

- *Market concentration.* According to Frost & Sullivan, the PRC dairy retail market is dominated by a handful of conglomerates, with Yili having a market share of approximately 30.0% in terms of retail sales for the six months ended June 30, 2020. As these conglomerates are the major customers of raw milk suppliers (including our Company) in the PRC, according to Frost & Sullivan, it is the industry norm in the PRC for a raw milk supplier, for example, our Company, to derive a majority of its raw milk sales revenue from a single customer. According to Frost & Sullivan, the terms of the Raw Milk Purchase and Sale Framework Agreement, including the agreement to sell at least 70% of our Group’s raw milk production volume to Yili, are on normal commercial terms and on arm’s length basis. Yili also agrees to buy all of the remaining 30% of our raw milk production volume so long as our Group is willing and able to supply such amount to Yili. In addition, due to high entry barriers of the dairy milk retail industry, these conglomerates (including Yili) dominate the dairy milk retail market in the PRC, and it is extremely hard for a raw milk supplier in the PRC such as our Group to diversify or reduce our reliance on our major customer.
- *Mutual reliance.* We believe the roles of our Group as the largest integrated provider of products and services in the upstream dairy industry in terms of revenue in the first half of 2020 and of Yili as the world’s fifth largest* and fast-growing dairy

*Source: “Global Dairy Top 20” in 2020 published by the Rabobank Nederland in August 2020.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

manufacturer are complementary to each other and mutually beneficial. In 2017, 2018 and 2019, raw milk supplied by us to Yili accounted for less than 10% of its raw milk purchased, and for the six months ended June 30, 2020, raw milk supplied by us to Yili accounted for less than 25% of its raw milk purchased, making us Yili’s largest raw milk supplier during the same period. As it is important for us to maintain a stable demand for our product, it is equally important for Yili to secure a stable supply of raw milk with high quality to support its own business operation. As a result, the relationship between Yili and us under the Raw Milk Purchase and Sale Framework Agreement is mutually dependent and stable, and not subject to any material adverse changes in the foreseeable future.

- *No unilateral termination.* Pursuant to the terms of the Raw Milk Purchase and Sale Framework Agreement, it could only be amended or terminated with both parties’ consent and cannot be amended or terminated unilaterally by Yili. Accordingly, the business relationship between our Group and Yili as contemplated under the Raw Milk Purchase and Sale Framework Agreement is unlikely to be terminated or otherwise materially or adversely change.

Entrusted Payment Arrangement

In respect of the comprehensive ruminant farming solutions business segment of our Group, a number of customers who make purchase from our Group are also raw milk suppliers of Yili (the “**Overlapping Parties**”). In 2013, the relevant subsidiaries of our Company, members of the Yili group and the Overlapping Parties entered into an entrusted payment arrangement (the “**Entrusted Payment Arrangement**”), pursuant to which Yili would deduct the amount payable to our Group by the Overlapping Parties from the payments made to the Overlapping Parties by Yili, and make the relevant payments to our Group directly. According to Frost & Sullivan, such entrusted payment arrangement is an industry norm in dairy farming products industry in the PRC. During the Track Record Period, our Group has made substantial efforts to unwind the Entrusted Payment Arrangement and collect payments directly from these Overlapping Parties. The Entrusted Payment Arrangement simplifies the payment procedure, which provides conveniences to some of the Overlapping Parties in respect of payment made to our Group. Our Directors consider that there may be an adverse impact on our business relationship with such Overlapping Parties if the Entrusted Payment Arrangement is unwound completely, which may also cause the Overlapping Parties to explore business opportunities with our competitors. As a result, it is not commercially feasible to terminate the Entrusted Payment Arrangement before [REDACTED].

During the three years ended December 31, 2019, our Group had significantly reduced our reliance on the Entrusted Payment Arrangement and had significantly improved our ability to collect payments from the relevant customers directly and independently from Yili. For the years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020, approximately 76%, 36%, 15% and 8% of our Group’s revenue from the comprehensive ruminant farming solutions business segment was settled by way of the Entrusted Payment

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Arrangement, respectively, and the bad debt ratio for the comprehensive ruminant farming solutions business segment of our Group remained relatively stable and was no more than 0.01%, which was in line with industry average.

Our Directors confirm that there are valid and enforceable contractual relationship between each of the Overlapping Parties and the relevant subsidiaries of our Company for the sale of dairy farming products by our Group to the Overlapping Parties. The arrangement of making payment by each Overlapping Parties to our Group through Yili is consistent with that of other customary entrusted payment arrangements. Yili does not assume any legal responsibility and risk under the Entrusted Payment Arrangement in the event it fails to complete the payment of the amounts. Our Directors, as advised by our PRC legal advisors, are of the view that our Company will have recourse against the Overlapping Parties in the event that Yili fails to make payments under the Entrusted Payment Arrangement. In addition, the payments received from Yili on behalf of the Overlapping Parties will not be recognized by us as revenue from Yili. Instead, the amounts will be recognized as revenue from, and accounts receivables due from, the Overlapping Parties upon the sales of goods to the Overlapping Parties by our Group.

The Entrusted Payment Arrangement is operational and administrative in nature and does not constitute “financial assistance” as defined under Chapter 14A of the Listing Rules, as Yili does not provide any amount, guarantee, indemnity or other type of financial assistance to the Group under this arrangement.

To further reduce the impact of the Entrusted Payment Arrangement on our operations and minimize the amount of the Entrusted Payment Arrangement, we have taken the following actions:

- we will conduct regular credit evaluation of the Overlapping Parties; for the Overlapping Parties with low assessment risk and no overdue payments, we will gradually control the number and proportion of entrusted payments by negotiating a change in repayment methods based on their requirements for operational convenience;
- we expect to further reduce the proportion of entrusted payment for the year ending December 31, 2020 compared with the year ended December 31, 2019; and
- upon [REDACTED] and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED], we will appoint Lego Corporate Finance Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules to oversee compliance matters, including, inter alia, the Entrusted Payment Arrangements.

Our Directors are of the view that such Entrusted Payment Arrangement is an industry norm to simplify the payment procedures in dairy farming products industry in the PRC and there may be an adverse impact on our business relationship with such Overlapping Parties if

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

we request the Entrusted Payment Arrangement to be unwound immediately. During the Track Record Period and as of the Latest Practicable Date, there has been no adverse financial or operational impact on our Group due to the partial unwinding of the Entrusted Payment Arrangement and our Group expects to further reduce the payment amount collected through the Entrusted Payment Arrangement going forward. As a result, our Directors believe that we are capable of managing the credit risks in the comprehensive ruminant farming solutions business segment independently.

Our Group currently has and will maintain a separate management team and separate functional departments including accounting, internal audit, administration, human resources, legal and company secretarial departments from our Controlling Shareholders. Save as disclosed above, during the Track Record Period, our Group has been operating independently, without sharing any administrative functions with our Controlling Shareholders, and all administration and operations of our Group have been, and will continue to be, carried out by a team of staff employed by our Group independently from our Controlling Shareholders. Accordingly, we believe we are able to operate independently of our Controlling Shareholders.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function.

Our Directors confirm that, as of the Latest Practicable Date and up to the [REDACTED], there is, and is expected to be, no borrowing arrangement, loan arrangement, guarantee, or any other financial assistance arrangement between our Company and our Controlling Shareholders. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders and/or their respective associates.

Based on the above, our Directors believe that we have the ability to operate independently of our Controlling Shareholders and their respective associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their respective associates.

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Save as disclosed above, each of our Controlling Shareholders and Directors confirms that as of the Latest Practicable Date, he or she or it did not have any interest in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business and which would require disclosure under Rule 8.10 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain agreements with party that will be considered as our connected person (as defined under Chapter 14A of the Listing Rules). Following the [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

For the purpose of this section, all references to “we”, “us” or “our Group” include both our Group and SKX and all the transaction amounts include that of our Group, SKX and Fonterra China Farms Group, as applicable.

SUMMARY OF OUR CONNECTED PERSONS

Upon the [REDACTED], the following party, which has entered into certain written agreements with our Group, will be connected person of our Group:

Name	Connected Relationship
Yili	our Controlling Shareholder

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

			Proposed annual cap for the year ending December 31,		
Transaction	Applicable Listing Rule	Waiver sought	2020	2021	2022
(in RMB'000)					
A. Partially-exempt continuing connected transactions					
1. Dairy Products Purchase Framework Agreement	14A.35, 14A.53, 14A.76(2) and 14A.105	Requirements as to announcement under Chapter 14A of the Listing Rules	26,500	31,200	40,500
B. Non-exempt continuing connected transactions					
2. Raw Milk Purchase and Sale Framework Agreement	14A.35, 14A.36, 14A.53 and 14A.105	Requirements as to announcement, circular and independent Shareholders' approval under Chapter 14A of the Listing Rules	7,300,000	10,100,000	12,500,000

CONTINUING CONNECTED TRANSACTIONS

A. Partially-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to the reporting, annual review and announcement requirements but will be exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Dairy Products Purchase Framework Agreement

Principal Terms

Yili is one of our Controlling Shareholders and was the world’s fifth largest* and fast-growing dairy manufacturer in terms of retail sales value, according to Frost & Sullivan. In order to ensure business operations in the foreseeable future, our Company entered into a dairy products purchase framework agreement in [●], pursuant to which Yili and its subsidiaries and associates would supply dairy products, such as milk powder, feed-grade milk powder, etc. to our Group on a long-term basis (the “**Dairy Products Purchase Framework Agreement**”). The Dairy Products Purchase Framework Agreement has a term of three years commencing from [●].

Historical Amount, Annual Cap and Basis for Annual Cap

During the Track Record Period, the purchases of our Group from Yili and its associates amounted to approximately RMB18.1 million, RMB8.9 million, RMB14.7 million and RMB11.4 million, respectively for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

Our Directors estimate that the total annual purchase amount by our Group and its associates from Yili under the Dairy Products Purchase Framework Agreement will not exceed RMB26.5 million, RMB31.2 million and RMB40.5 million for each of the years ending December 31, 2020, 2021 and 2022, respectively. In determining such annual caps, our Directors have considered (i) the historical and prevailing market price for the goods, as well as the potential fluctuations in the market price for the goods in the future; (ii) the historical transaction volume during the Track Record Period; (iii) the estimated demand for our Group’s production in the future three years; (iv) the possible future inflation in the PRC dairy industry and (v) the expansion of our business operation as a result of our acquisition of SKX and proposed acquisition of Fonterra China Farms Group.

Reason for the Transactions

As compared with the purchase of dairy products by our Group on our own or through an independent third-party agent, the dairy products provided to our Group, by virtue of Yili’s economies of scale and bargaining power, make it possible for our Group to obtain the dairy products required for our operations at a lower cost, thus enabling our Group to maintain our competitiveness.

*Source: “Global Dairy Top 20” in 2020 published by the Rabobank Nederland in August 2020.

CONTINUING CONNECTED TRANSACTIONS

Pricing Policies

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

Listing Rule Implications

The Dairy Products Purchase Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, the transactions will be exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Reasons for the Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Dairy Products Purchase Framework Agreement is necessary to our business operations, given the importance of stable supply of dairy products required for our operations.

In addition, given the Dairy Products Purchase Framework Agreement [was entered] into prior to the [REDACTED] and are disclosed in this document, and our potential investors will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the [REDACTED] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, [and the Stock Exchange has granted], a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement in respect of the Dairy Products Purchase Framework Agreement.

CONTINUING CONNECTED TRANSACTIONS

B. Non-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Raw Milk Purchase and Sale Framework Agreement

Background and Historical Transaction Amount

In order to secure uninterrupted supply of high quality raw milk in the foreseeable future, Yili sought to enter a raw milk supply agreement with our Group in 2015 for long-term supply of raw milk. During the Track Record Period, the sales of raw milk by our Group to Yili and its subsidiaries and associates amounted to approximately RMB2,053.2 million, RMB2,393.1 million and RMB2,845.4 million and RMB3,067.1 million for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

Principal Terms and Pricing Policies

On [●], our Company and Yili entered into a raw milk purchase and sale framework agreement (“**Raw Milk Purchase and Sale Framework Agreement**”), pursuant to which our Group (including its subsidiaries from time to time) will provide long-term supply of raw milk to Yili and its associates. Major terms of such agreement are summarized below:

Term:	The Raw Milk Purchase and Sale Framework Agreement shall have a term of three years commencing from [●].
Long-term supply of raw milk:	(a) Yili and its subsidiaries and associates agree to purchase raw milk that meets the relevant national standards and the quality requirements of Yili and its subsidiaries and associates from our Group (including our subsidiaries from time to time); and (b) our Group (including our subsidiaries from time to time) agrees to sell at least 70% of our annual production of raw milk to Yili and its subsidiaries and associates on the terms and subject to the conditions of the Raw Milk Purchase and Sale Framework Agreement. Yili also agrees to buy all of the remaining 30% of our raw milk production volume so long as our Group is willing and able to supply raw milk to Yili.

CONTINUING CONNECTED TRANSACTIONS

Pricing:	The minimum price and terms of raw milk to be supplied by our Group (including our subsidiaries from time to time) to Yili and its subsidiaries and associates shall in principle not be lower than the price of and comparable to the terms of raw milk to be supplied to Yili by dairy farms of similar scale located in the same geographical location with our Group or nearby, or in the absence of such dairy farms in such region, by similar dairy farms in other regions, and/or shall be negotiated on an arm’s length basis between both parties based on the type, quality, purchase volume and historical transaction price of raw milk. The purchase price of raw milk is determined and adjusted based on market conditions and seasonal factors. As agreed between both parties, the final purchase price of raw milk varies depending on the quality grade. The quality of raw milk supplied by our Group must satisfy the standards set by the government and the requirements of Yili and its subsidiaries and associates.
Payment terms:	Payment for milk purchased (i) during the first twenty days in the current month shall be settled by the end of the current month; and (ii) in the remaining days of the current month shall be settled before the tenth day of the following month.
Amendment and termination:	The raw milk supply agreements having been executed and being performed by Yili and its subsidiaries and associates on the one hand, and our Group (including our subsidiaries from time to time) on the other hand, when the Raw Milk Purchase and Sale Framework Agreement comes into force shall continue to be in full force, subject to the terms and conditions of the Raw Milk Purchase and Sale Framework Agreement. In the event of any inconsistency between such specific raw milk supply agreements and the Raw Milk Purchase and Sale Framework Agreement in the validity period, pricing principles and other terms, such inconsistency shall be implemented in accordance with the Raw Milk Purchase and Sale Framework Agreement, and other terms shall continue to be implemented in accordance with the specific raw milk supply agreements. Any amendment to or the termination of the agreement shall be made in writing by both parties.

CONTINUING CONNECTED TRANSACTIONS

Reasons for the Transactions

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

Estimated Annual Caps

Our Directors estimate that the total annual purchase amount by Yili and its subsidiaries and associates from our Group (including our subsidiaries from time to time) under the Raw Milk Purchase and Sale Framework Agreement will not exceed RMB7,300 million, RMB10,100 million and RMB12,500 million for each of the three years ending December 31, 2020, 2021 and 2022, respectively. In determining such annual caps, our Directors have considered the following factors:

- (a) the historical and prevailing market price for raw milk, and potential fluctuations in the market price for raw milk in the future;
- (b) the historical transaction volume of raw milk purchased by Yili, its subsidiaries and associates from our Group (including SKX acquired by our Group on January 8, 2020, and its subsidiaries from time to time) during the Track Record Period;
- (c) the historical revenue of the raw milk business segment of SKX of RMB1,740.8 million, RMB2,037.5 million and RMB2,347.6 million for each of the three years ended December 31, 2017, 2018 and 2019, respectively;
- (d) the historical revenue of the raw milk business segment of Fonterra China Farms Group of RMB1,034.9 million, RMB930.2 million and RMB1,080.5 million for each of the three years ended December 31, 2017, 2018 and 2019, respectively;
- (e) the historical average milk yield per milkable cow (excluding Jerseys) of our Group of 9.9 tons, 10.0 tons, 10.4 tons and 11.3 tons for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, and the historical average milk yield per milkable cow of SKX of 8.5 tons, 8.6 tons, 9.0 tons and 9.9 tons for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively;
- (f) the anticipated significant growth in the production of raw milk of our Group for the three years ending December 31, 2020, 2021 and 2022, having taken into account (i) the increase in our revenue from the business segment of raw

CONTINUING CONNECTED TRANSACTIONS

milk from RMB2,237 million for the year ended December 31, 2017 to RMB3,064 million for the year ended December 31, 2019, representing a CAGR of approximately 17.0%; and (ii) the increase in production caused by the acquisition and integration of SKX and the proposed acquisition of the Fonterra China Farms Group; and

- (g) the possible sustained growth of the PRC dairy industry.

Listing Rule Implications

The transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that one or more applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will be more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Reasons for the Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Raw Milk Purchase and Sale Framework Agreement is fundamental to our businesses’ development, given there are limited number of dominant dairy conglomerates in the PRC.

In addition, given the Raw Milk Purchase and Sale Framework Agreement [was entered] into prior to the [REDACTED] and are disclosed in this document, and our potential investors will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement, circular and the independent Shareholders’ approval requirements in respect thereof immediately after the [REDACTED] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, [and the Stock Exchange has granted], a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement, circular and independent shareholders’ approval requirements in respect of the Raw Milk Purchase and Sale Framework Agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Raw Milk Purchase and Sale Framework Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONTINUING CONNECTED TRANSACTIONS

JOINT SPONSORS’ AND DIRECTORS’ VIEWS

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described in this section, including but not limited to terms and annual caps thereof, have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Based on the relevant documents and information provided by our Group and reviewed by the Joint Sponsors, the necessary representations and confirmations provided by our Company and the Directors to the Joint Sponsors and the Joint Sponsors’ participation in the due diligence and discussions with the management of our Company and our PRC legal advisor, the Joint Sponsors are of the view that the non-exempt continuing connected transactions described above, and for which the waivers have been sought, including but not limited to terms and annual caps thereof and the agreement to sell at least 70% of the Group’s raw milk production to Yili, have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better and are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board of Directors currently consists of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. The following table sets forth certain information regarding the Directors.

Name	Age	Position with our Company	Description of role	Time of joining our Group	Date of Appointment as Director
Mr. Zhang Yujun (張玉軍)	51	Chairman of the Board and non-executive Director	Responsible for strategic planning of our Group and the management of the Board	January 2019	August 24, 2020
Mr. Zhang Xiaodong (張小東)	41	Executive Director and president	Responsible for our Group’s overall operation and management	March 2017	August 24, 2020
Mr. Dong Jiping (董計平)	40	Executive Director and vice president	Responsible for the management of our Group’s legal compliance and external relations	November 2015	August 24, 2020
Mr. Xu Jun (徐軍)	49	Non-executive Director	Providing strategic advice on corporate development, and making recommendations on our Company’s major operational and management decisions	November 2015	August 24, 2020

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position with our Company	Description of role	Time of joining our Group	Date of Appointment as Director
Mr. Xu, Zhan Kevin (許湛)	39	Non-executive Director	Providing strategic advice on corporate development, and making recommendations on our Company’s major operational and management decisions	March 2015	August 24, 2020
Mr. Qiu Zhongwei (邱中偉)	52	Non-executive Director	Providing strategic advice on corporate development, and making recommendations on our Company’s major operational and management decisions	November 2015	August 24, 2020
Ms. Xie Xiaoyan (謝曉燕)	50	Independent non-executive Director	Supervising and providing independent judgment to our Board	[●]	[●]
Mr. Yao Feng (姚峰)	60	Independent non-executive Director	Supervising and providing independent judgment to our Board	[●]	[●]
Mr. Shen Jianzhong (沈建忠)	57	Independent non-executive Director	Supervising and providing independent judgment to our Board	[●]	[●]

For the table that sets forth certain information regarding the senior management, please refer to the section headed “– Senior Management” in this document.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Xiaodong (張小東), aged 41, joined our Group since March 2017, and was appointed as a director of our Company on August 24, 2020 and designated as an executive Director and appointed as the chief executive officer on November 15, 2020. Mr. Zhang has over 22 years of experience in dairy industry and is responsible for our Group’s overall operation and management.

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

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

Mr. Dong Jiping (董計平), aged 40, joined our Group since November 2015, and was appointed as a director of our Company on August 24, 2020 and designated as an executive Director and appointed as vice president on November 15, 2020. Mr. Dong has over 15 years of experience in dairy industry and is primarily responsible for the management of our Group’s legal compliance and external relations. He is also a director and the vice president of Youran Dairy, our principal operating subsidiary in the PRC.

DIRECTORS AND SENIOR MANAGEMENT

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

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

Non-executive Directors

Mr. Zhang Yujun (張玉軍), aged 51, was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director and appointed as the chairman of the Board on November 15, 2020. Mr. Zhang has over 25 years of experience in dairy industry and is primarily responsible for strategic planning of our Group and the management of the Board.

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Jun (徐軍), aged 49, joined our Group since November 2015, and was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company’s major operational and management decisions.

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

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

Mr. Xu, Zhan Kevin (許湛), aged 39, was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company’s major operational and management decisions.

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

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. Qiu Zhongwei (邱中偉), aged 52, was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Qiu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company’s major operational and management decisions.

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

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

Independent Non-executive Directors

Ms. Xie Xiaoyan (謝曉燕), aged 50, has been an independent non-executive Director since [●], 2020. Ms. Xie is primarily responsible for supervising and providing independent judgment to our Board.

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

Ms. Xie has served as an independent director of Inner Mongolia Junzheng Energy & Chemical Group Co. Ltd. (內蒙古君正能源化工集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601216.SH)) from June 2014 to June 2020; and an independent director of Inner Mongolia Jinyu Group Co., Ltd. (內蒙古金宇集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600201.SH)) from May 2007 to May 2013. She has also served as an independent director of Inner Mongolia Datang Pharmaceutical Co. (內蒙古大唐藥業股份有限公司) (a company quoted on National Equities

DIRECTORS AND SENIOR MANAGEMENT

Exchange and Quotations System in the PRC, also commonly known as The New Third Board (新三板) (stock code: 836433)) since April 14, 2020, and Jinhe Biotechnology CO., LTD. (金河生物科技股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002688.SZ)) since April 2020.

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

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

Mr. Yao Feng (姚峰), aged 59, has been an independent non-executive Director since [●], 2020. Mr. Yao is primarily responsible for supervising and providing independent judgment to our Board.

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

Mr. Yao successively served in various positions of the China Securities Regulatory Commission from June 1999 to May 2013, including the director of institution regulatory department, a party committee member and deputy officer of Guangzhou Securities Regulatory Office, a party committee member and deputy director of Guangzhou Regulatory Bureau, a deputy officer of the risk management office for securities companies, and an inspector and deputy officer of the accounting department from January 2001 to September 2011, and a commissioner of Shanghai Supervision Office of the Commissioner from September 2011 to May 2013. Mr. Yao successively served in China Association of Public Companies (中國上市公司協會) from May 2013 to April 2016 as the secretary of the party committee, the executive vice-chairman and legal representative. Mr. Yao served as the vice-chairman and legal representative of China Association of Public Companies from April 2016 to April 2017. Mr. Yao served as the deputy mayor of Hangzhou Municipal People’s Government from June 2017 to October 2019. Mr. Yao served as the deputy secretary of the party committee and the head of supervisors of China Association of Public Companies from June 2019 to September 2019.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yao has served as an independent non-executive director of Haitong UniTrust International Leasing Co., Ltd. (海通恆信國際租賃股份有限公司) (a company listed on the Stock Exchange (stock code: 1905)) from March 2020.

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

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

Mr. Shen Jianzhong (沈建忠), aged 57, has been an independent non-executive Director since [●], 2020. Mr. Shen is primarily responsible for supervising and providing independent judgment to our Board.

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of our Group:

Name	Age	Time of joining our Group	Position with our Company	Description of role
Mr. Zhang Xiaodong (張小東)	41	March 2017	Executive Director and president	Responsible for our Group’s overall operation and management
Mr. Dong Jiping (董計平)	40	November 2015	Executive Director and vice president	Responsible for the management of our Group’s legal, compliance and external relations
Mr. Jiang Guangjun (姜廣軍)	47	December 2019	Vice president	Assisting the president in our Group’s operation and management
Mr. Xu Yanfei (許燕飛)	39	August 2008	Vice president	Responsible for the operation and management of raw milk business
Mr. Yang Ming (楊明)	40	July 2002	Vice president	Responsible for the operation and management of feed business

Mr. Zhang Xiaodong (張小東), aged 41, is the executive Director and president of our Company. For further details, please see paragraphs headed “– Directors – Executive Directors” in this section.

Mr. Dong Jiping (董計平), aged 40, is the executive Director and vice president of our Company. For further details, please see paragraphs headed “– Directors – Executive Directors” in this section.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang Guangjun (姜廣軍), aged 46, joined our Group in December 2019, and was appointed as the vice president of our Company on November 15, 2020. Mr. Jiang has over 22 years of experience in dairy industry and is primarily responsible for assisting the president in full charge of the operation and management of our Group. He has also been serving as vice president of Youran Dairy, a principal operating subsidiary of our Company in the PRC, since December 2019.

He started his career at the cold drink division (冷飲事業部) of Yili in July 1998 and served as a quality inspector at the chocolate egg roll workshop (巧克力蛋捲車間) from July 1998 to January 2000. He then worked at the No.2 workshop of Jinchuan Factory (金川廠) under liquid milk division (液態奶事業部) of Yili for various positions, including as section chief from January 2000 to January 2001, as production manager from January 2001 to September 2002, and as the assistant to the factory head from September 2002 to February 2004. He then served as the general manager at Xilinhote Branch of liquid milk division (液態奶事業部) of Yili from February 2004 to September 2004, the general manager at Qiqihar Branch of liquid milk division (液態奶事業部) of Yili from October 2004 to September 2005, the general manager at Baotou Yili Dairy Co., Ltd. (包頭伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from October 2005 to November 2010. He was the president of Ningxia Yili Dairy Co., Ltd. (寧夏伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from November 2010 to August 2012, and was then promoted and worked as its senior president from August 2012 to August 2013. He served at the supply department in liquid milk division (液態奶事業部) of Yili, as the deputy supervisor in supply (person in charge) from August 2013 to February 2018, and as the supervisor in supply from February 2018 to December 2018. He worked as the vice president at the liquid milk division (液態奶事業部) of Yili from December 2018 to December 2019.

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

Mr. Xu Yanfei (許燕飛), aged 39, joined our Group in August 2008 and was appointed as a vice president of our Company on November 15, 2020. Mr. Xu has over 14 years of experience in farm management, and is responsible for overseeing and managing the overall operations of our Group’s farms.

Mr. Xu started his career in Yili’s raw milk division and served as the quality controller and system operator of the raw milk division from 2006 to 2007; and as the general manager of project management department of the raw milk division from 2007 to 2008. From 2008 to 2017, he served as a veterinarian, the group leader of the milking department, the deputy manager of the milking department, the manager of the milking department, the manager of the feeding department, the assistant to dairy farm manager and the dairy farm manager, during which he was assigned to study for one year at a farm of 10,000 cows in Florida, U.S. from 2011 to 2012. From July 2017 to December 2018, he served as the assistant general manager of the husbandry unit of Youran Dairy, a principal operating subsidiary in China; the vice president of Youran Dairy and was responsible for husbandry business from December 2018 till now; and a director of Youran Dairy from December 2019 till now.

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. Yang Ming (楊明), aged 40, joined our Group in 2002 and was appointed as the vice president of our Company on November 15, 2020. Mr. Yang has over 18 years of experience in the ruminant feed industry, and is responsible for overseeing and managing overall operation of our Group’s feed business.

Mr. Yang started his career in Muquan Yuanxing in 2002 and worked on procurement business. From 2002 to 2008, he served at multiple positions including production director, production manager, the manager of marketing department, regional manager and other positions in Muquan Yuanxing. He was promoted as the deputy manager of Muquan Yuanxing in 2008 and in charge of its operations in 2014. Since July 2015, he has served as the vice president of Youran Dairy, our principal subsidiary in the PRC and is in charge in feed business.

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

DIRECTORS’ AND SENIOR MANAGEMENT’S INTERESTS

Save as disclosed above, none of our Directors or senior management members has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this Document.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

As of the Latest Practicable Date, none of our Directors held any interest in the securities within the meaning of Part XV of the SFO.

As of the Latest Practicable Date, none of our Directors or senior management are related to other Directors or senior management of our Company.

As of the Latest Practicable Date, none of our Directors have any interests in any businesses, other than our Group’s business, which competes or is likely to compete, either directly or indirectly, with our Group’s business that would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. Yu Wing Sze (余詠詩), has been appointed as our company secretary with effect from November 15, 2020. She is primarily responsible for the overall company secretarial matters of our Group.

Ms. Yu is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She holds a bachelor degree in professional accountancy from the Chinese University of Hong Kong. She has over 10 years of working experience in company secretarial profession. She is now working in TMF Hong Kong Limited, a global professional firm.

BOARD COMMITTEES

Audit committee

We [have] established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of our Group.

The audit committee comprises Ms. Xie Xiaoyan (謝曉燕) as the chairman who has the appropriate professional qualifications or accounting or related financial management expertise, Mr. Yao Feng (姚峰), one of our independent non-executive Directors, and Mr. Qiu Zhongwei (邱中偉), one of our non-executive Directors.

Remuneration committee

We [have] established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee include, without limitation, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management, or alternatively, making recommendations to the Board on such remuneration packages; and (iii) reviewing performance-related elements of the total remuneration package for executive Directors to align their interests with those of Shareholders.

The Remuneration Committee consists of one non-executive Director, Mr. Xu Jun (徐軍) and two independent non-executive Directors, Mr. Shen Jianzhong (沈建忠) and Ms. Xie Xiaoyan (謝曉燕). Mr. Shen Jianzhong (沈建忠) is the chairman of the Remuneration Committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination committee

We [have] established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession.

The Nomination Committee consists of one non-executive Director, Mr. Xu Zhan Kevin (許湛), and two independent non-executive Directors, Mr. Yao Feng (姚峰) and Mr. Shen Jianzhong (沈建忠). Mr. Yao Feng (姚峰) is the chairman of the Nomination Committee.

CORPORATE GOVERNANCE CODE

Our Directors recognize the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. To accomplish this, we expect to comply with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules after the [REDACTED]. Our Directors will review our corporate governance policy and compliance with the Corporate Governance Code in Appendix 14 to the Listing Rules in each financial year.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses, which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonus) for the five highest paid individuals for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was approximately RMB4.3 million, RMB4.9 million, RMB6.1 million and RMB1.5 million, respectively.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonus) for our Directors for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was approximately RMB1.9 million, RMB2.4 million, RMB2.9 million and RMB0.6 million, respectively.

Under the arrangements currently in force, we estimate the aggregate amount of remuneration payable to our Directors for the year ending December 31, 2020 to be approximately RMB2.2 million.

DIRECTORS AND SENIOR MANAGEMENT

No remuneration was paid to our Directors or the five highest paid individuals of our Group as an inducement to join or upon joining our Group or as a compensation for loss of office for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 by our Group to the Directors.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we [have adopted] the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution that the selected candidates will bring to our Board.

Our Board currently consists of one female Director and eight male Directors with a balanced mix of knowledge and skills, including but not limited to business management, veterinary medicine, biotechnology and financial management. They obtained degrees in various majors including economics, engineering and management. The Board of Directors are of the view that our Board satisfies the board diversity policy.

Our nomination committee is responsible for ensuring the diversity of our Board members. After [REDACTED], our nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

COMPLIANCE ADVISOR

We have appointed Lego Corporate Finance Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

DIRECTORS AND SENIOR MANAGEMENT

- where we propose to use the net [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the [REDACTED] and end on the date when we distribute our annual report of our financial results for the first full financial year commencing after the [REDACTED] and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

The following is a description of the authorized share capital and share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of [REDACTED].

	Nominal Value <u>US\$</u>

Authorized share capital:

<u>10,000,000,000</u> Shares	<u>100,000</u>

Issued share capital:

<u>3,302,000,000</u> Shares in issue as of the date of this document	<u>33,020</u>

Shares to be issued assuming no conversion of any Convertible Notes:

<u>[REDACTED]</u> Shares to be issued pursuant to the [REDACTED] assuming no exercise of the [REDACTED]	<u>[REDACTED]</u>

Total issued share capital upon completion of the [REDACTED] and assuming no exercise of the [REDACTED] and no conversion of any Convertible Notes:

<u>[REDACTED]</u> Shares	<u>[REDACTED]</u>

Shares to be issued assuming no conversion of any Convertible Notes:

<u>[REDACTED]</u> Shares to be issued upon full exercise of the [REDACTED]	<u>[REDACTED]</u>

Total issued share capital upon completion of the [REDACTED] and assuming full exercise of the [REDACTED] and no conversion of any Convertible Notes:

<u>[REDACTED]</u> Shares	<u>[REDACTED]</u>

Shares to be issued upon the full conversion of the Convertible Notes are the initial conversion price:

<u>1,031,274,521</u> Shares	<u>10,313</u>

Total issued share capital upon completion of the [REDACTED] and assuming full exercise of the [REDACTED] and full conversion of the Convertible Notes:

<u>[REDACTED]</u> Shares	<u>[REDACTED]</u>

SHARE CAPITAL

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and the Shares are issued pursuant to the [REDACTED]. The above does not take into account any Shares which may be issued or repurchased pursuant to the general mandate granted to our Directors to issue or repurchase Shares as described below.

RANKINGS

The Shares are ordinary shares in the share capital of our Company and will rank *pari passu* with all Shares currently in issue or to be issued as mentioned in this document and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its share capital; (ii) consolidate its share capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken or agreed to be taken. In addition, our Company may, subject to the provisions of the Cayman Companies Law, reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. See the section headed “Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (iii) Alteration of capital” in Appendix IV in this document for further details.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the [REDACTED]” in this document, our Directors [have] been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- a rights issue;
- any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our By-laws;

SHARE CAPITAL

- a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of:
 - (i) [REDACTED]% of the total nominal value of the share capital of our Company in issue immediately following the completion of the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]); and
 - (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed “– General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire at the earliest of:

- at the conclusion of our next annual general meeting; or
- at the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please see the section headed “Statutory and General Information – A. Further Information About Our Group – 3. Resolutions in Writing of the Shareholders of Our Company Passed on [●], 2021” in Appendix V to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the [REDACTED] – [REDACTED]” in this document, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]).

This general mandate relates only to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are [REDACTED] (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section “Statutory and General Information – A. Further Information About our Group – 6. Repurchases of Our Own Shares” in Appendix V to this document.

SHARE CAPITAL

This general mandate to repurchase Shares will expire at the earliest of:

- at the conclusion of our next annual general meeting; or
- at the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please see the section headed “Statutory and General Information – A. Further Information About Our Group – 3. Resolutions in Writing of the Shareholders of Our Company Passed on [●], 2021” in Appendix V to this document.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], the following persons will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

Name	Capacity/nature of interest	Number of Shares held immediately before the [REDACTED] (assuming the Convertible Notes are not converted)	Approximate percentage of shareholding in the total issued share capital of our Company immediately before the [REDACTED] (assuming the Convertible Notes are not converted)	Number of Shares held immediately following the completion of the [REDACTED] (assuming the Convertible Notes are not converted)	Approximate percentage of shareholding in the total issued share capital of our Company immediately following the completion of the [REDACTED] (assuming the Convertible Notes are not converted)	Number of Shares held immediately following completion of the [REDACTED] (assuming the Convertible price of US\$0.44605)	Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the [REDACTED] (assuming the Convertible Notes are fully converted)
PAG ⁽¹⁾	Interest in controlled corporations	1,416,217,181	42.89%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
PAG I ⁽¹⁾	Beneficial interest	542,376,651	16.43%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
PAG II ⁽¹⁾	Beneficial interest	873,840,530	26.46%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
PAG III ⁽¹⁾	Beneficial interest	–	–	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
Yili ⁽²⁾⁽³⁾	Interest in controlled corporations	1,320,800,000	40.00%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
China Youran Dairy Holding Limited ⁽²⁾	Beneficial interest	800,000,000	24.23%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
Jingang Holding ⁽³⁾	Beneficial interest	520,800,000	15.77%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%
Meadowland ⁽⁴⁾	Beneficial interest	564,982,819	17.11%	[REDACTED]	[REDACTED]%	[REDACTED]	[REDACTED]%

Notes:

- (1) 542,376,651 Shares are held by PAG I and 873,840,530 Shares are held by PAG II. PAG III subscribed for Convertible Notes in the principal amount of US\$330 million. In the event of full conversion of such Convertible Notes, PAG III shall hold [REDACTED] Shares, assuming a conversion price of US\$0.44605. As PAG I, PAG II and PAG III are each wholly-owned subsidiaries of funds managed by PAG Capital Limited (“PAG”), PAG is deemed to be interested in an aggregate of 1,416,217,181 Shares, assuming the Convertible Notes are not converted, and an aggregate of [REDACTED] Shares, assuming the Convertible Notes are fully converted.
- (2) China Youran Dairy Holding Limited is wholly owned by Yili. Therefore, Yili is deemed to be interested in 800,000,000 Shares held by China Youran Dairy Holding Limited.
- (3) Jingang Holding is wholly owned by Yili. Therefore, Yili is deemed to be interested in 520,800,000 Shares held by Jingang Holding.
- (4) Meadowland is an exempted limited partnership established under the laws of the Cayman Islands, with Cloud Up Development Company Limited serving as its general partner, which is in turn wholly-owned by Ms. Hao Meirong, an Independent Third Party.

FINANCIAL INFORMATION

You should note that the acquisition of SKX was completed on January 8, 2020. As a result, the historical operating results and financial conditions of our Group for the years ended December 31, 2017, 2018 and 2019 do not include the information of SKX. In addition, the combined financial information of our Group for the years ended December 31, 2017, 2018 and 2019 only includes the information of Youran. But the combined financial data of our Group for the six months ended June 30, 2020 includes the financial information of Youran and SKX for the period from January 8, 2020 to June 30, 2020. Please refer to the section headed “– Acquisition of SKX” in this document for more information on the acquisition of SKX. To follow applicable regulations and disclosure requirements and for the purpose of presenting necessary key data to assess the financial impacts of the acquisition of SKX, this document includes the audited historical financial information of SKX for the years ended December 31, 2017, 2018 and 2019 and for the seven days ended January 7, 2020 (see “Appendix I – Accountants’ Report – III. Pre-acquisition Financial Information”) and the discussion and analysis on the historical financial information of SKX for the years ended December 31, 2017, 2018 and 2019 in this section. On October 3, 2020, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group. As of the Latest Practicable Date, the acquisition of Fonterra China Farms Group has not been completed. As a result, the historical operating results and financial conditions of our Group for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020 do not include the information of Fonterra China Farms Group. Please refer to the section headed “– Acquisition of Fonterra China Farms Group” in this document for more information on the acquisition of Fonterra China Farms Group. To follow applicable regulations and disclosure requirements and for the purpose of presenting necessary key data to assess the financial impacts of the acquisition of Fonterra China Farms Group, this document includes the audited historical financial information of Fonterra China Farms Group for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020 (see “Appendix II – Accountants’ Report – Fonterra China Farms Group”) and the discussion and analysis on the historical financial information of Fonterra China Farms Group for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020 in this section. Please refer to the section headed “– Financial Information of Fonterra China Farms Group” in this document. The document also includes the unaudited pro forma combined statements of comprehensive income of the Enlarged Group (see “Appendix III – Unaudited Pro Forma Financial Information”).

You should read the following discussion and analysis together with the audited combined financial data of our Group (including the notes) set out in Appendix I Accountants’ Report of the document and the audited combined financial data of Fonterra China Farms Group (including the notes) set out in Appendix II Accountants’ Report of the document. The audited combined financial data of our Group, the audited consolidated financial data of SKX and the audited combined financial information of Fonterra China Farms Group are prepared in accordance with the IFRSs.

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You should note that to facilitate [REDACTED] to assess our performance as a consolidated enterprise, certain operating indicators in certain periods before the acquisition of SKX and Fonterra China Farms Group or as at certain dates (as it depends) before the acquisition of SKX and Fonterra China Farms Group are presented on a “consolidated” basis (as stated when using them) through the consolidation of respective indicators of Youran, SKX and Fonterra China Farms Group. Such consolidated information may not reflect the actual conditions of Youran, SKX and Fonterra China Farms Group as at relevant dates or for relevant periods when they are not under the management and operation of the same group.

The discussion and analysis of financial information in this section may contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed “Risk Factors” and “Business.”

For the purpose of this section, unless the context otherwise requires or unless otherwise indicated, references to 2017, 2018 and 2019 refer to the financial years ended December 31 of such years and references to the first half of 2019 and 2020 refer to the six months ended June 30, 2019 and 2020.

OVERVIEW

We are a leader in China’s upstream dairy market and one of a select number of dairy farming companies around the world with a business layout covering the entire upstream dairy industry. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in the first half of 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

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Founded in 1984, we were once a wholly-owned subsidiary of Yili, the world’s fifth largest* and fast-growing large-scale dairy manufacturer, until we were spun off from Yili in 2015. With nearly 40 years of experience in the dairy industry and in-depth research and development, we have gained insights into market demands and trends, which enable us to develop and offer diversified products and services catering to evolving customer demands. Our business has grown to cover the entire upstream dairy value chain from breeding, feed to raw milk production, and we have maintained a leading position and achieved rapid growth in each of our core business lines.

During the Track Record Period, the financial performance of each business segment was satisfactory. Our revenue increased from RMB5,091.4 million for the year ended December 31, 2017 to RMB6,333.9 million for the year ended December 31, 2018 and further to RMB7,667.8 million for the year ended December 31, 2019, at a CAGR of 22.7% from 2017 to 2019. Our revenue increased from RMB3,436.8 million for the six months ended June 30, 2019 to RMB5,344.4 million for the six months ended June 30, 2020 on a consolidated post-SKX Acquisition basis. We recorded net profit of RMB277.9 million, RMB652.9 million and RMB801.9 million for the years ended December 31, 2017, 2018 and 2019, respectively, at a CAGR of 69.9% from 2017 to 2019. The net profit increased from RMB365.3 million for the six months ended June 30, 2019 to RMB744.1 million for the six months ended June 30, 2020 on a consolidation post-SKX Acquisition basis.

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with the accounting policies set out in note 4 to the Accountants’ Report in Appendix I to this document, which are in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (the “IASB”). In addition, the historical financial information contains applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

Following the incorporation of our Company and the completion of the corporate reorganisation as mentioned below, our Group’s principal business is mainly operated by Youran Dairy and its subsidiaries, which was incorporated in the PRC as a company with limited liability on August 1, 2007.

In order to streamline the corporate structure in preparation for the [REDACTED] of our Company’s shares on [REDACTED], our Group underwent the Reorganization, details of which are set out in the section headed “History, Reorganization and Group Structure” in this document.

*Source: “Global Dairy Top 20” in 2020 published by the Rabobank Nederland in August 2020.

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Upon completion of the Corporate Reorganization, our Company became the holding company of existing members of our Group. The Corporate Reorganization only involved the inclusion of our Company, Youran BVI (incorporated in the British Virgin Islands on March 18, 2015) and Yogurt HK (incorporated in Hong Kong on April 9, 2015), and all these companies are newly-established entities with no substantial operations and are the holding companies of Old Cayman Holdco and its subsidiaries. Prior to and after the Corporate Reorganization, there was no change in the business carried out by Old Cayman Holdco and its subsidiaries.

ACQUISITION OF SKX

On July 9, 2019, our Company entered into a share purchase agreement with certain shareholders of SKX (NEEQ: 834179), pursuant to which our Company agreed to acquire approximately 58.36% of the equity interest of SKX (the “**SKX Acquisition**”). SKX is a company incorporated in the PRC on July 31, 2006, which primarily engages in dairy farming and dairy breeding and is currently listed on the NEEQ of a material subsidiary. The SKX Acquisition was completed on January 8, 2020, which constitutes an acquisition of our Group within the Track Record Period. After the completion of the SKX Acquisition, SKX became our non-wholly owned subsidiary. For details, see the section headed “History, Reorganization and Group Structure” in this document.

To comply with the requirements of Rule 4.05A of the Listing Rules, the pre-acquisition consolidated financial information of SKX for the period from January 1, 2017 to January 7, 2020, which was drawn up in conformity with accounting policies adopted by our Group, has been disclosed (see Section III of the Accountants’ Report included in Appendix I to this document). Furthermore, to present material information necessary for investors to assess the impact of the SKX Acquisition on our Group, this document also includes (i) a discussion and analysis of the historical financial information of SKX for the years ended December 31, 2017, 2018 and 2019 (see “– Financial Information of SKX”); and (ii) unaudited pro forma combined statements of comprehensive income of the Enlarged Group with SKX for the year ended December 31, 2019, assuming the SKX Acquisition was completed on January 1, 2019, prepared with reference to the Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (see “Appendix III – Unaudited Pro Forma Financial Information” and “– Summary of Pro Forma Financial Information of the Enlarged Group”).

ACQUISITION OF FONTERRA CHINA FARMS GROUP

Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. Such consideration was determined with reference to, among other things, the adjusted net assets (after the borrowings from the immediate controlling company are converted into additional registered

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capital before completion) of Fonterra China Farms Group. The above acquisition has not been closed as at the date of this document. Please see the section headed “History, Reorganization and Group Structure – Major Acquisitions, Disposals and Mergers – Proposed Acquisition of Fonterra China Farms Group” for further details.

To comply with the requirements of Rule 4.04 and Rule 4.28 of the Listing Rules, as well as to present material information necessary for investors to assess the impact of the Fonterra China Farms Group Acquisition on our Group, this document includes (i) audited historical financial information of Fonterra China Farms Group for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 (see Appendix II – Accountants’ Report – Fonterra China Farms Group set out in this document); (ii) a discussion and analysis of the historical financial information of Fonterra China Farms Group for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020 (see “– Financial Information of Fonterra China Farms Group”); and (iii) unaudited pro forma combined statement of comprehensive income of the Enlarged Group with Fonterra China Farms Group and SKX for the year ended December 31, 2019 and for the six months ended June 30, 2020, and unaudited pro forma combined statement of financial position as of June 30, 2020 (prepared by reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants), assuming that the Fonterra China Farms Group Acquisition was completed on January 1, 2019 and June 30, 2020, respectively (see “Appendix III – Unaudited Pro Forma Financial Information” and “– Summary of Pro Forma Financial Information of the Enlarged Group”).

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH SKX

The unaudited pro forma financial information is presented to illustrate the impact on our financial performance as if the acquisition of controlling interest in SKX had been completed on January 1, 2019. The unaudited pro forma combined statement of profit or loss of the Enlarged Group with SKX are prepared based on the audited combined statement of profit or loss of our Group for the year ended December 31, 2019 and for the six months ended June 30, 2020 as set out in Appendix I to the document and the audited consolidated statement of profit or loss of SKX as extracted from Section III “Supplementary Pre-acquisition financial information” of the Appendix I to the document. The unaudited pro forma combined statement of profit or loss of the Enlarged Group with SKX has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial performance of the Enlarged Group for the year ended December 31, 2019, or for any future period.

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Unaudited Pro Forma Combined Statement of Profit or Loss of the Enlarged Group with SKX for the Year Ended December 31, 2019

	Our Group	SKX	Pro forma adjustments			Unaudited pro forma of the Enlarged Group with SKX
			Elimination of intercompany transactions	Impact of fair value adjustments	Adjustments to non-controlling interests	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000 (Note 4)	RMB'000 (Note 5)	RMB'000
Revenue	7,667,818	2,407,511	(527,705)	–	–	9,547,624
Cost of sales	(7,014,226)	(2,357,974)	518,483	(22,768)	–	(8,876,485)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	1,232,668	717,390	–	–	–	1,950,058
Gross profit	1,886,260	766,927	(9,222)	(22,768)	–	2,621,197
Loss arising from changes in fair value less costs to sell of biological assets	(133,255)	(267,165)	–	–	–	(400,420)
Other income	55,396	29,752	–	–	–	85,148
Impairment loss under expected credit loss model, net of reversal	(24,761)	(14,681)	–	–	–	(39,442)
Other gains and losses	(16,046)	(18,419)	–	–	–	(34,465)
Selling and distribution expenses	(340,687)	(89,364)	–	–	–	(430,051)
Administrative expenses	(445,453)	(141,008)	–	(1,515)	–	(587,976)
Other expenses	(26,528)	(16,148)	–	–	–	(42,676)
Share of profit of a joint venture	–	215	–	–	–	215
Finance costs	(104,071)	(141,064)	–	–	–	(245,135)
Profit before tax	850,855	109,045	(9,222)	(24,283)	–	926,395
Income tax (expense)/credit	(48,973)	192	2,306	–	–	(46,475)
Profit for the year	801,882	109,237	(6,916)	(24,283)	–	879,920
Profit for the year attributable to:						
Owners of the Company	801,882	112,004	(6,916)	(24,137)	(36,588)	846,245
Non-controlling interests	–	(2,767)	–	(146)	36,588	33,675
	801,882	109,237	(6,916)	(24,283)	–	879,920

Notes:

1. The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of our Group for the year ended December 31, 2019 as set out in Appendix I to this document.
2. The amounts are extracted from the audited consolidated statement of profit or loss and other comprehensive income of SKX for the year ended December 31, 2019 as set out in Section III “Supplementary Pre-acquisition financial information” of Appendix I to this document.
3. The adjustments represent the elimination of intercompany transactions and the related deferred tax effect between our Group and SKX.

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4. For the purpose of the Unaudited Pro Forma Financial Information with SKX, the fair values of the identifiable assets and liabilities of SKX as at January 1, 2019 have been reassessed as if the acquisition had been completed on January 1, 2019. The adjustments represent additional depreciation and amortisation charges according to the above fair value adjustments as at January 1, 2019 and the related impact on the non-controlling interests of SKX.
5. The adjustment represents share of results of SKX by the non-controlling interests for the year ended December 31, 2019 as if the acquisition had been completed on January 1, 2019. The calculation is as follows:

RMB'000

SKX's profit attributable to owners of SKX for the year ended	
December 31, 2019	112,004
Less: Impact of additional depreciation and amortisation charges (Note 4)	(24,137)
	87,867
Profit for the year attributable to the non-controlling interests (41.64%)	36,588

6. The pro forma adjustments related to elimination of intercompany transactions, additional depreciation and amortisation charges and the related impact on non-controlling interests as set out in Notes 3, 4 and 5 above are expected to have continuing effect on the profit of the Enlarged Group with SKX.
7. No adjustments have been made to reflect any trading results or other transactions of our Group and SKX entered into subsequent to December 31, 2019.

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP AND SKX

The unaudited pro forma financial information is presented to illustrate the impact on the financial performance and financial position of our Group as if the acquisition of Fonterra China Farms Group has been completed at January 1, 2019 and June 30, 2020, respectively, which comprise the unaudited pro forma combined statement of profit or loss for the year ended December 31, 2019 and the six months ended June 30, 2020, and the unaudited pro forma combined statement of financial position at June 30, 2020 of our Group and Fonterra China Farms Group and SKX (collectively as the “Enlarged Group with Fonterra China Farms Group and SKX”). The unaudited pro forma financial information has been prepared in accordance with paragraph 4.29 of the Listing Rules. The unaudited pro forma combined statements of profit or loss of the Enlarged Group with Fonterra China Farms Group and SKX are prepared based on the audited combined statement of profit or loss of our Group for the year ended December 31, 2019 and the six months ended June 30, 2020 as set out in Appendix I to the document and the unaudited pro forma combined statement of financial position of the Enlarged Group with Fonterra China Farms Group is prepared based on the audited combined statement of financial position of our Group at June 30, 2020 as set out in Appendix I to the document. The unaudited pro forma combined statement of profit or loss of the Enlarged Group with Fonterra China Farms Group and SKX has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial performance of the Enlarged Group for the year ended December 31, 2019 and for the six months ended June 30, 2020, or for any future period.

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Unaudited Pro Forma Combined Statement of Profit or Loss of the Enlarged Group with Fonterra China Farms Group and SKX for the Year Ended December 31, 2019

	Fonterra China Farms Group			The Enlarged Group with Fonterra China Farms Group										The Enlarged Group
	Our Group	Pro forma adjustments			SKX	Pro forma adjustments			Note 8 RMB'000	Pro forma adjustments			Note 12 RMB'000	
		Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000		Note 5 RMB'000	Note 6 RMB'000	Note 7 RMB'000		Note 9 RMB'000	Note 10 RMB'000	Note 11 RMB'000		
Revenue	7,667,818	1,111,354	-	(85,229)	-	-	-	-	8,693,943	2,407,511	(527,705)	-	-	10,573,749
Cost of sales	(7,014,226)	(1,011,171)	-	85,229	-	(56,215)	-	-	(7,996,383)	(2,357,974)	518,483	(22,768)	-	(9,858,642)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	1,232,668	94,418	-	-	-	-	-	-	1,327,086	717,390	-	-	-	2,044,476
Gross profit	1,886,260	194,601	-	-	-	(56,215)	-	-	2,024,646	766,927	(9,222)	(22,768)	-	2,759,583
Loss arising from changes in fair value less costs to sell of biological assets	(133,255)	(8,922)	-	-	-	-	-	-	(142,177)	(267,165)	-	-	-	(409,342)
Other income	55,396	23,100	-	-	-	-	-	-	78,496	29,752	-	-	-	108,248
Impairment loss under expected credit loss model, net of reversal	(24,761)	-	-	-	-	-	-	-	(24,761)	(14,681)	-	-	-	(39,442)
Other gains and losses	(16,046)	(902,126)	192,256	898,475	-	-	-	-	172,559	(18,419)	-	-	-	154,140
Selling and distribution expenses	(340,687)	(69,338)	-	-	-	-	-	-	(410,025)	(89,364)	-	-	-	(499,389)
Administrative expenses	(445,453)	(60,622)	-	-	-	(3,421)	-	-	(509,496)	(141,008)	-	(1,515)	-	(652,019)
Other expenses	(26,528)	-	-	-	-	-	-	-	(26,528)	(16,148)	-	-	-	(42,676)
Share of profit of a joint venture	-	-	-	-	-	-	-	-	-	215	-	-	-	215
Finance costs	(104,071)	(50,079)	-	-	-	-	42,542	(106,913)	(218,521)	(141,064)	-	-	-	(359,585)
Profit/(loss) before tax	850,855	(873,386)	192,256	-	898,475	(59,636)	42,542	(106,913)	944,193	109,045	(9,222)	(24,283)	-	1,019,733
Income tax expense	(48,973)	-	-	-	-	-	-	16,037	(32,936)	192	2,306	-	-	(30,438)
Profit/(loss) for the year	801,882	(873,386)	192,256	-	898,475	(59,636)	42,542	(90,876)	911,257	109,237	(6,916)	(24,283)	-	989,295
Attributable to:														
Owners of the Company	801,882	(873,386)	192,256	-	898,475	(59,636)	42,542	(90,876)	911,257	112,004	(6,916)	(24,137)	(36,588)	955,620
Non-controlling interests	-	-	-	-	-	-	-	-	-	(2,767)	-	(146)	36,588	33,675
Profit for the year	801,882	(873,386)	192,256	-	898,475	(59,636)	42,542	(90,876)	911,257	109,237	(6,916)	(24,283)	-	989,295

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Notes to the unaudited pro forma financial information of the Enlarged Group with Fonterra China Farms Group and SKX:

- 1 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of our Group for the year ended December 31, 2019 as set out in Appendix I to this document.
- 2 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of Fonterra China Farms Group for the year ended December 31, 2019 as set out in Appendix II to the document.
- 3 The adjustments represent the effect of bargain purchase from the acquisition of Fonterra China Farms Group, which has no continuing effect, as set out below.

	<i>Notes</i>	<i>RMB'000</i>
Fair value of net identifiable assets of Fonterra China Farms Group as at January 1, 2019	<i>(a)</i>	2,491,469
Purchase consideration	<i>(b)</i>	2,310,000
Adjustment to purchase consideration	<i>(b)</i>	<u>(10,787)</u>
Adjusted purchase consideration		<u>2,299,213</u>
Bargain purchase gain		<u><u>192,256</u></u>

Notes:

- (a) The fair value is based on the valuation report of Jones Lang La Salle performed for the net identifiable assets of Fonterra China Farms Group as at January 1, 2019. Jones Lang La Salle is independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

The fair value of the property is based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

The fair value of the plant and equipment is based on cost approach as the main method. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The fair value of the right-of-use assets is based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which has been then capitalized to determine the fair value at an appropriate capitalization rate.

- (b) The purchase consideration and adjustment thereto are based on the share purchase agreement dated October 3, 2020. The consideration adjustments are determined by a formula in relation to the net working capital and debts etc. as at the completion date. The above adjustment is preliminarily determined based on the management accounts as of January 2019 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

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The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation as at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

- 4 The adjustment represents the elimination of intercompany transactions, which is expected to have continuing effect.
- 5 The adjustment represents the adjustment of impairment loss of property, plant and equipment of Fonterra China Farms Group for the year ended December 31, 2019. For the purpose of this unaudited pro forma financial information, such property, plant and equipment are measured at fair value at January 1, 2019 as part of the identifiable assets acquired by our Group. This adjustment has no continuing effect.
- 6 The adjustments represent: 1) reversal of depreciation and amortisation based on carrying amount of property, plant and equipment and right of use assets; and 2) depreciation and amortisation charges based on the fair value of property, plant and equipment and right of use assets acquired at January 1, 2019. This is expected to have continuing effect.
- 7 The adjustment represents the reversal of interest expense on the Fonterra China Farm’s debt due to the original shareholder converted to equity in accordance with the share purchase agreement dated October 3, 2020 as if the acquisition was completed on January 1, 2019. This is expected to have no continuing effect.
- 8 The directors of the Company intend to fund the adjusted purchase consideration of RMB2,299,213,000 by a term loan, and estimate an interest rate of 4.65% per annum based on our Group’s existing loans with similar terms and tax effect. Total interest expenses on the aforesaid loan is estimated to be RMB106,913,000 for the year ended December 31, 2019. This is expected to have continuing effect.
- 9 The amounts are extracted from the audited consolidated statement of profit or loss and other comprehensive income of SKX for the year ended December 31, 2019 as set out in Section III “Supplementary Pre-acquisition Financial Information” of Appendix I to this Document.

The pro forma adjustments 10 to 13 have been prepared to illustrate the impact on our Group as if the acquisition of SKX had been completed on January 1, 2019.

- 10 The adjustments represent the elimination of intercompany transactions and the related deferred tax effect between our Group and SKX. This is expected to have continuing effect.

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- 11 For the purpose of the unaudited pro forma financial information, the fair values of the identifiable assets and liabilities of SKX as at January 1, 2019 have been reassessed as if the acquisition had been completed on January 1, 2019. The adjustment represents additional depreciation and amortisation charges according to the above fair value adjustments as at January 1, 2019 and the related impact on the non-controlling interests of SKX. This is expected to have continuing effect.
- 12 The adjustment represents share of results of SKX by the non-controlling interests for the year ended December 31, 2019 as if the acquisition had been completed on January 1, 2019. The calculation is set out in note 5 in section (2) of (B) “Unaudited Pro Forma Financial Information of the Enlarged Group with SKX of Appendix III to this document”.
- 13 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of our Group and Fonterra China Farms Group and SKX entered into subsequent to December 31, 2019.

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Unaudited Pro Forma Combined Statement of Profit or Loss of the Enlarged Group with Fonterra China Farms Group for the Six Months Ended June 30, 2020

	Our Group	Fonterra China Farms Group	Pro forma adjustments				The Enlarged Group
	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 5 RMB'000	Note 6 RMB'000	RMB'000
Revenue	5,344,427	587,492	–	(46,501)	–	–	5,885,418
Cost of sales	(4,975,241)	(548,123)	–	46,501	(32,331)	–	(5,509,194)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	1,238,129	93,297	–	–	–	–	1,331,426
Gross profit	1,607,315	132,666	–	–	(32,331)	–	1,707,650
Loss arising from changes in fair value less costs to sell of biological assets	(217,637)	(47,272)	–	–	–	–	(264,909)
Other income	37,835	5,317	–	–	–	–	43,152
Impairment losses under expected credit loss model, net of reversal	(11,762)	–	–	–	–	–	(11,762)
Other gains and losses	468	173	–	–	–	–	641
Selling and distribution expenses	(206,302)	(23,934)	–	–	–	–	(230,236)
Administrative expenses	(270,333)	(30,432)	–	–	(2,451)	–	(303,216)
Other expenses	(6,224)	–	–	–	–	–	(6,224)
[REDACTED] expenses	(10,328)	–	–	–	–	–	(10,328)
Share of profit of joint venture	69	–	–	–	–	–	69
Finance costs	(152,554)	(25,259)	21,377	–	–	(53,457)	(209,893)
Profit before tax	770,547	11,259	21,377	–	(34,782)	(53,457)	714,944
Income tax expense	(26,488)	–	–	–	–	8,019	(18,469)
Profit for the period	<u>744,059</u>	<u>11,259</u>	<u>21,377</u>	<u>–</u>	<u>(34,782)</u>	<u>(45,438)</u>	<u>696,475</u>
Attributable to:							
Owners of the Company	731,249	11,259	21,377	–	(34,782)	(45,438)	683,665
Non-controlling interests	12,810	–	–	–	–	–	12,810
	<u>744,059</u>	<u>11,259</u>	<u>21,377</u>	<u>–</u>	<u>(34,782)</u>	<u>(45,438)</u>	<u>696,475</u>

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Notes to the unaudited pro forma combined statement of profit or loss financial information of the Enlarged Group with Fonterra China Farms Group and SKX for the six months ended 30 June 2020:

- 1 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of our Group for the six months ended June 30, 2020 as set out in Appendix I to this document.

The audited combined statement of profit or loss and other comprehensive income of our Group for the six months ended June 30, 2020 has consolidated the operating results of SKX since the acquisition date of January 8, 2020. The operating results of SKX for the period from January 1 to January 7, 2020 has been disclosed in the audited combined financial information of our Group in Appendix I. For the purpose of this unaudited combined pro forma financial information, no pro forma adjustment is made to present the operating results of SKX for the period from January 1 to January 7, 2020 as they are considered by the directors as not significant to our Group.

- 2 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of Fonterra China Farms Group for the six months ended June 30, 2020 as set out in Appendix II to the document.
- 3 The adjustment represents the reversal of interest expense on Fonterra China Farms Group's debt due to the original shareholder converted to equity in accordance with share purchase agreement dated October 3, 2020 as if the acquisition was completed as at January 1, 2019. This is expected to have no continuing effect.
- 4 The adjustment represents the elimination of intercompany transactions, which is expected to have continuing effect.
- 5 The adjustment represents adjustments to depreciation and amortisation charges based on the fair value of property, plant and equipment and right of use assets on January 1, 2019. This is expected to have continuing effect.
- 6 The directors of the Company intend to fund the adjusted purchase consideration of RMB2,299,213,000 by a term loan, and estimate an interest rate of 4.65% per annum and tax effect. Total interest expenses on the aforesaid loan is estimated to be RMB53,457,000 for the six months ended June 30, 2020. This is expected to have continuing effect.
- 7 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of our Group and Fonterra China Farms Group entered into subsequent to June 30, 2020.

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Unaudited Pro Forma Combined Statement of Financial Position of the Enlarged Group with Fonterra China Farms Group and SKX as at June 30, 2020

	Our Group	Fonterra China Farms Group	Pro forma adjustments					The Enlarged Group
	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 5 RMB'000	Note 6 RMB'000	Note 7 RMB'000	RMB'000
Non-current assets								
Property, plant and equipment	5,461,480	1,038,220	-	104,919	-	-	-	6,604,619
Investment properties	44,331	-	-	-	-	-	-	44,331
Right-of-use assets	1,243,826	85,620	-	14,001	-	-	-	1,343,447
Goodwill	762,741	-	-	-	-	-	-	762,741
Intangible assets	1,932	140	-	-	-	-	-	2,072
Biological assets	6,431,075	1,150,661	-	-	-	-	-	7,581,736
Deferred tax assets	10,453	-	-	-	-	-	-	10,453
Interest in a joint venture	811	-	-	-	-	-	-	811
Equity instrument at fair value through other comprehensive income	55,513	-	-	-	-	-	-	55,513
Pledged and restricted bank deposits	34,621	-	-	-	-	-	-	34,621
Prepayment for purchase of property, plant and equipment	94,908	-	-	-	-	-	-	94,908
Deposits for biological assets	68,174	-	-	-	-	-	-	68,174
	<u>14,209,865</u>	<u>2,274,641</u>	<u>-</u>	<u>118,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,603,426</u>
Current assets								
Inventories	1,186,819	104,094	-	-	-	-	-	1,290,913
Trade and bills receivables	808,709	125,115	-	-	-	(29,284)	-	904,540
Bill receivables at fair value through other comprehensive income	59,916	-	-	-	-	-	-	59,916
Contract assets	8,780	-	-	-	-	-	-	8,780
Biological assets	22,051	-	-	-	-	-	-	22,051
Prepayments, deposits and other receivables	238,167	8,496	-	-	-	-	-	246,663
Amounts due from related parties	345,349	202,588	-	-	-	-	-	547,937
Pledged and restricted bank deposits	80,632	-	-	-	-	-	-	80,632
Bank balances and cash	1,594,505	15,555	-	-	-	-	(11,663)	1,598,397
	<u>4,344,928</u>	<u>455,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,284)</u>	<u>(11,663)</u>	<u>4,759,829</u>

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	Our Group	Fonterra China Farms Group	Pro forma adjustments					The Enlarged Group
	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 5 RMB'000	Note 6 RMB'000	Note 7 RMB'000	RMB'000
Current liabilities								
Trade and bills payables	1,321,577	162,247	-	-	-	(29,284)	-	1,454,540
Other payables and accruals	1,143,431	55,413	-	-	-	-	-	1,198,844
Contract liabilities	22,246	1,320	-	-	-	-	-	23,566
Amounts due to related parties	100,321	31,856	-	-	-	-	-	132,177
Bank and other borrowings	3,529,446	95,936	-	-	-	-	-	3,625,382
Non-current borrowings from immediate controlling company due within one year	-	930,646	(930,646)	-	-	-	-	-
Lease liabilities	43,434	3,738	-	-	-	-	-	47,172
Other liabilities	6,100	-	-	-	-	-	-	6,100
Other provisions	18,544	-	-	-	-	-	-	18,544
Income tax payable	15,784	-	-	-	-	-	-	15,784
	6,200,883	1,281,156	(930,646)	-	-	(29,284)	-	6,522,109
Net current liabilities	(1,855,955)	(825,308)	930,646	-	-	-	(11,663)	(1,762,280)
Total assets less current liabilities	12,353,910	1,449,333	930,646	118,920	-	-	(11,663)	14,841,146
Non-current liabilities								
Bank and other borrowings	1,746,282	1,563,232	(1,563,232)	-	2,369,136	-	-	4,115,418
Deferred tax liabilities	5,989	-	-	-	-	-	-	5,989
Deferred income	218,553	875	-	(875)	-	-	-	218,553
Lease liabilities	908,868	38,867	-	-	-	-	-	947,735
Other liabilities	20,309	-	-	-	-	-	-	20,309
Other provisions	6,760	-	-	-	-	-	-	6,760
	2,906,761	1,602,974	(1,563,232)	(875)	2,369,136	-	-	5,314,764
Net assets/(liabilities)	9,447,149	(153,641)	2,493,878	119,795	(2,369,136)	-	(11,663)	9,526,382
Capital and reserves								
Share capital	110	1,343,927	790	-	(1,344,717)	-	-	110
Reserves	8,399,693	(1,497,568)	2,493,088	119,795	(1,024,419)	-	(11,663)	8,478,926
Equity attributable to owners of the Company	8,399,803	(153,641)	2,493,878	119,795	(2,369,136)	-	(11,663)	8,479,036
Non-controlling interests	1,047,346	-	-	-	-	-	-	1,047,346
Total equity/deficit	9,447,149	(153,641)	2,493,878	119,795	(2,369,136)	-	(11,663)	9,526,382

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Notes:

- 1 The amounts are extracted from the audited combined statement of financial position of our Group as at June 30, 2020 as set out in Appendix I to the Document.
- 2 The amounts are extracted from the audited combined statement of financial position of Fonterra China Farms Group as at June 30, 2020 as set out in Appendix II to the Document.
- 3 The adjustments represent the Fonterra China Farms Group’s debt of RMB2,493,878,000 due to the original shareholder converted to equity in accordance with the share purchase agreement dated October 3, 2020 as if the acquisition was completed at June 30, 2020.
- 4 The adjustments represent the fair value adjustments on net identifiable assets of Fonterra China Farms Group as at June 30, 2020.

Our Group has applied the acquisition method in accordance with IFRS 3 “Business Combinations” to account for the Acquisition of Fonterra China Farms Group as if the acquisition had been completed on June 30, 2020 and the calculation of pro forma bargain purchase gain is as follows:

	<i>Notes</i>	At June 30, 2020
		<i>RMB’000</i>
Carrying amount of net identifiable assets acquired	(a)	2,340,237
Pro forma fair value adjustment	(b)	119,795
Adjusted purchase consideration	(c)	2,369,136
Pro forma bargain purchase gain		90,896

Notes:

- (a) The carrying amount of identifiable net assets acquired is extracted from the audited combined statement of financial position of Fonterra China Farms Group as at June 30, 2020 as set out in Appendix II to the Document, and adjusted for the debt conversion in note 3 above.
- (b) The pro forma fair value adjustment is based on the valuation report of Jones Lang LaSalle on the net identifiable assets of Fonterra China Farms Group at June 30, 2020. Jones Lang La Salle is independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King’s Road, Hong Kong.

The fair value of the property is based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

The fair value of the plant and equipment is based on cost approach as the main method. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The fair value of the right of use assets is based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which has been then capitalized to determine the fair value at an appropriate capitalization rate.

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- (c) The adjusted purchase consideration is calculated according to the share purchase agreement dated October 3, 2020. The consideration adjustments are determined by a formula in relation to the net working capital and debts etc. as if the acquisition was completed as at June 30, 2020. The above adjustment is preliminarily determined based on the management accounts as of 30 June 2020 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

- 5 The directors of the Company intend to fund the consideration of RMB2,369,136,000 by a non-current term loan. The adjustments to share capital and reserves represent the elimination of pre-acquisition reserves of Fonterra China Farms Group at 30 June 2020 and recognition of the pro forma bargain purchase gain of RMB90,896,000 as set out in note 4 above.
- 6 The adjustments represent the elimination of intercompany balances.
- 7 The adjustment represents the acquisition-related costs to be paid before completion date.
- 8 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of our Group and Fonterra China Farms Group entered into subsequent to June 30, 2020.

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MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our Ability to Optimize Our Raw Milk Product Mix

Our ability to optimize our raw milk product mix is crucial to our revenue and profit growth with respect to our raw milk business. We offer a variety of raw milk products, including premium raw milk and specialty raw milk, such as jersey milk, DHA milk, A2 milk and organic milk. With increasing disposable income, continuous consumption upgrade and rising health awareness of consumers in China, quality specialty dairy products are becoming increasingly popular among Chinese dairy consumers, which further lead to the ever-growing demand for specialty raw milk from dairy manufacturers. In order to promptly respond to the changing consumption structure in the downstream dairy products market and to seize tremendous market opportunities, we have focused on developing a diverse range of specialty raw milk and expanding our product offerings. The sales volume of our specialty raw milk increased at a CAGR of 38.7% from 141,692 tons for the year ended December 31, 2017 to 272,715 tons for the year ended December 31, 2019 and from 127,155 tons for the six months ended June 30, 2019 to 190,439 tons for the six months ended June 30, 2020. The proportion of specialty raw milk sales volume to our total raw milk sales volume increased from 26.9% for the year ended December 31, 2017 to 41.6% for the year ended December 31, 2019. Correspondingly, the contribution of specialty raw milk to our revenue has increased steadily since 2017. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, revenue generated from the sales of specialty raw milk was RMB832.3 million, RMB1,312.5 million, RMB1,502.0 million and RMB1,010.0 million, respectively, representing a CAGR of 34.3% from 2017 to 2019. We will continue to diversify and optimize our raw milk product portfolio to cater to our customers’ evolving needs and effectively respond to the dynamic changes in supply and demand in the downstream dairy products market. See the section headed “Business – Our Strategies – Optimizing structure: optimize our product and service portfolio and enhance our core competitiveness.”

Our Ability to Increase Our Average Milk Yield per Milkable Cow

Our operating results are directly affected by our average milk yield per milkable cow. As the average milk yield per milkable cow increases, the amount of feed needed to produce a certain amount of raw milk decreases, indicating an improvement in raw milk production efficiency. Milk yield is affected by a number of factors, including a cow’s stage of lactation, breed, gene, feed and health, as well as the geographic location, climatic conditions and the management of the dairy farms. Our dairy farms are primarily located in the Golden Raw Milk Belt, and enjoy favorable climates and abundant natural resources. We have also taken a number of steps to improve our average milk yield per milkable cow, including:

- improving the genetic quality of our herds with leading cow genetic improvement and sex-sorting technologies;
- selecting quality heifers based on physical attributes and pedigree;

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- optimizing the nutrition intake for our dairy cows through precision feeding and by leveraging our massive ruminant nutrient database and strong agri-science capabilities;
- scientific management of our modern dairy farms with advanced equipment and systems;
- dairy farms that provide dairy cows with better living environments;
- regular and systematic culling of milkable cows with low yields to improve our herds; and
- implementing strict disease control measures.

Benefiting from the foregoing measures, we have achieved an industry-leading average milk yield per milkable cow. The average milk yield per milkable cow (excluding Jerseys) of Youran was 9.9 tons, 10.0 tons, 10.4 tons and 11.3 tons (annualised average milk yield per milkable cow) for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. During the same periods, the average milk yield per milkable cow of SKX was 8.5 tons, 8.6 tons, 9.0 tons and 9.9 tons (annualised average milk yield per milkable cow), respectively. The industry average was 7.8 tons per annum in 2019, according to Frost & Sullivan. We will continue to optimize our dairy farm operations, which is expected to further improve the average milk yield per milkable cow.

Our Ability to Provide Comprehensive Ruminant Farming Solutions to Match Our Ability to Sell Ruminant Farming Products

We continue to drive sales of ruminant farming products by offering a wide range of customized comprehensive ruminant farming solutions. With our abundant experience and in-depth insights accumulated through years of exploration in the dairy industry, we are able to freely tailor-make various ruminant farming support services for our customers based on their demands, including ruminant nutrition, breeding technique and ruminant healthcare. We combine our ruminant farming support services with our ruminant farming products together, and sell our ruminant farming products while providing our customized services for our customers. Through our integrated sales programs, we can enhance the overall profitability and productivity for our dairy farm customers. Meanwhile, by offering them attractive customer experience, we are able to build up customer loyalty.

External revenue from comprehensive ruminant farming solutions increased from RMB2,854.0 million for the year ended December 31, 2017 to RMB3,723.6 million for the year ended December 31, 2018 and further to RMB4,604.2 million for the year ended December 31, 2019, at a CAGR of 27.0% from 2017 to 2019. To further improve customer stickiness and drive their spending on our ruminant farming products, we will continue to identify their diverse and evolving needs for our business, accordingly enhance our customized comprehensive ruminant farming solutions and expand our ruminant farming product offerings.

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Our Ability to Expand Dairy Herd Size and Optimize Dairy Herd Structure

We believe our long-term profit growth depends largely on our ability to expand our dairy herd size and optimize our dairy herd structure. By virtue of our advanced breeding technology and import of quality heifers, our dairy herd size expanded significantly during the Track Record Period. Our dairy herd size grew from 102,268 dairy cows as of December 31, 2017, 127,345 dairy cows as of December 31, 2018, and 152,037 dairy cows as of December 31, 2019, to 287,045 dairy cows as of June 30, 2020 (on a consolidated post-SKX Acquisition basis). Among our dairy cows, during the same periods, we had 56,361, 61,857, 77,955 and 150,360 milkable cows (on a consolidated post-SKX Acquisition basis), accounting for 55.1%, 48.6%, 51.3% and 52.4% of our dairy herds, respectively. The increase in the number of milkable cows has contributed to the increase of the raw milk production volume that drives our raw milk sales. Based on the foregoing reasons, our raw milk business has achieved significant growth during the Track Record Period. For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, our revenues generated from sales of our raw milk amounted to RMB2,237.5 million, RMB2,610.3 million, RMB3,063.6 million and RMB3,193.0 million, respectively.

In addition, we have been driving the sustainable growth of our raw milk business as we continue optimizing our dairy herd structure. As of June 30, 2020, we had 136,685 calves and heifers, which accounted for approximately 47.6% of our total dairy cows. We expect our raw milk yield to grow steadily as our reserve cows become milkable cows.

Our Ability to Increase the Bargain Power of Our Products through Improving the Quality of our Products

Our growth in revenues and profitability during the Track Record Period was partially attributable to the increase in average selling prices of our products.

- Raw milk. The prices at which we sell our raw milk are affected by a number of factors, including the raw milk quality, market price and feed costs. In particular, raw milk producers are typically rewarded for high protein and fat content. During the Track Record Period, our raw milk was typically sold at a premium to the market average selling prices primarily due to the higher quality of our raw milk. We have also been driving the rise in selling price of our raw milk by optimizing our product mix. To capture the growing market value of specialty dairy products in the downstream market, we also successively introduced specialty raw milk including Jersey milk, DHA milk, A2 milk and organic milk, and have since focused on specialty raw milk offerings. Consistent with industry practice, our specialty raw milk enjoys a premium compared to our regular raw milk products, which has allowed us to achieve higher profit margins and returns. As we continue expanding our specialty raw milk offerings, we believe we will continue to grow our revenues while increasing the average selling price of our raw milk and improving our overall profitability.

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- Comprehensive ruminant farming solutions. For our ruminant farming products, we implement a strategy of driving sales with customized comprehensive ruminant farming solutions. We design tailor-made comprehensive ruminant farming solutions for our customers by pinpointing the challenges and pain points that they are facing in their operations and on such basis sell our ruminant farming products. Our integrated sales model of combining products and services has greatly improved our bargaining power and customer satisfaction. Going forward, we will continue to expand and improve our comprehensive ruminant farming solutions based on our deep industry experience and technical strength, and increase selling prices of our ruminant farming products while providing professional consulting services for our customers.

Our Ability to Manage Costs and Improve Operational Efficiency

The profitability of our business depends largely on our ability to effectively control costs and enhance operational efficiency. Forage grass fed to our dairy herds and ingredients for concentrated feed account for a significant portion of our cost of sales. For example, the cost of raw materials (mainly feed fed to our dairy herd) of our raw milk segment was RMB1,104.0 million, RMB1,237.6 million, RMB1,437.6 million and RMB1,513.2 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, representing 79.2%, 79.8%, 80.6% and 79.9% of the cost of sales of our raw milk business (before raw milk fair value adjustments), respectively. Our feed costs are affected by fluctuations in the market prices of forage grass and raw materials. We have adopted diverse means to mitigate the impact of fluctuations in feed prices, including flexibly adjusting feed formula while adhering to nutritional standards, diversifying our feed ingredients so that the price fluctuation of one ingredient would not exert material impact on our feed price, maintaining diversified supply channels and conducting raw material procurement with commodity futures. We have been sourcing feed from a number of suppliers who offer diverse and high-quality forage grass in China and overseas. In the meantime, our own feed business also provides support to our feed supply.

In addition, we have been leveraging our economies of scale and integrated farming model to increase productivity, reduce operating costs, and thus achieve higher operation efficiency. We have proactively developed large-scale dairy farms, aiming to improve production efficiency and reduce unit production cost through highly automated production processes, and to ensure consistent product quality through real-time monitoring and precise control of the entire production process. As of June 30, 2020, we have a total of 40 large-scale dairy farms with a planned and designed herd size of more than 5,000 heads, representing approximately 61.5% of our total dairy farms. Our large-scale standardized dairy farms, modern and scientific operations, and advanced technologies and facilities contribute to our long-term profit growth. Our integrated farming model facilitates the sharing of resources, technologies and talents and helps us achieve significant synergies across different business lines.

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Our Ability to Continuously Benefit From Government Support

The PRC government has been a key advocate in promoting the development of the dairy industry in China. We have in the past significantly benefited from various forms of government support and favorable government policies implemented by the PRC government at the national and local level. For example, the State Council of the PRC promulgated the Opinions on Revitalization of the Dairy Industry and Ensuring Quality and Safety of Dairy Products (關於推進奶業振興保障乳製品質量安全的意見) in 2018, to promote the development of large-scale, standardized dairy farms and the self-sufficiency of milk products supply in China. The State Council of the PRC further issued Certain Guidelines on Prioritizing the Development of Agriculture and Rural Areas and Accomplishing the Work Relating to **Agriculture, Rural Areas and Rural Residents** (關於堅持農業農村優先發展做好“三農”工作的若干意見) in 2019, which calls for the revitalization of the dairy industry in China and the large-scale planting and production of high-quality forage grass, including alfalfa hay. For further information about such government support and favorable government policies, see the section headed “Regulatory Overview”. These government support and favorable government policies in the form of government grants, credit services, insurance premium subsidies, preferential tax policies and land use rights have provided strong support for our business operations, especially the construction of large-scale dairy farms. With such government support, we have continued to expand our business. In addition, we have benefited from preferential tax policies during the Track Record Period. For example, certain of our PRC subsidiaries are exempted from enterprise income tax for the operation of agricultural business or enjoy a preferential tax rate of 15% under China’s Western Development policies. We expect to continue to benefit from favorable government policies in the foreseeable future.

Changes in Fair Value of Biological Assets

Our net profit has been, and we expect will continue to be, affected by changes in fair value less cost to sell of biological assets in respect of our dairy cows. We are required under IFRS to recognize such changes under “Gain/(loss) arising from changes in fair value less cost to sell of biological assets”. This line item represents fair value changes of our biological assets due to the changes in physical attributes and market prices of and discounted future cash flow to be generated from those cows. For example, when a heifer becomes a milkable cow, its value usually increases as the discounted cash flow from milking is generally higher than the selling price of heifer. On the contrary, when a milkable cow is culled or sold, its value decreases. During the Track Record Period, our biological assets were revalued at each reporting date. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, we recorded losses arising from changes in fair value less costs to sell of biological assets of RMB407.7 million, RMB87.3 million, RMB133.3 million and RMB217.6 million, respectively. The fair value of the calves and heifers is determined with reference to their market prices and breeding costs, while the fair value of milkable cows represents the present value of the expected net cash flows from such milkable cows discounted at a current market rate. In applying these valuation methods, our independent qualified professional valuer has relied on a number of assumptions related to, among other things, raw milk prices, milk yield, culling rates, feed costs and discount rates. Therefore, the fair value of our dairy cows could

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be affected by, among other things, the accuracy of such assumptions, and any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and our management review the assumptions and estimates periodically to identify any significant changes in fair value of dairy cows. For more information about the valuation methods applied in valuing our dairy cows, see Note 22 of the Accountants’ Report included as Appendix I to this document.

Significant Accounting Policies and Estimates

We have identified certain accounting policies that we believe are most significant to the preparation of our combined financial statements. For details of these accounting policies, please refer to Note 4 to the Accountants’ Report in Appendix I to this document.

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

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

Principal versus agent

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

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

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

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Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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Biological assets

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

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

Agricultural produce

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

Impairment of financial assets (upon application of IFRS 9 on January 1, 2018 with transitions in accordance with Note 3)

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

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

Our Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

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

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

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

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(v) Measurement and recognition of ECL

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

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

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

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

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

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SUMMARY COMBINED STATEMENT OF PROFIT OR LOSS COMPREHENSIVE INCOME OF OUR GROUP

The table below sets forth a summary of our combined statements of profit or loss comprehensive income for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)			(unaudited)	
Revenue	5,091,445	6,333,920	7,667,818	3,436,842	5,344,427
Cost of sales	(4,630,103)	(5,810,627)	(7,014,226)	(3,164,792)	(4,975,241)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	850,963	1,022,398	1,232,668	584,915	1,238,129
Gross Profit	1,312,305	1,545,691	1,886,260	856,965	1,607,315
Loss arising from changes in fair value less costs to sell biological assets	(407,730)	(87,271)	(133,255)	(116,839)	(217,637)
Other income	45,692	51,469	55,396	26,355	37,835
Impairment losses under expected credit loss model, net of reversal	–	(1,453)	(24,761)	(5,795)	(11,762)
Other gains and losses	3,566	(35,613)	(16,046)	(11,032)	468
Selling and distribution expenses	(210,019)	(271,932)	(340,687)	(144,498)	(206,302)
Administrative expenses	(359,500)	(421,298)	(445,453)	(173,727)	(270,333)
Other expenses	(8,460)	(2,311)	(26,528)	(1,127)	(6,224)
[REDACTED] expenses	–	–	–	–	(10,328)
Share of profit of a joint venture	–	–	–	–	69
Finance costs	(51,127)	(80,081)	(104,071)	(46,635)	(152,554)

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	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)			(unaudited)	
Profit before tax	324,727	697,201	850,855	383,667	770,547
Income tax expense	(46,872)	(44,334)	(48,973)	(18,355)	(26,488)
Profit for the year/period	<u>277,855</u>	<u>652,867</u>	<u>801,882</u>	<u>365,312</u>	<u>744,059</u>
Other comprehensive income for the year/period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,837</u>
Total comprehensive income for the year/period	<u>277,855</u>	<u>652,867</u>	<u>801,882</u>	<u>365,312</u>	<u>752,896</u>
Profit for the year/period attributable to:					
Owners of the Company	277,855	652,867	801,882	365,312	731,249
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,810</u>
	<u>277,855</u>	<u>652,867</u>	<u>801,882</u>	<u>365,312</u>	<u>744,059</u>
Total comprehensive income for the year/period attributable to:					
Owners of the Company	277,855	652,867	801,882	365,312	736,406
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,490</u>
	<u>277,855</u>	<u>652,867</u>	<u>801,882</u>	<u>365,312</u>	<u>752,896</u>

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We offer a broad selection of raw milk products and a variety of comprehensive ruminant farming solutions primarily covering feed, frozen semen and ruminant farming products. We generate revenue primarily from sales of our products to our customers. During the Track Record Period, we recorded revenue of RMB5,091.4 million, RMB6,333.9 million, RMB7,667.8 million RMB3,436.8 million and RMB5,344.4 million for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively.

We classified our businesses into two segments: (i) raw milk, which includes sales of premium raw milk and specialty raw milk; and (ii) comprehensive ruminant farming solutions, which mainly includes production and sales of feed, frozen semen and ruminant farming products. The following table sets forth a breakdown of our revenue by business segment for the periods indicated:

	Segment revenue	Inter- segment revenue	External revenue	External revenue as % of segment revenue
	<i>(RMB'000, except for percentage)</i>			
Year ended				
December 31, 2017				
Raw milk	2,237,474	–	2,237,474	100.0
Comprehensive ruminant farming solutions	3,246,632	392,661	2,853,971	87.9
Year ended				
December 31, 2018				
Raw milk	2,610,333	–	2,610,333	100.0
Comprehensive ruminant farming solutions	4,304,370	580,783	3,723,587	86.5
Year ended				
December 31, 2019				
Raw milk	3,063,615	–	3,063,615	100.0
Comprehensive ruminant farming solutions	5,141,442	537,239	4,604,203	89.6

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	Segment revenue	Inter- segment revenue	External revenue	External revenue as % of segment revenue
	<i>(RMB'000, except for percentage)</i>			
Six months ended				
June 30, 2019				
(unaudited)				
Raw milk	1,453,840	–	1,453,840	100.0
Comprehensive				
ruminant farming				
solutions	2,184,530	201,528	1,983,002	90.8
Six months ended				
June 30, 2020				
Raw milk	3,192,968	–	3,192,968	100.0
Comprehensive				
ruminant farming				
solutions	2,494,004	342,545	2,151,459	86.3

Raw milk

We derive revenues from sales of our safe, quality raw milk to our customers. Revenue from sales of our raw milk is recognized when control of the raw milk has been transferred, being at the point the customer received the goods and accepted the quality. The following table sets forth the sales value and sales volume of our raw milk for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	Sales value	Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value	Sales volume
	<i>(Sales value in RMB'000; sales volume in tons)</i>									

Raw milk										
Premium raw										
milk	1,405,214	385,261	1,297,803	335,829	1,561,656	383,071	752,228	188,145	2,182,970	563,147
Specialty raw										
milk	832,260	141,692	1,312,530	236,264	1,501,959	272,715	701,612	127,155	1,009,998	190,439
Subtotal	2,237,474	526,953	2,610,333	572,093	3,063,615	655,786	1,453,840	315,300	3,192,968	753,586

The average selling price of our raw milk was RMB4.2/kg, RMB4.6/kg and RMB4.7/kg for the years ended December 31, 2017, 2018 and 2019, respectively; and the average selling price of our raw milk was RMB4.6/kg and RMB4.2/kg for the six months ended June 30, 2019 and 2020, respectively. The decrease of average selling price of our raw milk from RMB4.6/kg

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for the six months ended June 30, 2019 to RMB4.2/kg for the six months ended June 30, 2020 was primarily due to the acquisition of SKX, whose product structure mainly consists of premium raw milk that has relatively lower price as compared to specialty raw milk.

Comprehensive ruminant farming solutions

We derive our revenue from comprehensive ruminant farming solutions, which primarily include feed, breeding products and ruminant farming products. During the Track Record Period, our revenue from comprehensive ruminant farming solutions was primarily generated from the sales of feed. For the years ended December 31, 2017, 2018 and 2019, and for the six months ended June 30, 2019 and 2020, revenue generated from the sales of feed amounted to RMB2,643.6 million, RMB3,508.8 million, RMB4,376.5 million, RMB1,886.5 million and RMB1,977.1 million, representing 92.6%, 94.2%, 95.1%, 95.1% and 91.9% of revenues from our comprehensive ruminant farming solutions, respectively, for the same periods. The following table sets forth the composition of the revenue from our comprehensive ruminant farming solutions for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017	%	2018	%	2019	%	2019	%	2020	%
(RMB'000, except for percentage)										
(unaudited)										
Comprehensive ruminant farming solutions										
Sales of feed	2,643,555	92.6	3,508,771	94.2	4,376,520	95.1	1,886,469	95.1	1,977,149	91.9
Sales of ruminant farming products	210,416	7.4	214,816	5.8	227,683	4.9	96,533	4.9	146,377	6.8
Sales of frozen bovine semen	—	—	—	—	—	—	—	—	27,933	1.3
Total	<u>2,853,971</u>	<u>100.0</u>	<u>3,723,587</u>	<u>100.0</u>	<u>4,604,203</u>	<u>100.0</u>	<u>1,983,002</u>	<u>100.0</u>	<u>2,151,459</u>	<u>100.0</u>

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Cost of Sales

The following table sets forth cost of sales by business segment for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017	%	2018	%	2019	%	2019	%	2020	%
<i>(RMB'000, except for percentage)</i>										
<i>(unaudited)</i>										
Cost of sales before fair value adjustments										
Cost of sales										
Raw milk	1,394,635	30.1	1,550,214	26.7	1,784,635	25.4	851,010	26.9	1,894,056	38.1
Comprehensive ruminant farming solutions	2,384,505	51.5	3,238,015	55.7	3,996,923	57.0	1,728,867	54.6	1,843,056	37.0
Fair value adjustments for agricultural produce included in cost of sales	850,963	18.4	1,022,398	17.6	1,232,668	17.6	584,915	18.5	1,238,129	24.9
Total	<u>4,630,103</u>	<u>100.0</u>	<u>5,810,627</u>	<u>100.0</u>	<u>7,014,226</u>	<u>100.0</u>	<u>3,164,792</u>	<u>100.0</u>	<u>4,975,241</u>	<u>100.0</u>

Cost of Sales before Fair Value Adjustments

Raw milk

Cost of sales for our raw milk business consists primarily of cost of raw materials (mainly are feed fed to our dairy herd), depreciation charge, rental cost, utilities expenses, staff salaries and benefits and other costs.

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The following table sets forth the composition of cost of sales for our raw milk business before raw milk fair value adjustment for the periods indicated:

	For the Year ended December 31,						For the Six Months ended June 30,			
	2017	%	2018	%	2019	%	2019	%	2020	%
<i>(RMB'000, except for percentage)</i>										
<i>(unaudited)</i>										
Cost of sales for our raw milk business before raw milk fair value adjustments										
Feed	1,104,033	79.2	1,237,633	79.8	1,437,617	80.6	670,304	78.7	1,513,235	79.9
Depreciation charge	89,641	6.4	87,630	5.7	96,078	5.4	46,190	5.4	105,382	5.6
Rental cost	6,723	0.5	10,000	0.6	10,272	0.6	2,393	0.3	11,323	0.6
Utilities expenses	28,190	2.0	27,505	1.8	32,962	1.8	13,253	1.6	31,075	1.6
Staff salaries and benefits	148,220	10.6	150,636	9.7	166,734	9.3	81,544	9.6	155,063	8.2
Others	17,828	1.3	36,810	2.4	40,972	2.3	37,326	4.4	77,978	4.1
Total	<u>1,394,635</u>	<u>100.0</u>	<u>1,550,214</u>	<u>100.0</u>	<u>1,784,635</u>	<u>100.0</u>	<u>851,010</u>	<u>100.0</u>	<u>1,894,056</u>	<u>100.0</u>

Comprehensive ruminant farming solutions

The cost of sales for our comprehensive ruminant farming solutions business consists primarily of the cost of sales of feed, cost of sales of ruminant farming products, and cost of sales of frozen bovine semen.

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The following table sets forth the composition of the cost of sales for our comprehensive ruminant farming solutions business before forage grass fair value adjustments for the periods indicated:

	For the Year ended December 31,						For the Six Months ended June 30,			
	2017	%	2018	%	2019	%	2019	%	2020	%
	(RMB'000, except for percentage)									
	(unaudited)									
Cost of sales for our comprehensive ruminant farming solutions business before forage grass fair value adjustments										
Cost of sales of feed	2,222,910	93.2	3,072,836	94.9	3,812,839	95.4	1,652,031	95.6	1,700,265	92.3
Cost of sales of ruminant farming products	161,595	6.8	165,179	5.1	184,084	4.6	76,836	4.4	126,226	6.8
Cost of sales of frozen bovine semen	—	—	—	—	—	—	—	—	16,565	0.9
Total	2,384,505	100	3,238,015	100	3,996,923	100	1,728,867	100	1,843,056	100

Fair value adjustments for agricultural produce included in cost of sales

Fair value adjustments for agricultural produce included in cost of sales arise from the differences between the production cost under the cost approach and the market price of agricultural produce at the point of harvest. We recorded fair value adjustments for agricultural produce included in cost of sales of RMB851.0 million, RMB1,022.4 million and RMB1,232.7 million for the years ended December 31, 2017, 2018 and 2019, respectively, and RMB584.9 million and RMB1,238.1 million for the six months ended June 30, 2019 and 2020, respectively.

Fair value adjustments for agricultural produce consist of raw milk fair value adjustments and forage grass fair value adjustments. We recorded raw milk fair value adjustments of RMB832.0 million, RMB1,013.1 million and RMB1,225.0 million for the years ended December 31, 2017, 2018 and 2019, respectively, and RMB581.3 million and RMB1,233.4 million for the six months ended June 30, 2019 and 2020, respectively. The forage grass fair value adjustments amounted to RMB18.9 million, RMB9.3 million and RMB7.7 million for the years ended December 31, 2017, 2018 and 2019, respectively, and RMB3.6 million and RMB4.7 million for the six months ended June 30, 2019 and 2020, respectively.

FINANCIAL INFORMATION

Gains Arising on Initial Recognition of Agricultural Produce at Fair Value less Cost of Sales at the Point of Harvest

Our agricultural produce primarily consists of raw milk produced by our self-owned dairy cows in our self-operated dairy farms. Under IFRS, agricultural produce is recognised as inventories at fair value less costs to sell at the point of harvest. The fair value is determined based on the market price quoted in the local area. The resulting gain or loss of recognition of such fair value, being the difference between (i) the fair value less costs to sell of such raw milk and (ii) the breeding costs incurred in the case of raw milk business, is recognised in profit or loss for that period. Meanwhile, the fair value recognised is charged as cost of sales upon subsequent sales of such agricultural produce as part of the cost of inventories sold.

The gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest was due to the difference between the production cost of agricultural produce under the cost approach and the market price of agricultural produce at the point of harvest.

We recorded gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest of RMB851.0 million, RMB1,022.4 million and RMB1,232.7 million for the years ended December 31, 2017, 2018 and 2019, respectively, and RMB584.9 million and RMB1,238.1 million for the six months ended June 30, 2019 and 2020, respectively.

The gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest could offset the agricultural produce fair value adjustments included in cost of sales.

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Gross Profit

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

	For the Year ended December 31,						For the Six Months ended June 30,			
	2017		2018		2019		2019		2020	
	(RMB'000, except for percentage)									
	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross
	profit	margin	profit	margin	profit	margin	profit	margin	profit	margin
	(unaudited)									
Raw milk	842,839	37.7%	1,060,119	40.6%	1,278,980	41.7%	602,830	41.5%	1,298,912	40.7%
Comprehensive ruminant farming solutions	469,466	16.4%	485,572	13.0%	607,280	13.2%	254,135	12.8%	308,403	14.3%
Total	1,312,305	25.8%	1,545,691	24.4%	1,886,260	24.6%	856,965	24.9%	1,607,315	30.1%

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

Loss arising from changes in fair value less costs to sell of biological assets represents fair value changes in our biological assets, due to the changes in physical attributes and market prices of and discounted future cash flows to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flows from milking is higher than the selling price of heifers. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, the biological assets were revalued at each reporting date.

During the Track Record Period, the valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers.* The fair value of calves and heifers is determined by reference to the local market selling price. The fair values of calves and heifers less than 14 months old are determined by subtracting the estimated feed costs required to raise the cows from their respective ages at the end of each reporting period to 14 months old. Conversely, the fair values of heifers older than 14 months are determined by adding the estimated feed costs required to raise the heifers from 14 months old to their respective ages at the end of each reporting period plus the margins that would normally be required by a raiser.
- *Milkable cows.* The fair values of milkable cows are determined by using the multi-period excess earnings approach, which is based on the discounted future cash flows to be generated by such milkable cows.

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We recorded loss arising from changes in fair value less costs to sell biological assets of RMB407.7 million, RMB87.3 million and RMB133.3 million for the years ended December 31, 2017, 2018 and 2019, respectively, and RMB116.8 million and RMB217.6 million for the six months ended June 30, 2019 and 2020, respectively. See the section headed “–Period-to-period Comparison of Results of Operations” for analysis on the fluctuation of the gains and losses arising from changes in fair value less costs to sell of biological assets.

When disposing of our dairy cows, we write off the carrying amount of the dairy cows from our biological assets, and the difference between the carrying amount of the dairy cows disposed of and the proceeds from the disposal is recorded as change in fair value less costs to sell of our biological assets. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of dairy cows amounted to RMB179.1 million, RMB190.1 million, RMB328.2 million, RMB159.4 million and RMB408.8 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively.

Other Income

We recorded other income of RMB45.7 million, RMB51.5 million, RMB55.4 million, RMB26.4 million and RMB37.8 million for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively. Our other income mainly includes government grants released from deferred income, incentive subsidies, rental income, bank interest, income from sale of scrap materials, compensation income, write-back of other payables and others, and among them, government grants released under deferred income represent the largest component of our other income. Government grants released from deferred income, amounted to RMB24.3 million, RMB27.0 million and RMB38.8 million for the years ended December 31, 2017, 2018 and 2019, respectively, and RMB19.1 million and RMB13.0 million for the six months ended June 30, 2019 and 2020, respectively, which mainly include unconditional government subsidies granted to us by the Chinese government to support China’s dairy farming business and our research and development.

FINANCIAL INFORMATION

Impairment Loss under Expected Credit Loss Model, Net of Reversal

Our impairment losses under expected credit loss model, net of reversal consist of impairment losses recognized or reversed on trade and other receivables. The following table sets forth a breakdown of our impairment losses under expected credit loss model, net of reversal for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(unaudited)	
Impairment losses recognized/reversed on:					
Trade receivables	–	1,262	24,273	5,841	10,361
Other receivables	–	191	488	(46)	1,401
Total	–	1,453	24,761	5,795	11,762

Other Gains and Losses

Other gains and losses consist primarily of (i) loss or gain on disposal of property, plant and equipment, (ii) impairment loss on property, plant and equipment, (iii) reversal of impairment loss on trade and other receivables, (iv) reduction in or additional provision for other obligations, (v) fair value gains or loss on derivative financial instruments, (vi) fair value gain on financial instruments at fair value through profit or loss, (vii) gain or loss on termination and modification of lease agreements, and (viii) others.

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The following table sets forth a breakdown of the components of our other gains and losses for the periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)			(unaudited)	
(Loss)/gain on disposal of property, plant and equipment	(1,480)	(5,272)	(6,298)	(92)	85
Impairment loss on property, plant and equipment	(598)	(26,204)	(8,271)	–	(63)
Reversal of impairment loss on trade and other receivables	3,815	–	–	–	–
Reduction in/(additional) provision for other obligations	–	943	1,515	(8,417)	–
Fair value gain/(loss) on derivative financial instruments	2,506	(5,208)	(2,186)	(1,632)	487
Fair value gain on financial instruments at fair value through profit or loss	–	–	209	–	–
Gain/(loss) on termination and modification of lease agreements	–	–	105	(656)	–
Others	(677)	128	(1,120)	(235)	(41)
	<u>3,566</u>	<u>(35,613)</u>	<u>(16,046)</u>	<u>(11,032)</u>	<u>468</u>

FINANCIAL INFORMATION

Selling and Distribution Expenses

Our selling and distribution expenses consist primarily of: (i) loading, unloading and transportation costs, which are mainly costs incurred by us to deliver raw milk and ruminant farming products to our customers; (ii) marketing expenses, which are mainly expenses involved in promoting our comprehensive ruminant farming solutions; (iii) staff remuneration, mainly including salaries and bonuses paid by us to our sales personnel; (iv) taxes, mainly including business taxes and surcharges; (v) travel expenses, which are related to the carrying out of our marketing activities; and (vi) others.

The following table sets forth a breakdown of our selling and distribution expenses and as a percentage of our total selling and distribution expenses for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB'000, except for percentages)									
	(unaudited)									
Loading, unloading and transportation costs	105,940	50.4	181,761	66.9	201,351	59.2	92,213	63.8	141,661	68.6
Marketing expenses	40,574	19.3	10,942	4.0	48,186	14.1	9,825	6.8	10,530	5.1
Staff remuneration	35,107	16.7	37,795	13.9	44,992	13.2	22,195	15.4	26,310	12.8
Taxes	10,704	5.1	16,406	6.0	21,531	6.3	8,504	5.9	12,626	6.1
Travel expenses	9,393	4.5	14,509	5.3	12,302	3.6	6,422	4.4	6,175	3.0
Others	8,301	4.0	10,519	3.9	12,325	3.6	5,339	3.7	9,000	4.4
Total	<u>210,019</u>	<u>100.0</u>	<u>271,932</u>	<u>100.0</u>	<u>340,687</u>	<u>100.0</u>	<u>144,498</u>	<u>100.0</u>	<u>206,302</u>	<u>100.0</u>

Administrative Expenses

Our administrative expenses consist of: (i) staff remuneration, mainly including salaries and bonuses of our management and executive staff; (ii) maintenance expenses, mainly including expenses incurred for regular maintenance of our dairy farms and production facilities; (iii) travel and office expenses related to our administrative activities; (iv) legal and professional service fees, mainly including legal and consulting services; (v) insurance expenses, mainly including commercial property insurance we have purchased; (vi) research and development expenses; and (vii) others, mainly including depreciation and amortisation, taxes and charges, etc..

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The following table sets forth a breakdown of our administrative expenses and as a percentage of our total administrative expenses for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB'000, except percentages) (unaudited)									
Staff remuneration	134,817	37.5	154,434	36.7	182,773	40.9	86,656	49.8	119,772	44.2
Maintenance expenses	112,424	31.3	125,673	29.8	124,138	27.9	30,045	17.3	57,234	21.2
Travel and office expenses	48,969	13.6	54,798	13.0	61,292	13.8	25,134	14.5	28,296	10.5
Legal and professional services fees	9,058	2.5	25,577	6.1	13,594	3.1	869	0.5	6,895	2.6
Insurance expenses	5,985	1.7	7,380	1.8	10,727	2.4	4,954	2.9	17,570	6.5
Research and development expenses	1,790	0.5	5,249	1.2	10,515	2.4	6,181	3.6	7,952	2.9
Others	46,457	12.9	48,187	11.4	42,414	9.5	19,888	11.4	32,614	12.1
Total	<u>359,500</u>	<u>100.0</u>	<u>421,298</u>	<u>100.0</u>	<u>445,453</u>	<u>100.0</u>	<u>173,727</u>	<u>100.0</u>	<u>270,333</u>	<u>100.0</u>

Other Expenses

Our other expenses mainly include disaster losses, compensation payment, donations and others. The table below sets forth a breakdown of other expenses and as a percentage of total other expenses for the periods indicated:

	For the Year ended December 31,						For the Six Months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB'000, except for percentage) (unaudited)									
Disaster losses	3,207	37.9	49	2.1	362	1.4	–	–	–	–
Compensation payment	2,319	27.4	1,155	50.0	1,180	4.4	137	12.2	5,198	83.5
Donations	2,934	34.7	1,107	47.9	1,576	5.9	990	87.8	1,026	16.5
Other	–	–	–	–	23,410	88.3	–	–	–	–
Total	<u>8,460</u>	<u>100.0</u>	<u>2,311</u>	<u>100.0</u>	<u>26,528</u>	<u>100.0</u>	<u>1,127</u>	<u>100.0</u>	<u>6,224</u>	<u>100.0</u>

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[REDACTED] Expenses

[REDACTED] expenses represent fees in connection with this [REDACTED]. For the three years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, we recorded [REDACTED] expenses of nil, nil, nil and RMB10.3 million, respectively.

Share of Profit of a Joint Venture

Share of profit of a joint venture represents profits shared by a corporate which mainly engages in the production and sales of frozen semen, in which we hold 50% equity interest. During the Track Record Period, we recorded share of profit of a joint venture of RMB69,000 for the six months ended June 30, 2020.

Finance Costs

Our finance costs mainly represent interest expenses on bank borrowings, other borrowings from a subsidiary and lease liabilities. We recorded finance costs of RMB51.1 million, RMB80.1 million, RMB104.1 million, RMB46.6 million and RMB152.6 million for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively.

Profit before Tax

We recorded a profit before tax of RMB324.7 million, RMB697.2 million, RMB850.9 million, RMB383.7 million and RMB770.5 million for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively.

Income Tax Expenses

Our 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 our Group’s income neither arises in, nor is derived from Hong Kong during the Track Record Period.

The exemption of PRC EIT for income from agriculture and husbandry business has been uniformly in force since January 1, 2008. Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of our Company are exempted from PRC EIT for taxable profit from the operation of agricultural business in the PRC during the Track Record Period. In addition, certain subsidiaries operating in the PRC, including Muquan Yuanxing Feeds, Ningxia Bio-Technology, Wulanchabu Bio-Technology and Bayinnaoer Bio-Technology (as defined in Note 51), are eligible for a preferential tax rate of 15% under relevant preferential tax policy in relation to PRC western development. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa [2012] No. 97), Ningxia Bio-Technology is eligible for 40% EIT reduction from 2018 to 2020 on the basis of a 15% tax rate.

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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 our Group operating in the PRC are subject to EIT at the statutory rate of 25% during the Track Record Period.

Our income tax expenses were RMB46.9 million, RMB44.3 million, RMB49.0 million, RMB18.4 million and RMB26.5 million for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively. During the Track Record Period, we have benefited from preferential tax policies and our effective income tax rate was 14%, 6%, 6% and 3%, as certain subsidiaries of our Group are exempted from PRC Enterprise Income Tax or enjoyed preferential tax rate for taxable profit from the operation of agricultural business in the PRC, for more information, see section headed “— Major Factors Affecting Our Results of Operations and Financial Condition — Our ability to continuously benefit from government support” in this document.

Profit for the Year/Period

Based on the foregoing reasons, for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, we recorded profit for the year/period of RMB277.9 million, RMB652.9 million, RMB801.9 million, RMB365.3 million and RMB744.1 million, respectively.

NON-IFRS MEASURES

To supplement our financial information presented in accordance with the IFRS, we use adjusted net profit and adjusted EBITDA as additional financial measures, which are not required by, or presented in accordance with, IFRSs. We believe that these non-IFRS measures are useful to compare the business performance of the Company across different periods by eliminating potential impacts of extraordinary items or items that our management do not consider indicative of our business performance or cash flows. We also believe that these measures provide investors and other persons with useful information to understand and evaluate our consolidated operating results in the same manner as they help our management. However, adjusted net profit and adjusted EBITDA presented by us may not be comparable to the similar financial measures presented by other companies. There are limitations to the non-IFRS measures used as an analytical tool, and you should not consider it in isolation or regarded it as a substitute for our operating results or financial position analysis that is presented in accordance with IFRSs.

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Our adjusted net profit is defined as net profit for the year/period adjusted for other gains and losses, impairment losses under expected credit loss model net of reversal, loss arising from changes in fair value less costs to sell biological assets, mergers and acquisitions and other transaction costs and [REDACTED] expenses (excluding tax impact). Adjusted net profit for the year/period set out in the following table was adjusted by the most directly comparable financial measure calculated and presented in accordance with the IFRSs (i.e. profit for the periods indicated):

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)			(unaudited)	
Profit for the year/period	277,855	652,867	801,882	365,312	744,059
Add:					
Other gains and losses	(3,566)	35,613	16,046	11,032	(468)
Impairment losses under expected credit loss model net of reversal	–	1,453	24,761	5,795	11,762
Loss arising from changes in fair value less costs to sell of biological assets	407,730	87,271	133,255	116,839	217,637
Mergers and acquisitions and other transaction costs	–	–	23,410	–	–
[REDACTED] expenses	–	–	–	–	10,328
Adjusted net profit for the year/period	682,019	777,204	999,354	498,978	983,318

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Our adjusted EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) is defined as adjusted net profit for the year/period adjusted for income tax expenses, finance costs, interest income, depreciation and amortisation. Adjusted EBITDA set out in the following table was adjusted by the most directly comparable financial measure calculated and presented in accordance with the IFRSs (i.e. profit for the periods indicated):

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)			(unaudited)	
Adjusted net profit for the year/period	682,019	777,204	999,354	498,978	983,318
Add:					
Income tax expenses	46,872	44,334	48,973	18,355	26,488
Finance costs	51,127	80,081	104,071	46,635	152,554
Interest income	(3,898)	(6,115)	(4,390)	(2,217)	(5,837)
Depreciation and amortisation	124,623	125,341	139,303	67,450	156,596
Adjusted EBITDA	<u>900,743</u>	<u>1,020,845</u>	<u>1,287,311</u>	<u>629,201</u>	<u>1,313,119</u>

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenue

Our revenue increased by 55.5% from RMB3,436.8 million for the six months ended June 30, 2019 to RMB5,344.4 million for the six months ended June 30, 2020, which was primarily driven by a significant increase in revenue generated from the raw milk business segment and a steady increase in revenue generated from the comprehensive ruminant farming solutions.

- Revenue generated from raw milk.** Our revenue generated from raw milk increased by 119.6% from RMB1,453.8 million for the six months ended June 30, 2019 to RMB3,193.0 million for the six months ended June 30, 2020, which was mainly due to an increase in the sales volume of raw milk from 315,300 tons for the six months ended June 30, 2019 to 753,586 tons for the six months ended June 30, 2020 as a result of the acquisition of the controlling interest in SKX, new dairy farms put into production, the increases in the number of milkable cow and average milk yield per milkable cow and the increase in the sales volume of specialty raw milk; partially offset by a slight decrease in the average unit price of raw milk per kilogram as affected by various factors including (i) the raw milk sales performance of SKX whose product structure mainly consists of premium milk which generally has relatively lower price than specialty raw milk, as well as (ii) the impact of pandemic; for more details, see the section headed “Summary – Recent Developments – Impact of the COVID-19 Outbreak” in this document.

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- *Revenue generated from comprehensive ruminant farming solutions.* Our revenue generated from comprehensive ruminant farming solutions increased by 8.5% from RMB1,983.0 million for the six months ended June 30, 2019 to RMB2,151.5 million for the six months ended June 30, 2020, which was mainly due to (i) an increase in the revenue generated from sales of feed from RMB1,886.5 million for the six months ended June 30, 2019 to RMB1,977.1 million for the six months ended June 30, 2020 as a result of the increase in the sales volume of feed; and (ii) additional revenue from sales of frozen semen as a result of the acquisition of the controlling interest in SKX.

Cost of Sales

Our cost of sales increased by 57.2% from RMB3,164.8 million for the six months ended June 30, 2019 to RMB4,975.2 million for the six months ended June 30, 2020. The increase was primarily due to our business growth in raw milk and comprehensive ruminant farming solutions, and the effect of agricultural produce fair value adjustments.

Cost of sales for raw milk business before raw milk fair value adjustments increased from RMB851.0 million for the six months ended June 30, 2019 to RMB1,894.1 million for the six months ended June 30, 2020, which was primarily due to the increase in sales volume of raw milk as a result of the acquisition of the controlling interest in SKX, new dairy farms put into production, the increased number of milkable cows, rising average milk yield per milkable cow, the increase in the sales volume of specialty raw milk.

Cost of sales of comprehensive ruminant farming solutions before forage grass fair value adjustments increased from RMB1,728.9 million for the six months ended June 30, 2019 to RMB1,843.1 million for the six months ended June 30, 2020, which was primarily due to the increase in the sales volume of feed and in the cost of raw materials.

Fair value adjustments for agricultural produce included in cost of sales increased from RMB584.9 million for the six months ended June 30, 2019 to RMB1,238.1 million for the six months ended June 30, 2020.

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 RMB584.9 million for the six months ended June 30, 2019 and RMB1,238.1 million for the six months ended June 30, 2020, respectively. The change reflects the adjustment in the fair value of agricultural produce. Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest is offset against the agricultural produce fair value adjustments included in cost of sales.

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Gross Profit

As a result of the aforementioned growth in revenue and an improvement in overall gross profit margin, our gross profit increased by 87.6% from RMB857.0 million for the six months ended June 30, 2019 to RMB1,607.3 million for the six months ended June 30, 2020. During the same periods, our gross profit margin increased from 24.9% to 30.1%.

Gross profit of raw milk business increased from RMB602.8 million for the six months ended June 30, 2019 to RMB1,298.9 million for the six months ended June 30, 2020. Gross profit margin of raw milk decreased from 41.5% for the six months ended June 30, 2019 to 40.7% for the six months ended June 30, 2020. Gross profit margin decreased slightly mainly because of a slight decrease in the average unit price of raw milk per kilogram as affected by various factors including (i) the acquisition of the controlling interest in SKX whose product structure mainly consists of premium raw milk that has relatively lower margin, as well as (ii) the impact of pandemic.

Gross profit of comprehensive ruminant farming solutions increased from RMB254.1 million for the six months ended June 30, 2019 to RMB308.4 million for the six months ended June 30, 2020. Gross profit margin of comprehensive ruminant farming solutions increased from 12.8% for the six months ended June 30, 2019 to 14.3% for the six months ended June 30, 2020, mainly due to the economies of scale brought by increasing sales and the optimization of product offering structure which led to the increase of the proportion of sales of high-margin products in total sales.

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

Our loss arising from changes in fair value less costs to sell of biological assets increased by 86.3% from RMB116.8 million for the six months ended June 30, 2019 to RMB217.6 million for the six months ended June 30, 2020. The increase was primarily due to the acquisition of SKX and the change in dairy herd structure.

Other Income

Our other income increased by 43.6% from RMB26.4 million for the six months ended June 30, 2019 to RMB37.8 million for the six months ended June 30, 2020. The increase was primarily due to (i) the increase in our incentive subsidies from RMB0.4 million for the six months ended June 30, 2019 to RMB9.8 million for the six months ended June 30, 2020; (ii) an increase in rental income from RMB1.6 million for the six months ended June 30, 2019 to RMB3.4 million for the six months ended June 30, 2020; and (iii) the increase in bank interest income from RMB2.2 million for the six months ended June 30, 2019 to RMB5.8 million for the six months ended June 30, 2020 as a result of the increase in deposit principal.

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Impairment Loss under Expected Credit Loss Model, Net of Reversal

Our impairment loss under expected credit loss model, net of reversal increased by 103.0% from RMB5.8 million for the six months ended June 30, 2019 to RMB11.8 million for the six months ended June 30, 2020. The increase was primarily due to the corresponding increases in the trade and other receivables and the relevant provision as a result of the increase in the sales volume of feed and the consolidation of financial performance of SKX.

Other Gains and Losses

Our other gains and losses changed from a loss of RMB11.0 million for the six months ended June 30, 2019 to a gain of RMB0.5 million for the six months ended June 30, 2020. The change was primarily due to (1) our additional provision for other obligation of RMB8.4 million generated from changes in estimated value of dairy cows leased for the six months ended June 30, 2019 which was not required for the six months ended June 30, 2020; and (2) fair value loss on derivative financial instruments of RMB1.6 million for the six months ended June 30, 2019 associated with our investment in futures.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 42.8% from RMB144.5 million for the six months ended June 30, 2019 to RMB206.3 million for the six months ended June 30, 2020. The increase was primarily due to the increase in loading, unloading and transportation costs from RMB92.2 million to RMB141.7 million, which was mainly related to the increase in the sales of our raw milk and feed. The proportion of our selling and distribution expenses in our revenue decreased from 4.2% for the six months ended June 30, 2019 to 3.9% for the six months ended June 30, 2020.

Administrative Expenses

Our administrative expenses increased by 55.6% from RMB173.7 million for the six months ended June 30, 2019 to RMB270.3 million for the six months ended June 30, 2020. The increase was primarily due to the acquisition of the controlling interests in SKX, the expansion of Youran’s business and the improvement and renovation of infrastructures, resulting in an increase in maintenance expenses from RMB30.0 million to RMB57.2 million, an increase in insurance expenses from RMB5.0 million to RMB17.6 million, and an increase in staff remuneration from RMB86.7 million to RMB119.8 million. The proportion of administrative expenses in our revenue kept stable at 5.1% for the six months ended June 30, 2019 and 2020.

Other Expenses

Our other expenses increased significantly from RMB1.1 million for the six months ended June 30, 2019 to RMB6.2 million for the six months ended June 30, 2020. The increase was primarily due to the consolidation of the liquidated damages after the completion of the acquisition of the controlling interest in SKX.

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[REDACTED] Expenses

During the Track Record Period, we recorded a [REDACTED] expenses of RMB10.3 million for the six months ended June 30, 2020, in connection with this [REDACTED].

Share of Profit of a Joint Venture

During the Track Record Period, we recorded share of profit of a joint venture of RMB69.0 thousand for the six months ended June 30, 2020, which was generated from share of profit of an enterprise which we held 50% equity interest in and is mainly engaged in the production and sales of raw semen.

Finance Costs

Our finance costs increased by 227.1% from RMB46.6 million for the six months ended June 30, 2019 to RMB152.6 million for the six months ended June 30, 2020. The increase was primarily due to (i) an increase by 207.2% in interest expenses on bank borrowings from RMB41.7 million for the six months ended June 30, 2019 to RMB128.2 million for the six months ended June 30, 2020, which was mainly attributable to the increase in borrowing principal; (ii) the increase by 192.6% in interest expenses on lease liabilities from RMB8.0 million for the six months ended June 30, 2019 to RMB23.3 million for the six months ended June 30, 2020, mainly as a result of additional leasehold land; and (iii) the consolidation of finance cost incurred by SKX.

Profit before Tax

As a result of the foregoing, we had a profit before tax of RMB383.7 million for the six months ended June 30, 2019, as compared with a profit before tax of RMB770.5 million for the six months ended June 30, 2020.

Income Tax Expense

We recorded an increase by 44.3% in income tax expense from RMB18.4 million for the six months ended June 30, 2019 to RMB26.5 million for the six months ended June 30, 2020, which was primarily attributable to the increase in the taxable income of our Group after consolidation of taxable income from SKX and the respective tax exemptions of our business. For more details, see the section headed “– Description of Major Components of Our Results of Operations – Income tax expense” in this document.

Profit for the Period

Our profit for the period increased by 103.7% from RMB365.3 million for the six months ended June 30, 2019 to RMB744.1 million, for the six months ended June 30, 2020, primarily due to the consolidation of financial performance of SKX, the rapid growth of our revenue and the impact of economies of scale, which led to the faster growth of our net profit as compared to our revenue.

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Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 21.1% from RMB6,333.9 million for the year ended December 31, 2018 to RMB7,667.8 million for the year ended December 31, 2019, which was primarily driven by the significant increase in revenues from raw milk and comprehensive ruminant farming solutions.

- *Revenue generated from raw milk.* Our revenue generated from raw milk increased by 17.4% from RMB2,610.3 million for the year ended December 31, 2018 to RMB3,063.6 million for the year ended December 31, 2019, which was mainly due to (i) an increase in sales volume of raw milk from 572,093 tons for the year ended December 31, 2018 to 655,786 tons for the year ended December 31, 2019 as a result of new dairy farms put into production, the increases in the number of milkable cow from 61,857 for the year ended December 31, 2018 to 77,955 for the year ended December 31, 2019, and the higher average milk yield per milkable cow, and (ii) an increase in the average unit price of raw milk from RMB4.6 per kilogram for the year ended December 31, 2018 to RMB4.7 per kilogram for the year ended December 31, 2019.
- *Revenue generated from comprehensive ruminant farming solutions.* Our revenue generated from comprehensive ruminant farming solutions increased by 23.6% from RMB3,723.6 million for the year ended December 31, 2018 to RMB4,604.2 million for the year ended December 31, 2019, which was mainly due to an increase in the revenue generated from sales of feed from RMB3,508.8 million for the year ended December 31, 2018 to RMB4,376.5 million for the year ended December 31, 2019 as a result of the increase in the sales volume of feed.

Cost of Sales

Our cost of sales increased by 20.7% from RMB5,810.6 million for the year ended December 31, 2018 to RMB7,014.2 million for the year ended December 31, 2019. The increase was primarily due to our business growth in raw milk and comprehensive ruminant farming solutions, and the effect of agricultural produce fair value adjustments.

Cost of sales of raw milk before raw milk fair value adjustment increased from RMB1,550.2 million for the year ended December 31, 2018 to RMB1,784.6 million for the year ended December 31, 2019, which was primarily in line with the increase in sales volume of raw milk resulted from new dairy farms put into production, the increased number of milkable cows, and the higher average milk yield per milkable cow.

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Cost of sales of comprehensive ruminant farming solutions before forage grass fair value adjustment increased from RMB3,238.0 million for the year ended December 31, 2018 to RMB3,996.9 million for the year ended December 31, 2019, which was primarily due to the increases in sales volume of feed and the costs of some of the raw materials.

Fair value adjustments for agricultural produce included in cost of sales increased from RMB1,022.4 million for the year ended December 31, 2018 to RMB1,232.7 million for the year ended December 31, 2019.

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 RMB1,022.4 million for the year ended December 31, 2018 and RMB1,232.7 million for the year ended December 31, 2019 respectively. The change reflects the adjustment in fair value of raw milk. Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest is offset by the agricultural produce fair value adjustments included in cost of sales.

Gross Profit

As a result of the foregoing, our gross profit increased by 22.0% from RMB1,545.7 million for the year ended December 31, 2018 to RMB1,886.3 million for the year ended December 31, 2019. During the same periods, our gross profit margin increased from 24.4% to 24.6%, mainly due to the increase in the gross profit margin of raw milk and comprehensive ruminant farming solutions.

Gross profit of raw milk increased from RMB1,060.1 million for the year ended December 31, 2018 to RMB1,279.0 million for the year ended December 31, 2019. Gross profit margin of raw milk increased from 40.6% for the year ended December 31, 2018 to 41.7% for the year ended December 31, 2019, primarily due to the increases in the average unit price of raw milk and the average milk yield per milkable cow.

Gross profit of comprehensive ruminant farming solutions increased from RMB485.6 million for the year ended December 31, 2018 to RMB607.3 million for the year ended December 31, 2019. Gross profit margin of comprehensive ruminant farming solutions increased from 13.0% for the year ended December 31, 2018 to 13.2% for the year ended December 31, 2019, mainly as a result of a tax rebate of alfalfa hay granted to us during the year.

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

Our loss arising from changes in fair value less costs to sell of biological assets increased by 52.7% from RMB87.3 million for the year ended December 31, 2018 to RMB133.3 million for the year ended December 31, 2019. The increase was primarily due to the change in dairy herd structure.

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Other Income

Our other income increased by 7.6% from RMB51.5 million for the year ended December 31, 2018 to RMB55.4 million for the year ended December 31, 2019, which was primarily due to an increase in government grants.

Impairment Loss under Expected Credit Loss Model, Net of Reversal

Our impairment loss under expected credit loss model, net of reversal increased significantly 1,604.1% from RMB1.5 million for the year ended December 31, 2018 to RMB24.8 million for the year ended December 31, 2019. The increase was primarily due to an increase in impairment losses recognized on trade receivables from RMB1.3 million to RMB24.3 million, which was mainly due to the corresponding increases in trade receivables and the relevant provision as a result of the increase in sales volume of feed.

Other Gains and Losses

Our other gains and losses decreased by 54.9% from a loss of RMB35.6 million for the year ended December 31, 2018 to a loss of RMB16.0 million for the year ended December 31, 2019. The decrease was primarily because the impairment on property, plant and equipment changed from a loss of RMB26.2 million for the year ended December 31, 2018 to RMB8.3 million for the year ended December 31, 2019.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 25.3% from RMB271.9 million for the year ended December 31, 2018 to RMB340.7 million for the year ended December 31, 2019. The increase was primarily due to (i) an increase in marketing expenses from RMB10.9 million for the year ended December 31, 2018 to RMB48.2 million for the year ended December 31, 2019, mainly because the increasing sales volume and business expansion led to higher promotion expenses; and (ii) the increase in loading, unloading and transportation costs from RMB181.8 million for the year ended December 31, 2018 to RMB201.4 million for the year ended December 31, 2019, which was mainly related to the increases in sales volume of raw milk and feed. The proportion of our selling and distribution expenses in our revenue stayed relatively stable as it slightly increased from 4.3% for the year ended December 31, 2018 to 4.4% for the year ended December 31, 2019.

Administrative Expenses

Our administrative expenses increased by 5.7% from RMB421.3 million for the year ended December 31, 2018 to RMB445.5 million for the year ended December 31, 2019. The increase was primarily due to an increase in staff remuneration from RMB154.4 million for the year ended December 31, 2018 to RMB182.8 million for the year ended December 31, 2019.

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mainly due to the increases in administrative personnel headcounts and the average salary. The proportion of our administrative expenses in our revenue decreased from 6.7% for the year ended December 31, 2018 to 5.8% for the year ended December 31, 2019.

Other Expenses

Our other expenses increased significantly from RMB2.3 million for the year ended December 31, 2018 to RMB26.5 million for the year ended December 31, 2019. The increase was primarily due to the advisory fees incurred in connection with the acquisition of the controlling interest of SKX.

Finance Costs

Our finance costs increased by 30.0% from RMB80.1 million for the year ended December 31, 2018 to RMB104.1 million for the year ended December 31, 2019. The increase was primarily due to (i) a 31.1% increase in interest expenses on bank and other borrowings from RMB69.7 million for the year ended December 31, 2018 to RMB91.4 million for the year ended December 31, 2019, which was mainly attributable to the increase in principal of borrowings; (ii) a 98.0% increase in interest expenses on lease liabilities from RMB8.4 million for the year ended December 31, 2018 to RMB16.7 million for the year ended December 31, 2019, mainly as a result of the additional leasehold land.

Profit before Tax

As a result of the foregoing, we had a profit before tax of RMB697.2 million for the year ended December 31, 2018, compared with a profit before tax of RMB850.9 million for the year ended December 31, 2019.

Income Tax Expense

We recorded a 10.5% increase in income tax expense from RMB44.3 million for the year ended December 31, 2018 to RMB49.0 million for the year ended December 31, 2019, which was primarily attributable to the increase in the taxable income of our Group and the respective tax exemptions of our business. For more details, see the section headed “– Description of Major Components of Our Results of Operations – Income tax expense” in this document.

Profit for the Year

Our profit for the year increased by 22.8% from RMB652.9 million for the year ended December 31, 2018 to RMB801.9 million for the year ended December 31, 2019, primarily due to the growth of our revenue and the impact of economies of scale, which led to the faster growth of our net profit as compared to our revenue.

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Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Our revenue increased by 24.4% from RMB5,091.4 million for the year ended December 31, 2017 to RMB6,333.9 million for the year ended December 31, 2018, which was primarily driven by the significant increase in revenues from raw milk and comprehensive ruminant farming solutions.

- *Revenue generated from raw milk.* Our revenue generated from raw milk increased by 16.7% from RMB2,237.5 million for the year ended December 31, 2017 to RMB2,610.3 million for the year ended December 31, 2018, which was mainly due to (i) an increase in the average unit price of raw milk from RMB4.2 per kilogram for the year ended December 31, 2017 to RMB4.6 per kilogram for the year ended December 31, 2018 as a result of increases in the proportion of specialty raw milk in our revenue and the price of premium raw milk, and (ii) an increase in sales volume from 526,953 tons for the year ended December 31, 2017 to 572,093 tons for the year ended December 31, 2018 as a result of new dairy farms put into production, the increasing number of milkable cows and rising average milk yield per milkable cow.
- *Revenue generated from comprehensive ruminant farming solutions.* Our revenue generated from comprehensive ruminant farming solutions increased by 30.5% from RMB2,854.0 million for the year ended December 31, 2017 to RMB3,723.6 million for the year ended December 31, 2018, which was mainly due to an increase in the revenue generated from sales of feed from RMB2,643.6 million for the year ended December 31, 2017 to RMB3,508.8 million for the year ended December 31, 2018 as a result of the increase in the sales volume of feed.

Cost of Sales

Our cost of sales increased by 25.5% from RMB4,630.1 million for the year ended December 31, 2017 to RMB5,810.6 million for the year ended December 31, 2018. The increase was primarily due to the business expansion of raw milk and comprehensive ruminant farming solutions, and the impact of agricultural produce fair value adjustments.

Cost of sales of raw milk before raw milk fair value adjustments increased from RMB1,394.6 million for the year ended December 31, 2017 to RMB1,550.2 million for the year ended December 31, 2018, which was primarily due to the increase in sales volume of raw milk as a result of new dairy farms put into production, the increasing number of milkable cows and the increase in average milk yield per milkable cow.

Cost of sales of comprehensive ruminant farming solutions before forage grass fair value adjustments increased from RMB2,384.5 million for the year ended December 31, 2017 to RMB3,238.0 million for the year ended December 31, 2018, which was primarily due to the increase in sales volume of feed and in cost of raw materials.

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Fair value adjustments for agricultural produce included in cost of sales increased from RMB851.0 million for the year ended December 31, 2017 to RMB1,022.4 million for the year ended December 31, 2018.

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 RMB851.0 million for the year ended December 31, 2017 and RMB1,022.4 million for the year ended December 31, 2018 respectively. The increase was primarily due to the changes in the fair value of raw milk. Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest is offset by the agricultural produce fair value adjustments included in cost of sales.

Gross Profit

As a result of the foregoing, our gross profit increased by 17.8% from RMB1,312.3 million for the year ended December 31, 2017 to RMB1,545.7 million for the year ended December 31, 2018. During the same period, our gross profit margin decreased from 25.8% to 24.4%, mainly due to the increase in proportion of revenue derived from comprehensive ruminant farming solutions, along with a drop in the gross profit margin of comprehensive ruminant farming solutions.

Gross profit of raw milk increased from RMB842.8 million for the year ended December 31, 2017 to RMB1,060.1 million for the year ended December 31, 2018. Gross profit margin of raw milk business increased from 37.7% for the year ended December 31, 2017 to 40.6% for the year ended December 31, 2018, mainly due to the increases in the average unit price of raw milk and the average milk yield per milkable cow.

Gross profit of comprehensive ruminant farming solutions increased from RMB469.5 million for the year ended December 31, 2017 to RMB485.6 million for the year ended December 31, 2018. Gross profit margin of comprehensive ruminant farming solutions decreased from 16.4% for the year ended December 31, 2017 to 13.0% for the year ended December 31, 2018, mainly attributable to an increase in raw material prices during the year.

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

Our loss arising from changes in fair value less costs to sell of biological assets decreased by 78.6% from RMB407.7 million for the year ended December 31, 2017 to RMB87.3 million for the year ended December 31, 2018. The decrease was primarily due to the rise of milk price and the optimization of dairy herd structure in 2018.

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Other Income

Our other income increased by 12.6% from RMB45.7 million for the year ended December 31, 2017 to RMB51.5 million for the year ended December 31, 2018. The increase was primarily due to the increases in government grants and bank interest income.

Impairment Loss under Expected Credit Loss Model, Net of Reversal

Our impairment loss under expected credit loss model, net of reversal increased from nil for the year ended December 31, 2017 to RMB1.5 million for the year ended December 31, 2018. The increase was primarily due to an increase in impairment losses recognized on trade receivables from nil to RMB1.3 million, which was mainly due to the increase in trade receivables and related provisions as a result of the rising sales volume of feed.

Other Gains and Losses

Our other gains and losses changed from a gain of RMB3.6 million for the year ended December 31, 2017 to a loss of RMB35.6 million for the year ended December 31, 2018. The change was primarily due to (i) a significant increase of impairment loss on property, plant and equipment from RMB0.6 million for the year ended December 31, 2017 to RMB26.2 million for the year ended December 31, 2018 due to the provision for impairment we made based on the contract price of a farm to be sold; and (ii) a 256.2% increase in loss on disposal of property, plant and equipment from RMB1.5 million for the year ended December 31, 2017 to RMB5.3 million for the year ended December 31, 2018, as a result of the increase in retired fix assets.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 29.5% from RMB210.0 million for the year ended December 31, 2017 to RMB271.9 million for the year ended December 31, 2018. The increase was primarily due to an increase in loading, unloading and transportation costs from RMB105.9 million for the year ended December 31, 2017 to RMB181.8 million for the year ended December 31, 2018, which was in line with the increase in sales volume of our products during the period. The proportion of our selling and distribution expenses in our revenue increased from 4.1% for the year ended December 31, 2017 to 4.3% for the year ended December 31, 2018.

Administrative Expenses

Our administrative expenses increased by 17.2% from RMB359.5 million for the year ended December 31, 2017 to RMB421.3 million for the year ended December 31, 2018. The increase was primarily due to (i) an increase in staff remuneration from RMB134.8 million for the year ended December 31, 2017 to RMB154.4 million for the year ended December 31, 2018 mainly as a result of the increases of administrative personnel headcounts and average salaries; (ii) an increase in legal and professional services fees from RMB9.1 million for the year ended

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December 31, 2017 to RMB25.6 million for the year ended December 31, 2018 mainly as a result of relevant legal and professional services fees related to financing activities of our Company; and (iii) an increase in maintenance expenses from RMB112.4 million for the year ended December 31, 2017 to RMB125.7 million for the year ended December 31, 2018 mainly as a result of the repair and renovation of our workshops and factories in various concentrated feed production and sales bases in 2018. The proportion of our administrative expenses in our revenue decreased from 7.1% for the year ended December 31, 2017 to 6.7% for the year ended December 31, 2018.

Other Expenses

Our other expenses decreased by 72.7% from RMB8.5 million for the year ended December 31, 2017 to RMB2.3 million for the year ended December 31, 2018. The decrease was primarily due to the decreases in donation expenses and compensation payment.

Finance Costs

Our finance costs increased by 56.6% from RMB51.1 million for the year ended December 31, 2017 to RMB80.1 million for the year ended December 31, 2018. The increase was primarily due to: (i) a 53.9% increase in interest expenses on bank borrowings from RMB45.3 million for the year ended December 31, 2017 to RMB69.7 million for the year ended December 31, 2018 mainly as a result of the increase in amount of borrowings; and (ii) a 77.4% increase in interest expenses on lease liabilities from RMB4.8 million for the year ended December 31, 2017 to RMB8.4 million for the year ended December 31, 2018 mainly as a result of the additional leased farms and land.

Profit before Tax

As a result of the foregoing, we had a profit before tax of RMB324.7 million for the year ended December 31, 2017, compared with a profit before tax of RMB697.2 million for year ended December 31, 2018.

Income Tax Expense

We recorded a 5.4% decrease in income tax expense from RMB46.9 million for year ended December 31, 2017 to RMB44.3 million for year ended December 31, which was primarily attributable to the increase in the taxable income of our Group and the respective tax exemptions of our business. For more details, see the section headed “– Description of Major Components of Our Results of Operations – Income tax expense” in this document.

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Profit for the Year

Our profit for the year increased by 135.0% from RMB277.9 million for the year ended December 31, 2017 to RMB652.9 million for the year ended December 31, 2018, primarily due to the growth of our revenue, a reduction in loss arising from changes in fair value less costs to sell biological assets and the impact of economies of scale, which led to the faster growth of our net profit as compared to that of our revenue.

DISCUSSION OF CERTAIN KEY COMBINED STATEMENTS OF FINANCIAL POSITION ITEMS OF OUR GROUP

The table below sets forth selected information from our combined statements of financial position as of the dates indicated, which has been extracted from our Group’s audited combined financial statements included in Appendix I to this document.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000			
Total current assets	1,792,817	2,129,078	3,043,764	4,344,928
Total non-current assets	4,364,510	5,636,068	6,902,810	14,209,865
Total assets	6,157,327	7,765,146	9,946,574	18,554,793
Total current liabilities	1,889,811	2,598,064	2,900,534	6,200,883
Total non-current liabilities	332,446	579,145	1,656,221	2,906,761
Total liabilities	2,222,257	3,177,209	4,556,755	9,107,644
Net assets	3,935,070	4,587,937	5,389,819	9,447,149
Non-controlling interests	—	—	—	1,047,346
Total equity	3,935,070	4,587,937	5,389,819	9,447,149
Total equity and liabilities	6,157,327	7,765,146	9,946,574	18,554,793

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Current Assets and Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	<i>RMB'000</i>				
					(unaudited)
Current assets					
Inventories	737,981	899,994	967,286	1,186,819	1,483,241
Trade and bills receivables	407,748	617,658	974,298	808,709	883,747
Bill receivables at fair value through other comprehensive income	–	27,147	75,679	59,916	22,600
Contract assets	17,200	15,547	7,527	8,780	10,513
Biological assets	964	1,629	12,070	22,051	7,443
Prepayments, deposits and other receivables	109,092	126,548	230,809	238,167	316,318
Amounts due from related parties	95,745	128,571	145,519	345,349	434,890
Pledged and restricted bank deposits	–	100	60,100	80,632	120,840
Bank balances and cash	424,087	311,884	570,476	1,594,505	861,720
Total current assets	1,792,817	2,129,078	3,043,764	4,344,928	4,141,312
Current liabilities					
Trade and bills payables	325,749	356,702	572,559	1,321,577	1,279,091
Other payables and accruals	332,346	455,794	581,362	1,143,431	1,154,226
Contract liabilities	5,452	9,795	18,162	22,246	26,332
Amounts due to related parties	41	72	157	100,321	45,688
Bank and other borrowings	1,201,595	1,742,014	1,682,945	3,529,446	3,642,449
Lease liabilities	12,958	24,595	12,405	43,434	78,263
Other liabilities	–	–	11,058	6,100	6,100
Other provisions	–	–	–	18,544	–
Income tax payable	11,670	9,092	21,886	15,784	19,850
Total current liabilities	1,889,811	2,598,064	2,900,534	6,200,883	6,251,999
Net current (liabilities)/assets	(96,994)	(468,986)	143,230	(1,855,955)	(2,110,687)

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Our net current liabilities increased from RMB1,856.0 million as of June 30, 2020 to RMB2,110.7 million as of September 30, 2020, which was primarily due to a decrease in bank balances and cash of RMB732.8 million and an increase in bank and other borrowings of RMB113.0 million. The increase in our net current liabilities was partially offset by an increase of RMB296.4 million in inventories.

Our net current assets/liabilities decreased from the net current assets of RMB143.2 million as of December 31, 2019 to the net current liabilities RMB1,856.0 million as of June 30, 2020, which was mainly due to the consolidation of SKX’s current liabilities as a result of the acquisition of the controlling interest in SKX.

We recorded net current assets of RMB143.2 million as of December 31, 2019, as compared to net current liabilities of RMB469.0 million as of December 31, 2018, which was primarily due to increases in trade and bills receivables of RMB356.6 million, bank balances and cash of RMB258.6 million and prepayments, deposits and other receivables of RMB104.3 million. The increase was partially offset by an increase of RMB215.9 million in trade and bills payables and an increase of RMB125.6 million in other payables and accruals.

We recorded net current liabilities of RMB469.0 million as of December 31, 2018, as compared to net current liabilities of RMB97.0 million as of December 31, 2017, primarily due to an increase in bank and other borrowings included in current liabilities from RMB1,201.6 million as at December 31, 2017 to RMB1,742.0 million as at December 31, 2018. The increase in our net current liabilities was partially offset by the increases in trade and bills receivables of RMB209.9 million and inventories of RMB162.0 million.

During the Track Record Period, our Group recorded on-going net current liabilities positions which exposed our Group to on-going liquidity risk. Our Directors are of the view that ongoing net current liabilities was as a result of the facts we rely on our bank and other borrowings as one of the significant source of liquidity to finance our operation as well as our investing activities, which were recorded as current liabilities under our accounting treatment whereas significant amount of our capital investments, including biological assets and property, plant and equipment, that generate our revenue are recorded as non-current assets, resulting a relatively smaller current asset and a relatively larger liabilities. Our Directors are of the view that there is no material default in payment of trade and non-trade payables and borrowings, and/or breach of covenants during the trading record period and up to the date of the [REDACTED]. For details of our liquidity risk management, please refer to “Market And Other Financial Risks – Liquidity Risk Management.”

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Inventories

Our inventories primarily consist of raw materials, finished goods, semi-finished goods and frozen bovine semen. The following table sets forth the components of our inventories and the turnover days of inventories as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Raw materials	701,299	856,589	903,126	1,093,964
Finished goods	29,394	37,266	53,821	67,164
Semi-finished goods	7,288	6,139	10,339	18,969
Frozen bovine semen	—	—	—	6,722
	<u>737,981</u>	<u>899,994</u>	<u>967,286</u>	<u>1,186,819</u>

Our inventories totaled approximately RMB738.0 million, RMB900.0 million, RMB967.3 million and RMB1,186.8 million as of December 31, 2017, 2018, 2019, and June 30, 2020, respectively. The increase during the Track Record Period was primarily due to an increase in raw materials from RMB701.3 million as of December 31, 2017 to RMB856.6 million as of December 31, 2018, and a further increase to RMB903.1 million as of December 31, 2019 and RMB1,094.0 million as of June 30, 2020, which was mainly because we procured more raw materials as a new 5,000-herd dairy farm and two new dairy farms under construction commenced operation in 2018 and 2019, respectively, to further improve our economies of scale and operational efficiency. The increase in inventories in the first half of 2020 mainly reflected the impacts of the acquisition of the controlling interest in SKX and the expansion of the business scales of Youran.

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2017	2018	2019	2020
	<i>days</i>			
Inventory turnover days ⁽¹⁾	80	51	49	53

(1) The inventory turnover days as of December 31, 2017, 2018 and 2019 are calculated using the average of beginning balance and ending balance of inventories for a year divided by costs of materials for all cattle herds and multiplied by 365 days (multiplied by 182.5 days for the six months ended June 30, 2020).

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For the years ended December 31, 2017, 2018, 2019, and for the six months ended June 30, 2020, our inventory turnover days were 80 days, 51 days, 49 days and 53 days. The decrease in our inventory turnover days for the years ended December 31, 2017, 2018 and 2019 was primarily due to our overall enhancement in our inventory control as we customized inventory management policies for different business lines. The changes in inventory turnover days for the six months ended June 30, 2020 were mainly affected by the acquisition of the controlling interest in SKX.

As of September 30, 2020, 55.0% of our inventories as of June 30, 2020 had been used or consumed.

Trade and Bills Receivables

Our trade and bills receivables represent the outstanding amounts receivable by us from our customers in connection with the sales of our raw milk and comprehensive ruminant farming solutions. Trade and bills receivables are obtained when we have an unconditional right to contract consideration and upon invoicing the customer based on the payment schedule provided in the relevant agreements. Trade and bills receivables are generally due for settlement within one year and therefore are all classified as current. The table below sets forth our trade and bills receivable balances as of the dates indicated.

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	RMB'000			
Trade receivables	371,839	618,933	999,846	844,618
Less: Allowance for credit loss	(300)	(1,275)	(25,548)	(35,909)
	371,539	617,658	974,298	808,709
Bills receivables	36,209	—	—	—
	407,748	617,658	974,298	808,709

Our trade and bills receivables increased from RMB407.7 million as of December 31, 2017, to RMB617.7 million as of December 31, 2018 and further to RMB974.3 million as of December 31, 2019, as a result of the increases in sales of our raw milk and feed products, which were in line with the overall growth of our business. Our trade and bills receivables decreased from RMB974.3 million as of December 31, 2019 to RMB808.7 million as of June 30, 2020, primarily due to an increase in collection rate in the period of six months ended June 30, 2020.

For our raw milk business, we typically require our customers to make payments each month for raw milk purchased in the previous month. For the sale of our comprehensive ruminant farming solutions, we set credit terms based on customer's sizes and credit ratings, and grant certain credit term, generally ranged from 30 to 90 days, to customers who meet the requirements, as well as appropriate extensions based on the evaluation of customers' credit ratings.

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The table below sets forth the aging analysis of our trade receivables, with the net of allowance for doubtful debts presented based on the delivery date at the end of each reporting period.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Within 90 days	338,145	563,418	825,441	663,762
90 days to 180 days	33,195	51,809	146,921	104,252
181 days to 1 year	199	2,431	1,936	28,369
More than 1 year	—	—	—	12,326
	<u>371,539</u>	<u>617,658</u>	<u>974,298</u>	<u>808,709</u>

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 our Group.

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit loss separately. The provision rates are based on 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. Our allowance for credit loss accounted to RMB0.3 million, RMB1.3 million and RMB25.5 million as of December 31, 2017, 2018 and 2019, and RMB35.9 million as of June 30, 2020.

	For the year ended December 31,			For the six months ended June 30,
	2017	2018	2019	2020
	<i>days</i>			
Trade and bills receivable turnover days ⁽¹⁾	33	36	44	37

- (1) The trade and bills receivables turnover days are calculated by using the average receivables balance divided by sales revenue multiplied by days for the period (365 days for the twelve months ended December 31, 2017, 2018 and 2019; 182.5 days for the six months ended June 30, 2020). Among them, the average receivables balance equals to the sum of opening balance and closing balance of amounts receivable divided by two.

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Our average trade and bills receivables turnover days were 33 days, 36 days, 44 days and 37 days for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020. Trade and bills receivables turnover days increased from 33 days for the year ended December 31, 2017 to 36 days for the year ended December 31, 2018, and further to 44 days for the year ended December 31, 2019, which mainly reflected the increase in revenue from customers with longer credit terms for such periods, as the size of customers that our Company acquired in 2018 and 2019 grew larger, and our Company accordingly granted longer credit terms to such customers; the changes in the trade and bills receivables turnover days were driven by the acquisition of the controlling interest in SKX as of June 30, 2020.

As of September 30, 2020, 79.3% of our trade and bills receivables outstanding as of June 30, 2020 were settled.

Trade and Bills Payables

Our trade and bills payables mainly represent purchases of raw materials and equipment. The table below sets forth the components of our trade payables and bills as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000			
Trade payables	321,849	356,702	571,892	1,162,358
Bills payables	3,900	—	667	159,219
Total trade and bills payables	325,749	356,702	572,559	1,321,577

During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute or disagreement with our suppliers in relation to the timing, amounts of billing or the payment of our trade and bills payables.

Our trade payables and bills totaled RMB325.7 million, RMB356.7 million, and RMB572.6 million as of December 31, 2017, 2018 and 2019, respectively and RMB1,321.6 million as of June 30, 2020. The increase in our trade payables during the Track Record Period primarily reflected (i) the increase in the purchase of raw materials and equipment with the construction of new dairy farms and feed mills and the continuous expansion of herd size, and (ii) the increase in accrued staff benefits and payroll as a result of the increase of staff headcounts. Such increases were in line with our overall rapid business growth during the Track Record Period. The increase in total trade and bills payables as of June 30, 2020 compared to total trade and bills payables as of December 31, 2019 also reflected the impact of acquisition of the controlling interest in SKX.

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The table below sets forth the aging analysis of our trade payables presented based on the invoice date at the end of each reporting period.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Within 1 year	316,027	347,679	560,723	1,068,484
1 to 2 years	4,455	6,855	9,120	53,629
2 to 3 years	990	1,441	1,037	21,446
More than 3 years	377	727	1,012	18,799
Total	321,849	356,702	571,892	1,162,358

	For the year ended December 31,			For the six months ended June 30,
	2017	2018	2019	2020
	<i>days</i>			
Trade and bills payables turnover days ⁽¹⁾	28	22	26	66

- (1) The trade and bills payables turnover days are calculated by using the average balance of payables divided by the procurement amount and multiplied by the number of days for the period (365 days for the twelve months ended December 31, 2017, 2018 and 2019; 182.5 days for the six months ended June 30, 2020).

Our average trade and bills payables turnover days were 28 days, 22 days and 26 days for the year ended December 31, 2017, 2018 and 2019, and 66 days for the six months ended June 30, 2020. The trade and bills payables turnover days decreased from 28 days for the year ended December 31, 2017 to 22 days for the year ended December 31, 2018, which was mainly because we made payments more timely in exchange for delivery priority and guaranteed supply. The trade payables and bills turnover days increased from 22 days for the year ended December 31, 2018 to 26 days for the year ended December 31, 2019, which was mainly as a result of the increase in our purchase of raw materials as we expanded our production, which enabled us to have stronger ability to negotiate with our suppliers. The changes in the trade and bills payables turnover days as of June 30, 2020 were mainly affected by the acquisition of the controlling interest in SKX which has relatively longer payables turnover days as compared to Youran.

As of September 30, 2020, 58.9% of our trade and bills payables outstanding as of June 30, 2020 were settled.

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Bank and Other Borrowings

As a result of increased capital expenditure for the establishment of our new dairy farms and increased working capital, our short-term bank and other borrowings increased from RMB1,201.6 million as of December 31, 2017 to RMB1,742.0 million as of December 31, 2018. Short-term bank and other borrowings decreased to RMB1,682.9 million as of December 31, 2019 from RMB1,742.0 million as of December 31, 2018, primarily due to the adjustment of our borrowing structure to increase the portion of medium- to long-term loans. As a result of the impact of acquisition of the controlling interest in SKX, the increase in capital expenditures of our new dairy farms, our bank and other borrowings increased to RMB3,529.4 million as of June 30, 2020.

Non-Current Assets and Liabilities

The following table sets forth our non-current assets and liabilities as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	RMB'000			
Non-current assets				
Property, plant and equipment	2,178,525	2,397,229	2,933,139	5,461,480
Investment properties	76,892	47,121	32,360	44,331
Right-of-use assets	238,374	482,045	532,968	1,243,826
Goodwill	—	—	—	762,741
Intangible assets	798	1,787	1,400	1,932
Biological assets	1,842,016	2,606,450	3,322,917	6,431,075
Deferred tax assets	1,035	1,351	5,088	10,453
Interest in a joint venture	—	—	—	811
Equity instruments at FVOCI	—	—	—	55,513
Pledged and restricted bank deposits	685	650	1,851	34,621
Deposits paid for purchase of property, plant and equipment	15,752	38,584	64,715	94,908
Deposits paid for purchase of biological assets	10,433	60,851	8,372	68,174
Total non-current assets	4,364,510	5,636,068	6,902,810	14,209,865

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	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Non-current liabilities				
Bank and other borrowings	–	–	1,099,660	1,746,282
Deferred tax liabilities	7,387	7,147	6,902	5,989
Deferred income	246,918	231,622	207,843	218,553
Lease liabilities	78,141	299,368	313,312	908,868
Other liabilities	–	39,679	27,106	20,309
Other provisions	–	1,329	1,398	6,760
Total non-current liabilities	332,446	579,145	1,656,221	2,906,761

Property, Plant and Equipment

Our property, plant and equipment consist primarily of buildings, machinery, vehicles, electronic equipment, bearer plants and construction in progress. We had property, plant and equipment in the amount of RMB2,178.5 million, RMB2,397.2 million and RMB2,933.1 million as of December 31, 2017, 2018 and 2019, and RMB5,461.5 million as of June 30, 2020, respectively. The continued increase in our property, plant and equipment during the Track Record Period primarily reflected our continuing investment in dairy farms and feed mills. The increase as of June 30, 2020 also reflected the impact of the acquisition of the controlling interest in SKX.

Right-of-Use Assets

Our right-of-use assets include our leasehold lands, leased properties and machinery. We had right-of-use assets in the amount of RMB238.4 million, RMB482.0 million and RMB533.0 million as of December 31, 2017, 2018 and 2019, and RMB1,243.8 million as of June 30, 2020, respectively. The continuous increase for the Track Record Period was mainly because we leased more lands for our new dairy farms as well as more leased properties and machinery. The increase as of June 30, 2020 also reflected the impact of the acquisition of the controlling interest in SKX.

Biological Assets

Our biological assets consist of feeder cattle, breeding stock and dairy cows, which are further categorized into milkable cows, calves and heifers. The following table sets forth the number of our biological assets as of the dates indicated.

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	As of December 31,			As of June 30,
	2017	2018	2019	2020
Dairy cows:				
Calves and heifers	45,907	65,488	74,082	136,685
Milkable cows	56,361	61,857	77,955	150,360
Feeder cattle	159	369	1,269	1,781
Breeding stock	—	—	—	136
Total	102,427	127,714	153,306	288,962

The following table sets forth the fair value of our biological assets as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Dairy cows:				
Calves and heifers	649,174	1,010,321	1,094,787	2,232,634
Milkable cows	1,192,842	1,596,129	2,228,130	4,119,619
Feeder cattle	964	1,629	12,070	22,051
Breeding stock	—	—	—	78,822
Total	1,842,980	2,608,079	3,334,987	6,453,126
Less: current portion classified under current assets	(964)	(1,629)	(12,070)	(22,051)
Non-current portion classified under non-current assets	1,842,016	2,606,450	3,322,917	6,431,075

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The fair value of our biological assets increased from RMB1,843.0 million as of December 31, 2017 to RMB2,608.1 million as of December 31, 2018, and further to RMB3,335.0 million as of December 31, 2019. The fair value of our biological assets further increased to RMB6,453.1 million as of June 30, 2020. The increase in the fair value of our biological assets during the Track Record Period was primarily due to (i) continuing increase in the fair value of milkable cows as a result of the increases in the number of milkable cows, the average milk yield per milkable cow, raw milk price and the sales volume of specialty raw milk; and (ii) continuing increase in the fair value of calves and heifers as a result of the increased number of heifers.

Our biological assets were independently valued by Jones Lang LaSalle, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets. For valuation of our biological assets, see Note 45 of the Accountants’ Report as set out in Appendix I in this document.

Non-Current Bank and Other Borrowings

We recorded long-term bank and other borrowings of RMB1,099.7 million as of December 31, 2019 and RMB1,746.3 million as of June 30, 2020. The amount of our non-current borrowings as of June 30, 2020 primarily represents the outstanding amount of unsecured loans and secured loans we obtained from commercial banks.

Deferred Income

Deferred income represents government subsidies related to assets that are required to be amortized over one year. Our deferred income was RMB246.9 million, RMB231.6 million, RMB207.8 million as of December 31, 2017, 2018 and 2019, and was RMB218.6 million as of June 30, 2020, respectively. The decrease in deferred income from 2017 to 2019 was mainly due to the amortisation of government subsidies. The increase in the amount of non-current deferred government grants from as of December 31, 2019 to as of June 30, 2020 compared to December 31, 2019 was mainly due to the impacts of the acquisition of the controlling interest in SKX.

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Non-Current Lease Liabilities

Our non-current lease liabilities represent lease liabilities over one year. The table below sets forth a breakdown of our non-current lease liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000			
Within a period of more than one year but not more than two years	18,257	13,133	15,547	30,322
Within a period of more than two years but not more than five years	24,651	48,097	42,156	92,258
Within a period of more than five years	35,233	238,138	255,609	786,288
Total	78,141	299,368	313,312	908,868

Our non-current lease liabilities was RMB78.1 million, RMB299.4 million, RMB313.3 million as of December 31, 2017, 2018 and 2019, and was RMB908.9 million as of June 30, 2020, respectively. The increase of our non-current lease liabilities during the Track Record Period was due to the addition of leasehold land.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the periods indicated or as of the dates indicated.

	For the Year Ended December 31/ as of December 31,			For the Six Months Ended June 30/ as of June 30,
	2017	2018	2019	2020
Return on equity ⁽¹⁾	7.1%	14.2%	14.9%	15.8%
Adjusted return on equity ⁽²⁾	17.3%	16.9%	18.5%	20.8%
Current ratio ⁽³⁾	0.95	0.82	1.05	0.70
Quick ratio ⁽⁴⁾	0.56	0.47	0.72	0.51
Gearing ratio ⁽⁵⁾	19.8%	31.2%	39.9%	38.1%

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Notes:

- (1) Return on equity ratio for each of the years ended December 31, 2017, 2018 and 2019 is calculated as profit for the year divided by total equity at the end of the year and multiplied by 100%. Return on equity ratio for the six months ended June 30, 2020 is calculated on an annualised basis as annualized net profit (net profit multiplied by two) divided by total equity at the end of the period.
- (2) Adjusted return on equity ratio for each of the years ended December 31, 2017, 2018 and 2019 is calculated as adjusted net profit as defined in non-IFRS measures for the year divided by total equity at the end of the year and multiplied by 100%. Adjusted return on equity ratio for the six months ended June 30, 2020 is calculated on an annualised basis as annualized adjusted net profit (adjusted net profit multiplied by two) divided by total equity.
- (3) Calculated as current assets divided by current liabilities.
- (4) Calculated as current assets less inventories divided by current liabilities.
- (5) Calculated as net debt (bank and other borrowings less bank and cash balances and pledged and restricted bank deposits) divided by total equity and multiplied by 100%.

Our return on equity increased from 7.1% for the year ended December 31, 2017 to 14.2% for the year ended December 31, 2018, and further to 14.9% for the year ended December 31, 2019, mainly due to the increase in net profit, and increased from 14.9% for the year ended December 31, 2019 to 15.8% for the six months ended June 30, 2020, mainly reflecting the rise in our net profit and the impacts of the acquisition of the controlling interest in SKX.

Our adjusted return on equity decreased from 17.3% for the year ended December 31, 2017 to 16.9% for the year ended December 31, 2018, primarily due to the increase in total equity. Our adjusted return on equity increased from 16.9% for the year ended December 31, 2018 to 18.5% for the year ended December 31, 2019 and further to 20.8% for the six months ended June 30, 2020, primarily due to the increase in adjusted net profit as a result of our growing revenue, improving gross margin and lower administrative expenses as a percentage of revenue.

Our current ratio decreased from 0.95 as of December 31, 2017 to 0.82 as of December 31, 2018, mainly due to a larger increase in current liabilities as compared with current assets because our borrowings were mainly short-term loans due within one year as of December 31, 2018, increased from 0.82 as of December 31, 2018 to 1.05 as of December 31, 2019, mainly due to an increase in our long-term loans and a decrease in current liabilities as result of the changes in our borrowing structures in 2019, and decreased from 1.05 as of December 31, 2019 to 0.70 as of June 30, 2020, mainly reflecting the impacts of the acquisition of the controlling interest in SKX.

Similar to the current ratio, our quick ratio decreased from 0.56 as of December 31, 2017 to 0.47 as of December 31, 2018, mainly due to a larger increase in current liabilities as compared with current assets because our borrowing structures are mainly short-term loans within one year as of December 31, 2018, increased from 0.47 as of December 31, 2018 to 0.72 as of December 31, 2019, mainly due to an increase in our long-term loans and a decrease in current liabilities as result of the changes in our borrowing structures in 2019, and decreased from 0.72 as of December 31, 2019 to 0.51 as of June 30, 2020, mainly reflecting the impacts of the acquisition of the controlling interest in SKX.

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Our gearing ratio increased from 19.8% as of December 31, 2017 to 31.2% as of December 31, 2018 and 39.9% as of December 31, 2019, mainly due to the increase in Youran’s newly constructed projects, and decreased from 39.9% as of December 31, 2019 to 38.1% as of June 30, 2020, mainly due to the increase in our equity as of June 30, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Our cash is primarily used for funding working capital, addition of biological assets, payment for plant and equipment and other capital expenditures. During the Track Record Period, we met our requirements for working capital and other capital expenditure through a combination of cash generated from operating activities, bank borrowings and [REDACTED]. The following table sets forth a summary of our cash flows for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB’000			(unaudited)	
Net cash from operating activities	731,210	605,801	870,809	639,867	1,237,633
Net cash used in investing activities	(698,717)	(1,142,959)	(1,490,454)	(695,055)	(2,729,006) ⁽¹⁾
Net cash from/(used in) financing activities	296,697	424,955	878,237	273,277	2,515,402
Net increase/(decrease) in cash and cash equivalents	329,190	(112,203)	258,592	218,089	1,024,029
Cash and cash equivalents at the beginning of the year/period	94,897	424,087	311,884	311,884	570,476
Cash and cash equivalents at the end of the year/period	424,087	311,884	570,476	529,973	1,594,505

Note:

- (1) The net cash used in investing activities for the six months ended June 30, 2020 was largely attributable to net cash outflows of RMB1,546.4 million for the acquisition of SKX.

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Net Cash from Operating Activities

For the six months ended June 30, 2020, net cash from operating activities amounted to RMB1,237.6 million, which was mainly attributable to profit before income tax for the year of RMB770.5 million, adjusted for (i) a loss of RMB217.6 million arising from changes in fair value of cows less cost of sales; (ii) finance costs of RMB152.6 million; (iii) depreciation and amortisation of RMB156.6 million; and (iv) changes in working capital (mainly including a decrease of RMB620.7 million in trade and bills payables and a decrease of RMB472.5 million in inventories).

For the year ended December 31, 2019, net cash from operating activities amounted to RMB870.8 million, which was mainly attributable to profit before income tax and total comprehensive income for the year of RMB850.9 million, adjusted for (i) a loss of RMB133.3 million arising from changes in fair value of cows less cost of sales; (ii) depreciation and amortisation of RMB139.3 million; (iii) finance costs of RMB104.1 million; and (iv) changes in working capital (mainly including an increase of RMB380.9 million in trade and bills receivables and an increase of RMB215.9 million in trade and bills payables).

For the year ended December 31, 2018, net cash from operating activities amounted to RMB605.8 million, which was mainly attributable to profit before income tax and total comprehensive income for the year of RMB697.2 million, adjusted for (i) depreciation and amortisation of RMB125.3 million; (ii) changes in working capital (mainly including an increase of RMB247.4 million in trade and bills receivables and an increase of RMB138.5 million in inventories).

For the year ended December 31, 2017, net cash from operating activities amounted to RMB731.2 million, which was mainly attributable to profit before income tax and total comprehensive income for the year of RMB324.7 million, adjusted for (i) a loss of RMB407.7 million arising from the changes in fair value of cows less cost of sales; (ii) depreciation and amortisation of RMB124.6 million; and (iii) changes in working capital (mainly including a decrease of RMB123.0 million in inventories, an increase of RMB107.1 million in trade and bills receivables, and a decrease of RMB106.4 million in trade and bills payables).

Net Cash Used in Investing Activities

For the six months ended June 30, 2020, net cash used in investing activities amounted to RMB2,729.0 million, which was mainly attributable to (i) acquisition of subsidiaries of RMB1,546.4 million, (ii) payments for biological assets of RMB957.9 million, and (iii) payments for property, plant and equipment of RMB622.0 million, partially offset by the proceeds from the disposal of dairy cows of RMB408.8 million.

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For the year ended December 31, 2019, net cash used in investing activities amounted to RMB1,490.5 million, which was mainly attributable to (i) payments for biological assets of RMB1,041.4 million, and (ii) payments for property, plant and equipment of RMB726.5 million, partially offset by the proceeds from the disposal of dairy cows of RMB328.2 million.

For the year ended December 31, 2018, net cash used in investing activities amounted to RMB1,143.0 million, which was mainly due to (i) payments for biological assets of RMB979.5 million, and (ii) payments for property, plant and equipment of RMB359.8 million, partially offset by proceeds from the disposal of dairy cows of RMB190.1 million.

For the year ended December 31, 2017, net cash used in investing activities amounted to RMB698.7 million, which was mainly attributable to (i) payments for biological assets of RMB663.4 million, (ii) payments for property, plant and equipment of RMB315.7 million, partially offset by proceeds from the disposal of dairy cows of RMB179.1 million and the receipt of government grants for assets.

Net Cash from Financing Activities

For the six months ended June 30, 2020, net cash from financing activities amounted to RMB2,515.4 million, which was mainly attributable to (i) new bank and other borrowings raised of RMB3,994.0 million; and (ii) capital contribution by the then holding company of RMB2,278.5 million, partially offset by repayment of bank and other borrowings of RMB3,547.9 million.

For the year ended December 31, 2019, net cash from financing activities amounted to RMB878.2 million, which was mainly attributable to new bank and other borrowings raised of RMB3,115.7 million; partially offset by repayment of bank and other borrowings of RMB2,078.9 million.

For the year ended December 31, 2018, net cash from financing activities amounted to RMB425.0 million, which was mainly attributable to new bank and other borrowings raised of RMB2,640.0 million, partially offset by repayment of bank and other borrowings of RMB2,100.0 million.

For the year ended December 31, 2017, net cash from financing activities amounted to RMB296.7 million, which was mainly attributable to the new bank and other borrowings raised of RMB1,400.0 million, partially offset by repayment of bank and other borrowings of RMB1,040.0 million.

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INDEBTEDNESS

At the close of business on September 30, 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the date of this Document, our Group had outstanding borrowings of approximately RMB5,415,306,000, comprising:

- (i) secured and guaranteed bank borrowings of RMB1,055,169,000 which were secured by certain biological assets of our Group and equity interests of certain subsidiaries of our Group, and guaranteed by certain subsidiaries of our Group;
- (ii) secured and unguaranteed bank borrowings of approximately RMB485,288,000 which were secured by certain bank deposits, internally generated intangible assets, bills receivables, biological assets of our Group and the equity interests of certain subsidiaries of our Group;
- (iii) unsecured and guaranteed bank borrowings of approximately RMB1,993,167,000, which were guaranteed by certain subsidiaries of our Group and a former non-controlling shareholder of a subsidiary and his wife;
- (iv) unsecured and unguaranteed bank borrowings of approximately RMB1,826,275,000;
- (v) unsecured and guaranteed other borrowings of approximately RMB28,997,000 which were guaranteed by a subsidiary of our Group; and
- (vi) unsecured and unguaranteed other liabilities of approximately RMB26,410,000 which were guaranteed by a subsidiary of our Group.

At September 30, 2020, our Group had lease liabilities of RMB963,692,000 in relation to the remaining lease terms of certain lease contracts, of which lease liabilities of RMB954,179,000 were unsecured and unguaranteed, and RMB9,513,000 were secured by rental deposits and unguaranteed.

At September 30, 2020, our Group had an ongoing civil litigation against our Group for alleged failure to supply of products to a customer, of which provision of RMB18,544,000 has been made.

As of September 30, 2020, our Group had provisions for land rehabilitation amounted to RMB6.8 million, which are related to an obligation to incur rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing dairy farming operations.

Save as aforesaid and apart from intra-group liabilities and normal trade, bills and other payables in the ordinary course of business of our Group, at the close of business on September 30, 2020, our Group did not have any debt securities authorised or created but unissued, issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness,

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liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, debentures, hire purchase or finance lease obligations, guaranteed, unguaranteed, secured and unsecured borrowings and debts, or other material contingent liabilities.

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	<i>RMB'000</i>				
	(unaudited)				
Bank borrowings	1,201,595	1,742,014	2,753,708	5,246,730	5,359,899
Unsecured	1,201,595	1,341,429	2,753,708	4,109,896	3,819,442
Secured	–	400,585	–	1,136,834	1,540,457
Other borrowings	–	–	28,897	28,998	28,997
	1,201,595	1,742,014	2,782,605	5,275,728	5,388,896
The carrying amounts of the above borrowings are repayable					
Within one year	1,201,595	1,742,014	1,682,945	3,529,446	3,642,449
More than one year but within two years	–	–	508,027	678,572	465,387
More than two years but within five years	–	–	591,633	965,381	1,219,336
More than five years	–	–	–	102,329	61,724
	1,201,595	1,742,014	2,782,605	5,275,728	5,388,896
Less: amounts due within one year shown under current liabilities	(1,201,595)	(1,742,014)	(1,682,945)	(3,529,446)	(3,642,449)
Amount shown under non- current liabilities	–	–	1,099,660	1,746,282	1,746,447

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	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	<i>RMB'000</i>				
	(unaudited)				
Lease liabilities	91,099	323,963	325,717	952,302	963,692
Less: Amount due for settlement within 12 months shown under current liabilities	(12,958)	(24,595)	(12,405)	(43,434)	(78,263)
Amount due for settlement after 12 months shown under noncurrent liabilities	78,141	299,368	313,312	908,868	885,429
Other liabilities at amortised cost	–	–	38,164	26,409	26,410
Portion classified under current liabilities	–	–	(11,058)	(6,100)	(6,100)
Portion classified under non-current liabilities	–	–	27,106	20,309	20,310

Our secured bank loans as of December 31, 2018 were secured by bank deposits of RMB0.1 million. Our secured bank loans as of June 30, 2020 were secured by certain of biological assets, bank deposits, internally generated intangible assets, bills receivables, and equity interests of certain subsidiaries of our Group. In addition, certain bank and other borrowings were guaranteed by a non-controlling shareholder of a subsidiary of our Group and his wife, and/or certain subsidiaries of our Group.

Our other borrowings represent loans from local governments. In April 2019, we entered into a loan arrangement with several local governments, which will be due within two years. These loans bear interest at a fixed interest rate of 4.75% per annum before June 30, 2019. Since July 1, 2019, the interest rate has been changed to 6%.

For information about indebtedness of Fonterra China Farms’ Group, please see the section headed “– Financial Information of Fonterra China Farms Group – Indebtedness” in this document.

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CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities apart from an ongoing litigation for which provision has been made.

CAPITAL EXPENDITURES

The following table sets forth capital expenditures for the periods indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>			
Capital expenditures in respect of acquisition of property, plant and equipment				
Contracted but not provided for	156,932	545,302	664,055	515,176

CONTRACTUAL OBLIGATIONS

As of the Latest Practicable Date, we did not have any material contractual obligations.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-balance sheet commitments and arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors confirm that the related party transactions set out in Note 46 to the Accountants’ Report in Appendix I to this document were conducted in the ordinary course of business on arm’s length basis and by reference to the normal commercial terms of each party. Our Directors also consider that our related party transactions during the Track Record Period would not affect our results during such period, and would not make our historical results not reflective of our future performance.

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We expect that certain of our related party transactions will proceed following the [REDACTED]. For our related party transactions under Chapter 14A of the Listing Rules, please refer to the section headed “Continuing Connected Transactions” in this document.

Loans from related parties

During the Track Record Period, we obtained a loan with an annual interest rate of 5.5% and repayment term of five months and a loan with an annual interest rate of 5.5% and repayment term of three months from Huishang Commercial Factoring Company Limited, a subsidiary of the Yili Group, to replenish our working capital. Such loans are unsecured. As of December 31, 2017, 2018 and 2019 and June 30, 2020, the total outstanding loans and interest payable to Huishang Commercial Factoring Company Limited were RMB201.1 million, RMB303.9 million, nil and nil, respectively.

MARKET AND OTHER FINANCIAL RISK MANAGEMENT

We are exposed to various types of market risks in the ordinary course of our business. The main risks arising from our financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. We manage our exposure to these risks through regular operating and financial activities. Our Board regularly reviews the risks and our financial risk management policy, and seeks to ensure that adequate resources are available to manage the market risks summarized below. For more details, see Note 44 to the Accountants’ Report included in the Appendix I to this document.

Foreign Currency Risk Management

We operate mainly in the PRC and majority of revenue and cost of goods sold and operations are denominated in RMB. Almost all of the revenue and costs are denominated in our group members’ respective functional currency.

We are exposed to foreign currency risk primarily with respect to the changes of exchange rate of US\$ against RMB, which is the functional currency of most of our group members. A few of our subsidiaries have foreign currency bank balances which expose us to foreign currency risk.

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The carrying amounts of our foreign currency denominated monetary assets (bank balances) at the end of each reporting period are as follows:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	<i>RMB'000</i>			
Bank balances denominated in US\$	11	218	241	615

Interest Rate Risk Management

We are exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and lease liabilities. We are also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged and restricted bank deposits and variable-rate bank borrowings. Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and PBOC and LIBOR arising from our RMB denominated borrowings.

Credit Risk Management

In order to minimize the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover debts. The amounts presented in the combined statements of financial position are net of allowances for doubtful receivables, if any, estimated by our management based on prior experience and the current economic environment.

We perform impairment assessment under ECL model upon application of IFRS 9 on January 1, 2018 (year ended December 31, 2017: incurred loss model) on financial assets individually or based on provision matrix. We also review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our management considers that our credit risk is significantly reduced.

Liquidity Risk Management

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

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We had net current liabilities of RMB1,856.0 million as at June 30, 2020, which exposed us to liquidity risk. In order to mitigate the liquidity risk, our Directors regularly monitor the operating of our cash flows to meet our liquidity requirement in the short and long term. Our net current liabilities position as at June 30, 2020 was mainly attributable to trade and bills payables, other payables and accruals, bank and other borrowings due within one year.

In view of these circumstances, our Directors have considered our future liquidity and performance and our available sources of finance, including unutilised bank loan facilities and the issuance of convertible notes in November 2020, in assessing we will have sufficient financial resources to continue as a going concern. Meanwhile, we recorded net operating cash inflows during the Track Record Period.

FINANCIAL INFORMATION OF SKX

The historical financial information contained and discussed in this subsection “– Financial Information of SKX” presents the historical financial information of SKX for the years ended December 31, 2017, 2018 and 2019.

Our Company completed the acquisition of the controlling interest in SKX on January 8, 2020, which falls within the Track Record Period. Based on the historical financial information of SKX, such acquisition has triggered the disclosure thresholds under Rule 4.05A. Therefore, this document also includes the pre-acquisition financial information of SKX from January 1, 2020 up to January 7, 2020, for details of which please see “Appendix I – Accountants’ Report – III” of this document.

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Summary Consolidated Statements of Comprehensive (Loss)/Income of SKX

	For the Year Ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>		
Revenue	1,856,866	2,103,874	2,407,511
Cost of sales	(1,745,587)	(2,008,473)	(2,312,015)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	541,932	660,957	717,390
Gross profit before impairment loss on inventories	653,211	756,358	812,886
Impairment losses of inventories	–	(5,030)	(45,959)
Gross profit after impairment loss on inventories	653,211	751,328	766,927
Loss arising from changes in fair value less costs to sell biological assets	(69,869)	(399,789)	(267,165)
Other income	64,170	30,599	29,752
Selling and distribution expenses	(84,020)	(79,617)	(89,364)
Administrative expenses	(83,373)	(100,233)	(141,008)
Other expenses	(23,544)	(5,362)	(16,148)
Share of (loss)/profit of a joint venture	(707)	109	215
Impairment losses under expected credit loss model, net of reversal	–	(9,915)	(14,681)
Other gains and losses	13,802	(4,565)	(18,419)
Finance costs	(131,136)	(129,444)	(141,064)
Profit before tax	338,534	53,111	109,045
Income tax (expense)/credit	(498)	(285)	192
Profit for the year	338,036	52,826	109,237
Fair value (loss)/gain on investments in equity instruments at FVTOCI	–	(4,791)	11,148
Exchange differences arising on the translation of foreign investment	(62)	17	88
Other comprehensive (expenses)/income, net of income tax	(62)	(4,774)	11,236
Total comprehensive income for the year	337,974	48,052	120,473

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	For the Year Ended December 31,		
	2017	2018	2019
	RMB'000		
Profit/(loss) for the year attributable to:			
Owners of SKX	327,168	49,712	112,004
Non-controlling interests	10,868	3,114	(2,767)
Profit for the year	338,036	52,826	109,237
Total comprehensive income/(expense) for the year attributable to:			
Owners of SKX	327,106	44,938	123,240
Non-controlling interests	10,868	3,114	(2,767)
Total comprehensive income for the year	337,974	48,052	120,473

Description of Major Components of the Results of Operations of SKX

Revenue

During the Track Record Period, revenue of SKX was generated primarily from sales of raw milk and breeding products to its customers. The following table sets forth the components of the revenue of SKX by segment for the periods indicated:

	Segment revenue	Inter-segment revenue	External revenue	External revenue as % of total revenue
	RMB'000 (except for percentage)			
Year ended				
December 31, 2017				
Raw milk business	1,740,780	–	1,740,780	100.0
Comprehensive ruminant farming solution-breeding business	132,873	16,787	116,086	87.4
Year ended				
December 31, 2018				
Raw milk business	2,037,472	–	2,037,472	100.0
Comprehensive ruminant farming solution-breeding business	82,124	15,722	66,402	80.9
Year ended				
December 31, 2019				
Raw milk business	2,347,557	–	2,347,557	100.0
Comprehensive ruminant farming solution-breeding business	72,583	12,629	59,954	82.6

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Raw milk business. SKX derives revenue from the sales of raw milk, which represents the largest component of the revenue of SKX. Revenue is recognized when raw milk is delivered to SKX’s customers. The following table sets forth the sales value, sales volume and average selling price per kilogram of SKX’s raw milk for the periods indicated:

	For the Year Ended December 31,		
	2017	2018	2019
Sales value (RMB’000)	1,740,780	2,037,472	2,347,557
Sales volume (tons)	484,763	554,995	605,020
Average selling price per kilogram (RMB/kilogram)	3.6	3.7	3.9

Comprehensive ruminant farming solution-breeding business. SKX generates revenue from the sales of breeding products, such as frozen bovine semen. Such breeding products are the high-quality frozen semen of domestic and overseas dairy cows and beef cattle which we provide for dairy farms for the purpose of breeding calves.

Cost of Sales

The following table sets forth a breakdown of the cost of sales of SKX for the periods indicated:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB’000		
Cost of sales before fair value adjustments			
Costs of sales of raw milk	1,147,290	1,318,493	1,566,654
Costs of sales of frozen bovine semen	56,365	29,023	27,971
	1,203,655	1,347,516	1,594,625
Raw milk fair value adjustments included in cost of sales	541,932	660,957	717,390
Total cost of sales	1,745,587	2,008,473	2,312,015

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Cost of sales before fair value adjustments

- Raw milk business

Cost of sales before raw milk fair value adjustments included in cost of sales of the raw milk business of SKX mainly includes raw materials, depreciation charges, staff remuneration, cost of utilities and others.

The following table sets forth major components of the cost of sales before raw milk fair value adjustments of SKX’s raw milk business for the periods indicated:

For the Year Ended December 31,						
2017			2018		2019	
Percentage in total		Percentage in total		Percentage in total		
Amount	amount	Amount	amount	Amount	amount	
<i>(RMB'000, except percentages)</i>						
Cost of sales of raw milk business before raw milk fair value adjustments						
Raw materials	942,882	82.2	1,088,618	82.6	1,310,544	83.7
Depreciation charges	58,402	5.1	70,460	5.3	87,380	5.6
Cost of utilities	17,236	1.5	24,356	1.8	25,519	1.6
Staff remuneration	89,535	7.8	97,296	7.4	101,322	6.5
Others	39,235	3.4	37,763	2.9	41,889	2.6
Total	1,147,290	100.0	1,318,493	100.0	1,566,654	100.0

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- Comprehensive ruminant farming solution-breeding business

Cost of sales of the breeding business of SKX mainly includes raw materials, depreciation charges, staff remuneration, cost of utilities and others.

The following table sets forth major components of the cost of sales of SKX’s breeding business for the periods indicated:

	For the Year Ended December 31,					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(RMB’000, except percentages)					
Raw materials	43,347	76.9	17,519	60.4	16,630	59.4
Depreciation charges	4,571	8.2	5,435	18.7	6,015	21.5
Cost of utilities	494	0.9	625	2.2	581	2.1
Staff remuneration	4,575	8.0	3,043	10.5	3,077	11.0
Others	3,378	6.0	2,401	8.2	1,668	6.0
Total	56,365	100.0	29,023	100.0	27,971	100.0

Raw milk fair value adjustments included in cost of sales

Raw milk fair value adjustments included in cost of sales were due to the difference between the production cost of raw milk under the cost approach and the market price of raw milk at the point of harvest. SKX recorded raw milk fair value adjustments included in cost of sales of RMB541.9 million, RMB661.0 million and RMB717.4 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Gains Arising on Initial Recognition of Raw Milk at Fair Value Less Costs of Sales at the Point of Harvest

Gains arising on initial recognition of raw milk at fair value less costs of sales at the point of harvest arise from the raw milk fair value adjustments.

SKX recorded gains arising on initial recognition of raw milk at fair value less costs of sales at the point of harvest of RMB541.9 million, RMB661.0 million and RMB717.4 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Gains arising on initial recognition of raw milk at fair value less costs of sales at the point of harvest is offset by raw milk fair value adjustments included in cost of sales.

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During the three years ended December 31, 2017, 2018 and 2019, the valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers.* The fair value of calves and heifers is determined by reference to the local market selling price. The fair value of calves and heifers less than 14 months old are determined by subtracting the estimated feed costs required to raise the cows from their respective age at the end of each reporting period to 14 months old. Conversely, the fair values of heifers older than 14 months old are determined by adding the estimated feed costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period.
- *Milkable cows.* The fair values of milkable cows are determined by using the future earnings approach, which is based on the discounted future cash flows to be generated by such milkable cows.

SKX recorded net losses arising from changes in fair value less costs to sell of biological assets of RMB69.9 million, RMB399.8 million and RMB267.2 million for the years ended December 31, 2017, 2018 and 2019, respectively. See the section headed “– Period-to-period Comparison of Results of Operations” for analyses on the fluctuation of the gains and loss arising from changes in fair value less costs to sell of biological assets.

When disposing of dairy cows, SKX writes off the carrying amount of the dairy cows from SKX’s biological assets, and the difference between the carrying amount of the dairy cows disposed and the proceeds from the disposal is recorded as changes in fair value less costs to sell of our biological assets. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of biological assets amounted to RMB189.5 million, RMB331.2 million and RMB538.0 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Other Income

Other income of SKX mainly consists of (i) government grants (namely the government grants received by SKX from relevant governmental authorities of the PRC), (ii) income from sales of raw material, (iii) bank interest income, (iv) rental income, and (v) others, mainly being income generated from technical services provided by SKX such as feedstuff detection, production performance testing on dairy cows and other external services.

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The following table sets forth a breakdown of other income of SKX for the periods indicated:

	For the year ended December 31,		
	2017	2018	2019
	<i>(RMB'000)</i>		
Government grants	38,551	21,408	15,293
Income from sales of raw materials	20,276	2,522	8,775
Bank interest income	3,786	2,025	1,096
Rental income	1,450	4,613	4,202
Others	107	31	386
Total	64,170	30,599	29,752

Selling and Distribution Expenses

Selling and distribution expenses of SKX consist of loading, unloading and transportation costs, marketing expenses, staff remuneration, taxes, travel expenses and others.

The following table sets forth a breakdown of selling and distribution expenses of SKX and as a percentage of total selling and distribution expenses of SKX for the periods indicated:

	For the year ended December 31,					
	2017		2018		2019	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(RMB'000, except percentages)</i>					
Loading, unloading and transportation costs	51,804	61.7	58,156	73.1	63,964	71.6
Marketing expenses	19,336	23.0	8,379	10.5	8,804	9.9
Staff remuneration	5,049	6.0	4,708	5.9	6,358	7.1
Taxes	4,676	5.5	5,520	6.9	7,249	8.1
Travel expenses	1,328	1.6	990	1.3	1,454	1.6
Others	1,827	2.2	1,864	2.3	1,535	1.7
Total	84,020	100.0	79,617	100.0	89,364	100.0

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Administrative Expenses

Administrative expenses of SKX consist of staff remuneration, insurance expenses, research and development expenses, travel and office expenses, legal and professional service fees, maintenance expenses and others.

The following table sets forth a breakdown of administrative expenses of SKX and as a percentage of total administrative expenses of SKX for the periods indicated:

	For the Year Ended December 31,					
	2017		2018		2019	
	RMB	%	RMB	%	RMB	%
	(RMB'000, except percentages)					
Staff remuneration	32,558	39.1	45,337	45.2	50,970	36.1
Maintenance expenses	367	0.4	1,649	1.6	8,277	5.9
Travel and office expenses	2,937	3.5	2,825	2.8	3,259	2.3
Legal and professional service fees	2,575	3.1	2,281	2.3	12,517	8.9
Insurance expenses	12,027	14.4	12,468	12.4	17,936	12.7
Research and development expenses	8,296	10.0	8,812	8.8	9,441	6.7
Others	24,613	29.5	26,861	26.9	38,608	27.4
Total	83,373	100.0	100,233	100.0	141,008	100.0

Other Expenses

Other expenses of SKX consist of expenses from selling raw materials, depreciation of investment properties and right-of-use assets and others. The following table sets forth a breakdown of SKX's other expenses:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB'000		
Cost of sales of raw materials	22,373	2,420	13,092
Depreciation of investment properties and right-of-use assets	1,109	2,816	2,656
Others	62	126	400
Total	23,544	5,362	16,148

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Share of (Loss)/Profit of a Joint Venture

Share of profit of a joint venture represents profits shared by SKX from a corporate engaged in the production and sales of raw semen, in which SKX holds 50% equity interest. SKX recorded share of (loss)/profit of a joint venture of a loss of RMB0.7 million, a profit of RMB0.1 million and a profit of RMB0.2 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Impairment Losses under Expected Credit Loss Model, Net of Reversal

SKX’s impairment losses under expected credit loss model, net of reversal includes (i) credit losses recognized in respect of trade and bills receivables; and (ii) credit losses recognized in respect of other receivables. SKX records losses under expected credit loss model, net of reversal of RMB9.9 million and RMB14.7 million for the years ended December 31, 2018 and 2019, respectively.

Other Gains and Losses

Other gains and losses of SKX consists of (i) gain/(loss) on disposal of property, plant and equipment; (ii) impairment losses on property, plant and equipment; (iii) impairment losses (recognized)/reversed in respect of trade and bills receivables and other receivables; (iv) gains arising from acquisition of subsidiaries; (v) provision for litigations; (vi) exchange loss, net; and (vii) others.

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The following table sets forth a breakdown of SKX’s other gains and losses for the periods indicated:

	For the Year Ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>		
Gain/(loss) on disposal of property, plant and equipment	(696)	(1,824)	(2,671)
Impairment losses of property, plant and equipment	–	(1,224)	–
Impairment losses (recognized)/reversal on:			
Trade and bills receivables	(13,945)	–	–
Other receivables	1,160	–	–
Gains from bargain purchase of subsidiaries	27,973	–	–
Litigation provision	–	–	(13,346)
Net exchange loss	(105)	(215)	(551)
Others	(585)	(1,302)	(1,851)
Total	13,802	(4,565)	(18,419)

Finance Costs

Finance costs of SKX include interest expenses on bank borrowings, lease liabilities and interest on contract liabilities from customers. The following table sets forth a breakdown of SKX’s finance costs:

	For the Year Ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>		
Interest expenses on:			
Bank borrowings	121,204	113,040	107,874
Lease liabilities	9,932	15,302	15,480
Interest on contract liabilities from customers	–	1,102	17,710
Total	131,136	129,444	141,064

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Profit Before Tax

SKX recorded a profit before tax of RMB338.5 million, RMB53.1 million and RMB109.0 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Income Tax Expenses

For each of the years ended December 31, 2017, 2018 and 2019, except for the 15% preferential tax rate SKX enjoys under the Great Western Development policies, the PRC subsidiaries of SKX are generally subject to a tax rate of 25% for the PRC enterprise income tax. According to the Law on the Enterprise Income Tax of the People’s Republic of China (the “**EIT Law**”), the income of SKX generated from agricultural and husbandry programs (such as the feeding of dairy cows) is exempt from income tax. According to PRC laws and regulations on tax, the relevant PRC subsidiaries shall, based on their operating conditions and related tax regulations, determine on their own whether they meet the conditions stipulated in the preferential items. Those subsidiaries who meet the conditions may calculate the tax deductions accordingly and may enjoy EIT preferences by filing an EIT return. They shall collect and maintain relevant documents for future reference.

Profit for the Year

SKX recorded profit for the year of RMB338.0 million, RMB52.8 million and RMB109.2 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Non-IFRS Measures

To supplement financial information of SKX, which are presented in accordance with IFRSs, SKX uses adjusted net profit and adjusted EBITDA as additional financial measures, which are not required by, or presented in accordance with, IFRSs. We believe that these non-IFRS measures help to compare the operating performance of the company in different periods by eliminating potential impacts of extraordinary items or items that our management does not consider to be indicative of the operating performance or cash flow of SKX. We believe that such measures provide useful information to our investors and other parties in understanding and evaluating our comprehensive results of operation by assisting our management in the same manner. However, the adjusted net profit and adjusted EBITDA presented by us may be not comparable with similar financial measures presented by other companies. The use of such non-IFRS measures has limitations as an analytical tool and you should not consider it in isolation from, or regard it as substitute for analysis of, our results of operations or financial conditions as reported under IFRSs.

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The adjusted net profit of SKX is defined as the annual net profit plus other gains and losses, impairment losses (net of reversals) under expected credit loss model, impairment losses of inventories and losses arising from changes in fair value less costs to sell biological assets. The following table sets forth and presents the annual adjusted profit, which is adjusted based on the most direct and comparable financial measurement (namely the profit for the periods indicated) calculated and presented in accordance with IFRSs:

	For the Year Ended December 31,		
	2017	2018	2019
	<i>(RMB'000)</i>		
Profit for the year	338,036	52,826	109,237
Add:			
Other gains and losses	(13,802)	4,565	18,419
Impairment loss under expected credit loss model, net of reversal	–	9,915	14,681
Impairment loss on inventories	–	5,030	45,959
Loss arising from changes in fair value less costs to sell biological assets	69,869	399,789	267,165
Adjusted net profit for the year	<u>394,103</u>	<u>472,125</u>	<u>455,461</u>

The adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortisation) profit of SKX is defined as the adjusted annual net profit plus income tax expenses, finance costs, interest income, depreciation and amortization. The following table sets forth and presents the annual adjusted profit, which is adjusted based on the most direct and comparable financial measurement (namely the profit for the periods indicated) calculated and presented in accordance with IFRSs:

	For the Year Ended December 31,		
	2017	2018	2019
	<i>(RMB'000)</i>		
Adjusted net profit for the year	394,103	472,125	455,461
Add:			
Income tax (expenses)/credit	498	285	(192)
Finance costs	131,136	129,444	141,064
Bank interest income	(3,786)	(2,025)	(1,096)
Depreciation and amortisation	84,950	105,762	113,416
Adjusted EBITDA	<u>606,901</u>	<u>705,591</u>	<u>708,653</u>

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Period-to-Period Comparison of Results of Operations

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

The revenue of SKX increased by 14.4% from RMB2,103.9 million for the year ended December 31, 2018 to RMB2,407.5 million for the year ended December 31, 2019.

- *Raw milk business.* Revenue generated from sales of raw milk increased by 15.2% from RMB2,037.5 million for the year ended December 31, 2018 to RMB2,347.6 million for the year ended December 31, 2019, which resulted from (i) a 9.0% increase in raw milk sales volume from 554,995 tons for the year ended December 31, 2018 to 605,020 tons for the year ended December 31, 2019, as a result of the increases in the number of milkable cows and the average milk yield per milkable cow; and (ii) an increase in the average unit price of raw milk from RMB3.7 per kilogram for the year ended December 31, 2018 to RMB3.9 per kilogram for the year ended December 31, 2019.
- *Comprehensive ruminant farming solution-breeding business.* Revenue generated from breeding products decreased by 9.7% from RMB66.4 million for the year ended December 31, 2018 to RMB60.0 million for the year ended December 31, 2019 mainly since SKX adjusted its sales strategy of breeding products in light of the market demand of frozen bovine semen, resulting in the decreased sales volume.

Cost of sales

The cost of sales of SKX increased by 15.1% from RMB2,008.5 million for the year ended December 31, 2018 to RMB2,312.0 million for the year ended December 31, 2019.

- Cost of sales before fair value adjustments
 - *Raw milk business.* The cost of raw milk sold increased by 18.8% from RMB1,318.5 million for the year ended December 31, 2018 to RMB1,566.7 million for the year ended December 31, 2019, which was due to a 9.0% increase in raw milk sales volume from 554,995 tons for the year ended December 31, 2018 to 605,020 tons for the year ended December 31, 2019 as a result of the increases in the number of milkable cows and the average milk yield per milkable cow.
 - *Comprehensive ruminant farming solution-breeding business.* The cost of sales generated from the sales of breeding products decreased by 3.6% from RMB29.0 million for the year ended December 31, 2018 to RMB28.0 million for the year ended December 31, 2019 mainly since SKX adjusted its sales strategy of breeding products in light of the market demand of frozen bovine semen, resulting in the decreased sales volume.

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- *Raw milk fair value adjustments included in cost of sales.* The raw milk fair value adjustments increased from RMB661.0 million for the year ended December 31, 2018 to RMB717.4 million for the year ended December 31, 2019.

Gains Arising on Initial Recognition of Raw Milk at Fair Value Less Costs of Sales at the Point of Harvest

Gains arising on initial recognition of raw milk at fair value less costs of sales at the point of harvest of SKX were RMB661.0 million for the year ended December 31, 2018 and RMB717.4 million for the year ended December 31, 2019, respectively, which was primarily due to the fair value adjustment of raw milk. Gains arising on initial recognition of raw milk at fair value less costs of sales at the point of harvest is offset by raw milk fair value adjustments included in cost of sales.

Gross profit before impairment loss on inventories

As a result of the foregoing, the gross profit before impairment loss on inventories of SKX increased by 7.5% from RMB756.4 million for the year ended December 31, 2018 to RMB812.9 million for the year ended December 31, 2019. During the same period, SKX's gross profit margin before impairment loss on inventories decreased from 36.0% to 33.8%.

- *Raw milk business.* The gross profit before impairment loss on inventories of raw milk business of SKX increased by 8.6% from RMB719.0 million for the year ended December 31, 2018 to RMB780.9 million for the year ended December 31, 2019. SKX's gross profit margin of raw milk remained relatively stable, slightly decreasing from 35.3% for the year ended December 31, 2018 to 33.3% for the year ended December 31, 2019.
- *Comprehensive ruminant farming solution-breeding business.* The gross profit before impairment loss on inventories of breeding business of SKX decreased from RMB37.4 million for the year ended December 31, 2018 to RMB32.0 million for the year ended December 31, 2019. The gross profit margin before impairment loss on inventories decreased from 56.3% for the year ended December 31, 2018 to 53.3% for the year ended December 31, 2019, mainly due to the changes in proportion of products with different gross margins.

Impairment losses of inventories

SKX recorded impairment losses of inventories of RMB46.0 million for the year ended December 31, 2019 as compared to the impairment losses of inventories of RMB5.0 million for the year ended December 31, 2018, mainly due to the impairment loss recognized by SKX in relation to unsold frozen semen at December 31, 2019 with lower breeding value, which could not meet market demands and for which there is no recent market value as reference.

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

Loss arising from changes in fair value less costs to sell of biological assets of SKX decreased by 33.2% from RMB399.8 million for the year ended December 31, 2018 to RMB267.2 million for the year ended December 31, 2019. The decrease was mainly caused by the increase in proceeds from disposal of cows in 2019, which resulted in the decline in the line item.

Other Income

Other income of SKX slightly decreased by 2.8% from RMB30.6 million for the year ended December 31, 2018 to RMB29.8 million for the year ended December 31, 2019. The decrease was primarily due to a decrease of 28.6% in government grants from RMB21.4 million for the year ended December 31, 2018 to RMB15.3 million for the year ended December 31, 2019. The decrease was partially offset by an increase of 247.9% in income from sales of raw materials associated with the sale of part of SKX’s feed during the restructuring of SKX’s dairy farms from RMB2.5 million for the year ended December 31, 2018 to RMB8.8 million for the year ended December 31, 2019.

Selling and Distribution Expenses

Selling and distribution expenses of SKX increased by 12.2% from RMB79.6 million for the year ended December 31, 2018 to RMB89.4 million for the year ended December 31, 2019. The increase was primarily due to increases in loading, unloading and transportation costs resulted from the increase in sales volume of raw milk from the year ended December 31, 2018 to the year ended December 31, 2019. The proportion of SKX selling and distribution expenses in its revenue decreased from 3.8% for the year ended December 31, 2018 to 3.7% for the year ended December 31, 2019.

Administrative Expenses

Administrative expenses of SKX increased by 40.7% from RMB100.2 million for the year ended December 31, 2018 to RMB141.0 million for the year ended December 31, 2019. The increase was primarily due to (i) the increased maintenance expenses caused by infrastructure repairs and the increased insurance expenses in connection with business expansion, (ii) the increase in employees’ remuneration resulting from the increased administrative staff as well as staff salaries and benefits, and (iii) the rise in legal and professional fees as a result of the increase in consultancy fees related to the construction for the standardization of dairy farms. The proportion of SKX administrative expenses in its revenue increased from 4.8% for the year ended December 31, 2018 to 5.9% for the year ended December 31, 2019.

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Other Expenses

Other expenses of SKX increased by 201.2% from RMB5.4 million for the year ended December 31, 2018 to RMB16.1 million for the year ended December 31, 2019. The increase was primarily due to the increase of the cost of sales of raw materials from RMB2.4 million for the year ended December 31, 2018 to RMB13.1 million for the year ended December 31, 2019, which was mainly related to the cost associated with the sale of part of SKX’s feed during the restructuring of SKX’s dairy farms.

Share of Profit of a Joint Venture

Share of profit of a joint venture represents profits shared by SKX from a corporate engaged in the production and sales of raw semen, in which SKX holds 50% equity interest. SKX recorded share of profit of a joint venture of RMB0.2 million for the year ended December 31, 2019 as compared to a profit of RMB0.1 million for the year ended December 31, 2018.

Impairment Losses under Expected Credit Loss Model, Net of Reversal

Impairment losses under expected credit loss model, net of reversal includes (i) credit losses recognized in respect of trade and bills receivables; and (ii) credit losses recognized in respect of other receivables. SKX recognized impairment losses under expected credit loss model, net of reversal of RMB14.7 million for the year ended December 31, 2019 as compared with a loss of RMB9.9 million recognized for the year ended December 31, 2018. Such increase was mainly due to a newly added customer credit impairment loss.

Other Gains and Losses

Other gains and losses of SKX increased from a loss of RMB4.6 million for the year ended December 31, 2018 to a loss of RMB18.4 million for the year ended December 31, 2019. The increase was primarily due to an increase in litigation provision from nil for the year ended December 31, 2018 to RMB13.3 million for the year ended December 31, 2019.

Finance Costs

Finance costs of SKX increased by 9.0% from RMB129.4 million for the year ended December 31, 2018 to RMB141.1 million for the year ended December 31, 2019, which was primarily due to the increase in borrowings.

Profit before Tax

As a result of the foregoing, SKX had a profit before tax of RMB53.1 million for the year ended December 31, 2018, compared with a profit before tax of RMB109.0 million for the year ended December 31, 2019.

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Income Tax Expense

SKX recorded income tax expenses of RMB0.3 million and income tax credit of RMB0.2 million for the years ended December 31, 2018 and 2019, respectively. For more details about the tax exemption, see the section headed “– Description of Major Components of the Results of Operations of SKX – Income Tax Expense” in this document.

Profit for the year

As a result of the foregoing, SKX recorded the profit for the year of RMB52.8 million for the year ended December 31, 2018, compared with the profit for the year of RMB109.2 million for the year ended December 31, 2019. The change was largely affected by the loss arising from changes in fair value less costs to sell biological assets.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

The revenue of SKX increased by 13.3% from RMB1,856.9 million for the year ended December 31, 2017 to RMB2,103.9 million for the year ended December 31, 2018.

- *Raw milk business.* Revenue generated from sales of raw milk increased by 17.0% from RMB1,740.8 million for the year ended December 31, 2017 to RMB2,037.5 million for the year ended December 31, 2018, which was due to (i) an increase in the sales volume of raw milk from 484,763 tons for the year ended December 31, 2017 to 554,995 tons for the year ended December 31, 2018, as a result of the increases in the number of milkable cows and average milk yield per milkable cows; and (ii) an increase in the average unit price of raw milk from RMB3.6 per kilogram for the year ended December 31, 2017 to RMB3.7 per kilogram for the year ended December 31, 2018.
- *Comprehensive ruminant farming solution-breeding business.* Revenue generated from breeding products decreased by 42.8% from RMB116.1 million for the year ended December 31, 2017 to RMB66.4 million for the year ended December 31, 2018, which was mainly due to the decreasing demand for frozen bovine semen as a result of the slow growth of the industry’s total herd size and the quality improvement of frozen bovine semen.

Cost of sales

The cost of sales of SKX increased by 15.1% from RMB1,745.6 million for the year ended December 31, 2017 to RMB2,008.5 million for the year ended December 31, 2018.

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- Cost of sales before fair value adjustments
 - *Raw milk business.* The cost of raw milk sold increased by 14.9% from RMB1,147.3 million for the year ended December 31, 2017 to RMB1,318.5 million for the year ended December 31, 2018, which was due to a 14.5% increase in the sales volume of raw milk from 484,763 tons for the year ended December 31, 2017 to 554,995 tons for the year ended December 31, 2018 as a result of the increases in the number of milkable cows and the average milk yield per milkable cow.
 - *Comprehensive ruminant farming solution-breeding business.* The cost of sales generated from the sales of breeding products decreased by 48.5% from RMB56.4 million for the year ended December 31, 2017 to RMB29.0 million for the year ended December 31, 2018, which was due to the decreasing demand for frozen bovine semen as a result of the slow growth of the industry’s total herd size and the quality improvement of frozen bovine semen.
- *Raw milk fair value adjustments included in cost of sales.* The raw milk fair value adjustments increased from RMB541.9 million for the year ended December 31, 2017 to RMB661.0 million for the year ended December 31, 2018.

Gains Arising on Initial Recognition of Raw Milk at Fair Value Less Costs of Sales at the Point of Harvest

Gains arising on initial recognition of raw milk at fair value less costs of sales at the point of harvest of SKX were RMB541.9 million for the year ended December 31, 2017 and RMB661.0 million for the year ended December 31, 2018, respectively, which was primarily due to the fair value adjustment of raw milk. Gains arising on initial recognition of raw milk at fair value less costs of sales at the point of harvest is offset by raw milk fair value adjustments included in cost of sales.

Gross profit before impairment loss on inventories

As a result of the foregoing, the gross profit before impairment loss on inventories of SKX increased by 15.8% from RMB653.2 million for the year ended December 31, 2017 to RMB756.4 million for the year ended December 31, 2018. During the same period, SKX’s gross profit margin before impairment loss on inventories increased from 35.2% to 36.0%.

- *Raw milk business.* The gross profit before impairment loss on inventories of raw milk business of SKX increased by 21.1% from RMB593.5 million for the year ended December 31, 2017 to RMB719.0 million for the year ended December 31, 2018. SKX’s gross profit margin before impairment loss on inventories of raw milk business increased from 34.1% for the year ended December 31, 2017 to 35.3% for the year ended December 31, 2018, primarily due to an increase in the average unit price of raw milk.

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- *Comprehensive ruminant farming solution-breeding business.* The gross profit before impairment loss on inventories of breeding business decreased from RMB59.7 million for the year ended December 31, 2017 to RMB37.4 million for the year ended December 31, 2018. The gross profit margin before impairment loss on inventories increased from 51.4% for the year ended December 31, 2017 to 56.3% for the year ended December 31, 2018, which was due to the adjustments SKX made to the sales structure of breeding business.

Impairment losses of inventories

SKX recorded impairment losses of inventories of RMB5.0 million for the year ended December 31, 2018 as compared to the impairment losses of inventories of nil for the year ended December 31, 2017, mainly due to the impairment loss recognized by SKX in relation to unsold frozen semen at December 31, 2018 with lower breeding value, which could not meet market demands and for which there is no recent market value as reference.

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

Loss arising from changes in fair value less costs to sell of biological assets of SKX increased significantly from a loss of RMB69.9 million for the year ended December 31, 2017 to a loss of RMB399.8 million for the year ended December 31, 2018. The increase in loss was mainly because SKX adjusted its herd structure and increased investment for reserve cows to expand its herd size.

Other Income

Other income of SKX decreased by 52.3% from RMB64.2 million to RMB30.6 million for the years ended December 31, 2017 and 2018. The decrease was primarily resulted from (i) a 44.5% decrease in government grants from RMB38.6 million for the year ended December 31, 2017 to RMB21.4 million for the year ended December 31, 2018; and (ii) a decrease of 87.6% in revenue from the sale of raw materials from RMB20.3 million for the year ended December 31, 2017 to RMB2.5 million for the year ended December 31, 2018 (due to the sale of feed by SKX during the restructuring of certain dairy farms). The decrease was partially offset by an increase in rental income from RMB1.5 million for the year ended December 31, 2017 to RMB4.6 million for the year ended December 31, 2018.

Selling and Distribution Expenses

Selling and distribution expenses of SKX decreased by 5.2% from RMB84.0 million for the year ended December 31, 2017 to RMB79.6 million for the year ended December 31, 2018. The decrease was primarily due to a decrease in marketing expenses resulted from the shrinking of breeding business. The proportion of SKX selling and distribution expenses in its revenue decreased from 4.5% for the year ended December 31, 2017 to 3.8% for the year ended December 31, 2018.

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Administrative Expenses

Administrative expenses of SKX increased by 20.2% from RMB83.4 million for the year ended December 31, 2017 to RMB100.2 million for the year ended December 31, 2018. The increase was primarily due to increases in the number of administrative employees and employee’s compensation and benefits. The proportion of SKX administrative expenses in its revenue increased from 4.5% for the year ended December 31, 2018 to 4.8% for the year ended December 31, 2019.

Other Expenses

Other expenses of SKX decreased by 77.2% from RMB23.5 million for the year ended December 31, 2017 to RMB5.4 million for the year ended December 31, 2018. The increase was primarily due to a decrease of 89.2% in expenses from selling raw materials from RMB22.4 million for the year ended December 31, 2017 to RMB2.4 million for the year ended December 31, 2018, as SKX sold part of its feed during the restructuring of its dairy farms, which was partially offset by an increase of 153.9% in investment properties and right-of-use assets related depreciation from RMB1.1 million for the year ended December 31, 2017 to RMB2.8 million for the year ended December 31, 2018.

Share of (Loss)/Profit of a Joint Venture

Share of profit of a joint venture represents profits shared by SKX from a corporate engaged in the production and sales of raw semen, in which SKX holds 50% equity interest. SKX recorded share of profits of a joint venture of RMB0.1 million for the year ended December 31, 2018 as compared to share of loss of RMB0.7 million for the year ended December 31, 2017.

Impairment Losses under Expected Credit Loss Model, Net of Reversal

Impairment losses under expected credit loss model, net of reversal includes (i) credit losses recognized in respect of trade and bills receivables; and (ii) credit losses recognized in respect of other receivables. SKX recognized impairment losses under expected credit loss model, net of reversal of RMB9.9 million for the year ended December 31, 2018, as compared to nil for the year ended December 31, 2017.

Other Gains and Losses

Other gains and losses of SKX changed from a gain of RMB13.8 million for the year ended December 31, 2017 to a loss of RMB4.6 million for the year ended December 31, 2018. The decrease was primarily due to the acquisition of companies resulted a bargain purchase gain during the year ended December 31, 2017; the decrease was partially offset by the adoption of IFRS 9 resulting in a reclassification of impairment loss to impairment losses under expected credit loss model.

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Finance Costs

Finance costs of SKX decreased by 1.3% from RMB131.1 million for the year ended December 31, 2017 to RMB129.4 million for the year ended December 31, 2018. The decrease was primarily due to a 6.7% decrease in interest expenses on bank borrowings from RMB121.2 million for the year ended December 31, 2017 to RMB113.0 million for the year ended December 31, 2018, which was resulted from the decrease in borrowings; and the decrease was partially offset by a 54.1% increase in interest expenses on lease liabilities from RMB9.9 million for the year ended December 31, 2017 to RMB15.3 million for the year ended December 31, 2018, due to an increase in leased properties.

Profit before Tax

As a result of the foregoing, SKX had a profit before tax of RMB338.5 million for the year ended December 31, 2017, compared with a profit before tax of RMB53.1 million for the year ended December 31, 2018.

Income Tax Expense

Income tax expense of SKX decreased by 42.8% from RMB0.5 million for the year ended December 31, 2017 to RMB0.3 million for the year ended December 31, 2018. For more details about the tax exemption, see the section headed “– Description of Major Components of the Results of Operations of SKX – Income Tax Expense” in this document..

Profit for the Year

As a result of the foregoing, SKX recorded profit of RMB338.0 million for the year ended December 31, 2017, compared with profit of RMB52.8 million for the year ended December 31, 2018. The change was largely affected by the loss arising from changes in fair value less costs to sell biological assets.

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Discussion of Key Balance Sheet Items of SKX

The table below sets forth selected information from the consolidated statements of financial position of SKX, which has been extracted from the audited consolidated financial statements of SKX included in Section III – Pre-acquisition Financial Information to Appendix I to this document, as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000		
Total current assets	1,106,461	965,487	1,093,139
Total non-current assets	4,867,776	5,128,940	5,423,752
Total assets	5,974,237	6,094,427	6,516,891
Total current liabilities	1,924,417	2,468,951	2,889,003
Total non-current liabilities	1,631,775	1,213,149	1,323,956
Total liabilities	3,556,192	3,682,100	4,212,959
Net assets	2,418,045	2,412,327	2,303,932
Non-controlling interests	134,574	129,437	5,874
Total equity	2,418,045	2,412,327	2,303,932
Total equity and liabilities	5,974,237	6,094,427	6,516,891

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Current Assets and Liabilities

The following table sets forth the current assets and current liabilities of SKX as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000		
Current assets			
Inventories	517,896	528,191	672,044
Trade and bills receivables	273,262	223,530	171,046
Prepayments, deposits and other receivables	23,164	32,672	29,752
Bank balances and cash	247,130	153,131	195,300
Pledged and restricted bank deposits	45,009	27,963	24,997
Total current assets	1,106,461	965,487	1,093,139
Current liabilities			
Trade and bills payables	681,678	928,743	1,256,423
Other payables and accruals	257,102	356,009	334,159
Contract liabilities	2,717	30,233	188,807
Income tax payable	498	246	17
Lease liabilities	6,020	4,921	5,604
Bank borrowings	976,402	1,148,799	1,090,647
Other provision	—	—	13,346
Total current liabilities	1,924,417	2,468,951	2,889,003
Net current liabilities	(817,956)	(1,503,464)	(1,795,864)

The net current liabilities of SKX increased from RMB1,503.5 million as of December 31, 2018 to RMB1,795.9 million as of December 31, 2019. This was primarily driven by (i) an increase in trade and bills payables from RMB928.7 million as of December 31, 2018 to RMB1,256.4 million as of December 31, 2019; (ii) an increase in contract liabilities from RMB30.2 million as of December 31, 2018 to RMB188.8 million as of December 31, 2019; these were partially offset by (i) an increase in inventories from RMB528.2 million as of December 31, 2018 to RMB672.0 million as of December 31, 2019; (ii) an increase in bank balances and cash from RMB153.1 million as of December 31, 2018 to RMB195.3 million as of December 31, 2019; and (iii) a decrease in borrowings from RMB1,148.8 million as of December 31, 2018 to RMB1,090.6 million as of December 31, 2019.

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The net current liabilities of SKX increased from RMB818.0 million as of December 31, 2017 to RMB1,503.5 million as of December 31, 2018. This was primarily driven by: (i) an increase in trade and bills payables from RMB681.7 million as of December 31, 2017 to RMB928.7 million as of December 31, 2018; (ii) an increase in borrowings from RMB976.4 million as of December 31, 2017 to RMB1,148.8 million as of December 31, 2018; and (iii) a decrease in bank balances and cash from RMB247.1 million as of December 31, 2017 to RMB153.1 million as of December 31, 2018; these were partially offset by an increase in inventories from RMB517.9 million as of December 31, 2017 to RMB528.2 million as of December 31, 2018.

Inventories

Inventories of SKX primarily consist of raw materials, frozen bovine semen and consumables. The following table sets forth the components of SKX’s inventories as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB’000</i>		
Raw materials	438,329	452,827	619,267
Frozen bovine semen	61,679	56,564	17,065
Consumables	17,888	18,800	35,712
Total	517,896	528,191	672,044

Inventories of SKX increased from RMB528.2 million as of December 31, 2018 to RMB672.0 million as of December 31, 2019, which was mainly due to (i) an increase in raw materials from RMB452.8 million as of December 31, 2018 to RMB619.3 million as of December 31, 2019 as a result of the increase in silage reserves; and (ii) an increase in consumables from RMB18.8 million as of December 31, 2018 to RMB35.7 million as of December 31, 2019.

Inventories of SKX increased from RMB517.9 million as of December 31, 2017 to RMB528.2 million as of December 31, 2018, which was mainly due to an increase in raw materials from RMB438.3 million as of December 31, 2017 to RMB452.8 million as of December 31, 2018, as a result of increased purchases of raw materials because of the expansion of herd size.

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	For the years ended December 31,		
	2017	2018	2019
	<i>days</i>		
Inventory turnover days ⁽¹⁾	109	88	90

- (1) Inventory turnover days were calculated using the average of beginning balance and ending balance of inventory for a year divided by material costs of the entire herd and multiplied by 365 days.

During the three years ended December 31, 2017, 2018 and 2019, inventory turnover days of SKX decreased from 109 days for the year ended December 31, 2017 to 88 days for the year ended December 31, 2018. The decrease was primarily due to the expansion of dairy herd size, increase in materials costs and the enhancement of inventory management. Inventory turnover days of SKX increased from 88 days for the year ended December 31, 2018 to 90 days for the year ended December 31, 2019, which was primarily due to the slight increase in inventory balance as a result of rising silage reserves.

Trade and Bills Receivables

Trade and bills receivables of SKX primarily represent receivables from sales of raw milk and frozen bovine semen. The following table sets forth a breakdown of SKX’s trade and bills receivables:

	As of December 31,		
	2017	2018	2019
	<i>RMB’000</i>		
Trade receivables	287,155	254,181	214,781
Less: allowance of doubtful debts	(15,688)	–	–
allowance for credit losses	–	(30,801)	(44,735)
	271,467	223,380	170,046
Bills receivables	1,795	150	1,000
Trade and bills receivables	273,262	223,530	171,046

Trade and bills receivables decreased from RMB273.3 million as of December 31, 2017 to RMB223.5 million as of December 31, 2018, and further to RMB171.0 million as of December 31, 2019, mainly because SKX tightened its receivables collection policies.

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The following table sets forth an aging analysis of SKX’s trade and bills receivables net of allowance for credit losses (doubtful debts) presented based on invoice date which approximate to the respective dates on which revenue is recognised as at the end of each reporting period:

	As of December 31,		
	2017	2018	2019
	RMB’000		
Within 180 days	240,688	172,177	149,023
180 days to 1 year	18,343	33,382	13,534
1 year to 2 years	12,695	13,995	6,215
Over 2 years	1,536	3,976	2,274
Total	273,262	223,530	171,046

	For the year ended December 31,		
	2017	2018	2019
	days		
Trade and bills receivables turnover days ⁽¹⁾	46	43	30

(1) SKX’s trade and bills receivables turnover days are calculated by using the average balance of receivables divided by the revenue and multiplied by the number of days during the period (365 days).

For the years ended December 31, 2017, 2018 and 2019, average trade and bills receivables turnover days of SKX were 46 days, 43 days and 30 days, respectively. The decrease was mainly due to the enhanced management of trade receivables.

Trade and Bills Payables

Trade and bills payables of SKX represent the payables for the sales of raw materials and frozen dairy semen. The table below sets forth the components of SKX’s trade and bills payables balances as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	RMB’000		
Trade payables	601,502	834,533	1,050,239
Bills payable	80,176	94,210	206,184
Total trade and bills payables	681,678	928,743	1,256,423

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	For the year ended December 31,		
	2017	2018	2019
	<i>days</i>		
Trade and bills payables turnover days ⁽¹⁾	136	133	161

- (1) SKX’s trade and bills payables turnover days are calculated by using the average balance of payables divided by the procurement amount and multiplied by the number of days for the period (365 days).

Trade and bills payables of SKX increased from RMB681.7 million as of December 31, 2017 to RMB928.7 million as of December 31, 2018, and further to RMB1,256.4 million as of December 31, 2019, which was mainly due to the increase in trade payables resulted from the rising procurement volume. SKX’s average trade and bills payables turnover days were 136 days, 133 days and 161 days for the years ended December 31, 2017, 2018 and 2019.

The following table sets forth an aging analysis of SKX’s trade and bills payables presented based on invoice date at the end of each reporting period:

	As of December 31,		
	2017	2018	2019
	<i>RMB’000</i>		
Within 1 year	653,287	869,858	1,207,990
1 year to 2 years	7,073	41,187	33,041
2 years to 3 years	9,359	4,511	4,230
More than 3 years	11,959	13,187	11,162
Total	681,678	928,743	1,256,423

Other Payables and Accruals

Other payables and accruals of SKX consist primarily of (i) construction costs payables, (ii) deposits received (deposits received by SKX from suppliers), (iii) accrued staff costs, (iv) other tax payables, (v) advance received from lessees, (vi) advances received for disposal of dairy cows, (vii) consideration payables for acquisition of non-controlling interest, and (viii) others.

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The table below sets forth the components of SKX’s other payables and accruals as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	RMB'000		
Construction costs payable	189,675	289,697	259,625
Deposits received	19,098	13,429	13,696
Accrued staff costs	28,042	33,523	31,546
Other tax payables	1,096	1,687	626
Consideration payables for acquisition of non-controlling interests	–	–	22,922
Advance received from lessees	1,070	–	–
Advance received for disposal of dairy cows	2,420	1,403	1,064
Others	15,701	16,270	4,680
Total	257,102	356,009	334,159

Other payables and accruals of SKX decreased from RMB356.0 million as of December 31, 2018 to RMB334.2 million as of December 31, 2019, which was mainly due to (i) an increase in consideration payables for acquisition of non-controlling interests from nil as of December 31, 2018 to RMB22.9 million as of December 31, 2019 as a result of SKX’s acquisition of minority interests in seven of its subsidiaries in 2019 and its retainment of partial payment for shares as quality warranty after the contract period, and (ii) a decrease in construction costs payable from RMB289.7 million as of December 31, 2018 to RMB259.6 million as of December 31, 2019 as a result of the payment of construction costs payable.

Other payables and accruals of SKX increased from RMB257.1 million as of December 31, 2017 to RMB356.0 million as of December 31, 2018, which was mainly due to (i) an increase in construction costs payable from RMB189.7 million as of December 31, 2017 to RMB289.7 million as of December 31, 2018 as a result of the increased investment in fixed assets, and (ii) an increase in accrued staff costs from RMB28.0 million as of December 31, 2017 to RMB33.5 million as of December 31, 2018, as a result of the rising employee headcount.

Current Bank Borrowings

As a result of the increase in amounts due within one year shown under current liabilities, current bank borrowings of SKX increased from RMB976.4 million as of December 31, 2017 to RMB1,148.8 million as of December 31, 2018. The current bank borrowings then decreased to RMB1,090.6 million as of December 31, 2019, due to the repayment of short-term borrowings.

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Non-Current Assets and Non-current Liabilities

The following table sets forth the non-current assets and non-current liabilities of SKX as of the dates indicated:

	As of Year Ended December 31,		
	2017	2018	2019
	RMB'000		
Non-current assets			
Property, plant and equipment	2,099,409	2,220,605	2,289,212
Right-of-use assets	347,402	317,150	324,651
Investment properties	11,889	12,287	11,863
Intangible assets	1,083	909	737
Interests in a joint venture	306	431	733
Biological assets	2,334,637	2,541,223	2,746,839
Deferred tax assets	–	795	795
Prepayments for acquisition of property, plant and equipment and biological assets	–	–	2,234
Available-for-sale equity investments	73,050	–	–
Equity instrument at fair value through other comprehensive income	–	35,540	46,688
Total non-current assets	4,867,776	5,128,940	5,423,752
Non-current liabilities			
Deferred income	25,727	31,653	29,538
Lease liabilities	302,394	285,308	297,616
Other liabilities	9,820	3,460	660
Bank borrowings	1,293,834	892,728	996,142
Total non-current liabilities	1,631,775	1,213,149	1,323,956

Property, Plant and Equipment

Property, plant and equipment of SKX consist primarily of buildings, machinery and equipment, vehicles, electronic equipment, leasehold improvements, and construction in progress. The amount of property, plant and equipment of SKX increased from RMB2,099.4 million as of December 31, 2017 to RMB2,220.6 million as of December 31, 2018, and further to RMB2,289.2 million as of December 31, 2019, which was consistent with the expansion of SKX’s business for the years ended December 31, 2017, 2018 and 2019.

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Right-of-Use Assets

Right-of-use assets of SKX include leasehold lands, leased properties and machinery.

Right-of-use assets of SKX increased from RMB317.2 million as of December 31, 2018 to RMB324.7 million as of December 31, 2019, which was due to an increase in leasehold lands for new dairy farms of SKX in 2019.

Right-of-use assets of SKX decreased from RMB347.4 million as of December 31, 2017 to RMB317.2 million as of December 31, 2018, mainly due to SKX’s termination of the lease of a dairy farm in Hebei in 2018.

Biological Assets

Biological assets of SKX consist of breeding stock and dairy cows, which are further categorized into milkable cows, heifers and calves. The following table sets forth the number of SKX’s biological assets as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	<i>heads, except for raw milk sales</i>		
	<i>volume (ton)</i>		
Dairy cows:			
Milkable cows	65,609	66,912	70,134
Heifers and calves	59,371	64,657	60,500
Breeding stock	159	129	115
Total biological assets	125,139	131,698	130,749
Raw milk sales volume	484,763	554,995	605,020

The following table sets forth the value of SKX’s biological assets as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	<i>RMB’000</i>		
Dairy cows:			
Milkable cows	1,340,619	1,472,337	1,674,181
Heifers and calves	959,748	1,040,558	1,030,787
Breeding stock	34,270	28,328	41,871
Total biological assets	2,334,637	2,541,223	2,746,839

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The value of SKX’s biological assets increased from RMB2,334.6 million as of December 31, 2017 to RMB2,541.2 million as of December 31, 2018, and further to RMB2,746.8 million as of December 31, 2019. The increase in the fair value of SKX’s biological assets during the years ended December 31, 2017, 2018 and 2019 was primarily due to a combination of (i) an increase in the number of SKX’s cows; and (ii) the selling prices of raw milk and prices of culled cows resulting in an increase in profit per cow.

Biological assets were independently valued by Jones Lang LaSalle, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets. For valuation of our biological assets, please see Note 22 of the Accountants’ Report included in Appendix I to this document.

Non-Current Borrowings

Non-current borrowings represent SKX’s bank borrowings with a term of more than one year. SKX’s non-current borrowings decreased from RMB1,293.8 million as of December 31, 2017 to RMB892.7 million as of December 31, 2018, mainly due to the repayment of the project loan borrowed by SKX in the early development stage. SKX’s non-current borrowings increased from RMB892.7 million as of December 31, 2018 to RMB996.1 million as of December 31, 2019, mainly because of the increase in long-term loans.

Non-Current Lease Liabilities

Non-current lease liabilities of SKX represent the present value of outstanding lease payments under SKX’s lease agreement. The table below sets forth a breakdown of SKX’s non-current lease liabilities as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	RMB’000		
Within a period of more than one year			
but not more than two years	7,377	4,639	11,028
Within a period of more than two years			
but not more than five years	16,420	11,951	11,890
Within a period of more than five years	278,597	268,718	274,698
Total	302,394	285,308	297,616

Non-current lease liabilities decreased from RMB302.4 million as of December 31, 2017 to RMB285.3 million as of December 31, 2018 mainly due to amortization. Non-current lease liabilities further increased to RMB297.6 million as of December 31, 2019 mainly due to the land lease agreement entered into for the construction of a new dairy farm.

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Key Financial Ratios

The following table sets forth SKX’s key financial ratios during the periods indicated or as of the dates indicated.

	For the year ended/as of December 31,		
	2017	2018	2019
Return on equity ⁽¹⁾	14.0%	2.2%	4.7%
Adjusted return on equity ⁽²⁾	16.3%	19.6%	19.8%
Current ratio ⁽³⁾	0.57	0.39	0.38
Quick ratio ⁽⁴⁾	0.31	0.18	0.15
Gearing ratio ⁽⁵⁾	81.8%	77.1%	81.0%

Notes:

- (1) Calculated by dividing the net profit during the year by the total equity at the end of the year and multiplying by 100%.
- (2) Calculated by dividing adjusted net profit as defined in non-IFRS measures by total equity at the end of the year multiplied by 100%.
- (3) Calculated by dividing current assets by current liabilities.
- (4) Calculated by dividing current assets less inventories by current liabilities.
- (5) Calculated by dividing net debt (bank borrowings less bank balances and cash and pledged and restricted bank deposits) by the total equity and multiplying by 100%.

SKX’s return on equity decreased from 14.0% for the year ended December 31, 2017 to 2.2% for the year ended December 31, 2018, and increased from 2.2% for the year ended December 31, 2018 to 4.7% for the year ended December 31, 2019, mainly due to the changes in fair value of biological assets.

SKX’s adjusted return on equity increased from 16.3% for the year ended December 31, 2017 to 19.6% for the year ended December 31, 2018, mainly reflecting the increase in adjusted net profit as a result of SKX’s growing revenue and improving gross margin. The adjusted return on equity increased from 19.6% for the year ended December 31, 2018 to 19.8% for the year ended December 31, 2019, mainly due to the decrease in adjusted net profit as a result of SKX’s lower gross margin and higher administrative expenses, partially offset by the decrease in total equity due to the lower non-controlling interest as of December 31, 2019.

SKX’s current ratio decreased from 0.57 as of December 31, 2017 to 0.39 as of December 31, 2018, and further decreased to 0.38 as of December 31, 2019, mainly due to a larger increase in current liabilities as compared with current assets as result of the annual increase in the balance of trade payables.

Similar to the current ratio, SKX’s quick ratio decreased from 0.31 as of December 31, 2017 to 0.18 as of December 31, 2018, and further decreased to 0.15 as of December 31, 2019, mainly due to a larger increase in current liabilities as compared with current assets as a result of the annual increase in the balance of trade payables.

SKX’s gearing ratio decreased from 81.8% as of December 31, 2017 to 77.1% as of December 31, 2018, mainly due to the decrease in bank borrowings. SKX’s gearing ratio rebounded from 77.1% as of December 31, 2018 to 81.0% as of December 31, 2019, mainly due to the increases in bank borrowings.

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Liquidity and Capital Resources

Cash requirements arising from SKX have principally been satisfied with cash generated from business activities and equity contributions from shareholders.

The cash and cash equivalents of SKX were RMB247.1 million, RMB153.1 million and RMB195.3 million as of December 31, 2017, 2018 and 2019, respectively. The following table sets forth cash flows of SKX for the periods indicated:

	For the years ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>		
Net cash from operating activities	951,052	1,132,338	904,729
Net cash used in investing activities	(872,752)	(864,196)	(564,720)
Net cash used in financing activities	(42,253)	(362,130)	(297,834)
Net increase (decrease) in cash and cash equivalents	36,047	(93,988)	42,175
Cash and cash equivalents at the beginning of the year	211,213	247,130	153,131
Effect of foreign exchange rate changes	(130)	(11)	(6)
Cash and cash equivalents at the end of the year	247,130	153,131	195,300

Net Cash from Operating Activities

For the year ended December 31, 2019, net cash from operating activities was RMB904.7 million, which was primarily attributable to profit for the year before income tax of RMB109.0 million, as adjusted by (i) loss arising from changes in fair value less costs to sell of biological assets of RMB267.2 million; (ii) finance costs of RMB141.1 million; (iii) depreciation of property, plant and equipment of RMB101.5 million; (iv) movements in working capital, which primarily consisted of an increase in trade and bills payables of RMB272.7 million, and an increase in contract liabilities of RMB140.9 million.

For the year ended December 31, 2018, net cash from operating activities was RMB1,132.3 million, which was primarily attributable to profit for the year before income tax of RMB53.1 million, as adjusted by (i) loss arising from changes in fair value less costs to sell of biological assets of RMB399.8 million; (ii) finance costs of RMB129.4 million; (iii) depreciation of property, plant and equipment of RMB90.7 million; (iv) movements in working capital, which primarily consisted of an increase in trade and bills payables of RMB334.9 million.

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For the year ended December 31, 2017, net cash from operating activities was RMB951.1 million, which was primarily attributable to profit for the year before income tax of RMB338.5 million, as adjusted by (i) finance costs of RMB131.1 million; (ii) depreciation of property, plant and equipment of RMB77.0 million; (iii) losses arising from changes in fair value less costs to sell of biological assets of RMB69.9 million; (iv) movements in working capital, which primarily consisted of an increase in trade and bills payables of RMB266.9 million, and a decrease in inventories of RMB118.4 million.

Net Cash used in Investing Activities

For the year ended December 31, 2019, net cash used in investing activities was RMB564.7 million, which was primarily attributable to (i) addition of biological assets of RMB895.9 million, and (ii) purchase of property, plant and equipment of RMB222.8 million, partially offset by cash proceeds from disposal of biological assets of RMB538.0 million.

For the year ended December 31, 2018, net cash used in investing activities was RMB864.2 million, which was primarily attributable to (i) addition of biological assets of RMB942.3 million, and (ii) purchase of property, plant and equipment of RMB302.2 million; partially offset by cash proceeds from disposal of biological assets of RMB331.2 million.

For the year ended December 31, 2017, net cash used in investing activities was RMB872.8 million, which was primarily attributable to (i) addition of biological assets of RMB814.5 million, and (ii) purchase of property, plant and equipment of RMB319.0 million, partially offset by cash proceeds from disposal of biological assets of RMB189.5 million.

Net Cash used in Financing Activities

For the year ended December 31, 2019, net cash used in financing activities was RMB297.8 million, which was primarily attributable to (i) repayment of borrowings of RMB1,229.5 million, (ii) interest paid of RMB123.6 million, partially offset by new bank borrowings raised of RMB1,274.6 million.

For the year ended December 31, 2018, net cash used in financing activities was RMB362.1 million, which was primarily attributable to (i) repayment of borrowings of RMB972.1 million, and (ii) interest paid of RMB129.1 million; partially offset by new bank borrowings raised of RMB743.4 million.

For the year ended December 31, 2017, net cash used in financing activities was RMB42.3 million, which was primarily attributable to (i) repayment of borrowings of RMB617.7 million, and (ii) interest paid of RMB130.4 million; partially offset by new bank borrowings raised of RMB727.0 million.

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Other Provisions

SKX did not have any contingent liabilities as of December 31, 2017 and 2018. As of December 31, 2019, SKX recorded provision relating to court proceedings of RMB13.3 million. Such amount arose from a contractual dispute with SKX.

Capital Expenditures

For the years ended December 31, 2017, 2018 and 2019, SKX did not have any material capital expenditures.

Capital Commitments

As of December 31, 2017, 2018 and 2019, the capital commitments of SKX were RMB35.5 million, RMB64.7 million and RMB58.0 million, respectively.

Contractual Obligations

As of December 31, 2017, 2018 and 2019, save for the sales contracts entered for the corresponding sales of raw milk, SKX did not have any material contractual obligations.

Off-Balance Sheet Commitments and Arrangements

As of December 31, 2017, 2018 and 2019, SKX did not have any off-balance sheet commitments and arrangements.

FINANCIAL INFORMATION OF FONTERRA CHINA FARMS GROUP

Summary

Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire the 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. Such consideration was determined on the basis of, among other things, the adjusted net assets (after the borrowings from the immediate controlling company are converted into additional registered capital before completion) of Fonterra China Farms Group. As of the date of this document, the above acquisition has not been completed. Please see “History, Reorganization and Group Structure – Major Acquisitions, Disposals and Mergers – Proposed Acquisition of Fonterra China Farms Group” for further details.

As of the date of this document, Fonterra China Farms Group is wholly-owned by Fonterra Group, a global leading enterprise engaged in dairy products exports and milk processing, in the PRC and is principally engaged in raw milk production.

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Set out below is the discussion on the financial information of Fonterra China Farms Group for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020.

Combined Statements of Profit or Loss and Other Comprehensive Income

The combined statements of profit or loss and other comprehensive income of Fonterra China Farms Group for the periods indicated are set out in the table below.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000			(unaudited)	
Revenue	1,055,658	957,654	1,111,354	530,599	587,492
Cost of sales	(983,776)	(867,282)	(1,011,171)	(480,524)	(548,123)
Gains/(losses) arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	82,207	(12,269)	94,418	18,506	93,297
Gross Profit	154,089	78,103	194,601	68,581	132,666
(Losses)/gains arising from changes in fair value less costs to sell of biological assets	(89,192)	(157,748)	(8,922)	11,567	(47,272)
Other income	11,840	5,401	23,100	10,199	5,317
Other gains and losses	5,750	(10,133)	(902,126)	(504)	173
Selling and distribution expenses	(51,087)	(62,876)	(69,338)	(35,982)	(23,934)
Administrative expenses	(77,342)	(70,280)	(60,622)	(34,972)	(30,432)
(Loss)/profit from operations	(45,942)	(217,533)	(823,307)	18,889	36,518
Finance costs	(59,333)	(53,262)	(50,079)	(25,478)	(25,259)
(Loss)/profit before tax	(105,275)	(270,795)	(873,386)	(6,589)	11,259
Income tax expense	—	—	—	—	—
(Loss)/profit and total comprehensive income for the year/period	(105,275)	(270,795)	(873,386)	(6,589)	11,259

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DESCRIPTION OF KEY COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

Revenue

The revenue sources of Fonterra China Farms Group mainly include the revenue from the sales of raw milk, the revenue from the sales of bull-calves and the revenue from the provision of inspection services.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded total revenue of RMB1,055.7 million, RMB957.7 million, RMB1,111.4 million, RMB530.6 million and RMB587.5 million, respectively. The table below sets forth a breakdown of Fonterra China Farms Group’s revenue for the periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	RMB’000			(unaudited)	
Revenue from the sales of raw milk	1,034,863	930,158	1,080,509	516,506	572,056
Revenue from the sales of bull-calves	20,735	26,913	29,863	13,505	15,014
Revenue from provision of inspection services	60	583	982	588	422
	<u>1,055,658</u>	<u>957,654</u>	<u>1,111,354</u>	<u>530,599</u>	<u>587,492</u>

Fonterra China Farms Group’s revenue increased by 10.7% from RMB530.6 million for the six months ended June 30, 2019 to RMB587.5 million for the six months ended June 30, 2020, mainly due to an increase in the revenue from the sales of raw milk from RMB516.5 million for the six months ended June 30, 2019 to RMB572.1 million for the six months ended June 30, 2020, which was primarily attributable to an increase in the raw milk sales volume of Fonterra China Farms Group from 136,635 tons for the six months ended June 30, 2019 to 146,268 tons for the six months ended June 30, 2020 as well as the rise in average selling price of raw milk.

Fonterra China Farms Group’s revenue increased by 16.0% from RMB957.7 million for the year ended December 31, 2018 to RMB1,111.4 million for the year ended December 31, 2019 mainly due to the increase in the revenue from the sales of raw milk from RMB930.2 million for the year ended December 31, 2018 to RMB1,080.5 million for the year ended December 31, 2019, which was primarily attributable to an increase in the raw milk sales volume of Fonterra China Farms Group from 246,261 tons for 2018 to 269,048 tons for 2019 as well as the rise in average selling price of raw milk.

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The revenue of Fonterra China Farms Group decreased by 9.3% from RMB1,055.7 million for the year ended December 31, 2017 to RMB957.7 million for the year ended December 31, 2018 mainly due to the decrease in the revenue from the sales of raw milk from RMB1,034.9 million for the year ended December 31, 2017 to RMB930.2 million for the year ended December 31, 2018. The decrease in the revenue from the sale of raw milk in 2018 was mainly due to the decrease in sales volume of raw milk from 285,644 tons for the year ended December 31, 2017 to 246,261 tons for the year ended December 31, 2018 as a result of a reduction in production from certain farms of Fonterra China Farms Group suffered from flooding caused by force majeure factors such as special weather conditions.

Cost of Sales

Cost of sales of Fonterra China Farms Group mainly consists of feed costs, depreciation and amortization, sewage treatment fees, fair value adjustments for agricultural produce and various expenses.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded cost of sales of RMB983.8 million, RMB867.3 million, RMB1,011.2 million, RMB480.5 million and RMB548.1 million, respectively. The table below sets forth a breakdown of the cost of sales of Fonterra China Farms Group for the periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000			(unaudited)	
Staff costs	61,155	64,455	62,112	31,044	31,124
Feed costs	569,680	526,140	582,705	287,085	305,335
Biological assets related costs	24,969	25,136	32,902	15,602	14,788
Depreciation and amortisation	112,360	103,629	81,176	50,150	21,004
Cowshed costs	21,209	17,863	26,123	13,989	12,554
Sewage treatment fees	43,659	56,908	54,878	24,033	33,089
Maintenance costs	18,940	25,203	15,301	6,023	7,453
Utility costs	34,447	36,956	40,766	20,799	18,190
Other costs	15,150	23,261	20,790	13,293	11,289
Fair value adjustments for agricultural produce included in cost of sales	82,207	(12,269)	94,418	18,506	93,297
	983,776	867,282	1,011,171	480,524	548,123

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Fonterra China Farms Group’s cost of sales increased by 14.1% from RMB480.5 million for the six months ended June 30, 2019 to RMB548.1 million for the six months ended June 30, 2020, which was mainly due to higher feed costs for the six months ended June 30, 2020 compared with the six months ended June 30, 2019 as a result of the increased raw milk production volume.

Fonterra China Farms Group’s cost of sales increased by 16.6% from RMB867.3 million for the year ended December 31, 2018 to RMB1,011.2 million for the year ended December 31, 2019, mainly due to the increase in feed costs as a result of the increased raw milk production volume.

Fonterra China Farms Group’s cost of sales decreased by 11.8% from RMB983.8 million for the year ended December 31, 2017 to RMB867.3 million for the year ended December 31, 2018, mainly due to the decrease in feed costs resulting from the decreased raw milk production volume.

Gains/(losses) Arising on Initial Recognition of Agricultural Produce at Fair Value less Cost of Sales at the Point of Harvest

Agricultural produce refers to raw milk produced by dairy cows in the dairy farms of Fonterra China Farms Group, which had been sold to the third parties for manufacturing into dairy products. Under IFRS, agricultural produce is recognised as inventories at their fair value less costs to sell at the point of harvest. The fair value is determined based on the market price quoted in the local area. The resulting gain or loss of recognition of such fair value, being the difference between (i) the fair value less costs to sell of such raw milk and (ii) the breeding costs incurred, is recognised in profit or loss for that period. Meanwhile, the gain or loss so recognised is charged as cost of sales upon internal consumption or subsequent sales of such raw milk as part of the cost of inventories sold.

The gains or losses arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest was due to the difference between the production cost of agricultural produce under the cost approach and the market price of agricultural produce at the point of harvest.

Fonterra China Farms Group recorded gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest of RMB82.2 million and RMB94.4 million for the years ended December 31, 2017 and 2019, respectively, and RMB18.5 million and RMB93.3 million for the six months ended June 30, 2019 and 2020, respectively while we recognised losses arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest of RMB12.3 million for the year ended December 31, 2018.

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Gross Profit and Gross Profit Margin

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded gross profit of RMB154.1 million, RMB78.1 million, RMB194.6 million, RMB68.6 million and RMB132.7 million, respectively. For the years ended December 31, 2017, 2018 and 2019, Fonterra China Farms Group’s gross profit margin was 14.6%, 8.2% and 17.5%, respectively. For the six months ended June 30, 2019 and 2020, Fonterra China Farms Group’s gross profit margin was 12.9% and 22.6%, respectively.

Fonterra China Farms Group’s gross profit increased by 93.4% from RMB68.6 million for the six months ended June 30, 2019 to RMB132.7 million for the six months ended June 30, 2020 because the revenue of Fonterra China Farms Group increased from the first half of 2019 to the first half of 2020, and less depreciation and amortisation recognised in cost of sales in the first half of 2020 due to the impairment of property, plant and equipment in the second half of 2019.

Fonterra China Farms Group’s gross profit increased by 149.2% from RMB78.1 million for the year ended December 31, 2018 to RMB194.6 million for the year ended December 31, 2019 because the revenue of Fonterra China Farms Group increased from 2018 to 2019.

Fonterra China Farms Group’s gross profit decreased by 49.3% from RMB154.1 million for the year ended December 31, 2017 to RMB78.1 million for the year ended December 31, 2018 because Fonterra China Farms Group’s revenue decreased in 2018 as compared with that of 2017 as affected by the decline in the raw milk yield due to the weather and other force majeure factors discussed above.

(Losses)/gains Arising from Changes in Fair Value less Costs to Sell of Biological Assets

(Losses)/gains arising from changes in fair value less costs to sell of biological assets of Fonterra China Farms Group represents the dairy cows fair value adjustments of Fonterra China Farms Group resulting from the changes in the physical attributes and market prices of Fonterra China Farms Group’s dairy cows and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifers. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, the biological assets were revalued at each reporting date.

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During the Track Record Period, the valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers.* The fair value of calves and heifers is determined by reference to the local market selling price. The fair value of calves and heifers less than 14 months old are determined by subtracting the estimated feed costs required to raise the cows from their respective age at the end of each reporting period to 14 months old plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers older than 14 months are determined by adding the estimated feed 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.
- *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.

Losses/gains arising from changes in fair value less costs to sell of biological assets recorded by Fonterra China Farms Group was a loss of RMB89.2 million, a loss of RMB157.7 million, a loss of RMB8.9 million, a gain of RMB11.6 million and a loss of RMB47.3 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively.

When disposing of dairy cows, Fonterra China Farms Group writes off the carrying amount of dairy cows from its biological assets, and the difference between the carrying amount of the dairy cows disposed and the proceeds from the disposal is recorded as change in fair value less costs to sell of its biological assets. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of biological assets amounted to RMB122.7 million, RMB188.1 million, RMB51.6 million, RMB13.4 million and RMB64.7 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively.

Other Income

Other income of Fonterra China Farms Group mainly consists of government grants, interest income, income from sales of scrap materials, insurance compensation and others.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded other income of RMB11.8 million, RMB5.4 million, RMB23.1 million, RMB10.2 million and RMB5.3 million, respectively. During the Track Record Period, the changes in other income of Fonterra China Farms Group were mainly due to the changes in government grants included in profit or loss for the current period.

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Other Gains and Losses

Other gains and losses of Fonterra China Farms Group consist primarily of (i) losses or gains on disposal of property, plant and equipment, (ii) gain on waiver of payment, (iii) impairment loss on property, plant and equipment, (iv) impairment loss on intangible assets, (v) net foreign exchange gains/losses, and (vi) others.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded a gain of RMB5.8 million, a loss of RMB10.1 million, a loss of RMB902.1 million, a loss of RMB0.5 million and a gain of RMB0.2 million under other gains and losses, respectively. The change from the year ended December 31, 2017 to the year ended December 31, 2018 was mainly because the net foreign exchange gains/losses changed from gains of RMB7.8 million in 2017 to losses of RMB6.5 million in 2018. The increase in other losses from the year ended December 31, 2018 to the year ended December 31, 2019 was mainly due to that the impairment loss on property, plant and equipment changed from nil thousand in 2018 to RMB898.5 million in 2019, which was mainly due to the loss recorded by Fonterra China Farms Group when performing the impairment testing resulted from the slower than expected improvement in operating performance in 2019. The change in other gains & losses from the six months ended June 30, 2019 to the six months ended June 30, 2020 was mainly because gains on waiver of payment changed from nil thousand for the six months ended June 30, 2019 to RMB2.0 million for the six months ended June 30, 2020. The amount represents waiver of payment granted to Fonterra China Farms Group by one of its affiliate.

Selling and Distribution Expenses

Selling and distribution expenses are transportation costs incurred by Fonterra China Farms Group.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded selling and distribution expenses of RMB51.1 million, RMB62.9 million, RMB69.3 million, RMB36.0 million and RMB23.9 million, respectively. The increase from the year ended December 31, 2017 to the year ended December 31, 2018 was mainly due to the changes in the transportation distance and the market transportation price; and the increase from the year ended December 31, 2018 to the year ended December 31, 2019 was in line with the increase in sales volume of raw milk. The decrease from the six months ended June 30, 2019 to the six months ended June 30, 2020 was mainly due to the decrease in transportation costs as a result of the shortened delivery distance to customers.

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Administrative Expenses

Administrative expenses of Fonterra China Farms Group mainly consist of farm consultancy fees, staff costs, depreciation and amortization and other expenses.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>			<i>(unaudited)</i>	
Staff costs	24,057	16,582	19,480	9,273	8,632
Farm consultancy fees	38,990	38,724	27,657	16,124	13,722
Professional agency service fees	1,296	727	1,836	1,155	1,288
Security service fees	1,910	1,778	1,442	719	744
Depreciation and amortisation	5,574	6,561	5,398	5,023	2,527
Others	5,515	5,908	4,809	2,678	3,519
	77,342	70,280	60,622	34,972	30,432

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded administrative expenses of RMB77.3 million, RMB70.3 million, RMB60.6 million, RMB35.0 million and RMB30.4 million, respectively. The decrease from the year ended December 31, 2017 to the year ended December 31, 2018 was mainly due to the decrease in staff costs as a result of the decrease in the number of staff; and the decrease from the year ended December 31, 2018 to the year ended December 31, 2019 was mainly due to the decrease in consultancy fees. The decrease from the six months ended June 30, 2019 to the six months ended June 30, 2020 was mainly due to the decreases in staff costs, consultancy fees and depreciation and amortisation included.

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Finance Costs

Fonterra China Farms Group’s finance costs mainly consist of (i) interest expenses on bank borrowings, (ii) interest expenses on borrowings from the cash pooling arrangement, (iii) interest expenses on borrowings from the immediate controlling company, and (iv) interest expenses on lease liabilities.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded finance costs of RMB59.3 million, RMB53.3 million, RMB50.1 million, RMB25.5 million and RMB25.3 million, respectively. The decreases were mainly because the interest expenses on bank borrowings decreased from RMB11.3 million for the year ended December 31, 2017 to RMB6.4 million and further to RMB4.8 million for the years ended December 31, 2018 and 2019, respectively, and decreased from RMB2.9 million for the six months ended June 30, 2019 to RMB2.1 million for the six months ended June 30, 2020. During the Track Record Period, the continuous decrease in the interest expenses on bank borrowings was mainly in line with the decrease in the amount of bank borrowings and the change in the interest rate.

Profit Before Tax

Based on the foregoing reasons, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, Fonterra China Farms Group recorded a loss of RMB105.3 million, RMB270.8 million, RMB873.4 million and RMB6.6 million and a profit of RMB11.3 million, respectively.

Income Tax Expenses

Fonterra China Farms Group recorded no income tax expenses during the Track Record Period, because the PRC entities of the Fonterra China Farms Group are entitled to be exempt to EIT as the principal activities of those entities are raising and breeding of dairy cows and raw milk production in the PRC.

(Loss)/profit and Total Comprehensive Income for the Period

Based on the foregoing reasons, Fonterra China Farms Group recorded loss or profit and total comprehensive income for the period of loss of RMB105.3 million, RMB270.8 million, RMB873.4 million and RMB6.6 million and profit of RMB11.3 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively.

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DESCRIPTION OF KEY COMBINED STATEMENT OF FINANCIAL POSITION ITEMS

The table below sets forth selected information from Fonterra China Farms Group’s combined statements of financial position as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB’000</i>			
Total current assets	491,355	421,648	381,356	455,848
Total non-current assets	3,390,753	3,172,425	2,329,548	2,274,641
Total assets	3,882,108	3,594,073	2,710,904	2,730,489
Total current liabilities	471,257	416,522	1,106,642	1,281,156
Total non-current liabilities	2,646,625	2,501,633	1,772,280	1,602,974
Total liabilities	3,117,882	2,918,155	2,878,922	2,884,130
Net assets/(liabilities)	764,226	675,918	(168,018)	(153,641)
Share capital	1,343,927	1,343,927	1,343,927	1,343,927
Reserves	(579,701)	(668,009)	(1,511,945)	(1,497,568)
Total equity/(deficit)	764,226	675,918	(168,018)	(153,641)

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Current Assets and Current Liabilities

The following table sets forth Fonterra China Farms Group’s current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	<i>RMB’000</i>				
					(unaudited)
Current assets					
Inventories	199,358	186,681	180,292	104,094	155,267
Trade receivables	105,400	99,806	121,661	125,115	99,484
Prepayments, deposits and other receivables	10,874	7,602	8,166	8,496	10,609
Amounts due from related parties	120,949	109,239	56,838	202,588	202,978
Cash and cash equivalents	54,774	18,320	14,399	15,555	162,465
Total current assets	<u>491,355</u>	<u>421,648</u>	<u>381,356</u>	<u>455,848</u>	<u>630,803</u>
Current liabilities					
Trade payables	163,051	149,627	161,543	162,247	221,758
Other payables and accruals	51,270	69,021	65,250	55,413	84,627
Contract liabilities	172	608	1,390	1,320	1,914
Amounts due to related parties	34,728	38,311	36,269	31,856	31,429
Bank borrowings	222,036	143,982	95,936	95,936	95,936
Non-current borrowings from immediate controlling company due within one year	–	–	740,539	930,646	930,325
Lease liabilities	–	14,973	5,715	3,738	3,718
Total current liabilities	<u>471,257</u>	<u>416,522</u>	<u>1,106,642</u>	<u>1,281,156</u>	<u>1,369,707</u>
Net current assets/(liabilities)	<u>20,098</u>	<u>5,126</u>	<u>(725,286)</u>	<u>(825,308)</u>	<u>(738,904)</u>

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Fonterra China Farms Group’s net current liabilities decreased from RMB825.3 million as of June 30, 2020 to RMB738.9 million as of September 30, 2020, which was primarily due to (i) an increase in inventories from RMB104.1 million as of June 30, 2020 to RMB155.3 million as of September 30, 2020; (ii) an increase in cash and cash equivalents from RMB15.6 million as of June 30, 2020 to RMB162.5 million as of September 30, 2020; partially offset by an increase in trade payables from RMB162.2 million as of June 30, 2020 to RMB221.8 million as of September 30, 2020.

Fonterra China Farms Group’s net current liabilities increased from RMB725.3 million as of December 31, 2019 to RMB825.3 million as of June 30, 2020, which was primarily attributable to (i) a decrease in inventories from RMB180.3 million as of December 31, 2019 to RMB104.1 million as of June 30, 2020, which was mainly because Fonterra China Farms Group typically purchases silage and other feed in the second half year, which will be gradually consumed in following months until the next purchase; (ii) an increase in non-current borrowings from the immediate controlling company due within one year from RMB740.5 million as of December 31, 2019 to RMB930.6 million as of June 30, 2020, which was mainly due to the increase in borrowings due within one year; partially offset by an increase in amounts due from related parties from RMB56.8 million as of December 31, 2019 to RMB202.6 million as of June 30, 2020.

Fonterra China Farms Group’s net current assets/liabilities changed from net current assets of RMB5.1 million as of December 31, 2018 to net current liabilities of RMB725.3 million as of December 31, 2019, which was primarily attributable to (i) an increase in non-current borrowings from the immediate controlling company due within one year from nil thousand as of December 31, 2018 to RMB740.5 million as of December 31, 2019, which was mainly due to the increase in borrowings due within one year; (ii) a decrease in amounts due from related parties from RMB109.2 million as of December 31, 2018 to RMB56.8 million as of December 31, 2019, which was mainly due to a decrease in the principal amount of borrowings from Fonterra China Farms Group to its affiliate; partially offset by an increase in trade receivables from RMB99.8 million as of December 31, 2018 to RMB121.7 million as of December 31, 2019, which was in line with the revenue growth trend.

Fonterra China Farms Group’s net current assets decreased from RMB20.1 million as of December 31, 2017 to RMB5.1 million as of December 31, 2018, which was primarily attributable to (i) a decrease in cash and cash equivalents from RMB54.8 million as of December 31, 2017 to RMB18.3 million as of December 31, 2018; (ii) an increase in other payables and accruals from RMB51.3 million as of December 31, 2017 to RMB69.0 million as of December 31, 2018; partially offset by a decrease in bank borrowings from RMB222.0 million as of December 31, 2017 to RMB144.0 million as of December 31, 2018, which was mainly because Fonterra China Farms Group adjusted its financing structure and decreased its bank borrowings.

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Inventories

Fonterra China Farms Group’s inventories primarily consist of feed and others. The following table sets forth the components of Fonterra China Farms Group’s inventories and the turnover days of inventories for the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB’000</i>			
Feed	182,833	170,424	162,712	88,046
Others	16,525	16,257	17,580	16,048
	<u>199,358</u>	<u>186,681</u>	<u>180,292</u>	<u>104,094</u>

Fonterra China Farms Group’s inventories remained generally stable at RMB199.4 million, RMB186.7 million and RMB180.3 million as of December 31, 2017, 2018 and 2019, respectively; Fonterra China Farms Group’s inventories totaled RMB104.1 million as of June 30, 2020, and the decrease from that as of December 31, 2019 was primarily due to the fact that Fonterra China Farms Group typically purchases feed such as silage in the second half of the year, and consumes its inventories in the first half of the year.

	For the Year ended December 31,			For the Six Months ended June 30,
	2017	2018	2019	2020
	<i>days</i>			
Inventory turnover days	111	108	98	72

- (1) The inventory turnover days as of December 31, 2017, 2018 and 2019 are calculated using the average of opening balance and closing balance of inventories for a year divided by costs of materials for all cattle herds and multiplied by 365 days (multiplied by 182.5 days for the six months ended June 30, 2020).

As of December 31, 2017, 2018 and 2019 and June 30, 2020, Fonterra China Farms Group’s inventory turnover days were 111 days, 108 days, 98 days and 72 days. The decreases of Fonterra China Farms Group’s inventory turnover days during the Track Record Period mainly reflected the changes in its stock mix, including the increased proportion of feed with shorter storage time.

As of September 30, 2020, 61% of Fonterra China Farms Group’s inventories as of June 30, 2020 had been used or consumed.

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Prepayments, Deposits and Other Receivables

Fonterra China Farms Group’s prepayments, deposits and other receivables include (i) prepayments to suppliers, (ii) utility and other deposits, (iii) compensation receivable, (iv) advances to staff, (v) insurance prepayments, and (vi) other receivables. The table below sets forth a breakdown of Fonterra China Farms Group’s prepayments, deposits and other receivables.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	<i>RMB’000</i>			
Prepayments to suppliers	2,186	1,420	1,549	2,578
Utility and other deposits	4,729	4,331	4,440	4,363
Compensation receivable	840	870	903	–
Advances to staff	2,783	500	590	507
Insurance prepayments	–	274	639	996
Other receivables	336	207	45	52
	<u>10,874</u>	<u>7,602</u>	<u>8,166</u>	<u>8,496</u>

Fonterra China Farms Group’s prepayments, deposits and other receivables decreased from RMB10.9 million as of December 31, 2017 to RMB7.6 million as of December 31, 2018, which was primarily attributable to a decrease in advances to staff from RMB2.8 million in 2017 to RMB0.5 million in 2018. Prepayments, deposits and other receivables subsequently increased to RMB8.2 million as of December 31, 2019, mainly due to an increase in insurance prepayments from RMB0.3 million in 2018 to RMB0.6 million in 2019. Prepayments, deposits and other receivables further increased to RMB8.5 million as of June 30, 2020, primarily attributable to (i) an increase in prepayments to suppliers from RMB1.5 million as of December 31, 2019 to RMB2.6 million as of June 30, 2020; and (ii) an increase in insurance prepayments from RMB0.6 million in 2019 to RMB1.0 million in the first half of 2020; which is partially offset by the decrease in compensation receivable.

Trade Payables

Fonterra China Farms Group’s trade payables mainly represent the outstanding amounts due to suppliers for the purchase of feed. Trade payables decreased from RMB163.1 million as of December 31, 2017 to RMB149.6 million as of December 31, 2018, and then increased to RMB161.5 million as of December 31, 2019 and further to RMB162.2 million as of June 30, 2020, which was in line with Fonterra China Farms Group’s purchase.

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The table below sets forth the aging analysis of Fonterra China Farms Group’s trade payables presented based on the invoice date at the end of each reporting period:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	RMB’000			
Within 1 month	87,722	83,520	93,129	106,528
2 to 3 months	73,412	62,507	62,456	49,942
4 to 6 months	1,903	3,588	5,652	1,902
Over 6 months	14	12	306	3,875
	<u>163,051</u>	<u>149,627</u>	<u>161,543</u>	<u>162,247</u>
	For the year ended December 31,			For the
	2017	2018	2019	six months
				ended
				June 30,
				2020
	days			
Trade payables turnover				
days ⁽¹⁾	92	88	83	82

- (1) Fonterra China Farms Group’s trade payables turnover days are calculated by using the average balance of payables divided by the costs of materials for all cattle herds and multiplied by the number of days for the period (365 days for the twelve months ended December 31, 2017, 2018 and 2019; 182.5 days for the six months ended June 30, 2020).

Fonterra China Farms Group’s trade payables turnover days were 92 days, 88 days, 83 days and 82 days for the years ended December 31, 2017, 2018 and 2019 and for the six months ended 2020, respectively. The decreases were mainly because Fonterra China Farms Group increased its purchase frequency based on inventory consumption during the Track Record Period.

As of September 30, 2020, Fonterra China Farms Group had paid 96% of trade payables outstanding as of June 30, 2020.

Other Payables and Accruals

Fonterra China Farms Group’s other payables and accruals mainly include (i) payables for purchase of property, plant and equipment, (ii) salaries and welfare payables, (iii) deposits received from suppliers, (iv) service and professional fee payables, (v) freight charges payables, (vi) non-income tax related tax payables, (vii) interest payables, and (viii) sundry payables and accrued expenses.

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The table below sets forth the components of Fonterra China Farms Group’s other payables and accrues as of the dates indicated.

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	<i>RMB'000</i>			
Payables for purchase of property, plant and equipment	4,769	5,313	6,470	4,575
Salaries and welfare payables	7,669	7,436	9,043	11,064
Deposits received from suppliers	3,883	4,240	11,555	7,128
Service and professional fee payables	545	452	569	1,019
Freight charges payables	19,296	16,613	15,623	21,168
Non-income tax related tax payables	—	—	29	1
Interest payables	363	665	937	728
Sundry payables and accrued expenses	14,745	34,302	21,024	9,730
	<u>51,270</u>	<u>69,021</u>	<u>65,250</u>	<u>55,413</u>

Other payables and accrues increased from RMB51.3 million as of December 31, 2017 to RMB69.0 million as of December 31, 2018, primarily due to an increase in sundry payables and accrued expenses from RMB14.7 million in 2017 to RMB34.3 million in 2018. The trade payables subsequently decreased to RMB65.3 million as of December 31, 2019 and RMB55.4 million as of June 30, 2020, mainly because sundry payables and accrued expenses decreased from RMB34.3 million as of December 31, 2018 to RMB21.0 million as of December 31, 2019, and further to RMB9.7 million as of June 30, 2020.

Short-term Bank Borrowings

Fonterra China Farms Group’s short-term bank borrowings decreased from RMB222.0 million as of December 31, 2017 to RMB144.0 million as of December 31, 2018 and further to RMB95.9 million and RMB95.9 million as of December 31, 2019 and June 30, 2020, respectively, which was mainly because Fonterra China Farms Group adjusted its financing structure and decreased bank loans.

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Non-current Assets and Liabilities

The following table sets forth Fonterra China Farms Group’s non-current assets and liabilities as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30,
	RMB'000			2020
Non-current assets				
Property, plant and equipment	2,074,821	1,988,154	1,057,016	1,038,220
Right-of-use assets	94,687	91,396	87,701	85,620
Intangible assets	4,406	2,268	171	140
Biological assets	1,216,839	1,090,607	1,184,660	1,150,661
Total non-current assets	3,390,753	3,172,425	2,329,548	2,274,641
Non-current liabilities				
Borrowings from immediate				
controlling company	2,591,488	2,458,632	1,733,220	1,563,232
Lease liabilities	53,887	41,901	38,110	38,867
Deferred income	1,250	1,100	950	875
Total non-current liabilities	2,646,625	2,501,633	1,772,280	1,602,974

Property, Plant and Equipment

Fonterra China Farms Group’s property, plant and equipment mainly include buildings, machinery and equipment, vehicles, electronic equipment and construction in progress. Fonterra China Farms Group’s property, plant and equipment amounted to RMB2,074.8 million, RMB1,988.2 million, RMB1,057.0 million and RMB1,038.2 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. The decrease from as of December 31, 2018 to as of December 31, 2019 was mainly due to the impact of impairment losses recognised in 2019; the slight decrease for each of the other periods compared with its previous period was resulted from depreciation and amortisation.

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Right-of-Use Assets

Fonterra China Farms Group’s right-of-use assets include leasehold lands and vehicles. Fonterra China Farms Group’s right-to-use assets amounted to RMB94.7 million, RMB91.4 million, RMB87.7 million and RMB85.6 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. The decreases were mainly affected by the amortisation of right-of-use assets.

Biological Assets

Fonterra China Farms Group’s biological assets include calves, heifers and milkable cows. The table below sets forth the number of Fonterra China Farms Group’s biological assets as of the dates indicated.

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	<i>heads</i>			
Calves and heifers	29,382	23,922	24,931	24,638
Milkable cows	30,260	28,473	31,618	30,304
	<u>59,642</u>	<u>52,395</u>	<u>56,549</u>	<u>54,942</u>

The table below sets forth the value of Fonterra China Farms Group’s biological assets as of the dates indicated.

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	<i>RMB’000</i>			
Calves and heifers	569,760	444,339	416,964	419,073
Milkable cows	647,079	646,268	767,696	731,588
	<u>1,216,839</u>	<u>1,090,607</u>	<u>1,184,660</u>	<u>1,150,661</u>

The value of Fonterra China Farms Group’s biological assets remained generally stable during the Track Record Period. The value of Fonterra China Farms Group’s biological assets was RMB1,216.8 million, RMB1,090.6 million, RMB1,184.7 million and RMB1,150.7 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

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Biological assets were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”), a firm of independent qualified professional valuers not connected with us or Fonterra China Farms Group, which has appropriate qualifications and experiences in valuation of biological assets. For valuation of Fonterra China Farms Group’s biological assets, please see Note 15 of the Accountants’ Report included in Appendix II to this document.

Borrowings from the Immediate Controlling Company (Non-current)

Borrowings from Fonterra China Farms Group’s immediate controlling company are unsecured, interest-free and are in the form of promissory notes, whose terms of repayment is between 3 to 10 years. The non-current borrowings from Fonterra China Farms Group’s immediate controlling company decreased from RMB2,591.5 million as of December 31, 2017 to RMB2,458.6 million as of December 31, 2018 and RMB1,733.2 million as of December 31, 2019 and further to RMB1,563.2 million as of June 30, 2020.

Cash Flow Analysis

	For the Year ended December 31,			For the Six Months ended June 30,	
	2017	2018	2019	2019	2020
	RMB’000			(unaudited)	
Net cash generated from operating activities	134,431	74,596	161,441	120,330	165,360
Net cash used in investing activities	(111,308)	(32,187)	(98,614)	(88,542)	(160,651)
Net cash used in financing activities	(54,779)	(84,785)	(68,782)	(45,040)	(5,412)
Net decrease in cash and cash equivalents	(31,656)	(42,376)	(5,955)	(13,252)	(703)
Cash and cash equivalents at the beginning of the year/period	<u>93,680</u>	<u>54,774</u>	<u>18,320</u>	<u>18,320</u>	<u>14,399</u>
Effect of foreign exchange rate changes	(7,250)	5,922	2,034	207	1,859
Cash and cash equivalents at the end of the year/period	<u><u>54,774</u></u>	<u><u>18,320</u></u>	<u><u>14,399</u></u>	<u><u>5,275</u></u>	<u><u>15,555</u></u>

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Net Cash Generated from Operating Activities

For the six months ended June 30, 2020, net cash generated from operating activities of Fonterra China Farms Group amounted to RMB165.4 million, which was mainly attributable to profit before income tax for the period of RMB11.3 million, as adjusted by (i) a loss of RMB47.3 million arising from changes in fair value less cost to sell of biological assets; (ii) finance costs of RMB25.3 million; and (iii) depreciation and amortisation of RMB23.5 million; and (iv) movements in working capital, which were mainly due to a decrease in inventories of RMB76.2 million.

For the year ended December 31, 2019, net cash generated from operating activities of Fonterra China Farms Group amounted to RMB161.4 million, which was mainly attributable to loss before income tax for the year of RMB873.4 million, as adjusted by (i) impairment loss on property, plant and equipment and intangible assets of RMB899.1 million; (ii) depreciation and amortisation of RMB86.6 million; and (iii) finance costs of RMB50.1 million; and (iv) movements in working capital, which primarily consisted of an increase in trade receivables of RMB21.9 million and an increase in trade payables of RMB11.9 million.

For the year ended December 31, 2018, net cash generated from operating activities of Fonterra China Farms Group amounted to RMB74.6 million, which was mainly attributable to loss before income tax for the year of RMB270.8 million, as adjusted by (i) a loss of RMB157.7 million arising from changes in fair value less cost to sell of biological assets; (ii) depreciation and amortisation of RMB110.2 million; and (iii) movements in working capital, which primarily consisted of an increase in other payables and accruals of RMB17.5 million, a decrease in trade payables of RMB13.4 million and a decrease in inventories of RMB12.7 million.

For the year ended December 31, 2017, net cash generated from operating activities of Fonterra China Farms Group amounted to RMB134.4 million, which was mainly attributable to loss before income tax of RMB105.3 million, as adjusted by (i) depreciation and amortisation of RMB117.9 million; (ii) a loss of RMB89.2 million arising from changes in fair value less cost to sell of biological assets; (iii) finance costs of RMB59.3 million; and (iv) movements in working capital, which primarily consisted of a decrease of RMB42.1 million in other payables and accruals, a decrease of RMB39.9 million in trade payables and a decrease of RMB39.1 million in inventories.

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Net Cash used in Investing Activities

For the six months ended June 30, 2020, net cash used in investing activities of Fonterra China Farms Group amounted to RMB160.7 million, which was mainly attributable to (i) net lending to related parties of RMB145.3 million through cash pooling arrangement; and (ii) expenditure on biological assets of RMB77.7 million, partially offset by cash proceeds from disposal of dairy cows of RMB64.7 million.

For the year ended December 31, 2019, net cash used in investing activities of Fonterra China Farms Group amounted to RMB98.6 million, which was mainly attributable to (i) expenditure on biological assets of RMB157.4 million; and (ii) payments for purchase of property, plant and equipment of RMB51.6 million, partially offset by (i) cash proceeds from disposal of biological assets of RMB51.6 million, and (ii) repayment of net lending by related parties through cash pooling arrangement of RMB51.4 million.

For the year ended December 31, 2018, net cash used in investing activities of Fonterra China Farms Group amounted to RMB32.2 million, which was mainly attributable to (i) expenditure on biological assets of RMB215.2 million; and (ii) net lending to related parties of RMB107.8 million through the cash pooling arrangement, partially offset by (i) cash proceeds from disposal of dairy cows of RMB188.1 million, and (ii) repayment of net lending by related parties through cash pooling arrangement of RMB110.0 million.

For the year ended December 31, 2017, net cash used in investing activities of Fonterra China Farms Group amounted to RMB111.3 million, which was mainly attributable to (i) expenditure on biological assets of RMB243.2 million, partially offset by cash proceeds from disposal of dairy cows of RMB122.7 million.

Net Cash used in Financing Activities

For the six months ended June 30, 2020, net cash used in financing activities of Fonterra China Farms Group amounted to RMB5.4 million, which was mainly attributable to interest paid of RMB3.2 million and repayment of lease liabilities of RMB2.2 million.

For the year ended December 31, 2019, net cash used in financing activities of Fonterra China Farms Group amounted to RMB68.8 million, which was mainly attributable to repayment of bank loans of RMB131.2 million, partially offset by proceeds from bank loans of RMB83.2 million.

For the year ended December 31, 2018, net cash used in financing activities of Fonterra China Farms Group amounted to RMB84.8 million, which was mainly attributable to repayment of bank loans of RMB177.5 million, partially offset by proceeds from bank loans of RMB99.5 million.

For the year ended December 31, 2017, net cash used in financing activities of Fonterra China Farms Group amounted to RMB54.8 million, which was mainly attributable to repayment of bank loans of RMB197.3 million, partially offset by proceeds from bank loans of RMB122.6 million.

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INDEBTEDNESS

	As of December 31,			As of	As of
	2017	2018	2019	June 30,	September 30,
				2020	2020
			RMB'000		
				(unaudited)	
Unsecured Bank Borrowings	222,036	143,982	95,936	95,936	95,936
Borrowings from the immediate controlling company	2,591,488	2,458,632	2,473,759	2,493,878	2,499,714
	2,813,524	2,602,614	2,569,695	2,589,814	2,595,650
The carrying amount of the above borrowings shall be repaid:					
Within 1 year	222,036	143,982	836,475	1,026,582	1,026,261
In 1 to 2 years	–	726,870	182,815	572,848	515,296
In 2 to 5 years	1,470,413	767,102	568,105	–	–
Over 5 years	1,121,075	964,660	982,300	990,384	994,093
	2,813,524	2,602,614	2,569,695	2,589,814	2,595,650
Less: the amount due within one year shown under current liabilities	(222,036)	(143,982)	(836,475)	(1,026,582)	(1,026,261)
Amounts shown under non-current liabilities	2,591,488	2,458,632	1,733,220	1,563,232	1,569,389
Lease liabilities	53,887	56,874	43,825	42,605	42,990
The above liabilities shall be repaid:					
Within 1 year	–	14,973	5,715	3,738	3,718
In 1 to 2 years	14,026	5,251	155	16	–
In 2 to 5 years	8,552	7,708	15,787	16,162	16,315
Over 5 years	31,309	28,942	22,168	22,689	22,957
	53,887	56,874	43,825	42,605	42,990
Less: the amount due within one year shown under current liabilities	–	(14,973)	(5,715)	(3,738)	(3,718)
The amount due over one year shown under non-current liabilities	53,887	41,901	38,110	38,867	39,272

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Unsecured Bank Borrowings

Fonterra China Farms Group’s unsecured bank borrowings bear interest at rates ranging from 4.0% to 5.6% per annum, which was determined based on the borrowing rates announced by the People’s Bank of China. All bank loans are unsecured and supported by a letter of comfort from Fonterra Group, and from completion of the transaction the Fonterra China Farms Group will cease to receive the benefit of that letter of comfort from Fonterra Group.

Borrowings from the Immediate Controlling Company

Borrowings from Fonterra China Farms Group’s immediate controlling company are unsecured and interest-free loans due from immediate controlling company, Fonterra Tangshan Dairy Farm (HK) Limited (“**Fonterra HK**”), in the form of promissory notes where repayment is expected in 3 to 10 years.

The total discounted amounts of borrowings from Fonterra China Farms Group’s immediate controlling company were RMB2,591.5 million, RMB2,458.6 million, RMB2,473.8 million, RMB2,493.9 million and RMB2,499.7 million as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, respectively. The borrowings from the immediate controlling company were unsecured, interest-free and were discounted to their net present value at an effective borrowing interest rate of 1.71% per annum for the years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020.

Pursuant to the share purchase agreement dated October 3, 2020 entered into between Youran Dairy and the shareholder of Fonterra China Farms Group, Fonterra China Farms Group’s borrowing of RMB2,493.9 million due to its original shareholder as of June 30, 2020 will be converted into its equity prior to the expected completion date of our acquisition.

Lease Liabilities

The total lease liabilities of Fonterra China Farms Group as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020 were RMB53.9 million, RMB56.9 million, RMB43.8 million, RMB42.6 million and RMB43.0 million.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, Fonterra China Farms Group did not have any material contingent liabilities.

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CAPITAL EXPENDITURES

The table below sets forth the historical capital expenditures of Fonterra China Farms Group for the periods indicated:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	<i>RMB'000</i>			
Capital expenditures in respect of acquisition of plant and equipment	14,438	21,258	52,755	2,881

CONTRACTUAL OBLIGATIONS

The table below sets forth the historical capital commitments and contractual liabilities of Fonterra China Farms Group as of the dates indicated:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
	<i>RMB'000</i>			
Contract liabilities ⁽¹⁾	172	608	1,390	1,320
Capital commitments	9,952	10,236	13,287	2,372
	<u>10,124</u>	<u>10,844</u>	<u>14,677</u>	<u>3,692</u>

Note:

- (1) Mainly representing contractual obligations relating to sales of bull-calves for the receipts in advances from customers.

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OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, Fonterra China Farms Group did not have any off-balance sheet commitments and arrangements.

DIVIDENDS

During the Track Record Period, no dividends have been paid or declared by us. On November 4, 2020, we declared a dividend of US\$180.3 million to our equity shareholders, which was fully paid on November 5, 2020. Any declaration and payment as well as the amount of dividends will be subject to our Memorandum of Association and the Cayman Companies Law. The declaration and payment of any dividends in the future will be determined by our Board of Directors, in its discretion, and will depend on a number of factors, including our results of operations, cash flows, financial condition, operating and capital expenditure requirements. In addition, our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. As advised by our Cayman Islands counsel, under the Companies Law, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. There is no assurance that dividends of any amount will be declared by the Company to be distributed in any year. Investors should not purchase our shares with the expectation of receiving cash dividends.

If we pay dividends in the future, in order for us to distribute dividends to our Shareholders, we will rely to some extent on any dividends distributed by our PRC subsidiaries. Any dividend distributions from our PRC subsidiaries to us will be subject to PRC withholding tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. For further details, please see the section headed “Risk Factors – Risks Relating to Conducting Business in the PRC” in this document.

WORKING CAPITAL SUFFICIENCY

Taking into account the financial resources available to us, including the [REDACTED], the proceeds from the issuance of our Convertible Notes, cash flow generated from operations, bank facilities available to us and cash and cash equivalents on hand, our Directors believe that we (including the enlarged group with Fonterra China Farms Group) have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of this document.

DISTRIBUTABLE RESERVES

As of June 30, 2020, we did not have any distributable reserves.

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[REDACTED]

VALUATION OF BIOLOGICAL ASSETS

Information about the independent valuer of our biological assets

We have engaged Jones Lang LaSalle, a firm of independent qualified professional valuer, to determine the fair value of our dairy cows as of December 31, 2017, 2018 and 2019, and as of June 30, 2020, respectively. The key valuer of JLL’s valuer includes Mr. Simon M.K. Chan.

Mr. Simon Chan, Regional Director at JLL, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Chartered Valuer and Appraiser (CVA), a member of The International Association of Consultants, Valuers and Analysts (IACVA), and a member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr. Simon Chan oversees the business valuation services of JLL and has experience in corporate advisory and valuation. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States. Simon oversaw the valuation of biological assets for the initial public offerings and subsequent financial reports of Eggriculture Foods Limited (8609.HK), China Modern Dairy Holdings Ltd. (1117.HK), China Huishan Dairy Holdings Company Limited (6863.HK), YuanShengTai Dairy Farm Limited (1431.HK), WH Group Limited (288.HK), China Shengmu Organic Milk Limited (1432.HK) and Shandong Fengxiang Co., Ltd. (9977.HK).

Based on market reputation and relevant background research, the Directors and the Joint Sponsors are satisfied that JLL is independent from us and is competent in conducting a valuation on our biological assets.

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Valuation methodology

In arriving at the assessed value, the income approach, a generally accepted approaches have been considered.

Income Approach is adopted to value the milkable cows. JLL understand from the Company that generally there is no reliable market-based price for dairy cow at this stage, therefore the fair value of the milkable cows is developed through the application of income approach technique known as multi-period excess earnings method (MEEM).

MEEM is a derivative of the discounted cash flow (“DCF”) method. Using this technique, JLL estimate the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are net off. The net income projection is then adjusted by economic capital charges. The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Our directors and Joint Sponsors confirmed that the components of the material cash flows used in the fair value measurement are consistent with market factors and assumptions used in the measurement.

Dairy cows

Calves and heifers

A market-based approach is adopted by Jones Lang LaSalle to value our calves and heifers, because recent market-based prices for heifers at a certain age exist near each reporting date and therefore the fair value of the calves and heifers is developed through the application of the market approach with reasonable adjustments to reflect age and potential milk yield differences.

Milkable Cows

An income-based approach is adopted by Jones Lang LaSalle to value our milkable cows, primarily because there is no reliable market-based price for dairy cow at this stage. In general, raisers of dairy cows do not sell dairy cows that are milkable, as milking generate more profits in the long run than the sales of dairy cows. As a result, the fair value of the milkable cows is developed through the application of an income approach technique known as multi-period excess earnings method (“MEEM”). MEEM is a derivative of the discounted cash flow (“DCF”) method. Using this method, Jones Lang LaSalle estimates the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are offset. The net income projection is then adjusted by certain economical capital charges. The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Examples of such assets include fixed assets, assembled workforce and working capital.

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Key assumptions and inputs

Dairy cows

Key inputs for valuing our dairy cows are the number and classification of dairy cows. Based on maturity stages, our dairy cows are classified into calves and heifers and milkable cows. Different valuation approaches are adopted for calves and heifers and milkable cows.

Calves and heifers

The key inputs and assumptions for valuing our calves and heifers are the market price per head for 14 months old heifers, which was RMB17,000 (for ordinary ones) to RMB18,900 (for special ones), RMB17,000 (for ordinary ones) to RMB17,600 (for special ones), RMB18,500 and RMB18,500 as of December 31, 2017, 2018 and 2019, respectively and June 30, 2020.

Milkable cows

The key assumptions and inputs include the revenues from milking the dairy cows and the costs associated with the milkable cows. Jones Lang LaSalle also assumes that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which may adversely affect our business. In deriving the residual cash flow of the milkable cows, Jones Lang LaSalle has deducted returns on contributory assets, which represent charges for the use of contributory assets employed to support the milkable cows and help generate revenue. Our Directors confirmed, and the Joint Sponsors concurred, that the key bases and assumptions used by Jones Lang LaSalle in the valuation process are consistent with those used by the industry peers and are appropriate and reasonable.

The key assumptions and inputs for calculating the revenues from milking include the following:

- The number of milkable cows and their respective estimated culling rates and calf birth rates, at different lactation stages.
- The milk yield rate as adjusted by an estimated spoilage rate at different lactation stages.
- The prices for raw milk produced by, and calves and stud bulls given birth by, milkable cows at different lactation stages.

The key assumptions and inputs for calculating the costs associated with raising the milkable cows include the following:

- feed;

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- salary, welfare and social insurance; and
- others.

Our Directors and the Joint Sponsors discussed with Jones Lang LaSalle in relation to their methodologies, procedures, key bases and assumptions and understand that Jones Lang LaSalle has conducted the biological asset valuation in accordance with International Accounting Standard 41 – Agriculture, issued by the International Accounting Standards Board and with reference to the International Valuation Standards, issued by the International Valuation Standards Council. The key assumptions, as detailed above, are made based on the historical actual operation performance of the Company. Jones Lang LaSalle has obtained and discussed with us regarding the historical actual operation data from us, and considered and reviewed whether they are appropriate and reasonable to be used in the valuation. Jones Lang LaSalle confirmed that their valuation procedures provide a reasonable basis for their opinion, the inputs used in the valuation technique are appropriate and reasonable. Our Directors and the Joint Sponsors confirm that the key bases and assumptions adopted are consistent with industry practice and in line with the actual figures during the Track Record Period.

The Joint Sponsors and JLL conducted a number of site inspections to perform an independent verification of the biological assets without experiencing any limitation in material aspect. JLL also engaged a third-party independent consultant to advise on the physical and biological attributes of the biological assets.

The Joint Sponsors had various discussions with JLL in relation to its valuation procedures, valuation bases and assumptions, valuation techniques and information required to prepare the valuation report of the biological assets to better understand the valuation process. As confirmed by JLL, the valuation of our biological assets was conducted in accordance with the International Valuation Standards issued by the International Standards Council. JLL has further confirmed that its valuation procedures provide a reasonable basis for its opinion, and that the inputs used in the valuation techniques are appropriate and reasonable. In addition, the Joint Sponsors discussed with our management and the Reporting Accountants with respect to the techniques chosen and inputs used in the valuations. The Joint Sponsors further compared the valuation techniques chosen, bases and assumptions of the valuation with those used in other similar transactions and market practice. The Joint Sponsors and the Reporting Accountants are satisfied that the valuation techniques chosen and the inputs used in the valuation techniques are appropriate and reasonable.

Furthermore, the Joint Sponsors discussed with the Reporting Accountants with respect to their procedures performed on the valuation of the biological assets, including obtaining an understanding on the assumptions and methods used by JLL in the valuation of our biological assets and making inquiries regarding the source data used and procedures undertaken in accordance with the HKSA 500 **Audit Evidence**. The Reporting Accountants provided an unqualified opinion to the financial information of our Group as a whole as set out in Appendix I to this document.

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Sensitivity Analysis

The following table illustrates the sensitivity of the estimated fair value of milkable cows that would arise if the key inputs had changed as of June 30, 2020, assuming all other variables remained constant.

Raw milk price sensitivity

Assumed Raw Milk Price	4.04 RMB							
% Change in Dairy								
Cow Price	10	5	2	1	-1	-2	-5	-10
	4.44	4.24	4.12	4.08	4.00	3.96	3.84	3.63
Corresponding Valuation Result								
(RMB'000)	1,279,844	1,158,656	1,085,944	1,061,706	1,013,231	988,994	916,281	795,094
Change in Valuation Result								
(RMB'000)	242,375	121,187	48,475	24,237	-24,237	-48,475	-121,187	-242,375
% Change in Valuation Result	23.36	11.68	4.67	2.34	-2.34	-4.67	-11.68	-23.36

Milk Yield Sensitivity

Assumed Average Milk Yield	30.12 Kg/Day/Head							
% Change in Dairy								
Cow Price	10%	5%	2%	1%	-1%	-2%	-5%	-10%
	33.14	31.63	30.73	30.43	29.82	29.52	28.62	27.11
Corresponding Valuation Result								
(RMB'000)	1,141,217	1,089,343	1,058,218	1,047,844	1,027,094	1,016,719	985,595	933,720
Change in Valuation Result								
(RMB'000)	103,748	51,874	20,750	10,375	-10,375	-20,750	-51,874	-103,748
% Change in Valuation Result	10.00	5.00	2.00	1.00	-1.00	-2.00	-5.00	-10.00

Feed cost sensitivity

Assumed Feed Costs	2.02 RMB/kg							
% Change in Dairy Cow Price	10	5	2	1	-1	-2	-5	-10
	2.22	2.12	2.06	2.04	2.00	1.98	1.92	1.82
Corresponding Valuation Result								
(RMB'000)	905,857	971,663	1,011,146	1,024,308	1,050,630	1,063,791	1,103,275	1,169,080
Change in Valuation Result								
(RMB'000)	-131,612	-65,806	-26,322	-13,161	13,161	26,322	65,806	131,612
% Change in Valuation Result	-12.69	-6.34	-2.54	-1.27	1.27	2.54	6.34	12.69

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Heifer price sensitivity

Assumed heifer price	18,500 RMB							
% Change in Dairy Cow Price	10%	5%	2%	1%	-1%	-2%	-5%	-10%
	20,350	19,425	18,870	18,685	18,315	18,130	17,575	16,650
Corresponding Valuation Result (RMB'000)	1,074,232	1,055,850	1,044,821	1,041,145	1,033,792	1,030,116	1,019,087	1,000,706
Change in Valuation Result (RMB'000)	36,763	18,381	7,353	3,676	-3,676	-7,353	-18,381	-36,763
% Change in Valuation Result	3.54%	1.77%	0.71%	0.35%	-0.35%	-0.71%	-1.77%	-3.54%

Discount rate sensitivity

Assumed Discount Rate	13%						
% Change in Dairy Cow Price	1.5%	1.0%	0.5%	-0.5%	-1.0%	-1.5%	
	14.5%	14.0%	13.5%	12.5%	12.0%	11.5%	
Corresponding Valuation Result (RMB'000)	1,017,679	1,024,176	1,030,772	1,044,269	1,051,176	1,058,191	
Change in Valuation Result (RMB'000)	-19,789	-13,293	-6,697	6,801	13,708	20,723	
% Change in Valuation Result	-1.91%	-1.28%	-0.65%	0.66%	1.32%	2.00%	

Stock-take and Internal Control

Stock-take

We have established a standard protocol for stock take consisting of periodic and random stock take to ensure the physical existence of our biological assets and accuracy of relevant data and information. Each of our dairy farms is required to perform a full stock take on a monthly basis to ensure the relevant information such as headcount and, age-grouping are accurately reflected in our dairy farm information management system and submit a stock-take report to the record keeping department at our headquarters. Dairy farm managers, staff of the finance department and their supervisors, staff of the record keeping department and directors of relevant departments are required to confirm the result of the monthly stock-take in writing. Our finance department also performs stock-take when a dairy farm manager resigns or is replaced.

FINANCIAL INFORMATION

Internal Control and Management System

We have devised a comprehensive policy for biological asset management. Our biological asset management policy covers among other things, the relevant accounting policies, transferring among age groups, purchase and disposal of dairy cows, breeding, record keeping and stock take. To facilitate the implementation of our biological asset management policy, we employ the dairy farm information management system developed by a third-party developer, in collaboration with the accounting system, to keep comprehensive record of our dairy cows herd.

[REDACTED]

FINANCIAL INFORMATION

[REDACTED]

FINANCIAL INFORMATION

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

On October 3, 2020, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group. Pursuant to the agreement, Youran Dairy agreed to acquire the 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. For the details, please see the section headed “History, Reorganization and Group Structure” in this document.

On November 3, 2020, our Company as issuer, PAG III as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US\$330.0 million. On November 19, 2020, our Company as issuer, Bain as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US\$75.0 million. On November 10, 2020, our Company as issuer, ICBC as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US\$30.0 million. On November 19, 2020, our Company as issuer, BOC as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US\$25.0 million, for the benefit of long-term business development of our Group. For more details, please see the section headed “History, Reorganization and Corporate Structure – Issuance of Convertible Notes” of this document.

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial position or prospects since June 30, 2020, being the end date of the periods reported on in the Accountants’ Report included in Appendix I to this document, and there has been no event since June 30, 2020 that would materially affect the information as set out in the Accountants’ Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of June 30, 2020, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

Please refer to the section headed “Business – Strategy” in this document for a detailed description of our future plans and strategies.

USE OF [REDACTED]

The net [REDACTED] from the [REDACTED] (assuming that the [REDACTED] is not exercised) to be received by the Company, after deducting the [REDACTED], discretionary incentive fee (assuming full payment of the discretionary incentive fee) and estimated expenses in connection with the [REDACTED], will be:

- approximately HK\$[REDACTED], assuming that the [REDACTED] is HK\$[REDACTED] (being the minimum [REDACTED]);
- approximately HK\$[REDACTED], assuming that the [REDACTED] is HK\$[REDACTED] (being the mid-point of the [REDACTED]); or
- approximately HK\$[REDACTED], assuming that the [REDACTED] is HK\$[REDACTED] (being the maximum [REDACTED]).

Our Company intends to use the net [REDACTED] from the [REDACTED] (assuming that the [REDACTED] is not exercised) of HK\$[REDACTED] (assuming that the [REDACTED] is HK\$[REDACTED], being the mid-point of the [REDACTED]) for the following purposes:

Estimated allocation of net [REDACTED]	Proposed main uses

approximately
[REDACTED]%, or
HK\$[REDACTED]

Our raised funds are mainly used for investment projects in the next two years, including our dairy farms under construction, new dairy farms and a feed mill and the purchase of necessary facilities and equipment to meet our increasing business demands and achieve sustainable growth through economies of scale. Specifically, (i) approximately [REDACTED]%, or HK\$[REDACTED] will be used to fund our dairy farms under construction and new dairy farms; and (ii) approximately [REDACTED]%, or HK\$[REDACTED], will be used to fund the construction of our feed mill. In particular:

FUTURE PLANS AND USE OF [REDACTED]

Estimated allocation of net [REDACTED]

Proposed main uses

- **Investment project for dairy farms:** we intend to continue to ramp up our scale by adding more dairy farms to capture the attractive market opportunities along China’s dairy value chain. Driven by the increasing dairy product consumption and demand of China’s consumers, we have witnessed a significant growth of the raw milk supply market in China. For details, see the section headed “Industry Overview.” In light of the significant market potential, we believe it is in the best of our interest to scale up our business operations by establishing new dairy farms to accommodate our expanding herds, thereby increasing our milk yield and achieving long-term profitable growth.
- Dairy farms under construction: our funds will be used in the next two years for the construction of the three dairy farms that we commenced building in 2020, all of which are located in the Inner Mongolia. We intend to use part of the funds for the construction of these dairy farms and the purchase of related facilities and equipment
- New dairy farms: our funds will be used in the next two years to build five new dairy farms, among which two will be located in Inner Mongolia, two will be located in Shandong and one will be located in Henan. We intend to use part of the funds for the construction of these dairy farms and the purchase of related facilities and equipment
- **Investment project for a feed mill:** we plan to build a feed mill within the next two years in Heilongjiang and acquire a complete set of production lines of concentrated feed, silos for storing feed ingredients and other equipments

approximately
[REDACTED]%, or
HK\$[REDACTED]

In light of our expanding operations, we plan to import a total of approximately 20,000 Holsteins from Australia and New Zealand, among others, in the next two years to meet the demand of our new dairy farms in the ordinary course of business

approximately
[REDACTED]%, or
HK\$[REDACTED]

Working capital and general corporate purposes

FUTURE PLANS AND USE OF [REDACTED]

The above allocation of the net [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED]. If our net [REDACTED] are higher or lower than expected, we will increase or decrease the allocation of the net [REDACTED] on a pro rata basis for such purposes.

To the extent that the net [REDACTED] are not immediately applied to the above purposes, we intend to deposit the net [REDACTED] into interest-bearing accounts with licensed commercial banks or financial institutions in the PRC or Hong Kong. We will comply with the PRC laws in respect of foreign exchange registration and proceeds remittance.

Assuming that the [REDACTED] is fully exercised, after deducting the [REDACTED], discretionary incentive fee (assuming full payment of the discretionary incentive fee) and estimated [REDACTED] in connection with the [REDACTED], the Company will receive the following additional net [REDACTED]

- approximately HK\$[REDACTED], assuming that the [REDACTED] is HK\$[REDACTED] (being the minimum [REDACTED]);
- approximately HK\$[REDACTED], assuming that the [REDACTED] is HK\$[REDACTED] (being the mid-point of the [REDACTED]); or
- approximately HK\$[REDACTED], assuming that the [REDACTED] is HK\$[REDACTED] (being the maximum [REDACTED]).

Assuming that the [REDACTED] is exercised, the additional net [REDACTED] will be allocated on a pro rata basis for the above purposes.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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STRUCTURE OF THE [REDACTED]

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STRUCTURE OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

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[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report set out on pages 1 to [167], prepared for the purpose of inclusion in this Document, received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA YOURAN DAIRY GROUP LIMITED AND [REDACTED]

Introduction

We report on the historical financial information of China Youran Dairy Group Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-[4] to I-[167] which comprises the combined statements of financial position of the Group as at December 31, 2017, 2018 and 2019 and June 30, 2020, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the three years ended December 31, 2019 and the six months ended June 30, 2020 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”).

The Historical Financial Information set out on pages I-[4] to I-[167] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “Document”) in connection with the [REDACTED] of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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ACCOUNTANTS’ REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s financial position as at December 31, 2017, 2018 and 2019 and June 30, 2020, and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for the six months ended June 30, 2019 and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review 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.

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Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-[4] as were considered necessary.

Dividends

We refer to Note 16 to the Historical Financial Information which states that no dividend was declared or paid by the group entities comprising the Group in respect of the Track Record Period and contains information about the dividend declared by the Company subsequent to the Track Record Period.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[Date]

APPENDIX I

ACCOUNTANTS’ REPORT

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

PREPARATION OF HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of Yogurt Holding II Limited (“Youran BVI”), a company incorporated in the British Virgin Islands, for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (the “IASB”) and were audited by us in accordance with International Standards on Auditing (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended December 31,			Six months ended June 30,	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Revenue	6	5,091,445	6,333,920	7,667,818	3,436,842	5,344,427
Cost of sales	7	(4,630,103)	(5,810,627)	(7,014,226)	(3,164,792)	(4,975,241)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	22	850,963	1,022,398	1,232,668	584,915	1,238,129
Gross profit		1,312,305	1,545,691	1,886,260	856,965	1,607,315
Loss arising from changes in fair value less costs to sell of biological assets	22	(407,730)	(87,271)	(133,255)	(116,839)	(217,637)
Other income	8	45,692	51,469	55,396	26,355	37,835
Impairment loss under expected credit loss model, net of reversal	9	–	(1,453)	(24,761)	(5,795)	(11,762)
Other gains and losses	10	3,566	(35,613)	(16,046)	(11,032)	468
Selling and distribution expenses		(210,019)	(271,932)	(340,687)	(144,498)	(206,302)
Administrative expenses		(359,500)	(421,298)	(445,453)	(173,727)	(270,333)
Other expenses		(8,460)	(2,311)	(26,528)	(1,127)	(6,224)
[REDACTED] expenses		–	–	–	–	(10,328)
Share of profit of a joint venture		–	–	–	–	69
Finance costs	11	(51,127)	(80,081)	(104,071)	(46,635)	(152,554)
Profit before tax		324,727	697,201	850,855	383,667	770,547
Income tax expense	12	(46,872)	(44,334)	(48,973)	(18,355)	(26,488)
Profit for the year/period	13	277,855	652,867	801,882	365,312	744,059
Other comprehensive income, net of income tax						
<i>Items that will not be reclassified to profit or loss</i>						
Fair value gain on investments in equity instruments at fair value through other comprehensive income		–	–	–	–	8,825
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences arising on translation of foreign operations		–	–	–	–	12
Other comprehensive income for the year/period, net of income tax		–	–	–	–	8,837
Total comprehensive income for the year/period		277,855	652,867	801,882	365,312	752,896
Profit for the year/period attributable to:						
Owners of the Company		277,855	652,867	801,882	365,312	731,249
Non-controlling interests		–	–	–	–	12,810
		277,855	652,867	801,882	365,312	744,059
Total comprehensive income for the year/period attributable to:						
Owners of the Company		277,855	652,867	801,882	365,312	736,406
Non-controlling interests		–	–	–	–	16,490
		277,855	652,867	801,882	365,312	752,896

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at December 31,			As at June 30,
	NOTES	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	17	2,178,525	2,397,229	2,933,139	5,461,480
Investment properties	18	76,892	47,121	32,360	44,331
Right-of-use assets	19	238,374	482,045	532,968	1,243,826
Goodwill	20	–	–	–	762,741
Intangible assets	21	798	1,787	1,400	1,932
Biological assets	22	1,842,016	2,606,450	3,322,917	6,431,075
Deferred tax assets	23	1,035	1,351	5,088	10,453
Interest in a joint venture		–	–	–	811
Equity instruments at fair value through other comprehensive income	24	–	–	–	55,513
Pledged and restricted bank deposits	30	685	650	1,851	34,621
Deposits paid for purchase of property, plant and equipment		15,752	38,584	64,715	94,908
Deposits paid for purchase of biological assets		10,433	60,851	8,372	68,174
		<u>4,364,510</u>	<u>5,636,068</u>	<u>6,902,810</u>	<u>14,209,865</u>
Current assets					
Inventories	25	737,981	899,994	967,286	1,186,819
Trade and bills receivables	26	407,748	617,658	974,298	808,709
Bills receivables at fair value through other comprehensive income	27	–	27,147	75,679	59,916
Contract assets	28	17,200	15,547	7,527	8,780
Biological assets	22	964	1,629	12,070	22,051
Prepayments, deposits and other receivables	29	109,092	126,548	230,809	238,167
Amounts due from related parties	26, 46	95,745	128,571	145,519	345,349
Pledged and restricted bank deposits	30	–	100	60,100	80,632
Bank balances and cash	30	<u>424,087</u>	<u>311,884</u>	<u>570,476</u>	<u>1,594,505</u>
		<u>1,792,817</u>	<u>2,129,078</u>	<u>3,043,764</u>	<u>4,344,928</u>

APPENDIX I

ACCOUNTANTS’ REPORT

		As at December 31,			As at June 30,
	NOTES	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities					
Trade and bills payables	31	325,749	356,702	572,559	1,321,577
Other payables and accruals	32	332,346	455,794	581,362	1,143,431
Contract liabilities	33	5,452	9,795	18,162	22,246
Amounts due to related parties	46	41	72	157	100,321
Bank and other borrowings	34	1,201,595	1,742,014	1,682,945	3,529,446
Lease liabilities	36	12,958	24,595	12,405	43,434
Other liabilities	37	–	–	11,058	6,100
Other provisions	38	–	–	–	18,544
Income tax payable		11,670	9,092	21,886	15,784
		<u>1,889,811</u>	<u>2,598,064</u>	<u>2,900,534</u>	<u>6,200,883</u>
Net current (liabilities)/assets		<u>(96,994)</u>	<u>(468,986)</u>	<u>143,230</u>	<u>(1,855,955)</u>
Total assets less current liabilities		<u>4,267,516</u>	<u>5,167,082</u>	<u>7,046,040</u>	<u>12,353,910</u>
Non-current liabilities					
Bank and other borrowings	34	–	–	1,099,660	1,746,282
Deferred tax liabilities	23	7,387	7,147	6,902	5,989
Deferred income	35	246,918	231,622	207,843	218,553
Lease liabilities	36	78,141	299,368	313,312	908,868
Other liabilities	37	–	39,679	27,106	20,309
Other provisions	38	–	1,329	1,398	6,760
		<u>332,446</u>	<u>579,145</u>	<u>1,656,221</u>	<u>2,906,761</u>
Net assets		<u>3,935,070</u>	<u>4,587,937</u>	<u>5,389,819</u>	<u>9,447,149</u>
Capital and reserves					
Share capital	39	65	65	65	110
Reserves		<u>3,935,005</u>	<u>4,587,872</u>	<u>5,389,754</u>	<u>8,399,693</u>
Equity attributable to owners of the Company		3,935,070	4,587,937	5,389,819	8,399,803
Non-controlling interests		<u>–</u>	<u>–</u>	<u>–</u>	<u>1,047,346</u>
Total equity		<u>3,935,070</u>	<u>4,587,937</u>	<u>5,389,819</u>	<u>9,447,149</u>

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COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital	Other reserve	Capital reserve	Investment revaluation reserve	Translation reserve	Statutory reserve	(Accumulated losses)/ retained earnings	Non-controlling interests
	RMB'000 (Note (i))	RMB'000 (Note (i))	RMB'000	RMB'000	RMB'000	RMB'000 (Note (ii))	RMB'000	RMB'000
As at January 1, 2017	-	3,688,567	-	-	-	3,791	(35,143)	-
Profit and total comprehensive income for the year	-	-	-	-	-	-	277,855	-
Statutory fund appropriation	-	-	-	-	-	9,632	(9,632)	-
As at December 31, 2017 and January 1, 2018	-	3,688,567	-	-	-	13,423	233,080	-
Profit and total comprehensive income for the year	-	-	-	-	-	-	652,867	-
Statutory fund appropriation	-	-	-	-	-	55,872	(55,872)	-
As at December 31, 2018 and January 1, 2019	-	3,688,567	-	-	-	69,295	830,075	-
Profit and total comprehensive income for the year	-	-	-	-	-	-	801,882	-
Statutory fund appropriation	-	-	-	-	-	42,502	(42,502)	-
As at December 31, 2019 and January 1, 2020	-	3,688,567	-	-	-	111,797	1,589,455	-
Profit and total comprehensive income for the period	-	-	-	5,151	6	-	731,249	16,490
Capital contributions (Note (i))	-	2,278,500	-	-	-	-	-	-
Acquisition of subsidiaries (Note 42)	-	-	-	-	-	-	-	-
Acquisition of additional interests in subsidiaries (Note (iii))	-	-	(4,922)	-	-	-	-	(7,076)
As at June 30, 2020	-	5,967,067	(4,922)	5,151	6	111,797	2,320,704	1,047,346
As at January 1, 2019	-	3,688,567	-	-	-	69,295	830,075	-
Profit and total comprehensive income for the period	-	-	-	-	-	-	365,312	-
Statutory fund appropriation	-	-	-	-	-	6,022	(6,022)	-
As at June 30, 2019 (unaudited)	-	3,688,567	-	-	-	75,317	1,189,365	-

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Notes:

- (i) Share capital as at December 31, 2017, 2018 and 2019 and June 30, 2020 represents the issued share capital of Youran BVI, the then holding company of the subsidiaries now comprising the Group, prior to the Reorganisation as defined in Note 2. Other reserve as at December 31, 2017, 2018 and 2019 and June 30, 2020 represents amounts due to China Youran Dairy Holding Limited (“Youran Holding”), the then immediate holding company of Youran BVI. During the six months ended June 30, 2020, Youran Holding advanced RMB2,278,500,000 to Youran BVI for the purpose of the acquisition of SKX Group (as defined in Note 42). Upon the completion of the Reorganisation, these amounts will be eliminated against the interests in subsidiaries recorded by the Company, and in substance represent capital contribution to the Group.
- (ii) The amount mainly represents statutory reserve fund. According to the relevant laws in the People’s Republic of China (the “PRC”), each of the subsidiaries established in the PRC is required to allocate at least 10% of its profit after tax as per financial statements prepared in accordance with the relevant PRC accounting standards to statutory reserve fund until the reserve fund reaches 50% of the registered capital of respective subsidiary. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years’ losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.
- (iii) The difference between the consideration of the acquisition of non-controlling interests and the carrying amount of non-controlling interests of RMB4,922,000 has been debited to capital reserve.

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COMBINED STATEMENTS OF CASH FLOWS

		Year ended December 31,			Six months ended June 30,	
	NOTES	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES						
Profit before tax		324,727	697,201	850,855	383,667	770,547
Adjustments for:						
Share of profit of a joint venture		-	-	-	-	(69)
Loss arising from changes in fair value less costs to sell of biological assets		407,730	87,271	133,255	116,839	217,637
Bank interest income	8	(3,898)	(6,115)	(4,390)	(2,217)	(5,837)
Government grants	8	(24,322)	(27,033)	(38,773)	(19,141)	(13,046)
Finance costs	11	51,127	80,081	104,071	46,635	152,554
Depreciation and amortisation	13	124,623	125,341	139,303	67,450	156,596
Write-down of inventories	7	-	-	-	-	3,994
Impairment loss on trade and other receivables under expected credit loss model, net of reversal	9	-	1,453	24,761	5,795	11,762
Loss/(gain) on disposal of property, plant and equipment	10	1,480	5,272	6,298	92	(85)
Impairment loss on property, plant and equipment	10	598	26,204	8,271	-	63
Reversal of impairment loss on trade and other receivables	10	(3,815)	-	-	-	-
(Reduction in)/additional provision for other obligations	10	-	(943)	(1,515)	8,417	-
Fair value gain on financial instruments at fair value through profit or loss	10	-	-	(209)	-	-
(Gain)/loss on termination and modification of lease agreements	10	-	-	(105)	656	-
Operating cash flows before movements in working capital		878,250	988,732	1,221,822	608,193	1,294,116
Decrease/(increase) in inventories		123,007	(138,521)	(42,386)	333,496	472,474
(Increase)/decrease in trade and bills receivables		(107,123)	(247,381)	(380,913)	(228,834)	363,113
Decrease/(increase) in bills receivables at fair value through other comprehensive income		-	9,062	(48,532)	(22,254)	15,763
Decrease/(increase) in prepayments and other receivables		45,702	(17,647)	(104,425)	(46,761)	20,327
Decrease/(increase) in amounts due from related parties		10,672	(32,826)	(16,948)	6,583	(199,830)
(Increase)/decrease in contract assets		(13,333)	1,653	8,020	6,310	(1,253)
(Decrease)/increase in trade and bills payables		(106,446)	30,953	215,857	99,291	(620,696)
(Decrease)/increase in other payables and accrued expenses		(57,852)	47,953	48,735	(111,806)	(8,485)
(Decrease)/increase in contract liabilities		(4,373)	5,609	5,248	505	(99,831)
(Decrease)/increase in amounts due to related parties		(135)	31	85	9,041	26,310
Increase in other provisions		-	-	-	-	5,198
Increase/(decrease) in deferred income		1,816	(464)	17	20	2,679
Cash generated from operations		770,185	647,154	906,580	653,784	1,269,885
Interest received		3,898	6,115	4,390	2,217	5,837
Income taxes paid		(42,873)	(47,468)	(40,161)	(16,134)	(38,089)
Net cash from operating activities		731,210	605,801	870,809	639,867	1,237,633

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NOTES	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
INVESTING ACTIVITIES					
Payments for property, plant and equipment	(315,679)	(359,797)	(726,473)	(311,691)	(622,010)
Payments for right-of-use assets	(3,323)	(781)	(19,409)	(15,368)	(7,841)
Payments for intangible assets	–	(1,273)	–	–	–
Proceeds from disposal of property, plant and equipment	32	31	10,713	7,539	3,689
Payments for biological assets	(663,449)	(979,480)	(1,041,405)	(479,674)	(957,944)
Proceeds from disposal of biological assets	179,095	190,130	328,210	159,362	408,758
Payments for financial assets at fair value through profit or loss	–	–	(56,000)	–	–
Proceeds from disposal of financial assets at fair value through profit or loss	–	–	56,209	–	–
Acquisitions of subsidiaries	42	–	–	–	(1,546,430)
Placement of pledged and restricted bank deposits	–	(65)	(61,201)	(61,201)	(91,029)
Withdrawal of pledged and restricted bank deposits	–	–	–	–	62,724
Receipt of government grants for assets	104,607	8,276	18,902	5,978	21,077
Net cash used in investing activities	(698,717)	(1,142,959)	(1,490,454)	(695,055)	(2,729,006)
FINANCING ACTIVITIES					
New bank and other borrowings raised	1,400,000	2,640,000	3,115,707	1,150,897	3,993,968
Repayments of bank and other borrowings	(1,040,000)	(2,100,000)	(2,078,860)	(800,000)	(3,547,945)
Interest paid	(45,889)	(73,228)	(87,673)	(41,614)	(131,214)
Repayment of lease liabilities	(12,654)	(39,373)	(54,220)	(28,047)	(32,062)
Interest paid for lease liabilities	(4,760)	(8,444)	(16,717)	(7,959)	(23,290)
Repayment of other liabilities	–	–	–	–	(11,755)
Receipt of interest subsidies	–	6,000	–	–	–
Capital contribution by the then holding company	–	–	–	–	2,278,500
Acquisition of additional interests in subsidiaries	–	–	–	–	(10,800)
Net cash from financing activities	296,697	424,955	878,237	273,277	2,515,402
Net increase/(decrease) in cash and cash equivalents	329,190	(112,203)	258,592	218,089	1,024,029
Cash and cash equivalents at beginning of the year/period	94,897	424,087	311,884	311,884	570,476
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	424,087	311,884	570,476	529,973	1,594,505

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ACCOUNTANTS’ REPORT

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE GROUP

1. GENERAL

China Youran Dairy Group Limited (the “Company”) was incorporated in the Cayman Islands on August 21, 2020 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. 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 PRC.

The Company is an investment holding company and has not carried out any business operations since the date of incorporation save for the corporate reorganisation mentioned below. 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 dairy farming products in the PRC.

The functional currency of the Company is RMB, which is the same as the presentation currency of the Historical Financial Information.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION AND PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

Throughout the Track Record Period, the Group’s operations were conducted by the existing group of entities held by China Youran Dairy Holding Limited (“Youran Holding”), a company incorporated in the Cayman Islands and the then holding company of all subsidiaries now comprising the Group.

In preparation for the [REDACTED] of the shares of the Company on the [REDACTED] of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the entities now comprising the Group underwent a group reorganisation (the “Reorganisation”) which involves major steps as follows:

- (a) On August 21, 2020, the Company was incorporated as an exempted company with limited liability under the laws of Cayman Islands with an authorised share capital of US\$100,000 divided into 10,000,000,000 ordinary shares of US\$0.00001 each.
- (b) On October 27, 2020, Youran Holding and the Company entered into an instrument of transfer, pursuant to which Youran Holding transferred the entirety of its 100 ordinary shares in Youran BVI to the Company in consideration for the issuance and allotment of 3,302,000,000 ordinary shares with a par value of US\$0.00001 by the Company, and the Company became a wholly-owned subsidiary of Youran Holding.

Pursuant to the Reorganisation detailed above, which was completed by interspersing the Company between Youran Holding and the Company, the Company has become the holding company of the companies now comprising the Group on October 27, 2020.

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the Historical Financial Information has been prepared as if the Company had always been the holding company of the Group.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period or since the date of incorporation, where this is a shorter period.

The combined statements of financial position of the Group as at December 31, 2017, 2018 and 2019 and June 30, 2020 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taking into account the respective dates of incorporation, where applicable.

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3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with the IFRSs, which are effective for the Group’s accounting period beginning on January 1, 2020 throughout the Track Record Period, including IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, except that the Group adopted IFRS 9 *Financial Instruments* on January 1, 2018 and International Accounting Standard (“IAS”) 39 *Financial Instruments: Recognition and Measurement* prior to January 1, 2018, and amendments to IFRS 9 *Prepayment Features with Negative Compensation* on January 1, 2019.

IFRS 9 Financial Instruments

On January 1, 2018, the Group has applied IFRS 9 and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets) that are subject to the impairment provisions; and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirement to instruments that have already been derecognised as at January 1, 2018. Accordingly, certain financial information for the year ended December 31, 2017 may not be comparable as the information was prepared under IAS 39. Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.
- in relation to the impairment of financial assets, IFRS 9 requires an ECL model, as opposed to an incurred credit loss model under IAS 39. The ECL model requires an entity to account for ECL and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Accounting policies resulting from application of IFRS 9 are disclosed in Note 4.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, January 1, 2018.

	Bills receivables stated at amortised cost (previously classified as loans and receivables)	Bills receivables at fair value through other comprehensive income
	RMB’000	RMB’000
Closing balance at December 31, 2017 – IAS 39	36,209	–
<i>Effect arising from initial application of IFRS 9:</i>		
Reclassification and remeasurement of bills receivables from amortised cost to fair value (<i>Note (a)</i>)	(36,209)	36,209
Opening balance at January 1, 2018	–	36,209

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. There is no impact on the opening retained earnings as at January 1, 2018 upon the application of IFRS 9.

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ACCOUNTANTS’ REPORT

Notes:

(a) Bills receivables

As part of the Group’s cash flow management, the Group has the practice of discounting some of the bills received from debtors to financial institutions before the bills are due for payment and derecognises bills discounted on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group’s bills receivables of RMB36,209,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at fair value through other comprehensive income (“FVTOCI”) as at January 1, 2018. The related fair value changes are minimal.

(b) Impairment under ECL model

The application of the ECL model of IFRS 9 on January 1, 2018 resulted in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost, debt instruments at FVTOCI and other items (for example, contract assets) that subject to the impairment provisions.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and debtors’ aging except for those which had been determined as credit impaired under IAS 39 and those with significant outstanding balances which have been assessed individually.

Loss allowances other financial assets at amortised cost which mainly comprise of bank balances, pledged and restricted bank deposits, deposits and other receivables, amounts due from related parties and bills receivables at fair value through other comprehensive income are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition, except for certain other receivables which are measured as lifetime ECL basis as those credit risk had increased significantly since initial recognition.

No additional loss allowance is charged against the respective assets as at January 1, 2018 upon the application of IFRS 9.

New or revised IFRSs in issued but not yet effective

At the date of this report, the following new and amendments to IFRSs have been issued but are not yet effective:

IFRS 17	<i>Insurance Contracts</i> ¹
Amendments to IFRS 16	<i>COVID-19-Related Rent Concessions</i> ⁴
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> ³
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ¹
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ³
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ³
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> ⁵
Amendments to IFRS Standards	<i>Annual Improvements to IFRS Standards 2018-2020</i> ³

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

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after January 1, 2022.

⁴ Effective for annual periods beginning on or after June 1, 2020.

⁵ Effective for annual periods beginning on or after January 1, 2021.

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

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ACCOUNTANTS’ REPORT

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared based on the accounting policies set out below which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

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

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Group’s interests in existing subsidiaries

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

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

Business combinations

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Investment in subsidiaries

Investment in subsidiaries is included in the Company’s statement of financial position at cost less any identified impairment losses.

Goodwill

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

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

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

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

Investments in joint ventures

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

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

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

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

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

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

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

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Principal versus agent

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

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

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

Leases

Definition of a lease

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

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

Sublease

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

The Group as a lessee

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

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

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

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

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

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

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

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

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

Lease modifications

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

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

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

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

The Group as a lessor

Classification and measurement of leases

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Foreign currencies

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

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

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

Borrowing costs

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

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

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

Government grants

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

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognised in profit or loss when, and only when, the government grant becomes receivable.

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Other grants

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

Investment properties

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

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

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

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Inventories

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

Provisions

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

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

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

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

Biological assets

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

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

Agricultural produce

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

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018)

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from related parties, pledged and restricted deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on January 1, 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Classification and subsequent measurement of financial assets (upon application of IFRS 9 on January 1, 2018 in accordance with transitions in Note 3)

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

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

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

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

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

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

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

- (i) Amortised cost and interest income

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

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(ii) Debt instruments classified as at FVTOCI

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

(iii) Equity instruments designated as at FVTOCI

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

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

(iv) Financial assets at FVTPL

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

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

Impairment of financial assets (upon application of IFRS 9 on January 1, 2018 with transitions in accordance with Note 3)

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

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

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

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

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

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

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(v) Measurement and recognition of ECL

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

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

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

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

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

Derecognition of financial assets

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

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

Financial liabilities

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

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Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39/IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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Key sources of estimation uncertainty

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

Fair value measurements of biological assets – milkable cows

The Group’s biological assets are measured at fair value less costs to sell at the end of each reporting period. The Group uses valuation techniques that include inputs that are not based on market observable data to estimate the fair value of biological assets. For milkable cows, the fair value is determined by using the multi-period excess earning method with key inputs including the discount rate, the estimated feed costs per kilogram of raw milk, estimated average daily milk yield at each lactation cycle and the estimated local future market price of raw milk. Any changes in the inputs may affect the fair value of the Group’s biological assets – milkable cows significantly. The carrying amount of the Group’s milkable cows as at December 31, 2017, 2018 and 2019 and June 30, 2020 was RMB1,192,842,000, RMB1,596,129,000, RMB2,228,130,000 and RMB4,119,619,000, respectively. Further details are given in Notes 22 and 45.

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

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

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the aggregate carrying amounts of these assets of the Group are approximately RMB2,494,589,000, RMB2,928,182,000, RMB3,499,867,000 and RMB6,751,569,000, respectively, as disclosed in Notes 17, 18, 19 and 21, respectively.

Provision of ECL for trade receivables (upon application of IFRS 9)

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group’s trade receivables are disclosed in Notes 26 and 44.

6. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Types of goods					
Sales of raw milk	2,237,474	2,610,333	3,063,615	1,453,840	3,192,968
Sales of feeds	2,643,555	3,508,771	4,376,520	1,886,469	1,977,149
Sales of ruminant farming products	210,416	214,816	227,683	96,533	146,377
Sales of frozen bovine semen	—	—	—	—	27,933
	<u>5,091,445</u>	<u>6,333,920</u>	<u>7,667,818</u>	<u>3,436,842</u>	<u>5,344,427</u>
Timing of revenue recognition					
A point in time	<u>5,091,445</u>	<u>6,333,920</u>	<u>7,667,818</u>	<u>3,436,842</u>	<u>5,344,427</u>

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(ii) Performance obligations for contracts with customers

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

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

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

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

Information regarding segments is reported below.

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

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

Segment revenue and results

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

	Raw milk business	Comprehensive ruminant farming solutions	Segment total	Eliminations	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
For the year ended December 31, 2017					
Segment revenue					
External customers	2,237,474	2,853,971	5,091,445	–	5,091,445
Inter-segment revenue	–	392,661	392,661	(392,661)	–
	<u>2,237,474</u>	<u>3,246,632</u>	<u>5,484,106</u>	<u>(392,661)</u>	<u>5,091,445</u>
Segment results	<u>599,256</u>	<u>260,388</u>	<u>859,644</u>		859,644
Loss arising from changes in fair value less costs to sell of biological assets					(407,730)
Unallocated other income and expenses					(80,820)
Unallocated finance costs					<u>(46,367)</u>
Profit before tax					<u>324,727</u>

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	Raw milk business	Comprehensive ruminant farming solutions	Segment total	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>For the year ended December 31, 2018</i>					
Segment revenue					
External customers	2,610,333	3,723,587	6,333,920	–	6,333,920
Inter-segment revenue	–	580,783	580,783	(580,783)	–
	<u>2,610,333</u>	<u>4,304,370</u>	<u>6,914,703</u>	<u>(580,783)</u>	<u>6,333,920</u>
Segment results	<u>686,853</u>	<u>259,006</u>	<u>945,859</u>		945,859
Loss arising from changes in fair value less costs to sell of biological assets					(87,271)
Unallocated other income and expenses					(89,815)
Unallocated finance costs					<u>(71,572)</u>
Profit before tax					<u>697,201</u>
<i>For the year ended December 31, 2019</i>					
Segment revenue					
External customers	3,063,615	4,604,203	7,667,818	–	7,667,818
Inter-segment revenue	–	537,239	537,239	(537,239)	–
	<u>3,063,615</u>	<u>5,141,442</u>	<u>8,205,057</u>	<u>(537,239)</u>	<u>7,667,818</u>
Segment results	<u>961,912</u>	<u>239,866</u>	<u>1,201,778</u>		1,201,778
Loss arising from changes in fair value less costs to sell of biological assets					(133,255)
Unallocated other income and expenses					(130,382)
Unallocated finance costs					<u>(87,286)</u>
Profit before tax					<u>850,855</u>

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	Raw milk business	Comprehensive ruminant farming solutions	Segment total	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>For the six months ended June 30, 2019 (unaudited)</i>					
Segment revenue					
External customers	1,453,840	1,983,002	3,436,842	–	3,436,842
Inter-segment revenue	–	201,528	201,528	(201,528)	–
	<u>1,453,840</u>	<u>2,184,530</u>	<u>3,638,370</u>	<u>(201,528)</u>	<u>3,436,842</u>
Segment results	<u>464,450</u>	<u>110,165</u>	<u>574,615</u>		574,615
Loss arising from changes in fair value less costs to sell of biological assets					(116,839)
Unallocated other income and expenses					(35,467)
Unallocated finance costs					<u>(38,642)</u>
Profit before tax					<u>383,667</u>
<i>For the six months ended June 30, 2020</i>					
Segment revenue					
External customers	3,192,968	2,151,459	5,344,427	–	5,344,427
Inter-segment revenue	–	342,545	342,545	(342,545)	–
	<u>3,192,968</u>	<u>2,494,004</u>	<u>5,686,972</u>	<u>(342,545)</u>	<u>5,344,427</u>
Segment results	<u>989,863</u>	<u>134,560</u>	<u>1,124,423</u>		1,124,423
Loss arising from changes in fair value loss costs to sell of biological assets					(217,637)
Share of profit of a joint venture					69
Unallocated other income and expenses					(62,043)
Unallocated finance costs					<u>(74,265)</u>
Profit before tax					<u>770,547</u>

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

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

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Segment assets and liabilities

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

Other segment information

Amounts included in the measure of segment results:

	Raw milk business	Comprehensive ruminant farming solutions	Segment total	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2017					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	85,406	36,740	122,146	2,477	124,623
(Reversal of impairment loss)/impairment loss on trade and other receivables	(3,824)	9	(3,815)	–	(3,815)
Impairment loss of property, plant and equipment	231	367	598	–	598
Loss on disposal of property, plant and equipment	1,276	204	1,480	–	1,480
Bank interest income	2,695	1,203	3,898	–	3,898
Finance costs	3,591	1,169	4,760	46,367	51,127
Amounts not included in the measure of segment profit or loss					
Additions to non-current assets (Note)	956,510	47,489	1,003,999	–	1,003,999

For the year ended December 31, 2018

Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	81,494	40,955	122,449	2,892	125,341
Impairment loss of trade and other receivables under expected credit loss model, net of reversal	210	1,243	1,453	–	1,453
Impairment loss of property, plant and equipment	26,204	–	26,204	–	26,204
Loss on disposal of property, plant and equipment	5,052	220	5,272	–	5,272
Bank interest income	3,433	2,682	6,115	–	6,115
Finance costs	7,654	855	8,509	71,572	80,081
Amounts not included in the measure of segment profit or loss					
Additions to non-current assets (Note)	1,748,724	52,722	1,801,446	–	1,801,446

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	Raw milk business	Comprehensive ruminant farming solutions	Segment total	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2019					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	89,534	46,287	135,821	3,482	139,303
Impairment loss of trade and other receivables under expected credit loss model, net of reversal	531	24,230	24,761	–	24,761
Impairment loss of property, plant and equipment	8,271	–	8,271	–	8,271
Loss on disposal of property, plant and equipment	5,943	355	6,298	–	6,298
Bank interest income	2,334	2,056	4,390	–	4,390
Finance costs	15,899	886	16,785	87,286	104,071
Amounts not included in the measure of segment profit or loss					
Additions to non-current assets (Note)	1,872,954	94,991	1,967,945	–	1,967,945

For the six months ended June 30, 2019 (unaudited)

Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	43,811	21,961	65,772	1,678	67,450
(Reversal of impairment loss)/impairment loss of trade and other receivables under expected credit loss model, net of reversal	(76)	5,871	5,795	–	5,795
Loss on disposal of property, plant and equipment	79	13	92	–	92
Bank interest income	1,129	1,088	2,217	–	2,217
Finance costs	7,523	470	7,993	38,642	46,635
Amounts not included in the measure of segment profit or loss					
Additions to non-current assets (Note)	763,554	53,990	817,544	–	817,544

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

Note: Non-current assets excluded goodwill, equity instruments at FVTOCI, pledged and restricted bank deposits, interest in a joint venture, deferred tax assets, and non-current assets acquired through business combination (Note 42).

Geographic information

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

Revenue from major customers

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

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Customer A:					
Revenue from sales of raw milk	2,053,158	2,393,105	2,845,380	1,338,277	3,067,087
Revenue from sales of feeds	206	70	–	–	–
	<u>2,053,364</u>	<u>2,393,175</u>	<u>2,845,380</u>	<u>1,338,277</u>	<u>3,067,087</u>

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7. COST OF SALES

An analysis of cost of sales during the Track Record Period is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of raw milk sold before fair value adjustments	1,394,635	1,550,214	1,784,635	851,010	1,894,056
Raw milk fair value adjustments	832,021	1,013,075	1,224,957	581,319	1,233,408
Cost of raw milk sold after fair value adjustments	2,226,656	2,563,289	3,009,592	1,432,329	3,127,464
Cost of feeds sold before forage grass fair value adjustments	2,222,910	3,072,836	3,812,839	1,652,031	1,700,265
Forage grass fair value adjustments	18,942	9,323	7,711	3,596	4,721
Cost of feeds sold after fair value adjustments	2,241,852	3,082,159	3,820,550	1,655,627	1,704,986
Cost of ruminant farming products sold	161,595	165,179	184,084	76,836	126,226
Cost of frozen bovine semen (<i>Note (i)</i>)	–	–	–	–	16,565
Total cost of sales	4,630,103	5,810,627	7,014,226	3,164,792	4,975,241

Note:

- (i) The cost of frozen bovine semen for the six months ended June 30, 2020 included write-down of inventories of RMB3,994,000, which was mainly attributable to the decline in market price. These inventories are written down to net realisable value.

8. OTHER INCOME

An analysis of other income during the Track Record Period is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Government grants released from deferred income (<i>Note 35</i>)	24,322	27,033	38,773	19,141	13,046
Incentive subsidies (<i>Note (i)</i>)	4,981	4,102	658	379	9,826
Rental income	5,339	5,002	3,306	1,587	3,405
Bank interest income	3,898	6,115	4,390	2,217	5,837
Income from sale of scrap materials	1,344	2,175	2,589	1,173	1,626
Compensation income	985	3,087	899	325	1,076
Write-back of other payables	137	796	1,515	238	2,178
Others	4,686	3,159	3,266	1,295	841
	45,692	51,469	55,396	26,355	37,835

Note:

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

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9. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Impairment loss recognised/(reversal of impairment loss) on:					
Trade receivables	–	1,262	24,273	5,841	10,361
Other receivables	–	191	488	(46)	1,401
	–	1,453	24,761	5,795	11,762

Details of impairment assessments are set out in Note 44.

10. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(Loss)/gain on disposal of property, plant and equipment	(1,480)	(5,272)	(6,298)	(92)	85
Impairment loss on property, plant and equipment	(598)	(26,204)	(8,271)	–	(63)
Reversal of impairment loss on trade and other receivables	3,815	–	–	–	–
Reduction in/(additional) provision for other obligations (Note 37)	–	943	1,515	(8,417)	–
Fair value gain/(loss) on derivative financial instruments (Note (a))	2,506	(5,208)	(2,186)	(1,632)	487
Fair value gain on financial instruments at fair value through profit or loss	–	–	209	–	–
Gain/(loss) on termination and modification of lease agreements	–	–	105	(656)	–
Others	(677)	128	(1,120)	(235)	(41)
	3,566	(35,613)	(16,046)	(11,032)	468

Note:

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

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11. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expenses on:					
Bank and other borrowings	45,305	69,705	91,417	41,721	128,160
Other liabilities	–	–	–	–	995
Borrowings from related parties (Note 46(b))	1,062	3,942	–	–	–
Lease liabilities	4,760	8,444	16,717	7,959	23,290
Unwind of interest of other provisions (Note 38)	–	65	69	34	334
Total borrowing costs	51,127	82,156	108,203	49,714	152,779
Less: Amounts capitalised to construction in progress	–	–	(207)	–	(225)
Government grants for specific loan interests (Note 35)	–	(2,075)	(3,925)	(3,079)	–
	<u>51,127</u>	<u>80,081</u>	<u>104,071</u>	<u>46,635</u>	<u>152,554</u>

Borrowing costs capitalised to qualifying assets during the Track Record Period were based on actual borrowing costs incurred for specific borrowings.

12. INCOME TAX EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax:					
PRC Enterprise Income Tax (“EIT”)	50,175	42,454	55,902	22,210	30,363
(Overprovision)/underprovision in prior periods:					
PRC EIT	(2,857)	2,436	(2,947)	(2,148)	1,608
Deferred tax (Note 23)	(446)	(556)	(3,982)	(1,707)	(5,483)
	<u>46,872</u>	<u>44,334</u>	<u>48,973</u>	<u>18,355</u>	<u>26,488</u>

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 during the Track Record Period.

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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 during the Track Record Period. In addition, certain subsidiaries operating in the PRC, including Muquan Yuanxing Feeds, Ningxia Bio-Technology, Wulanchabu Bio-Technology and Bayinnaer Bio-Technology (as defined in Note 51), are eligible for preferential tax rate of 15% under relevant preferential tax policy in relation to PRC western development. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa [2012] No. 97), Ningxia Bio-Technology is eligible for 40% EIT reduction from 2018 to 2020 on the basis of 15% tax rate.

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

The tax expense during the Track Record Period can be reconciled to the profit before tax per the combined statement of profit or loss and other comprehensive expenses as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	324,727	697,201	850,855	383,667	770,547
Tax at the statutory rate of 25%	81,182	174,300	212,714	95,917	192,637
Tax effect of expenses not deductible for tax purpose	3,904	4,547	4,461	1,455	1,805
Effect of PRC tax exemption granted to agricultural business	(23,328)	(119,269)	(151,839)	(68,081)	(158,496)
Effect of PRC tax concessions and preferential tax rates	(18,012)	(10,669)	(12,616)	(7,950)	(9,179)
(Overprovision)/underprovision in respect of prior periods	(2,857)	2,436	(2,947)	(2,148)	1,608
Utilisation of tax losses previously not recognised	—	—	—	—	(1,016)
Tax effect of additional deduction rate on certain research and development expenses	(178)	(742)	(742)	(921)	(809)
Share of profit of a joint venture	—	—	—	—	(17)
Others	6,161	(6,269)	(58)	83	(45)
Income tax expenses	46,872	44,334	48,973	18,355	26,488

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13. PROFIT FOR THE YEAR/PERIOD

The Group’s profit for the year/period during the Track Record Period is arrived at after charging/(crediting):

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Depreciation of:					
Property, plant and equipment	170,563	187,477	212,838	103,425	224,462
Investment properties	5,277	5,106	3,239	1,702	1,445
Right-of-use assets	24,065	30,610	40,452	18,852	39,042
Amortisation of intangible assets	274	284	387	200	201
Total depreciation and amortisation	200,179	223,477	256,916	124,179	265,150
Less: Capitalised in biological assets	(52,676)	(74,082)	(91,370)	(44,131)	(90,219)
Capitalised in construction in progress	–	(561)	(1,337)	(245)	(400)
Capitalised in inventories	(22,880)	(23,493)	(24,906)	(12,353)	(17,935)
Depreciation and amortisation charged directly to profit or loss	124,623	125,341	139,303	67,450	156,596
Lease payments not included in the measurement of lease liabilities	19,950	21,699	18,198	6,721	11,330
Less: Capitalised in biological assets	(3,239)	(5,903)	(6,166)	(1,848)	(3,371)
Capitalised in inventories	(4,107)	(4,244)	(3,689)	(1,655)	(1,953)
	12,604	11,552	8,343	3,218	6,006
Auditors’ remuneration	446	594	545	491	651
Research and development costs recognised in profit or loss included in administrative expenses	1,790	5,249	10,515	6,181	7,952
Employee benefits expense (including directors’ remuneration as disclosed in Note 14):					
Salaries and allowances	366,857	423,731	499,153	239,598	403,577
Retirement benefit scheme contributions	38,984	43,723	49,216	25,240	16,265
Total staff costs	405,841	467,454	548,369	264,838	419,842
Less: Capitalised in biological assets	(62,832)	(89,288)	(113,497)	(56,601)	(94,553)
	343,009	378,166	434,872	208,237	325,289

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An analysis of the Group’s results before biological assets fair value adjustments during the Track Record Period is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period before biological assets fair value adjustments	685,585	740,138	935,137	482,151	961,696
Loss arising from changes in fair value less costs to sell of biological assets*	(407,730)	(87,271)	(133,255)	(116,839)	(217,637)
Profit for the year/period	277,855	652,867	801,882	365,312	744,059

* The balances included both realised and unrealised gain/loss arising from changes in fair value less costs to sell of biological assets. Included in balances are unrealised loss of RMB150,326,000 for the year ended December 31, 2017, unrealised gain of RMB156,693,000, RMB134,069,000, RMB33,871,000 (unaudited) and RMB223,028,000 for the years ended December 31, 2018 and 2019, and six months ended June 30, 2019 and 2020, respectively as estimated by the Group’s management.

14. DIRECTORS’, CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS

(a) Directors’ emoluments

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

	Directors’ fees	Salaries and allowance	Discretionary performance – related payments	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2017:					
Mr. Zhang Xiaodong (Note (i))	–	1,067	–	26	1,093
Mr. Dong Jiping (Note (i))	–	726	–	35	761
	–	1,793	–	61	1,854
Year ended December 31, 2018:					
Mr. Zhang Xiaodong (Note (i))	–	1,537	–	37	1,574
Mr. Dong Jiping (Note (i))	–	796	–	37	833
	–	2,333	–	74	2,407
Year ended December 31, 2019:					
Mr. Zhang Xiaodong (Note (i))	–	1,817	–	33	1,850
Mr. Dong Jiping (Note (i))	–	978	–	33	1,011
	–	2,795	–	66	2,861

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	Directors’ fees	Salaries and allowance	Discretionary performance – related payments	Retirement benefit scheme contributions	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Six months ended June 30, 2019: (unaudited)					
Mr. Zhang Xiaodong (Note (i))	–	343	–	17	360
Mr. Dong Jiping (Note (i))	–	241	–	17	258
	–	584	–	34	618
Six months ended June 30, 2020:					
Mr. Zhang Xiaodong (Note (i))	–	392	–	9	401
Mr. Dong Jiping (Note (i))	–	219	–	9	228
	–	611	–	18	629

Notes:

- (i) Mr. Zhang Xiaodong and Mr. Dong Jiping were appointed as directors of the Company on August 24, 2020. The directors’ emoluments shown above were for their services in connection with the management of affairs of the Group.
- (ii) Mr. Zhang Yujun, Mr. Xu Zhan Kevin, Mr. Xu Jun and Mr. Qiu Zhongwei were appointed as directors of the Company on August 24, 2020. Mr. Zhang Yujun is also the chief executive of the Company. The group entities did not pay any emoluments to these directors during the Track Record Period.

(b) Employees’ emoluments

The five highest paid individuals of the Group included two directors for each of the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and one director for the six months ended June 30, 2020, details of whose remuneration are set out above. The emoluments of the remaining three individuals for each of the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and four individuals for the six months ended June 30, 2020 are as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Salaries and allowances	2,319	2,409	3,103	654	1,090
Retirement benefit scheme contributions	101	108	97	34	18
	2,420	2,517	3,200	688	1,108

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

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Nil to HK\$1,000,000	2	2	–	3	4
HK\$1,000,001 to HK\$1,500,000	1	1	3	–	–
	3	3	3	3	4

During the Track Record Period, no remuneration was paid by the Group to any of the directors, the chief executive or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and the chief executive has waived or agreed to waive any emoluments during the Track Record Period.

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15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation has not been completed by the end of the Track Record Period and the preparation of the results of the Group for the Track Record Period is prepared on a combined basis as disclosed in Note 2 above.

16. DIVIDEND

No dividend was declared or paid by the group entities comprising the Group in respect of the Track Record Period. The Company did not declare or pay any dividends during the Track Record Period. Subsequent to the Track Record Period, on 4 November 2020, the Company declared a dividend of US\$180,348,072 (approximately RMB1,182,957,000) to the equity shareholders of the Company.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Electronic equipment	Bearer plants	Construction in progress	Total
	RMB'000	HK\$'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST:								
At January 1, 2017	1,896,980	–	470,346	82,691	2,984	24,346	82,712	2,560,059
Additions	18,212	–	60,130	5,897	4,510	–	204,560	293,309
Disposals	(1,888)	–	(1,993)	(772)	(691)	–	–	(5,344)
Transfer	189,608	–	32,716	–	–	–	(222,324)	–
Reclassified to investment properties (<i>Note 18</i>)	(10,868)	–	–	–	–	–	–	(10,868)
At December 31, 2017	2,092,044	–	561,199	87,816	6,803	24,346	64,948	2,837,156
Additions	3,836	–	74,219	18,891	2,606	–	313,471	413,023
Disposals	(3,333)	–	(11,547)	(1,587)	(393)	–	(522)	(17,382)
Transfer	219,100	–	19,618	812	758	–	(240,288)	–
Reclassified from investment properties (<i>Note 18</i>)	38,259	–	–	–	–	–	–	38,259
At December 31, 2018	2,349,906	–	643,489	105,932	9,774	24,346	137,609	3,271,056
Additions	7,026	–	130,630	32,171	1,146	4,332	587,527	762,832
Disposals	(45,132)	–	(16,425)	(2,629)	(189)	–	–	(64,375)
Transfer	526,249	–	34,321	–	2,319	–	(562,889)	–
Reclassified from investment properties (<i>Note 18</i>)	19,615	–	–	–	–	–	–	19,615
At December 31, 2019	2,857,664	–	792,015	135,474	13,050	28,678	162,247	3,989,128
Additions	5,919	–	51,900	19,503	12,797	1,872	291,404	383,395
Disposals	(102)	–	(6,189)	(2,632)	(813)	–	–	(9,736)
Transfer	233,311	–	34,343	496	12,138	–	(280,288)	–
Acquisition of subsidiaries (<i>Note 42</i>)	1,869,992	13,120	302,893	56,312	88,180	–	42,254	2,372,751
At June 30, 2020	4,966,784	13,120	1,174,962	209,153	125,352	30,550	215,617	6,735,538
ACCUMULATED DEPRECIATION:								
At January 1, 2017	304,933	–	145,479	31,973	1,339	7,151	–	490,875
Provided for the year	102,371	–	54,046	8,215	925	5,006	–	170,563
Disposals	(1,103)	–	(1,862)	(733)	(134)	–	–	(3,832)

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	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Electronic equipment	Bearer plants	Construction in progress	Total
	RMB'000	HK\$'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2017	406,201	–	197,663	39,455	2,130	12,157	–	657,606
Provided for the year	112,801	–	59,658	8,690	1,322	5,006	–	187,477
Reclassification from investment properties (Note 18)	13,594	–	–	–	–	–	–	13,594
Disposals	(1,065)	–	(8,221)	(1,202)	(373)	–	–	(10,861)
At December 31, 2018	531,531	–	249,100	46,943	3,079	17,163	–	847,816
Provided for the year	127,370	–	68,057	10,668	1,719	5,024	–	212,838
Reclassification from investment properties (Note 18)	8,093	–	–	–	–	–	–	8,093
Disposals	(18,159)	–	(11,826)	(2,005)	(168)	–	–	(32,158)
At December 31, 2019	648,835	–	305,331	55,606	4,630	22,187	–	1,036,589
Provided for the period	128,780	677	62,898	14,065	16,049	1,993	–	224,462
Disposals	(96)	–	(3,105)	(2,474)	(781)	–	–	(6,456)
At June 30, 2020	777,519	677	365,124	67,197	19,898	24,180	–	1,254,595
ACCUMULATED IMPAIRMENT:								
At January 1, 2017	–	–	427	–	–	–	–	427
Provided for the year	367	–	19	212	–	–	–	598
At December 31, 2017	367	–	446	212	–	–	–	1,025
Provided for the year	24,386	–	1,811	–	7	–	–	26,204
Disposals	(940)	–	(66)	(212)	–	–	–	(1,218)
At December 31, 2018	23,813	–	2,191	–	7	–	–	26,011
Provided for the year	6,826	–	1,445	–	–	–	–	8,271
Disposals	(13,455)	–	(1,420)	–	(7)	–	–	(14,882)
At December 31, 2019	17,184	–	2,216	–	–	–	–	19,400
Provided for the period	63	–	–	–	–	–	–	63
At June 30, 2020	17,247	–	2,216	–	–	–	–	19,463
CARRYING AMOUNTS:								
At January 1, 2017	1,592,047	–	324,440	50,718	1,645	17,195	82,712	2,068,757
At December 31, 2017	1,685,476	–	363,090	48,149	4,673	12,189	64,948	2,178,525
At December 31, 2018	1,794,562	–	392,198	58,989	6,688	7,183	137,609	2,397,229
At December 31, 2019	2,191,645	–	484,468	79,868	8,420	6,491	162,247	2,933,139
At June 30, 2020	4,172,018	12,443	807,622	141,956	105,454	6,370	215,617	5,461,480

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

Buildings	15 to 30 years
Leasehold improvements	Shorter of 5 to 10 years and the remaining terms of the lease
Machinery and equipment	5 to 10 years
Motor vehicles	5 to 10 years
Electronic equipment	5 years
Bearer plants	5 years

At December 31, 2017, 2018 and 2019 and June 30, 2020, building ownership certificates in respect of certain buildings of the Group with an aggregate carrying amount of RMB2,238,000, RMB1,830,000, RMB2,989,000 and RMB22,971,000, respectively, had not been issued by the relevant PRC authorities.

Impairment of property, plant and equipment

During the Track Record Period, impairment was made on certain property, plant and equipment due to ceased operations and technical obsolescence. The recoverable amounts of the property, plant and equipment were determined by fair value less cost of disposal.

18. INVESTMENT PROPERTIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
COST:				
At the beginning of the year/period	97,017	107,885	69,626	50,011
Reclassified from property, plant and equipment (<i>Note 17</i>)	10,868	–	–	–
Reclassified to property, plant and equipment (<i>Note 17</i>)	–	(38,259)	(19,615)	–
Acquisition of subsidiaries (<i>Note 42</i>)	–	–	–	13,416
At the end of the year/period	107,885	69,626	50,011	63,427
ACCUMULATED DEPRECIATION:				
At the beginning of the year/period	25,716	30,993	22,505	17,651
Provided for the year/period	5,277	5,106	3,239	1,445
Reclassified to property, plant and equipment (<i>Note 17</i>)	–	(13,594)	(8,093)	–
At the end of the year/period	30,993	22,505	17,651	19,096
CARRYING AMOUNTS:				
At the beginning of the year/period	71,301	76,892	47,121	32,360
At the end of the year/period	76,892	47,121	32,360	44,331

The above investment properties are measured using the cost model and represent dairy farms located in Mainland China and are depreciated on a straight-line basis over 15 to 30 years.

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The fair value of the Group’s investment properties at December 31, 2017, 2018 and 2019 and June 30, 2020 was RMB80,766,000, RMB51,492,000, RMB35,794,000 and RMB48,282,000, respectively, which has been arrived at on the basis of a valuation carried out as at that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“Jones Lang LaSalle”), independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang LaSalle is 7/F, One Taikoo Place, 979 King’s Road, Hong Kong.

In estimating the fair value of investment properties, the Group uses market observable data to the extent it is available. The management of the Group works closely with the valuer to establish the appropriate valuation techniques and inputs to the model.

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

The fair values of the Group’s investment properties as at December 31, 2017, 2018 and 2019 and June 30, 2020 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 during the Track Record Period.

19. RIGHT-OF-USE ASSETS

	Leasehold lands	Properties	Machinery and equipment	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Carrying amount as at January 1, 2017	193,864	65,252	–	259,116
Additions	3,323	–	–	3,323
Depreciation provided for the year	(12,940)	(11,125)	–	(24,065)
Carrying amounts as at December 31, 2017	184,247	54,127	–	238,374
Additions	250,031	19,958	4,292	274,281
Depreciation provided for the year	(15,299)	(14,591)	(720)	(30,610)
Carrying amounts as at December 31, 2018	418,979	59,494	3,572	482,045
Additions	108,966	–	–	108,966
Early termination of lease agreements	(1,943)	(12,848)	(2,800)	(17,591)
Depreciation provided for the year	(24,492)	(15,212)	(748)	(40,452)
Carrying amounts as at December 31, 2019	501,510	31,434	24	532,968
Additions	266,152	101,463	–	367,615
Early termination of lease agreements	(71)	–	–	(71)
Depreciation provided for the period	(23,872)	(14,199)	(971)	(39,042)
Acquisition of subsidiaries (<i>Note 42</i>)	355,109	22,159	5,088	382,356
Carrying amounts as at June 30, 2020	<u>1,098,828</u>	<u>140,857</u>	<u>4,141</u>	<u>1,243,826</u>

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	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Expense relating to short-term leases*	9,868	9,480	5,721	2,469	5,129
Variable lease payments not included in the measurement of lease liabilities* (Note (i))	8,144	7,877	8,871	3,030	3,467
Total cash outflow for leases	35,753	69,951	105,590	59,813	71,472

Note:

* Before capitalisation to biological assets and inventories

- (i) Lease payments for certain leasehold lands and machineries are variable payments, and determined based on the local grain prices and usage of the machineries, respectively, during the relevant lease periods.

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

The Group regularly entered into short-term leases for motor vehicles, machinery and office equipment. As at the end of each year/period, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in Note 13.

Restrictions or covenants on leases

Lease liabilities of RMB91,099,000, RMB323,963,000, RMB325,717,000 and RMB952,302,000 were recognised with related right-of-use assets with an aggregate carrying amount of RMB102,622,000, RMB391,595,000, RMB374,831,000 and RMB994,833,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. These lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

20. GOODWILL

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020 RMB'000
CARRYING AMOUNT:				
At beginning of the year/period	–	–	–	–
Acquisition of subsidiaries (Note 42)	–	–	–	762,741
At the end of the year/period	–	–	–	762,741

Goodwill has been allocated to SKX Group (as defined in Note 42) as an individual cash generating unit for impairment testing purpose. SKX Group mainly engaged in dairy farming business.

Based on management’s assessment, there is no impairment indicator for the above goodwill since the acquisition of SKX Group up to June 30, 2020. The management will assess the impairment of the goodwill at least annually.

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21. INTANGIBLE ASSETS

	Computer software	Patents	Total
	RMB'000	RMB'000	RMB'000
COST:			
At January 1, 2017 and December 31, 2017	1,095	–	1,095
Additions	1,273	–	1,273
At December 31, 2018 and 2019	2,368	–	2,368
Acquisition of subsidiaries (<i>Note 42</i>)	–	733	733
At June 30, 2020	2,368	733	3,101
ACCUMULATED AMORTISATION:			
At January 1, 2017	23	–	23
Provided for the year	274	–	274
At December 31, 2017	297	–	297
Provided for the year	284	–	284
At December 31, 2018	581	–	581
Provided for the year	387	–	387
At December 31, 2019	968	–	968
Provided for the period	118	83	201
At June 30, 2020	1,086	83	1,169
CARRYING AMOUNTS:			
At January 1, 2017	1,072	–	1,072
At December 31, 2017	798	–	798
At December 31, 2018	1,787	–	1,787
At December 31, 2019	1,400	–	1,400
At June 30, 2020	1,282	650	1,932

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

Computer software	10 years
Patents	10 to 15 years

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22. BIOLOGICAL ASSETS

A Nature of activities

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

	As at December 31,			As at
	2017	2018	2019	June 30,
	<i>Heads</i>	<i>Heads</i>	<i>Heads</i>	<i>2020</i>
Calves and heifers	45,907	65,488	74,082	136,685
Milkable cows	56,361	61,857	77,955	150,360
Feeder cattle	159	369	1,269	1,781
Breeding stock	–	–	–	136
Total	102,427	127,714	153,306	288,962

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

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

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

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

i. *Regulatory and environmental risks*

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

ii. *Climate, disease and other natural risks*

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

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B Quantity of the agricultural produce of the Group’s biological assets

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Volume of raw milk produced for sale (Ton)	526,953	572,093	655,786	315,300	753,586
Volume of sales of frozen bovine semen produced (Straw)	–	–	–	–	619,773

C Value of biological assets

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

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB’000	RMB’000	RMB’000	RMB’000
Dairy cows:				
Calves and heifers	649,174	1,010,321	1,094,787	2,232,634
Milkable cows	1,192,842	1,596,129	2,228,130	4,119,619
Feeder cattle	964	1,629	12,070	22,051
Breeding stock	–	–	–	78,822
Total	1,842,980	2,608,079	3,334,987	6,453,126
Less: current portion classified under current assets	(964)	(1,629)	(12,070)	(22,051)
Non-current portion classified under non-current assets	1,842,016	2,606,450	3,322,917	6,431,075

As at December 31, 2018, certain of the Group’s biological assets with an aggregate carrying amount of RMB39,679,000 are under a biological assets lease agreement (Note 37).

As at June 30, 2020, certain of the Group’s biological assets with an aggregate carrying amount of RMB1,853,464,000 were pledged to secure bank facilities granted to the Group (Note 34).

The movements of biological assets during the Track Record Period are set out below:

	Calves and heifers	Milkable cows	Breeding stock	Total non-current assets	Feeder cattle
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At January 1, 2017	583,844	1,123,604	–	1,707,448	647
Purchase cost	64,245	–	–	64,245	–
Feeding and other related costs	651,560	–	–	651,560	1,210
Transfer	(625,003)	625,003	–	–	–
Decrease due to disposal/death	(25,927)	(147,284)	–	(173,211)	(1,189)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	455	(408,481)	–	(408,026)	296

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	Calves and heifers	Milkable cows	Breeding stock	Total non-current assets	Feeder cattle
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At December 31, 2017	649,174	1,192,842	–	1,842,016	964
Purchase cost	265,558	6,297	–	271,855	–
Feeding and other related costs	767,765	–	–	767,765	4,146
Transfer	(675,267)	675,267	–	–	–
Transfer to feeder cattle	(6)	–	–	(6)	6
Decrease due to disposal/death	(12,369)	(174,469)	–	(186,838)	(4,558)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	15,466	(103,808)	–	(88,342)	1,071
At December 31, 2018	1,010,321	1,596,129	–	2,606,450	1,629
Purchase cost	158,077	–	–	158,077	–
Feeding and other related costs	972,139	–	–	972,139	55,038
Transfer	(1,113,035)	1,113,035	–	–	–
Transfer to feeder cattle	(15,307)	(18,277)	–	(33,584)	33,584
Decrease due to disposal/death	(19,167)	(222,256)	–	(241,423)	(83,668)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	101,759	(240,501)	–	(138,742)	5,487
At December 31, 2019	1,094,787	2,228,130	–	3,322,917	12,070
Purchase cost	49,804	–	505	50,309	–
Feeding and other related costs	894,488	–	2,998	897,486	41,092
Transfer	(759,529)	759,529	–	–	–
Transfer to feeder cattle	(9,204)	(48,258)	–	(57,462)	57,462
Decrease due to disposal/death	(129,533)	(191,341)	(150)	(321,024)	(83,267)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets	61,984	(307,372)	33,057	(212,331)	(5,306)
Acquisition of subsidiaries (Note 42)	1,029,837	1,678,931	42,412	2,751,180	–
At June 30, 2020	2,232,634	4,119,619	78,822	6,431,075	22,051

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The directors of the Company have engaged an independent valuer, Jones Lang LaSalle, independent qualified professional valuers which are not connected to the Group, to assist the Group in assessing the fair values of Group’s biological assets. The principal address of Jones Lang LaSalle is 7/F, One Taikoo Place, 979 King’s Road, Hong Kong. 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 45.

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

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	850,963	1,022,398	1,232,668	584,915	1,238,129
Loss arising from changes in fair value less costs to sell of biological assets	(407,730)	(87,271)	(133,255)	(116,839)	(217,637)
	<u>443,233</u>	<u>935,127</u>	<u>1,099,413</u>	<u>468,076</u>	<u>1,020,492</u>

23. DEFERRED TAX ASSETS/LIABILITIES

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

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB’000	RMB’000	RMB’000	RMB’000
Deferred tax assets	1,035	1,351	5,088	10,453
Deferred tax liabilities	(7,387)	(7,147)	(6,902)	(5,989)
	<u>(6,352)</u>	<u>(5,796)</u>	<u>(1,814)</u>	<u>4,464</u>

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The following are the major deferred tax liabilities and assets recognised and movements thereon during the Track Record Period.

	ECL provision	Impairment loss on assets	Tax losses	Government grants	Fair value adjustments	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> <i>(Note (i))</i>	<i>RMB’000</i>
At January 1, 2017	–	51	10	643	(7,502)	(6,798)
Credited/(charged) to profit or loss	–	57	291	(17)	115	446
At December 31, 2017	–	108	301	626	(7,387)	(6,352)
Upon adoption of IFRS 9 (<i>Note (ii)</i>)	55	(55)	–	–	–	–
Credited/(charged) to profit or loss	329	3	–	(16)	240	556
At December 31, 2018	384	56	301	610	(7,147)	(5,796)
Credited/(charged) to profit or loss	4,580	–	(301)	(541)	244	3,982
At December 31, 2019	4,964	56	–	69	(6,903)	(1,814)
Credited to profit or loss	3,135	839	–	640	869	5,483
Acquisition of subsidiaries (<i>Note 42</i>)	795	–	–	–	–	795
At June 30, 2020	<u>8,894</u>	<u>895</u>	<u>–</u>	<u>709</u>	<u>(6,034)</u>	<u>4,464</u>

Notes:

- (i) The deferred tax liabilities for fair value adjustments related to the fair value adjustments of certain land use rights and property, plant and equipment upon acquisition of subsidiaries before the Track Record Period.
- (ii) The amount represented deferred tax assets in respect of the accumulated loss allowances for trade and other receivables as at December 31, 2017, which have been regrouped from “Impairment loss on assets” to “ECL provision” upon application of IFRS 9.

Pursuant to the EIT Law, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008. At December 31, 2017, 2018 and 2019 and June 30, 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,038,238,000, RMB1,438,919,000, RMB1,840,455,000 and RMB2,251,786,000, respectively, at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

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24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity investments in the PRC, at fair value	—	—	—	55,513

The above unlisted equity investments represent the Group’s equity investment in two private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI. During the six months ended June 30, 2020, fair value gain of RMB8,825,000 was recorded and credited to other comprehensive income.

25. INVENTORIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	701,299	856,589	903,126	1,093,964
Finished goods	29,394	37,266	53,821	67,164
Semi-finished goods	7,288	6,139	10,339	18,969
Frozen bovine semen	—	—	—	6,722
	737,981	899,994	967,286	1,186,819

26. TRADE AND BILLS RECEIVABLES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	371,839	618,933	999,846	844,618
Less: Allowance for credit loss	(300)	(1,275)	(25,548)	(35,909)
	371,539	617,658	974,298	808,709
Bills receivables (<i>Note</i>)	36,209	—	—	—
	407,748	617,658	974,298	808,709
Trade receivables from related parties	95,237	128,571	142,892	345,349

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Note: Bills receivables are aged within 3 months. As part of the Group’s cash flow management, the Group has the practice of discounting some of the bills received from debtors to financial institutions before the bills are due for payment and derecognises bills discounted on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Upon initially application of IFRS 9, the Group’s bills receivables are considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to financial assets at FVTOCI as at January 1, 2018 (Note 27).

As at January 1, 2017, trade receivables from contracts with customers, net of allowance for credit losses, amounted to RMB295,792,000.

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

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB’000	RMB’000	RMB’000	RMB’000
Within 90 days	338,145	563,418	825,441	663,762
90 days to 180 days	33,195	51,809	146,921	104,252
181 days to 1 year	199	2,431	1,936	28,369
Over 1 year	–	–	–	12,326
	<u>371,539</u>	<u>617,658</u>	<u>974,298</u>	<u>808,709</u>

As at December 31, 2017, 2018 and 2019 and June 30, 2020, trade receivables from related parties are aged within 3 months based on the month of delivery.

Impairment assessment of trade receivables under IFRS 9 for the year ended December 31, 2018 and onwards

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

	As at December 31,		As at
	2018	2019	June 30, 2020
	RMB’000	RMB’000	RMB’000
Not yet past due	479,347	655,617	429,760
Past due less than 30 days	23,905	123,766	100,245
Past due more than 30 days but less than 90 days	106,022	148,663	206,674
Past due more than 90 days	<u>8,384</u>	<u>46,252</u>	<u>72,030</u>
	<u>617,658</u>	<u>974,298</u>	<u>808,709</u>

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

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit loss separately. The provision rates are based on 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.

Further details of impairment assessment of trade receivables under IFRS 9 are set out in Note 44.

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Impairment assessment of trade receivables under IAS 39 for the year ended December 31, 2017

The allowance for credit loss as at December 31, 2017 was measured based on incurred credit losses under IAS 39, which was provided for individually impaired trade receivables of RMB300,000 with a carrying amount before impairment of RMB300,000.

Movements in the allowance of doubtful debts for the year ended December 31, 2017 are set out as follows:

	<i>RMB’000</i>
At January 1, 2017	2,063
Reversed during the year	(1,763)
At December 31, 2017	300

The individually impaired trade receivables as at December 31, 2017 related to customers that were in financial difficulties or were in default in payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at December 31, 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	As at December 31, 2017
	RMB’000
Neither past due nor impaired	316,824
Past due within 30 days	10,682
Past due 31 days to 90 days	15,920
Past due 91 days to 1 year	28,113
	371,539

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to customers that have a good repayment history with the Group. Based on past experience, the management of the Group are of the opinion that no provision for impairment is necessary in respect of these balances. The financial position of the creditors will be closely monitored by the management of the Group and provision will be made as appropriate.

27. BILLS RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Bills receivables	–	27,147	75,679	59,916

Bills receivables at FVTOCI are matured within one year.

Further details of impairment assessment of bills receivables at FVTOCI under IFRS 9 are set out in Note 44.

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28. CONTRACT ASSETS

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Dairy farm equipment:				
Classified under current assets	17,200	15,547	7,527	8,780

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

The Group recognises revenue from sale of equipment upon delivery of the dairy farm equipment to the customers based on its normal selling price and amortises the amount to revenue from sale of feeds over the contract period.

As at January 1, 2017, contract assets amounted to RMB3,867,000.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Prepayments	81,385	81,357	178,583	185,201
Value-added tax recoverable	6,056	20,420	22,752	14,107
Deposits placed with brokers for commodity forward contracts	16,506	18,117	16,112	10,940
Rental receivables	2,279	1,790	714	2,980
Utility and other deposits	1,594	1,495	3,905	6,403
Security deposits for purchase of lands	–	–	5,006	–
Compensation receivable	715	2,483	1,708	8,174
Advances to staff	933	696	589	4,300
Other receivables	71	828	1,445	7,468
	109,539	127,186	230,814	239,573
Less: Allowance of doubtful debts	(447)	(638)	(5)	(1,406)
	109,092	126,548	230,809	238,167

Details of impairment assessment of other receivables under IFRS 9 for the years ended December 31, 2018 and 2019 and the six months ended June 30, 2020 are set out in Note 44.

Included in the above provision for impairment of other receivables, which was measured based on incurred losses model under IAS 39, as at December 31, 2017 was a provision for individually impaired rental receivables of RMB447,000 with a carrying amount before provision of RMB447,000.

Movements in the allowance of doubtful debts for the year ended December 31, 2017 are set out as follows:

	RMB'000
At January 1, 2017	2,499
Reversed during the year	(2,052)
At December 31, 2017	447

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30. BANK BALANCES AND CASH, PLEDGED AND RESTRICTED BANK DEPOSITS

Bank balances carry interest at prevailing market rates which range from 0.3% to 1.38%, 0.3% to 1.38%, 0.3% to 1.38% and 0.3% to 1.61% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

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

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Deposits pledged to banks to secure banking facilities granted to the Group:				
Bills payables	–	–	60,000	80,467
Bank loans	–	100	100	165
Restricted bank deposits	685	650	1,851	34,621
	685	750	61,951	115,253
Less: classified under current assets	–	(100)	(60,100)	(80,632)
Non-current portion	685	650	1,851	34,621

The restricted bank deposits included deposits frozen under court orders in relation to ongoing litigations as disclosed in Note 38 and deposits restricted to use for land rehabilitation purpose only.

The restricted and pledged bank balances carry interest at prevailing market rates at 0.3%, 0.3%, ranging from 0.3% to 2.86% and 0.3% to 3.025% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

31. TRADE AND BILLS PAYABLES

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade payables	321,849	356,702	571,892	1,162,358
Bills payables	3,900	–	667	159,219
	325,749	356,702	572,559	1,321,577

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

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within 1 year	316,027	347,679	560,723	1,068,484
1 to 2 years	4,455	6,855	9,120	53,629
2 to 3 years	990	1,441	1,037	21,446
More than 3 years	377	727	1,012	18,799
	321,849	356,702	571,892	1,162,358

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

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32. OTHER PAYABLES AND ACCRUALS

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for purchase of property, plant and equipment	115,770	191,266	252,212	236,281
Salaries and welfare payables	78,592	88,573	107,127	161,626
Deposits received from suppliers	54,128	55,721	70,708	78,742
Service and professional fee payables	19,314	25,950	47,347	35,383
Freight charges payables	26,711	42,639	39,987	39,750
Storage fee payables	4,203	22,229	26,969	13,197
Consideration payable for the acquisition of SKX Group (Note 42)	–	–	–	500,514
Payables for acquisition of non-controlling interests	–	–	–	24,781
Non-income tax related tax payables	1,320	5,554	11,664	14,583
Sundry payables and accrued expenses	32,308	23,862	25,348	38,574
	<u>332,346</u>	<u>455,794</u>	<u>581,362</u>	<u>1,143,431</u>

33. CONTRACT LIABILITIES

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Receipts in advance from customers for:				
Sales of raw milk	–	–	8	43
Sales of feeds	701	6,227	11,542	4,153
Sales of ruminant farming products	56	139	64	6,205
Sales of frozen bovine semen	–	–	–	2,526
Sales of feeder cattle	4,695	3,429	6,548	9,319
	<u>5,452</u>	<u>9,795</u>	<u>18,162</u>	<u>22,246</u>

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

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

As at January 1, 2017, contract liabilities amounted to RMB5,130,000.

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Notes:

- (i) The secured bank loans of the Group as at December 31, 2018 are secured by certain bank deposits of RMB100,000 (Note 30). The secured bank loans of the Group as at June 30, 2020 are secured by certain biological assets of the Group (Note 22).
- (ii) Other borrowings represents loans from certain local governments which will be matured in three years. These loans bear a fixed interest rate of 4.75% per annum up to June 30, 2019 and 6% per annum from July 1, 2019 to the maturity date.
- (iii) As at June 30, 2020, certain bank loans with an aggregate carrying amount of RMB302,630,000 are under personal guarantee executed by a non-controlling shareholder of a subsidiary and his wife.

35. DEFERRED INCOME

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	164,822	246,918	231,622	207,843
Government grants received	106,418	15,948	19,203	23,829
Released to other income (Note 8)	(24,322)	(27,033)	(38,773)	(13,046)
Released to finance costs (Note 11)	–	(2,075)	(3,925)	–
Released to other profit or loss items	–	(2,136)	(284)	(73)
Balance at end of year/period	246,918	231,622	207,843	218,553

Deferred income arising from government grants of the Group represents the government grants received for capital expenditure incurred for the acquisition of property, plant and equipment, right-of-use assets and biological assets. The amounts are deferred and are credited to the profit or loss on a systematic basis over the useful lives of the related assets. In addition, the Group also received government grants to subsidise specific loan interests and other expense items, which are presented as a reduction in that related expenses reported in the profit or loss.

36. LEASE LIABILITIES

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities payable:				
Within one year	12,958	24,595	12,405	43,434
Within a period of more than one year but not more than two years	18,257	13,133	15,547	30,322
Within a period of more than two years but not more than five years	24,651	48,097	42,156	92,258
Within a period of more than five years	35,233	238,138	255,609	786,288
	91,099	323,963	325,717	952,302
Less: Amount due for settlement within 12 months shown under current liabilities	(12,958)	(24,595)	(12,405)	(43,434)
Amount due for settlement after 12 months shown under non-current liabilities	78,141	299,368	313,312	908,868

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The Group leases various properties to operate its dairy farm business and these lease liabilities were measured at the present value of the lease payments that are not yet paid. All leases are entered at fixed prices. As at December 31, 2017, 2018 and 2019 and June 30, 2020, the weighted average incremental borrowing rate applied ranging from 4.99% to 5.30%, 4.89% to 5.15%, 4.89% to 5.15% and 4.89% to 5.21%, respectively.

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

37. OTHER LIABILITIES

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB’000	RMB’000	RMB’000	RMB’000
Provision for other obligations	–	39,679	–	–
Other liabilities at amortised cost	–	–	38,164	26,409
	–	39,679	38,164	26,409
Less: Portion classified under current liabilities	–	–	(11,058)	(6,100)
Portion classified under non-current liabilities	–	39,679	27,106	20,309

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

The provision for the obligation is subsequently measured with reference to the fair value of the dairy cows to be returned. During the year ended December 31, 2018, reduction in provision of the above obligation of RMB943,000 was credited to profit or loss. During the year ended December 31, 2019 up to the date of termination of the lease agreement as mentioned below, reduction in provision of the above obligation of RMB1,515,000 was recognised to profit or loss.

In December 2019, the Group and the Third Party agreed to terminate the above lease agreement and entered into a biological assets purchase agreement pursuant to which the Group agreed to purchase all the dairy cows. The present value of the consideration amounted to RMB38,164,000, which will be settled by instalments in two years and bear interest at 5.3% per annum.

38. OTHER PROVISIONS

	As at December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB’000	RMB’000	RMB’000	RMB’000
Classified under current liabilities:				
Provisions for litigations				
(Note (i))	–	–	–	18,544
Classified under non-current liabilities:				
Provision for land rehabilitation				
(Note (ii))	–	1,329	1,398	6,760
	–	1,329	1,398	25,304

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Notes:

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

39. SHARE CAPITAL

For the purpose of presentation of the combined statements of financial position, share capital as at December 31, 2017, 2018 and 2019 and June 30, 2020 represents the issued share capital of Youran BVI, which was incorporated in the British Virgin Islands.

40. RETIREMENT BENEFIT PLANS

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

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

41. PLEDGE OF ASSETS

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

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Pledged bank deposits (Note 30)	–	100	60,100	80,632
Biological assets (Note 22)	–	–	–	1,853,464
	–	100	60,100	1,934,096

42. BUSINESS COMBINATION

On January 8, 2020, the Group acquired 536,066,738 issued ordinary shares of Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技術(集團)股份有限公司) (“SKX”, together with its subsidiaries, collectively “SKX Group”), a company listed on the new over-the-counter market (新三板) in the PRC, from the existing shareholders, which represent approximately 58.36% equity interests in SKX, for an aggregate consideration of RMB2,278,284,000, subject to certain adjustment clauses.

Out of 536,066,738 issued ordinary shares acquired by the Group, 124,691,568 issued ordinary shares, which represent approximately 23.26% equity interests in SKX, were held by three shareholders (the “Shareholders”) and under trading restriction (the “Restricted Shares”), which prohibits the Shareholders from transferring the legal title of the Restricted Shares to the Group before the end of the restriction period. For the purpose of this acquisition, the Group has entered into share pledge agreements with the Shareholders whereby the Shareholders have agreed to grant all the shareholder rights, including the voting right, adhered to the Restricted Shares, to the Group until the legal title of the Restricted Shares can be transferred to the Group. The Restricted Shares were released and transferred to the Group on September 2, 2020.

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

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

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

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

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

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

Acquisition-related costs amounting to RMB23,410,000 have been excluded from the consideration transferred and have been recognised as an expense for the six months ended June 30, 2020, within the “other expenses” line item in the combined statement of profit or loss and other comprehensive income.

Goodwill arising on acquisition

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

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

Out of the adjusted purchase consideration of approximately RMB2,209,243,000, RMB1,708,729,000 has been settled and the remaining balance of RMB500,514,000 has been recorded under other payables as at June 30, 2020.

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

Net cash outflows on acquisition

	<i>RMB’000</i>
Consideration paid	(1,708,729)
Bank balances and cash acquired	162,299
Net cash outflows on acquisition	(1,546,430)

Included in the profit for the six months ended June 30, 2020 is RMB30,846,000 attributable to the additional business generated by SKX Group. Revenue for the six months ended June 30, 2020 includes RMB1,017,182,000 generated from SKX Group.

[REDACTED]

43. CATEGORIES OF FINANCIAL INSTRUMENTS

	As at December 31,			As at
	2017	2018	2019	June 30,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2020
				<i>RMB’000</i>
Financial assets				
Loans and receivables (including bank balances)	949,916	—	—	—
Financial assets at amortised cost	—	1,083,634	1,781,718	2,902,675
Equity instruments at FVTOCI	—	—	—	55,513
Bills receivables at FVTOCI	—	27,147	75,679	59,916
Financial liabilities				
Financial liabilities at amortised cost	1,779,819	2,460,455	3,856,056	7,691,257

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

Currency risk

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

The Group operates mainly in the PRC and majority of revenue and cost of goods sold and operations are denominated in Renminbi (“RMB”). Almost all of the revenue and costs are denominated in the group entities’ respective functional currency.

The Group is exposed to foreign currency risk primarily with respect to the changes of exchange rate of United States dollars (“US\$”) against RMB, which is the functional currency of most of the Group’s operating entities. Several subsidiaries of the Company have foreign currency bank balances which expose the Group to foreign currency risk.

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

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB’000	RMB’000	RMB’000	2020
Bank balances denominated in US\$	11	218	241	615

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

Sensitivity analysis

No sensitivity analysis has been presented as the directors of the Company consider that the impact on profit or loss during the Track Record Period is insignificant, taking into account that (i) the carrying amount of monetary items that are denominated in a currency that is not the entities’ functional currency is not significant; and (ii) the impact on profit or loss is not material based on a reasonably possible change in foreign exchange rates of 5%.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 34 for details of these borrowings) and lease liabilities (see Note 36 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged and restricted bank deposits (see Note 30 for details) and variable-rate bank borrowings (see Note 34 for details). The Group’s cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates quoted by PBOC and LIBOR arising from the Group’s RMB denominated borrowings.

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The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of each reporting period. The analysis is prepared assuming the variable-rate bank borrowings outstanding at the end of each reporting period were outstanding for the whole year/period. A 50 basis point increase or decrease in variable-rate bank borrowings are used during the Track Record Period when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates. Bank balances, pledged and restricted bank deposits are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant during the Track Record Period.

If interest rates on variable interest rate borrowings had been 50 basis points higher/lower and all other variables were held constant (without taking into account the effect of interest capitalisation and government grants for specific loan interests), the potential effect on post-tax profit of the Group is as follows:

	Year ended December 31,			Six months ended June 30, 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Post-tax profit would decrease/increase by	502	3,505	9,991	11,385

Other price risk

The Group is exposed to equity price risk through its investments in certain unquoted equity securities for long term strategic purposes which had been designated as FVTOCI.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. Sensitivity analyses for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in Note 45. If the prices of the respective equity instruments had been 10% higher/lower as at June 30, 2020, the post-tax profit for the six months ended June 30, 2020 would increase/decrease by RMB5,551,000 as a result of the changes in fair value of investments at FVTOCI.

Credit risk and impairment assessment

At the end of each reporting period, the Group’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the combined statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Group’s management based on prior experience and the current economic environment.

The Group performs impairment assessment under ECL model upon application of IFRS 9 on January 1, 2018 (year ended December 31, 2017: incurred loss model) on financial assets individually or based on provision matrix. The Group also reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group consider that the Group’s credit risk is significantly reduced.

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Trade receivables and contract assets arising from contracts with customers

Before accepting any new customer, the Group assesses the potential customer’s credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade receivables balances individually or on provision matrix, of which these receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to ageing for the customers. Details of the quantitative disclosures are set out below in this Note.

Amounts due from related parties

The receivables from related parties are trade in nature and mostly related to the sales of raw milk to a shareholder (Note 46). Payments are generally due in two weeks after delivery and there is no history of default. The directors of the Company believe that the failure of the shareholder to make required payments is unlikely after considering its past settlement records and financial position.

Other than concentration of credit risk on receivables from related parties of RMB95,745,000, RMB128,571,000, RMB145,519,000 and RMB345,349,000 as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, the Group’s trade receivables consist of a large number of customers and does not have any other significant concentration of credit risk.

Deposits and other receivables, bills receivables

For deposits and other receivables, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. During the Track Record Period, the Group assessed ECL for other receivables and deposits on an individual basis to ensure that adequate impairment loss is made. Details of the quantitative disclosures are set out below in this Note.

Bank balances, pledged and restricted bank deposits

The credit risk on bank balances, pledged and restricted bank deposits of the Group is limited because the counterparties are banks with good reputation in the PRC.

The Group’s internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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The tables below detail the credit risk exposures of the Group’s financial assets and contract assets, which are subject to ECL assessment upon application of IFRS 9:

				Gross carrying amount		
				As at December 31,		As at
				2018	2019	June 30,
				RMB’000	RMB’000	2020
<i>Notes</i>						
Financial assets at amortised cost						
Trade receivables	26	Low risk	Lifetime ECL (provision matrix)	438,451	556,386	399,060
		Low risk	Lifetime ECL (assessed individually)	40,896	102,684	35,165
		Doubtful	Lifetime ECL (provision matrix)	110,075	300,866	369,043
		Doubtful	Lifetime ECL (assessed individually)	28,236	19,614	9,928
		Loss	Credit-impaired	1,275	20,296	27,374
		Loss	Purchased credit impaired	–	–	4,048
				<u>618,933</u>	<u>999,846</u>	<u>844,618</u>
Bills receivables	27	Low risk	12-month ECL	27,147	75,679	59,916
Deposits and other receivables	29	Low risk	12-month ECL	24,771	29,474	38,859
		Loss	Credit-impaired	638	5	1,406
				<u>25,409</u>	<u>29,479</u>	<u>40,265</u>
Amounts due from related parties	46	Low risk	Lifetime ECL (not credit-impaired)	128,571	145,519	345,349
Pledged and restricted bank deposits	30	Low risk	12-month ECL	750	61,951	115,253
Bank balances	30	Low risk	12-month ECL	311,884	570,476	1,594,505
Other item						
Contract assets	28	Low risk	Lifetime ECL (not credit-impaired)	15,547	7,527	8,780

For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, which are assessed individually, the Group determines the expected credit losses on trade receivables and contract assets by using a provision matrix, grouped ageing status, as these customers consist of a large number of customers with common risk characteristics that are representative of the customers’ abilities to pay all amounts due in accordance with the contractual terms.

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The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at December 31, 2018 and 2019 and June 30, 2020, within lifetime ECL (not credit impaired).

	As at 31 December,		As at
	2018	2019	June 30, 2020
	RMB'000	RMB'000	RMB'000
Within 90 days	515,809	740,963	626,019
90 days to 1 year	32,717	116,289	108,384
Total	548,526	857,252	734,403

The average loss rate as at 31 December 2018 and 2019 and 30 June 2020 is zero, ranging from 0.22% to 10.97% and 1.08% to 16.35%, respectively.

The exposure to credit risk of contract assets assessed based on provision matrix are insignificant during the Track Record Period.

The above 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.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables measured at amortised cost under the simplified approach.

	Lifetime ECL (Not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2017 under IAS 39 and as at 1 January 2018 upon application of IFRS 9	–	300	300
Changes for trade receivables recognised as at 1 January 2018:			
Impairment loss recognised	–	609	609
Write-offs	–	(287)	(287)
New trade receivables originated	–	653	653
As at 31 December 2018	–	1,275	1,275
Changes for trade receivables recognised as at 1 January 2019:			
Impairment loss recognised	–	4,470	4,470
Impairment loss reversed	–	(209)	(209)
New trade receivables originated	5,252	14,760	20,012
As at 31 December 2019	5,252	20,296	25,548
Changes for trade receivables recognised as at 1 January 2020:			
Impairment loss recognised	–	5,907	5,907
Impairment loss reversed	–	(6,130)	(6,130)
New trade receivables originated or purchased	3,283	7,301	10,584
As at 30 June 2020	8,535	27,374	35,909

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During the years ended December 31, 2018 and 2019 and six months ended June 30, 2020, the Group provided nil, RMB5,252,000 and RMB3,283,000 impairment allowance for trade receivables, respectively, based on the provision matrix. Additional impairment allowance of RMB1,262,000, RMB19,230,000 and RMB13,208,000 were made on debtors with significant balances or credit-impaired debtors for the years ended December 31, 2018 and 2019 and six months ended June 30, 2020, respectively.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

The following table shows the movement in lifetime ECL (credited impaired) that has been recognised for other receivables measured at amortised cost under the simplified approach.

	Lifetime ECL (credit-impaired)
	<i>RMB'000</i>
As at December 31, 2017 under IAS 39 and as at January 1, 2018 upon application of IFRS 9	447
Changes for other receivables recognised as at January 1, 2018:	
Impairment loss recognised	191
As at December 31, 2018	638
Changes for other receivables recognised as at January 1, 2019:	
Impairment loss recognised	488
Write-offs	(1,121)
As at December 31, 2019	5
Changes for other receivables recognised as at January 1, 2020:	
Impairment loss recognised	1,531
Impairment loss reversed	(130)
As at June 30, 2020	<u><u>1,406</u></u>

During the years ended December 31, 2018 and 2019 and six months ended June 30, 2020, the Group provided RMB191,000, RMB488,000 and RMB1,531,000 impairment allowance for other receivables, respectively, with credit-impaired debtors.

The Group writes off an other receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the other receivables are over two years past due, whichever occurs earlier.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group had net current liabilities of RMB1,855,955,000 as at June 30, 2020, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the directors of the Company regularly monitor the operating cash flows of the Group to meet its liquidity requirement in the short and long term. The Group’s net current liabilities position as at June 30, 2020 was mainly attributable to trade and bills payables, other payables and accruals, bank and other borrowings due within one year.

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In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance, including unutilised bank loan facilities and the issuance of convertible notes in November 2020, in assessing whether the Group will have sufficient financial resources to continue as a going concern. Meanwhile, the Group recorded net operating cash inflows during the Track Record Period.

The directors of the Company have prepared a working capital forecast of the Group covering a period of not less than 12 months from June 30, 2020. 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 issuance of the convertible notes in November 2020 (Note 52(c)). The directors of the Company, after taking into account the reasonably possible changes in the operational performance and the availability of borrowings, are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due.

The following table sets out the Group’s remaining contractual maturity for its financial liabilities as at the end of each reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period.

	Weighted average interest rate	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>As at December 31, 2017</i>							
Trade and bills payables	–	325,749	–	–	–	325,749	325,749
Other payables and accruals	–	221,737	13,692	17,005	–	252,434	252,434
Amounts due to related parties	–	41	–	–	–	41	41
Bank borrowings:							
Fixed-rate	4.35 to 5.50	1,128,336	–	–	–	1,128,336	1,101,148
Variable-rate	4.35	102,260	–	–	–	102,260	100,447
Lease liabilities	4.99 to 5.30	17,121	21,138	31,839	43,982	114,080	91,099
		<u>1,795,244</u>	<u>34,830</u>	<u>48,844</u>	<u>43,982</u>	<u>1,922,900</u>	<u>1,870,918</u>
<i>As at December 31, 2018</i>							
Trade and bills payables	–	356,702	–	–	–	356,702	356,702
Other payables and accruals	–	331,505	12,296	17,866	–	361,667	361,667
Amounts due to related parties	–	72	–	–	–	72	72
Bank borrowings:							
Fixed-rate	4.35 to 5.50	1,064,962	–	–	–	1,064,962	1,041,037
Variable-rate	4.35 to 4.57	722,292	–	–	–	722,292	700,977
Lease liabilities	4.89 to 5.15	36,120	32,020	88,339	401,510	557,989	323,963
		<u>2,511,653</u>	<u>44,316</u>	<u>106,205</u>	<u>401,510</u>	<u>3,063,684</u>	<u>2,784,418</u>
<i>As at December 31, 2019</i>							
Trade and bills payables	–	572,559	–	–	–	572,559	572,559
Other payables and accruals	–	434,976	21,220	6,375	–	462,571	462,571
Amounts due to related parties	–	157	–	–	–	157	157
Bank and other borrowings:							
Fixed-rate	3.35 to 6.00	693,206	112,815	–	–	806,021	780,830
Variable-rate	4.57 to 5.46	1,075,108	440,209	621,351	–	2,136,668	2,001,775
Lease liabilities	4.89 to 5.15	32,656	31,289	84,880	420,931	569,756	325,717
Other liabilities	5.30	12,750	7,500	22,500	–	42,750	38,164
		<u>2,821,412</u>	<u>613,033</u>	<u>735,106</u>	<u>420,931</u>	<u>4,590,482</u>	<u>4,181,773</u>

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	Weighted average interest rate	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>As at June 30, 2020</i>							
Trade and bills payables	–	1,321,577	–	–	–	1,321,577	1,321,577
Other payables and accruals	–	948,047	11,174	8,001	–	967,222	967,222
Amounts due to related parties	–	100,321	–	–	–	100,321	100,321
Bank and other borrowings:							
Fixed-rate	3.70 to 6.53	2,720,587	257,606	177,961	–	3,156,154	2,959,689
Variable-rate	3.75 to 5.46	1,007,203	486,479	846,847	106,436	2,446,965	2,316,039
Lease liabilities	4.89 to 5.21	83,272	73,250	213,824	1,512,401	1,882,747	952,302
Other liabilities	5.3	7,500	7,500	15,000	–	30,000	26,409
		<u>6,188,507</u>	<u>836,009</u>	<u>1,261,633</u>	<u>1,618,837</u>	<u>9,904,986</u>	<u>8,643,559</u>

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

45. FAIR VALUE MEASUREMENTS

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

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

Fair value hierarchy			
Level 1	Level 2	Level 3	Total
RMB'000	RMB'000	RMB'000	RMB'000
<i>As at December 31, 2017</i>			
<u>Assets</u>			
Biological assets:			
Calves and heifers (<i>Note (a)</i>)	–	649,174	649,174
Milkable cows (<i>Note (b)</i>)	–	1,192,842	1,192,842
Feeder cattle (<i>Note (c)</i>)	–	964	964
	<u>–</u>	<u>1,842,980</u>	<u>1,842,980</u>

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	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2018				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	1,010,321	1,010,321
Milkable cows (Note (b))	–	–	1,596,129	1,596,129
Feeder cattle (Note (c))	–	–	1,629	1,629
Bills receivables at FVTOCI (Note (e))	–	–	27,147	27,147
	–	–	2,635,226	2,635,226
As at December 31, 2019				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	1,094,787	1,094,787
Milkable cows (Note (b))	–	–	2,228,130	2,228,130
Feeder cattle (Note (c))	–	–	12,070	12,070
Bills receivables at FVTOCI (Note (e))	–	–	75,679	75,679
	–	–	3,410,666	3,410,666
As at June 30, 2020				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	2,232,634	2,232,634
Milkable cows (Note (b))	–	–	4,119,619	4,119,619
Feeder cattle (Note (c))	–	–	22,051	22,051
Breeding stock (Note (d))	–	–	78,822	78,822
Bills receivables at FVTOCI (Note (e))	–	–	59,916	59,916
Equity instruments at FVTOCI (Note (f))	–	–	55,513	55,513
	–	–	6,568,555	6,568,555

There were no transfers between Level 1 and 2 during the Track Record Period and there were no transfers into or out of Level 3 during the Track Record Period.

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Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(a)	Biological assets – Calves and heifers	The fair value of 14 months old heifers is determined by reference to the local market selling price. 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. 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.	Estimated local market selling prices of the heifers of 14 months old are ranging from RMB17,000 to RMB18,900, RMB17,000 to RMB19,000, RMB18,500 and RMB18,500 per head as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Estimated feeding costs per head plus margin that would normally be required by a raiser for calves and heifers younger than 14 months old (i.e. from born to 14 months) are ranging from RMB16,717 to RMB18,811, RMB16,184 to RMB18,474, RMB16,183 to RMB18,287 and RMB15,846 to RMB16,182 as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. 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 RMB13,507 to RMB16,964, RMB10,876 to RMB13,365, RMB12,210 to RMB15,517 and RMB11,203 to RMB12,731 as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.	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. 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.

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Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(b)	Biological assets – Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	Estimated feed costs per kg of raw milk used in the valuation process are ranging from RMB1.99 to RMB2.72, RMB2.06 to RMB2.97, RMB2.06 to RMB2.81, RMB2.01 to RMB2.56 for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020, respectively, based on the historical average feed costs per kg of raw milk after taking into consideration of inflation. A milkable cow could have as many as six lactation cycles. Estimated daily milk yield at each lactation cycle is ranging from 25.70kg to 28.96kg, 18.09kg to 29.02kg, 19.86kg to 30.49kg, 17.45kg to 31.17kg for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020, depending on the number of the lactation cycles and the individual physical condition. Estimated local future market prices for raw milk are ranging from RMB3,650 to RMB5,870 per tonne, RMB3,860 to RMB5,670 per tonne, RMB4,080 to RMB5,620 per tonne, and RMB3,830 to RMB5,670 per tonne as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Discount rate for estimated future cash flows used is 13%, 13%, 13% and 13% as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.	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. 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. 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. An increase in the estimated discount rate used would result in a decrease in the fair value measurement of milkable cows, and vice versa.

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Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(c)	Biological assets – Feeder cattle	Feeder cattle includes bull calves and beef cattle. The fair value of 15 days bull calf is determined by reference to the local market selling price. 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. The fair value of beef cattle is determined by reference to the local market selling price subtracting the estimated feeding costs to selling date.	Estimated local market selling prices of the 15 days bull calf are RMB2,535, RMB3,015, RMB4,201 and RMB5,058 per head as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Estimated feeding costs per head daily for bull calves are RMB9.15, RMB10.10, RMB15.88 and RMB20.26 for the years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020, respectively. Estimated local market selling prices of the beef cattle are RMB8,175, RMB8,462, RMB18,373 and RMB18,005 per head as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.	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. 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. An increase in the estimated local market selling prices of beef cattle used would result in an increase in the fair value measurement of beef cattle, and vice versa.

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Notes	Assets	Valuation technique(s) input(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.	The estimated feed costs per day per bull used in the valuation process are RMB37 for the six months ended June 30, 2020 based on the historical average feed costs per day of breeding stock after taking into consideration of inflation. Estimated local future market prices for sex-sorting frozen bovine semen are RMB141.58 per straw as at June 30, 2020. Estimated local future market prices for conventional frozen bovine semen are RMB20.89 per straw as at June 30, 2020. Discount rate for estimated future cash flow used is 13% as at June 30, 2020.	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. An increase in the estimated selling price of frozen dairy bovine semen used would result in an increase in the fair value measurement of breeding stock, and vice versa. An increase in the estimated discount rate used would result in a decrease in the fair value measurement of breeding stock, and vice versa.
(e)	Bills receivables at FVTOCI	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bills receivables.	Discount rate is 4.80%, 3.35% to 3.91% and 4.84% as at December 31, 2018 and 2019 and June 30, 2020, respectively.	An increase in discounted rate would result in a decrease in the fair value measurement of the financial assets at FVTOCI, and vice versa.
(f)	Equity instruments at FVTOCI	Market approach	Fair value is estimated based on value of comparable listed companies and discounted for lack of liquidity.	An increase in the discount of fair value for lack of liquidity would result in a decrease in the fair value measurement of the unquoted equity investments.

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Reconciliation of Level 3 fair value measurements

The reconciliations for biological assets are set out in Note 22. The reconciliations for financial assets under Level 3 fair value measurements are as follows:

	Bills receivables at FVTOCI	Equity instruments at FVTOCI	Total
	<i>RMB’000</i> <i>(Note 27)</i>	<i>RMB’000</i> <i>(Note 24)</i>	<i>RMB’000</i>
At January 1, 2017 and December 31, 2017	–	–	–
Reclassification and remeasurement of bills receivables from amortised cost to fair value upon adoption of IFRS 9 <i>(Note 3)</i>	36,209	–	36,209
At January 1, 2018	36,209	–	36,209
Purchases	27,147	–	27,147
Settlements	(36,209)	–	(36,209)
At December 31, 2018	27,147	–	27,147
Purchases	75,679	–	75,679
Settlements	(27,147)	–	(27,147)
At December 31, 2019	75,679	–	75,679
Purchases	59,916	–	59,916
Settlements	(75,679)	–	(75,679)
Acquisition of subsidiaries <i>(Note 42)</i>	–	46,688	46,688
Fair value changes during the period	–	8,825	8,825
At June 30, 2020	59,916	55,513	115,429

The fair value changes for equity instruments at FVTOCI during the six months ended June 30, 2020 is reported as changes of “Investment revaluation reserve”. No gain or loss relating to bills receivables at FVTOCI has been recognised during the Track Record Period.

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

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

46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Historical Financial Information, 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, during the Track Record Period.

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Transactions with Yili Group

	<i>Notes</i>	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Sales of raw milk to Yili Group	(a)	2,053,158	2,393,105	2,845,380	1,338,277	3,067,087
Sales of consumables to Yili Group	(a)	206	70	–	–	–
Purchase of raw materials from Yili Group	(a)	18,057	8,878	14,704	5,581	11,436
Purchase of property, plant and equipment from Yili Group	(a)	16,092	–	–	–	–
Interest expense to Yili Group	(b)	1,062	3,942	–	–	–
Advance from Yili Group	(b)	200,000	300,000	–	–	–

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) During the years ended December 31, 2017 and 2018, short term loans were advanced from Yili Group which were unsecured, bore interest at 5.5% per annum and fully repaid before December 31, 2018.

Balances with Yili Group

	<i>Notes</i>	As at December 31,			As at
		2017	2018	2019	June 30,
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
Amounts due from related parties:					<i>RMB'000</i>
Trade receivables from Yili Group	(d)	95,237	128,571	142,892	345,349
Prepayments to Yili Group	(e)	508	–	2,627	–
		95,745	128,571	145,519	345,349
Amounts due to related parties:					
Trade payables to Yili Group	(f)	38	57	81	–
Deposits received from Yili Group	(g)	–	–	22	100,273
Current account balances with Yili Group	(h)	3	15	54	48
		41	72	157	100,321

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Notes:

- (d) The trade receivables mainly related to the sale of raw milk to Yili Group. Details of which are set out in Note 26.
- (e) The balance represents prepayments to Yili Group for the purchase of raw materials.
- (f) The trade payables related to the purchase of raw materials from Yili Group, which aged within one year at the end of each reporting period.
- (g) The balance represents deposits received in respect of the sale of raw milk to Yili Group which is expected to be recognised as revenue within one year.
- (h) The balances are non-trade in nature, unsecured, interest-free and no fixed terms of repayment.

Settlement arrangements with Yili Group

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Trade receivables from the sale of feeds settled on behalf by Yili Group	2,337,243	929,130	693,475	339,884	188,872

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

Compensation to key management personnel

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

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and allowances	4,548	5,840	5,462	1,118	1,841
Retirement benefit scheme contributions	207	259	172	94	52
	4,755	6,099	5,634	1,212	1,893

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47. NOTES TO COMBINED STATEMENTS OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group’s combined statement of cash flows as cash flows from financing activities.

	Lease liabilities	Bank and other borrowings	Other liabilities	Total
	RMB'000 (Note 36)	RMB'000 (Note 34)	RMB'000 (Note 37)	RMB'000
At January 1, 2017	103,753	841,117	–	944,870
Financing cash flows	(17,414)	314,111	–	296,697
Finance costs	4,760	46,367	–	51,127
At December 31, 2017	91,099	1,201,595	–	1,292,694
Financing cash flows	(47,817)	466,772	–	418,955
New leases entered	272,237	–	–	272,237
Finance costs	8,444	73,647	–	82,091
At December 31, 2018	323,963	1,742,014	–	2,065,977
Financing cash flows	(70,937)	949,174	–	878,237
New leases entered	72,587	–	–	72,587
Transfer from other liabilities	–	–	38,164	38,164
Finance costs	16,717	91,417	–	108,134
Early termination of lease agreements	(16,613)	–	–	(16,613)
At December 31, 2019	325,717	2,782,605	38,164	3,146,486
Financing cash flows	(55,352)	315,804	(12,750)	247,702
New leases entered	354,745	–	–	354,745
Finance costs	23,290	128,160	995	152,445
Early termination of lease agreements	(79)	–	–	(79)
Acquisition of subsidiaries (Note 42)	303,981	2,049,159	–	2,353,140
At June 30, 2020	952,302	5,275,728	26,409	6,254,439
At January 1, 2019	323,963	1,742,014	–	2,065,977
Financing cash flows	(36,006)	(140,717)	–	(176,723)
New leases entered	30,896	–	–	30,896
Finance costs	7,959	41,721	–	49,680
Early termination of lease agreements	(861)	–	–	(861)
At June 30, 2019 (unaudited)	325,951	1,643,018	–	1,968,969

Major non-cash transactions

Lease liabilities for lands, properties and machinery and equipment with a total amount of nil, RMB272,237,000, RMB72,587,000 and RMB354,745,000 were recognised and the corresponding amount of nil, RMB272,237,000, RMB72,587,000 and RMB354,745,000 were adjusted to right-of-use assets during the years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020, respectively.

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48. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group’s overall strategy remains unchanged during the Track Record Periods.

The capital structure of the Group consists of net debt, which included bank and other borrowings as disclosed in Note 34, net of bank balances and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves as disclosed in the combined statements of changes in equity.

The management of the Group review the capital structure on a continuous basis. The Group considers the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

49. CAPITAL COMMITMENTS

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

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB’000	RMB’000	RMB’000	2020
Capital expenditures in respect of acquisition of property, plant and equipment: contracted but not provided for	156,932	545,302	664,055	515,176

50. CONTINGENT LIABILITIES

Apart from an ongoing litigation for which provision has been made (Note 38), at the end of each reporting period, the Group had no significant contingent liability.

51. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

At the date of report, the Company has direct and indirect shareholders/equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Equity interest attributable to the Group as at				Date of this report	Principal activities	Notes
				December 31,			June 30,			
				2017	2018	2019	2020			
				%	%	%	%	%		
Yogurt Holding II Limited	March 18, 2015 British Virgin Island (“BVI”)	BVI	US\$1.00	100	100	100	100	[100]	Investment holding	(a)
Yogurt Holding I (HK) Limited	April 9, 2015 Hong Kong	Hong Kong	HK\$1.00	100	100	100	100	[100]	Investment holding	(a)
內蒙古優然牧業有限責任公司 (Inner Mongolia Youran Dairy Co., Ltd.*)	August 1, 2007 PRC	PRC	RMB2,500,000,000	100	100	100	100	[100]	Investment holding, raising and breeding dairy cows, and raw milk production	(d)

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Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Equity interest attributable to the Group as at					Principal activities	Notes
				December 31,			June 30, 2020	Date of this report		
				2017	2018	2019				
				%	%	%	%	%		
內蒙古牧泉元興飼料有限責任公司 (Inner Mongolia Muquan Yuanxing Fodder Co., Ltd.*) (“Muquan Yuangxing Fodder”)	July 30, 2000 PRC	PRC	RMB136,000,000	100	100	100	100	[100]	Production and sales of feeds	(b)
內蒙古盛德和泰商貿有限責任公司 (Inner Mongolia Shengde Hetai Business Co., Ltd.*)	November 11, 2014 PRC	PRC	RMB5,000,000	100	100	100	100	[100]	Trading of feeds	(b)
內蒙古伊禾綠錦農業發展有限公司 (Inner Mongolia Yihe Lvjin Agriculture Development Co., Ltd.*)	March 24, 2014 PRC	PRC	RMB100,000,000	100	100	100	100	[100]	Planting of feeds	(c)
American Western Prataculture Corp. (美國西部草業有限公司)	August 16, 2018 Delaware, United States of America	United States of America	–	N/A	100	100	100	[100]	Inactive	(k)
呼倫貝爾市優然牧業有限責任公司 (Hulun Buir Youran Dairy Co., Ltd.*)	December 22, 2008 PRC	PRC	RMB30,000,000	100	100	N/A	N/A	N/A	Raising and breeding dairy cows, and raw milk production	(e)
成都優然牧業有限責任公司 (Chengdu Youran Dairy Co., Ltd.*)	June 17, 2009 PRC	PRC	RMB136,000,000	100	100	100	100	[100]	Raising and breeding dairy cows and raw milk production	(c)
合肥優然牧業有限責任公司 (Hefei Youran Dairy Co., Ltd.*)	January 26, 2010 PRC	PRC	RMB136,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(a)
黃岡優然牧業有限責任公司 (Huanggang Youran Dairy Co., Ltd.*)	June 3, 2006 PRC	PRC	RMB226,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(a)
錫林浩特市優然牧業有限責任公司 (Xilin Hot Youran Dairy Co., Ltd.*)	June 12, 2010 PRC	PRC	RMB222,000,000	100	100	100	100	[100]	Raising and breeding dairy cows and raw milk production	(a)
吳忠優然牧業有限責任公司 (Wuzhong Youran Dairy Co., Ltd.*)	September 20, 2010 PRC	PRC	RMB74,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(d)

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Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Equity interest attributable to the Group as at					Principal activities	Notes
				December 31,			June 30, 2020	Date of this report		
				2017	2018	2019				
				%	%	%	%	%		
肇東市長青畜牧有限公司 (Zhaodong Chang Qing Livestock Co., Ltd.*)	January 26, 2011 PRC	PRC	RMB191,500,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(c)
南京優然牧業有限責任公司 (Nanjing Youran Dairy Co., Ltd.*)	January 17, 2011 PRC	PRC	RMB67,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(c)
林甸優然牧業有限責任公司 (Lindian Youran Dairy Co., Ltd.*)	April 25, 2013 PRC	PRC	RMB472,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(d)
銅川優然牧業有限責任公司 (Tongchaun Youran Dairy Co., Ltd.*)	May 24, 2012 PRC	PRC	RMB131,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(c)
張北中都畜牧有限責任公司 (Zhangbei Zhong Du Livestock Co., Ltd.*)	January 14, 2014 PRC	PRC	RMB33,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(c)
達拉特旗優然牧業有限責任公司 (Dalad Banner Youran Dairy Co., Ltd.*)	April 16, 2014 PRC	PRC	RMB286,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(d)
杜爾伯特蒙古自治縣中都畜牧有限責任公司 (Duerbote Mongolia Autonomous County Zhongdu Livestock Co., Ltd.*)	June 5, 2014 PRC	PRC	RMB124,000,000	100	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(c)
濟南優然牧業有限責任公司 (Jinan Youran Dairy Co., Ltd.*)	March 27, 2018 PRC	PRC	RMB100,000,000	N/A	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(h)
阜新優然牧業有限責任公司 (Fuxin Youran Dairy Co., Ltd.*)	April 13, 2018 PRC	PRC	RMB114,000,000	N/A	100	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(h)
平頂山優然牧業有限責任公司 (Pingdingshan Youran Dairy Co., Ltd.*)	May 16, 2019 PRC	PRC	RMB125,000,000	N/A	N/A	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(g)

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Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Equity interest attributable to the Group as at					Principal activities	Notes
				December 31,			June 30, 2020	Date of this report		
				2017	2018	2019				
				%	%	%	%	%		
呼倫貝爾優然牧業示範牧場有限公司 (Hulunbeier YouRan Dairy Co., Ltd.*)	May 17, 2019 PRC	PRC	RMB125,000,000	N/A	N/A	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(g)
武威市優然牧業有限公司 (Wuwei Youran Diary Co., Ltd.*)	September 20, 2019 PRC	PRC	RMB2,000,000	N/A	N/A	100	100	[100]	Raising and breeding dairy cows, and raw milk production	(g)
杜爾伯特牧泉元興飼料有限公司 (Duerbote Muquan Yuanxing Fodder Co., Ltd.*)	June 13, 2003 PRC	PRC	RMB5,400,000	100	100	100	100	[100]	Production and sales of feeds	(b)
保定伊和生物科技有限责任公司 (Baoding Yihe Bio-Technology Co., Ltd.*)	April 21, 2015 PRC	PRC	RMB10,000,000	100	100	100	100	[100]	Production and sales of feeds	(b)
寧夏伊康元生物科技有限公司 (Ningxia Yikangyuan Bio-Technology Co., Ltd.*) (“Ningxia Bio-Technology”)	April 28, 2015 PRC	PRC	RMB80,000,000	100	100	100	100	[100]	Production and sales of feeds	(d)
山東牧泉元興生物科技有限责任公司 (Shandong Bio-Technology Co., Ltd.*)	March 27, 2019 PRC	PRC	RMB50,000,000	N/A	N/A	100	100	[100]	Production and sales of feeds	(g)
大慶牧泉元興生物科技有限责任公司 (Daqing Bio-Technology Co., Ltd.*)	June 18, 2019 PRC	PRC	RMB40,000,000	N/A	N/A	100	100	[100]	Production and sales of feeds	(g)
烏蘭察布市牧泉元興飼料有限公司 (Wulanchabu Bio-Technology Co., Ltd.*) (“Wulanchabu Bio-Technology”)	July 31, 2018 PRC	PRC	RMB60,000,000	N/A	100	100	100	[100]	Production and sales of feeds	(f)
巴彥淖爾市牧泉元興飼料有限公司 (Bayinnaoer Bio-Technology Co., Ltd.*) (“Bayinnaoer Bio-Technology”)	July 24, 2019 PRC	PRC	RMB35,000,000	N/A	N/A	100	100	[100]	Production and sales of feeds	(g)
SKX (as defined in Note 42)	July 31, 2006 PRC	PRC	RMB918,600,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production, and production and sale of frozen bovine semen	(i)

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Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Equity interest attributable to the Group as at					Principal activities	Notes
				December 31,			June 30, 2020	Date of this report		
				2017	2018	2019				
				%	%	%	%	%		
內蒙古賽科星牧業有限公司 (Inner Mongolia SK Xing Dairy Limited*)	April 18, 2013 PRC	PRC	RMB88,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
內蒙古犏騰牧業有限公司 (Inner Mongolia Benteng Dairy Limited*)	November 18, 2011 PRC	PRC	RMB560,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
寧夏賽科星養殖有限責任公司 (Ningxia SK Xing Breeding Co. Ltd.*) (“Ningxia SKX”)	September 11, 2013 PRC	PRC	RMB74,200,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
鄂爾多斯市賽科星養殖有限責任公司 (Ordos SK Xing Breeding Co. Ltd.*) (“Ordos SKX”)	October 12, 2013 PRC	PRC	RMB50,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
鄂托克旗賽優牧業有限公司 (Etuokeqi Saiyou Dairy Limited*) (“Etuokeqi Saiyou”)	July 21, 2015 PRC	PRC	RMB45,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
內蒙古北方聯牛農牧業股份有限公司 (Inner Mongolia Northern Lianiu Agriculture and Dairy Co. Ltd.*)	August 27, 2012 PRC	PRC	RMB190,977,100	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
北京海華雲都生態農業有限公司 (Beijing Haihuayundu Ecological Agriculture Co. Ltd.*) (“Beijing Haihuayundu”)	January 14, 2011 PRC	PRC	RMB477,188,074	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
呼倫貝爾市賽優牧業有限公司 (Hulun Buir Saiyou Dairy Co. Ltd.*) (“Hulun Buir Saiyou”)	November 24, 2014 PRC	PRC	RMB210,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)

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Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Equity interest attributable to the Group as at					Principal activities	Notes
				December 31,			June 30, 2020	Date of this report		
				2017	2018	2019				
				%	%	%	%	%		
河北犇放牧業有限公司 (Hebei Benfang Dairy Limited*)	April 24, 2014 PRC	PRC	RMB240,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
滄州賽科星牧業有限公司 (Cangzhou SK Xing Dairy Limited*) (“Cangzhou SKX”)	July 1, 2015 PRC	PRC	RMB40,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
定州市賽科星伊人牧業有限公司 (Dingzhou SK Xing Yiren Dairy Limited*) (“Dingzhou SKX”)	June 16, 2015 PRC	PRC	RMB41,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
達拉特旗賽優牧業有限公司 (Dalateqi Saiyou Dairy Limited*) (“Dalateqi Saiyou”)	March 24, 2017 PRC	PRC	RMB100,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
武強賽優牧業有限公司 (Wuqiang Saiyou Dairy Limited*)	October 15, 2015 PRC	PRC	RMB51,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
華夏畜牧興化有限公司 (Huaxia Livestock Xinghua Limited*) (“Huaxia Xinghua”)	January 2, 2014 PRC	PRC	RMB462,457,540	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
濟源市賽科星牧業有限公司 (Jiyuan SK Xing Dairy Limited*) (“Jiyuan SKX”)	January 20, 2015 PRC	PRC	RMB66,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)
尋甸賽優牧業有限公司 (Xundian Saiyou Dairy Limited*) (“Xundian Saiyou”)	July 5, 2016 PRC	PRC	RMB80,000,000	N/A	N/A	N/A	57.49	[57.49]	Raising and breeding dairy cows, and raw milk production	(j)

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Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Equity interest attributable to the Group as at					Date of this report	Principal activities	Notes	
				December 31,			June 30, 2020					
				2017	2018	2019						
				%	%	%	%	%				
內蒙古賽科星家畜種業與繁育生物技術研究院有限公司 (Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd.*)	April 28, 2015 PRC	PRC	RMB48,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding of livestock, and cloning technology development	(j)		
內蒙古賽科星精源科技有限公司 (Inner Mongolia SK Xing Jingyuan Technology Company Limited*)	June 12, 2017 PRC	PRC	RMB10,000,000	N/A	N/A	N/A	58.36	[58.36]	Trading of frozen bovine semen	(j)		
承德賽優牧業有限公司 (Chengde Saiyou Dairy Co., Ltd.*)	February 12, 2019 PRC	PRC	RMB40,000,000	N/A	N/A	N/A	58.36	[58.36]	Raising and breeding dairy cows, and raw milk production	(j)		
呼倫貝爾賽科星牧業有限責任公司 (Hulun Buir SK Xing Dairy Co. Ltd.*)	April 13, 2020 PRC	PRC	–	N/A	N/A	N/A	100	[100]	Inactive	(j)/(l)		

* The English name of the Chinese company marked with “*” are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

All the companies comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

Notes:

- No statutory financial statements for each of the years ended December 31, 2017, 2018 and 2019 as there was no requirement to issue audited financial statements by local authorities.
- The statutory financial statements for each of the years ended December 31, 2017, 2018 and 2019 were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC (the “PRC GAAP”) and audited by Da Hua Certified Public Accountants LLP, Inner Mongolia Branch, certified public accountants registered in the PRC (“Da Hua CPA”).
- No statutory financial statements for each of the years ended December 31, 2017 and 2018 as there was no requirements to issue audited financial statements by local authorities. The financial statements for the year ended December 31, 2019 were prepared in accordance with the PRC GAAP and audited by Da Hua CPA.
- No statutory financial statements for the year ended December 31, 2017 as there was no requirements to issue audited financial statements by local authorities. The financial statements for each of the years ended December 31, 2018 and 2019 were prepared in accordance with the PRC GAAP and audited by Da Hua CPA.
- No statutory financial statements for each of the years ended December 31, 2017 and 2018 as there was no requirements to issue audited financial statements by local authorities. This entity was deregistered in September 2019.

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- (f) No statutory financial statements for the period from date of establishment to December 31, 2018 and for the year ended December 31, 2019 as there was no requirements to issue audited financial statements by local authorities.
- (g) No statutory financial statements for the period from date of establishment to December 31, 2019 as there was no requirements to issue audited financial statements by local authorities.
- (h) No statutory financial statements for the period from date of establishment to December 31, 2018 as there was no requirements to issue audited financial statements by local authorities. The financial statements for the year ended December 31, 2019 were prepared in accordance with the PRC GAAP and audited by Da Hua CPA.
- (i) The Group acquired 58.36% equity interests in SKX in January 2020 (see Note 42).
- (j) These entities are subsidiaries of SKX.
- (k) No capital has been injected to this entity up to the date of this report. No statutory financial statements for the period from date of incorporation to December 31, 2018 and for the year ended December 31, 2019 as there was no requirements to issue audited financial statements by local authorities.
- (l) No capital has been injected to this entity up to the date of this report.
- (m) None of the subsidiaries has issued any debt securities as at December 31, 2017, 2018 and 2019 and June 30, 2020.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiary	Place of establishment and operations	Proportion of interests and voting rights held by non-controlling interests at June 30, 2020	Profit allocated to non-controlling interests for the six months ended June 30, 2020	Accumulated non-controlling interests at June 30, 2020
			<i>RMB'000</i>	<i>RMB'000</i>
SKX Group	The PRC	41.64%	12,810	1,047,346

Summarised financial information in respect of the Group’s subsidiaries that has material non-controlling interests is set out below.

	As at June 30, 2020
	<i>RMB'000</i>
Current assets	861,658
Non-current assets	5,530,165
Current liabilities	(2,880,423)
Non-current liabilities	(997,562)
Net assets	2,513,838
Equity attributable to owners of the Company	1,466,492
Non-controlling interests of SKX Group	1,046,762
Non-controlling interests of SKX’s subsidiary	584
	2,513,838

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	From January 8, 2020 (date of acquisition of SKX Group) to June 30, 2020
	<i>RMB’000</i>
Revenue	1,017,182
Expenses	(986,336)
Profit for the period	30,846
Other comprehensive income	8,837
Total comprehensive income for the period	39,683
Profit for the period attributable to:	
Owners of the Company	18,036
Non-controlling interests of SKX Group	12,810
	30,846
Total comprehensive income for the period attributable to:	
Owners of the Company	23,193
Non-controlling interests of SKX Group	16,490
	39,683
Net cash inflows/(outflows) from:	
Operating activities	377,254
Investing activities	(297,095)
Financing activities	60,030
	140,189

52. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, events and transactions took place subsequent to June 30, 2020 are detailed as below:

- (a) On August 21, 2020, the Company was incorporated as an exempted company with limited liability under the laws of Cayman Islands with an authorised share capital of US\$100,000 divided into 10,000,000,000 ordinary shares of US\$0.00001 each. On October 27, 2020, the Company has become the holding company of the companies now comprising the Group upon the completion of the Reorganisation as detailed in Note 2.
- (b) On October 3, 2020, an agreement for sale and purchase of equity interests in Fonterra (Ying) Dairy Farm Co., Ltd. and Fonterra (Yutian) Dairy Farm Co., Ltd. (collectively the “Fonterra China Farms Group”) was signed between the Group and Fonterra Tangshan Dairy Farm (HK) Limited (“Fonterra HK”), the existing shareholder of Fonterra China Farms Group whereby the Group has agreed to acquire the entire equity interests in Fonterra China Farms Group from Fonterra HK for an aggregate consideration of RMB2,310 million subject to certain adjustments. [The acquisition has not been completed at the date of this report.]

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- (c) In November 2020, convertible notes (the “Notes”) with an aggregate principal amount of US\$460 million was issued to several [REDACTED] investors (the “[REDACTED] Investors”). The 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 rate of cash interest is payable on the last day of each quarter in arrears commencing on December 31, 2020. The PIK Interest shall capitalise and be added into the then outstanding principal amount, whereupon PIK Interest shall accrue on the then outstanding principal amount plus any capitalised amount of PIK Interest at the same rate. Accrued and capitalised PIK Interest on any portion of the principal amount that is converted into ordinary shares of the Company shall be waived upon the completion of such conversion.

The [REDACTED] 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 Notes.

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

- (d) On 4 November 2020, the Company declared a dividend of US\$180,348,072 (approximately RMB1,182,957,000) to the equity shareholders of the Company.

53. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to June 30, 2020.

III. PRE-ACQUISITION FINANCIAL INFORMATION

As stated in Note 42 to the Historical Financial Information, on January 8, 2020, the Group acquired SKX Group.

The pre-acquisition consolidated financial information of SKX for the period from January 1, 2017 to January 7, 2020 (the “Pre-acquisition Period”) includes the financial information of SKX Group, for the Pre-acquisition Period and has been prepared in accordance with the accounting policies set out in Note 4, which conform with IFRSs issued by IASB.

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SUPPLEMENTARY PRE-ACQUISITION FINANCIAL INFORMATION FOR THE THREE YEARS ENDED DECEMBER 31, 2019 AND SEVEN DAYS ENDED JANUARY 7, 2020

	NOTES	Year ended December 31,			For the seven days ended January 7, 2020
		2017	2018	2019	
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	A	1,856,866	2,103,874	2,407,511	53,205
Cost of sales	E	(1,745,587)	(2,008,473)	(2,312,015)	(51,462)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	N	541,932	660,957	717,390	17,837
Gross profit before impairment loss on inventories		653,211	756,358	812,886	19,580
Impairment loss on inventories		–	(5,030)	(45,959)	(18)
Gross profit after impairment loss on inventories		653,211	751,328	766,927	19,562
Loss arising from changes in fair value less costs to sell of biological assets	N	(69,869)	(399,789)	(267,165)	(4,584)
Other income	B	64,170	30,599	29,752	203
Selling and distribution expenses		(84,020)	(79,617)	(89,364)	(1,687)
Administrative expenses		(83,373)	(100,233)	(141,008)	(4,025)
Other expenses	C	(23,544)	(5,362)	(16,148)	(85)
Share of (loss)/profit of a joint venture		(707)	109	215	–
Impairment loss under expected credit loss model, net of reversal	D(I)	–	(9,915)	(14,681)	(83)
Other gains and losses	D(II)	13,802	(4,565)	(18,419)	71
Finance costs	F	(131,136)	(129,444)	(141,064)	(2,800)
Profit before tax		338,534	53,111	109,045	6,572
Income tax (expense)/credit	G	(498)	(285)	192	–
Profit for the year/period	E	338,036	52,826	109,237	6,572
Other comprehensive income/(expense), net of income tax:					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Fair value (loss)/gain on investments in equity instruments at FVTOCI		–	(4,791)	11,148	–
<i>Items that may be reclassified subsequently to profit or loss</i>					
Exchange differences arising on translation of foreign investment		(62)	17	88	(3)
Other comprehensive (expense)/income, net of income tax		(62)	(4,774)	11,236	(3)
Total comprehensive income for the year/period		337,974	48,052	120,473	6,569
Profit/(loss) for the year/period attributable to:					
Owners of SKX		327,168	49,712	112,004	6,595
Non-controlling interests		10,868	3,114	(2,767)	(23)
Profit for the year/period		338,036	52,826	109,237	6,572
Total comprehensive income/(expense) for the year/period attributable to:					
Owners of SKX		327,106	44,938	123,240	6,592
Non-controlling interests		10,868	3,114	(2,767)	(23)
Total comprehensive income for the year/period		337,974	48,052	120,473	6,569
Earnings per share					
Basic (RMB)	J	0.37	0.05	0.12	0.01

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AS AT DECEMBER 31, 2017, 2018, 2019 AND JANUARY 7, 2020

	NOTES	As at December 31,			As at
		2017	2018	2019	January 7,
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Property, plant and equipment	<i>K</i>	2,099,409	2,220,605	2,289,212	2,285,832
Right-of-use assets	<i>L</i>	347,402	317,150	324,651	325,020
Investment properties	<i>M</i>	11,889	12,287	11,863	11,855
Intangible assets		1,083	909	737	733
Interests in a joint venture		306	431	733	733
Biological assets	<i>N</i>	2,334,637	2,541,223	2,746,839	2,751,180
Deferred tax assets	<i>O</i>	–	795	795	795
Prepayments for acquisition of property, plant and equipment and biological assets		–	–	2,234	2,234
Available-for-sale equity investments	<i>T</i>	73,050	–	–	–
Equity instruments at FVTOCI	<i>U</i>	–	35,540	46,688	46,688
		<u>4,867,776</u>	<u>5,128,940</u>	<u>5,423,752</u>	<u>5,425,070</u>
Current assets					
Inventories	<i>P</i>	517,896	528,191	672,044	679,430
Trade and bills receivables	<i>Q</i>	273,262	223,530	171,046	207,885
Prepayments, deposits and other receivables	<i>R</i>	23,164	32,672	29,752	32,933
Bank balances and cash	<i>S</i>	247,130	153,131	195,300	162,299
Pledged and restricted bank deposits	<i>S</i>	45,009	27,963	24,997	24,997
		<u>1,106,461</u>	<u>965,487</u>	<u>1,093,139</u>	<u>1,107,544</u>

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	NOTES	As at December 31,			As at
		2017	2018	2019	January 7,
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Current liabilities					
Trade and bills payables	V	681,678	928,743	1,256,423	1,304,917
Other payables and accruals	W	257,102	356,009	334,159	342,398
Contract liabilities	X	2,717	30,233	188,807	178,156
Income tax payable		498	246	17	16
Lease liabilities	AA	6,020	4,921	5,604	5,651
Bank borrowings	Y	976,402	1,148,799	1,090,647	1,052,992
Other provision	AC	–	–	13,346	13,346
		<u>1,924,417</u>	<u>2,468,951</u>	<u>2,889,003</u>	<u>2,897,476</u>
Net current liabilities		<u>(817,956)</u>	<u>(1,503,464)</u>	<u>(1,795,864)</u>	<u>(1,789,932)</u>
Total assets less current liabilities		<u>4,049,820</u>	<u>3,625,476</u>	<u>3,627,888</u>	<u>3,635,138</u>
Non-current liabilities					
Deferred income	Z	25,727	31,653	29,538	29,480
Lease liabilities	AA	302,394	285,308	297,616	298,330
Other liabilities	AB	9,820	3,460	660	660
Bank borrowings	Y	1,293,834	892,728	996,142	996,167
		<u>1,631,775</u>	<u>1,213,149</u>	<u>1,323,956</u>	<u>1,324,637</u>
Net assets		<u>2,418,045</u>	<u>2,412,327</u>	<u>2,303,932</u>	<u>2,310,501</u>
Capital and reserves					
Share capital	AD(I)	918,600	918,600	918,600	918,600
Reserves		<u>1,364,871</u>	<u>1,364,290</u>	<u>1,379,458</u>	<u>1,386,050</u>
Equity attributable to owners of SKX		<u>2,283,471</u>	<u>2,282,890</u>	<u>2,298,058</u>	<u>2,304,650</u>
Non-controlling interests		<u>134,574</u>	<u>129,437</u>	<u>5,874</u>	<u>5,851</u>
Total equity		<u>2,418,045</u>	<u>2,412,327</u>	<u>2,303,932</u>	<u>2,310,501</u>

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FOR THE THREE YEARS ENDED DECEMBER 31, 2019 AND SEVEN DAYS ENDED JANUARY 7, 2020

	Attributable to the owners of SKX									
	Share capital	Share premium	Other reserve	Translation reserve	Statutory Surplus reserve	FVTOCI reserve	(Accumulated losses)/ retained profits	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (note i)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017	840,500	570,209	(3,343)	223	45,225	—	(89,965)	1,362,849	127,691	1,490,540
Profit for the year	—	—	—	—	—	—	327,168	327,168	10,868	338,036
Other comprehensive expense for the year	—	—	—	(62)	—	—	—	(62)	—	(62)
Total comprehensive income (expense) for the year	—	—	—	(62)	—	—	327,168	327,106	10,868	337,974
Issue of ordinary shares (note ii)	78,100	515,416	—	—	—	—	—	593,516	—	593,516
Transfer to statutory surplus reserve	—	—	—	—	8,495	—	(8,495)	—	—	—
Dividends to non-controlling equity holders	—	—	—	—	—	—	—	—	(3,985)	(3,985)
At December 31, 2017	918,600	1,085,625	(3,343)	161	53,720	—	228,708	2,283,471	134,574	2,418,045
Adoption of IFRS 9	—	—	—	—	—	(32,819)	(5,952)	(38,771)	—	(38,771)
At January 1, 2018	918,600	1,085,625	(3,343)	161	53,720	(32,819)	222,756	2,244,700	134,574	2,379,274
Profit for the year	—	—	—	—	—	—	49,712	49,712	3,114	52,826
Other comprehensive income (expense) for the year	—	—	—	17	—	(4,791)	—	(4,774)	—	(4,774)
Total comprehensive income (expense) for the year	—	—	—	17	—	(4,791)	49,712	44,938	3,114	48,052
Transfer to statutory surplus reserve	—	—	—	—	16,540	—	(16,540)	—	—	—
Liquidation of subsidiaries (note iii)	—	—	(6,748)	—	—	—	—	(6,748)	(8,251)	(14,999)
At December 31, 2018	918,600	1,085,625	(10,091)	178	70,260	(37,610)	255,928	2,282,890	129,437	2,412,327
Profit (loss) for the year	—	—	—	—	—	—	112,004	112,004	(2,767)	109,237
Other comprehensive income for the year	—	—	—	88	—	11,148	—	11,236	—	11,236
Total comprehensive income (expense) for the year	—	—	—	88	—	11,148	112,004	123,240	(2,767)	120,473
Transfer to statutory surplus reserve	—	—	—	—	6,703	—	(6,703)	—	—	—
Acquisition of non-controlling interests (note iv)	—	—	(110,624)	—	—	—	—	(110,624)	(118,593)	(229,217)
Liquidation of a subsidiary (note v)	—	—	2,552	—	—	—	—	2,552	(2,203)	349
At December 31, 2019	918,600	1,085,625	(118,163)	266	76,963	(26,462)	361,229	2,298,058	5,874	2,303,932
Profit (loss) for the period	—	—	—	—	—	—	6,595	6,595	(23)	6,572
Other comprehensive expense for the period	—	—	—	(3)	—	—	—	(3)	—	(3)
Total comprehensive income (expense) for the period	—	—	—	(3)	—	—	6,595	6,592	(23)	6,569
At January 7, 2020	918,600	1,085,625	(118,163)	263	76,963	(26,462)	367,824	2,304,650	5,851	2,310,501

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Notes:

- (i) Pursuant to the relevant laws and regulations in PRC, PRC companies with limited liability are required to make annual appropriations of 10% of after-tax profits prepared in accordance with generally accepted accounting principles in the PRC to its statutory surplus reserve until the balance reaches 50% of the relevant PRC entity’s registered capital. The statutory surplus reserve can be used to make up previous years’ losses, expand the existing operations or convert into additional capital of the respective entities.
 - (ii) On June 10, 2017, SKX issued 78,100,000 ordinary shares of RMB1.00 each to the individual shareholders (non-related to SKX Group) of Beijing Haihuayundu and Huaxia Xinghua in exchange for their 100% equity interests in these two companies. The difference of RMB515,460,000, being the fair value of shares issued of RMB593,560,000 and the par value of share capital issued of RMB78,100,000, is credited to share premium.
 - (iii) During the year ended December 31, 2018, a subsidiary, namely Heilongjiang Qiqihar Saiyou Dairy Limited* (黑龍江省齊齊哈爾市賽優牧業有限公司) (“Qiqihar Saiyou”) was liquidated and deregistered. The net asset value of RMB8,251,000 distributed to the non-controlling equity holder in excess of the carrying value of the non-controlling interests of RMB6,748,000 at the point of liquidation was debited to other reserve.
 - (iv) During the year ended December 31, 2019, SKX acquired additional 19.11% equity interest in a subsidiary: Ningxia SKX and additional 30% equity interests in the following subsidiaries: Etuoqeqi Saiyou, Ordos SKX, Hulun Buir Saiyou, Jiyuan SKX, Dingzhou SKX and Cangzhou SKX from non-controlling equity holders at aggregate cash considerations of RMB229,217,000. The differences of RMB110,624,000, being the aggregate considerations paid in excess of the carrying value of the non-controlling interests of RMB118,593,000, was debited to other reserve.
 - (v) During the year ended December 31, 2019, a subsidiary, namely Qinhuangdao Quannong Cow Breeding Co., Ltd* (秦皇島全農精牛繁育有限公司) was liquidated and deregistered. The net asset value of RMB2,203,000 was distributed to the non-controlling equity holder. RMB791,000 in excess of the carrying value of the non-controlling interests at the point of liquidation was debited to other reserve, together with a reverse of RMB3,343,000 resulting from the consideration paid in excess of the carrying value when SKX acquired the non-controlling interests of Qinhuangdao Quannong Cow Breeding Co., Ltd prior the Pre-acquisition Period.
- * The English name of the Chinese company marked with “*” are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

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FOR THE THREE YEARS ENDED DECEMBER 31, 2019 AND SEVEN DAYS ENDED JANUARY 7, 2020

	Year ended December 31,			For the seven days ended January 7, 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES				
Profit before tax	338,534	53,111	109,045	6,572
Adjustments for:				
Finance costs	131,136	129,444	141,064	2,800
Share of loss/(profit) of a joint venture	707	(109)	(215)	–
Recognition of impairment loss on trade and bills receivables	13,945	9,821	14,212	37
Recognition/(reversal) of impairment loss on other receivables	(1,160)	94	469	46
Impairment loss on inventories	–	5,030	45,959	18
Impairment loss on property, plant and equipment	–	1,224	–	–
Depreciation of property, plant and equipment	77,018	90,694	101,538	2,593
Depreciation of right-of-use assets	7,693	14,475	11,281	25
Depreciation of investment properties	66	420	424	8
Amortisation of intangible assets	173	173	173	3
Release of deferred income	(6,036)	(6,220)	(6,414)	(58)
Loss/(gain) on disposal of property, plant and equipment	696	1,824	2,671	(18)
Loss arising from changes in fair value less costs to sell of biological assets	69,869	399,789	267,165	4,584
Government grants credited to biological assets	(19,760)	(5,000)	(5,710)	–
Provision for litigation	–	–	13,346	–
Gain from bargain purchase of subsidiaries	(27,973)	–	–	–
Exchange loss	105	215	551	–
Operating cash flows before movements in working capital	585,013	694,985	695,559	16,610
Movements in working capital:				
Decrease/(increase) in inventories	118,432	60,936	(120,893)	(6,288)
(Increase)/decrease in trade and bills receivables	(13,107)	33,959	37,481	(36,873)
Decrease/(increase) in prepayments, deposits and other receivables	18,990	(11,182)	(188)	(1,693)
Increase in trade and bills payables	266,919	334,873	272,670	88,617
Decrease in other payables and accruals	(27,409)	(6,316)	(120,727)	(265)
Increase/(decrease) in contract liabilities	2,214	26,414	140,864	(10,671)
Cash generated from operations	951,052	1,133,669	904,766	49,437
Income taxes paid	–	(1,331)	(37)	–
NET CASH FROM OPERATING ACTIVITIES	951,052	1,132,338	904,729	49,437

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		Year ended December 31,			For the seven days ended January 7, 2020
	NOTES	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES					
Purchases of property, plant and equipment		(318,957)	(302,209)	(222,823)	(352)
Addition in biological assets		(814,491)	(942,320)	(895,890)	(58,471)
Acquisitions of subsidiaries	AD	48,695	—	—	—
Proceeds from disposal of a subsidiary		—	(118)	—	—
Proceeds from disposal of biological assets		189,481	331,237	537,950	16,324
Proceeds from disposal of property, plant and equipment		8,015	15,122	3,068	161
Withdrawal of pledged and restricted bank deposits		124,509	91,712	45,728	—
Placement of pledged and restricted bank deposits		(136,009)	(74,666)	(42,762)	—
Investment in equity instrument at FVTOCI		—	(100)	—	—
Government grants received related to biological assets and other non-current assets		26,005	17,146	10,009	—
NET CASH USED IN INVESTING ACTIVITIES		(872,752)	(864,196)	(564,720)	(42,338)
FINANCING ACTIVITIES					
Payment of dividend to non-controlling equity holders		(3,985)	—	—	—
Interest paid					
– of borrowings		(120,473)	(113,808)	(108,161)	(126)
– of lease liabilities		(9,932)	(15,302)	(15,480)	—
New bank borrowings raised		727,000	743,424	1,274,561	—
Repayment of borrowings		(617,705)	(972,126)	(1,229,456)	(39,974)
Repayment of lease liabilities		(14,614)	(3,718)	(10,203)	—
Payment of share issue costs		(44)	—	—	—
Payment of contingent considerations to non-controlling equity holders	AB	(2,500)	(600)	(2,800)	—
Acquisition of non-controlling interests		—	—	(206,295)	—
NET CASH USED IN FINANCING ACTIVITIES		(42,253)	(362,130)	(297,834)	(40,100)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		36,047	(93,988)	42,175	(33,001)
Effect of foreign exchange rate changes		211,213	247,130	153,131	195,300
		(130)	(11)	(6)	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		247,130	153,131	195,300	162,299
Represented by bank balances and cash					

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APPLICATION OF IFRSs

For the purpose of preparing the Historical Financial Information for the Pre-acquisition Period, SKX Group has consistently applied the IFRSs, that are effective for the financial years beginning from January 1, 2018 and 2019, including IFRS 15 and IFRS 16, throughout the Pre-acquisition Period, except that the SKX Group adopted IFRS 9 on January 1, 2018 and adopted IAS 39 prior to January 1, 2018.

Key changes in accounting policies resulting from application of IFRS 9 are set out as below.

The directors of SKX reviewed and assessed SKX Group’s financial assets and financial liabilities as at January 1, 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on SKX Group’s financial assets and financial liabilities and the impacts thereof are detailed below.

Summary of effects arising from initial application of IFRS 9

The table below shows information relating to financial assets that are measured as a result of transition to IFRS 9:

		Available-for- sale equity investments	Equity instruments at FVTOCI	Financial assets at amortized cost (previously classified as loans and receivables)	Retained profits
	Notes	RMB’000	RMB’000	RMB’000	RMB’000
Closing balance at December 31, 2017 – IAS 39		73,050	–	578,331	228,708
Reclassification					
From available-for-sale equity investments	(i)	(73,050)	73,050	–	–
Remeasurement					
From cost less impairment to fair value	(i)	–	(32,819)	–	–
Impairment under ECL model	(ii)	–	–	(5,952)	(5,952)
Opening balance at January 1, 2018		–	40,231	572,379	222,756

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(i) *Available-for-sale equity investments*

From Available-for-sale equity investments to FVTOCI

SKX Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB73,050,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, all of which related to unquoted equity investments previously measured at cost less impairment under IAS 39. The fair value losses of RMB32,819,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at January 1, 2018.

(ii) *Impairment under ECL model*

As at January 1, 2018, the additional credit loss allowance of RMB5,952,000, which is charged against trade and bills receivables, has been recognized against accumulated profits.

The loss allowance for trade and bills receivables as at December 31, 2017 reconciled to the beginning loss allowance as at January 1, 2018 is as follows:

	<u>Trade and bills receivables</u>
	<i>RMB’000</i>
At December 31, 2017 – IAS 39	273,262
Amounts remeasured through accumulated profits	(5,952)
At January 1, 2018 – IFRS 9	267,310

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A. REVENUE AND SEGMENT INFORMATION

Revenue

(i) Disaggregation of revenue from contracts with customers

Types of goods

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Revenue from sales of:				
– Raw milk	1,740,780	2,037,472	2,347,557	52,604
– Frozen bovine semen	116,086	66,402	59,954	601
	<u>1,856,866</u>	<u>2,103,874</u>	<u>2,407,511</u>	<u>53,205</u>

Timing of revenue recognition

A point in time	<u>1,856,866</u>	<u>2,103,874</u>	<u>2,407,511</u>	<u>53,205</u>

(ii) Performance obligations for contracts with customers

The principal activities of SKX Group are breeding dairy cows and bulls, raw milk production and sales and frozen bovine semen production and sales.

For sales of raw milk and frozen bovine semen, revenue is recognized when control of the goods has transferred, being at the point the goods are received and accepted by the customers. Payment of the transaction prices are determined based on agreed prices with customers. The normal credit term is 30 to 180 days upon delivery.

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

Sales of raw milk and frozen bovine semen are for periods of one year or less. As a practical expedient of IFRS 15, SKX Group need not to disclose the transaction price allocated to these unsatisfied contracts with customers that has an original expected duration of one year or less.

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Segment information

Segment results represent the profit earned by or loss incurred from each segment without changes in fair value less costs to sell of biological assets, share of profit/(loss) of a joint venture and other head office and corporate income and expenses that are not directly attributable to operating segments.

Information reported to the executive directors of SKX Group, being the chief operating decision makers (“CODM”), for the purposes of resources allocation and assessment of segment performance focuses on the type of goods delivered. No operating segment has been aggregated in arriving at the operating and reportable segments of SKX Group.

Specifically, SKX Group’s reportable segments under IFRS 8 Operating Segment are as follows:

- Raw milk business: raising and breeding dairy cows, and raw milk production.
- Comprehensive ruminant farming solution-breeding business: production and sales of frozen bovine semen.

Segment revenue and results

Year ended December 31, 2017

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Eliminations	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Segment revenue					
External sales	1,740,780	116,086	1,856,866	–	1,856,866
Inter-segment sales	–	16,787	16,787	(16,787)	–
	<u>1,740,780</u>	<u>132,873</u>	<u>1,873,653</u>	<u>(16,787)</u>	<u>1,856,866</u>
Segment results	<u>389,694</u>	<u>(13,586)</u>	<u>376,108</u>	<u>1,018</u>	<u>377,126</u>
Loss arising from changes in fair value less costs to sell of biological assets					(69,869)
Share of loss of a joint venture					(707)
Unallocated other gains and losses					27,818
Unallocated other income					<u>4,166</u>
Profit before tax					<u><u>338,534</u></u>

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Year ended December 31, 2018

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Eliminations	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Segment revenue					
External sales	2,037,472	66,402	2,103,874	–	2,103,874
Inter-segment sales	–	15,722	15,722	(15,722)	–
	<u>2,037,472</u>	<u>82,124</u>	<u>2,119,596</u>	<u>(15,722)</u>	<u>2,103,874</u>
Segment results	<u>504,017</u>	<u>(52,363)</u>	<u>451,654</u>	<u>(173)</u>	<u>451,481</u>
Loss arising from changes in fair value less costs to sell of biological assets					(399,789)
Share of profit of a joint venture					109
Unallocated other income					<u>1,310</u>
Profit before tax					<u><u>53,111</u></u>

Year ended December 31, 2019

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Eliminations	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Segment revenue					
External sales	2,347,557	59,954	2,407,511	–	2,407,511
Inter-segment sales	–	12,629	12,629	(12,629)	–
	<u>2,347,557</u>	<u>72,583</u>	<u>2,420,140</u>	<u>(12,629)</u>	<u>2,407,511</u>
Segment results	<u>462,466</u>	<u>(88,356)</u>	<u>374,110</u>	<u>1,279</u>	<u>375,389</u>
Loss arising from changes in fair value less costs to sell of biological assets					(267,165)
Share of profit of a joint venture					215
Unallocated other income					915
Unallocated other gains and losses					21
Unallocated finance cost					<u>(330)</u>
Profit before tax					<u><u>109,045</u></u>

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For the seven days ended January 7, 2020

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue					
External sales	52,604	601	53,205	–	53,205
Inter-segment sales	–	–	–	–	–
	<u>52,604</u>	<u>601</u>	<u>53,205</u>	<u>–</u>	<u>53,205</u>
Segment results	<u>12,262</u>	<u>(905)</u>	<u>11,357</u>	<u>–</u>	<u>11,357</u>
Loss arising from changes in fair value less costs to sell of biological assets					(4,584)
Unallocated other income					12
Unallocated finance cost					<u>(213)</u>
Profit before tax					<u><u>6,572</u></u>

Inter-segment elimination represents the elimination of sales of frozen bovine semen from comprehensive ruminant farming solution-breeding business segment to raw milk business segment.

Segment revenue of comprehensive ruminant farming solution-breeding business segment included inter-segment revenue of RMB16,787,000, RMB15,722,000, RMB12,629,000 and nil during each of the Pre-acquisition Period, which are charged at prevailing market rates between comprehensive ruminant farming solution-breeding business segment and raw milk business segment.

Segment assets and segment liabilities

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

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Other segment information

Amounts included in the measure of segment results:

Year ended December 31, 2017

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	72,920	7,252	80,172	4,778	84,950
Impairment loss of trade receivables, net	9	13,936	13,945	–	13,945
Impairment loss of other receivables, net	(538)	(622)	(1,160)	–	(1,160)
Loss on disposal of property, plant and equipment	522	19	541	155	696
Finance costs	128,587	2,549	131,136	–	131,136
Bank interest income	(1,384)	(6)	(1,390)	(2,396)	(3,786)

Year ended December 31, 2018

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation charged to profit or loss	90,658	7,599	98,257	7,505	105,762
Impairment loss of trade receivables, net	2,371	7,450	9,821	–	9,821
Impairment loss of other receivables, net	87	7	94	–	94
Impairment loss of property, plant and equipment	–	1,224	1,224	–	1,224
Loss on disposal of property, plant and equipment	1,695	129	1,824	–	1,824
Impairment loss of inventories	–	5,030	5,030	–	5,030
Finance costs	124,639	4,805	129,444	–	129,444
Bank interest income	(740)	(5)	(745)	(1,280)	(2,025)

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Year ended December 31, 2019

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Unallocated	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	100,103	6,545	106,648	6,768	113,416
Impairment loss of trade receivables, net	6,530	7,682	14,212	–	14,212
Impairment loss of other receivables, net	290	179	469	–	469
Loss on disposal of property, plant and equipment	2,653	9	2,662	9	2,671
Impairment loss of inventories	–	45,959	45,959	–	45,959
Finance costs	136,040	4,694	140,734	330	141,064
Bank interest income	(308)	(3)	(311)	(785)	(1,096)

For the seven days ended January 7, 2020

	Raw milk business	Comprehensive ruminant farming solution- breeding business	Segment total	Unallocated	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	2,375	141	2,516	114	2,630
Impairment loss of trade receivables, net	–	37	37	–	37
Impairment loss of other receivables, net	46	–	46	–	46
Impairment loss of inventories	–	18	18	–	18
Gain on disposal of property, plant and equipment	(18)	–	(18)	–	(18)
Finance costs	2,551	36	2,587	213	2,800
Bank interest income	(17)	–	(17)	(12)	(29)

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Geographic information

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

Revenue from major customers

Revenue from the customers individually contributing over 10% of the total revenue of SKX Group during the Pre-acquisition Period is as follows:

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue from sales of raw milk:				
Customer A	684,390	826,587	2,106,631	50,158
Customer B	784,880	1,004,842	N/A ¹	N/A ¹

1 The corresponding revenue did not contribute over 10% of the total revenue of SKX Group for the relevant year/period.

No single customer contributed over 10% of SKX Group’s revenue from sale of frozen bovine semen during the Pre-acquisition Period.

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B. OTHER INCOME

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Government grants related to				
– Biological assets (<i>note i</i>)	19,760	5,000	5,710	–
– Property, plant and equipment (<i>note Z</i>)	3,740	4,479	3,810	51
– Research and development activities (<i>note Z</i>)	335	980	2,160	7
– Income (<i>note ii</i>)	14,716	10,949	3,613	–
	38,551	21,408	15,293	58
Income from sales of raw materials	20,276	2,522	8,775	8
Bank interest income	3,786	2,025	1,096	29
Rental income	1,450	4,613	4,202	80
Others	107	31	386	28
	64,170	30,599	29,752	203

Notes:

- i. These government grants are government subsidies received by SKX Group from relevant government bodies for the purpose of rewarding SKX Group for procurement of dairy cows. SKX Group recognizes the government grants when the grants are received.
- ii. These government grants are unconditional government subsidies received by SKX Group from relevant government bodies for the purpose of giving immediate financial support to SKX Group’s daily operation.

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C. OTHER EXPENSES

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cost of sales of raw materials	22,373	2,420	13,092	–
Depreciation of investment properties	66	420	424	8
Depreciation of right-of-use assets	1,043	2,396	2,232	50
Others	62	126	400	27
	<u>23,544</u>	<u>5,362</u>	<u>16,148</u>	<u>85</u>

D(I). IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Impairment losses recognized on:				
– Trade and bills receivables	–	(9,821)	(14,212)	(37)
– Other receivables	–	(94)	(469)	(46)
	<u>–</u>	<u>(9,915)</u>	<u>(14,681)</u>	<u>(83)</u>

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D(II). OTHER GAINS AND LOSSES

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
(Loss)/gain on disposal on property, plant and equipment	(696)	(1,824)	(2,671)	18
Impairment loss of property, plant and equipment	–	(1,224)	–	–
Impairment losses (recognized)/ reversal on:				
– Trade and bills receivables	(13,945)	–	–	–
– Other receivables	1,160	–	–	–
Gain from bargain purchase of subsidiaries (<i>note AD</i>)	27,973	–	–	–
Provision for litigation (<i>note AC</i>)	–	–	(13,346)	–
Exchange loss	(105)	(215)	(551)	–
Others	(585)	(1,302)	(1,851)	53
	<u>13,802</u>	<u>(4,565)</u>	<u>(18,419)</u>	<u>71</u>

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E. PROFIT FOR THE YEAR/PERIOD

Profit for the year is arrived at after charging (crediting):

(i) Cost of Sales

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Cost of raw milk sold before fair value adjustments	1,147,290	1,318,493	1,566,654	33,406
Raw milk fair value adjustments included in cost of sales	541,932	660,957	717,390	17,837
Cost of raw milk sold after fair value adjustments	1,689,222	1,979,450	2,284,044	51,243
Costs of sales of frozen bovine semen	56,365	29,023	27,971	219
	<u>1,745,587</u>	<u>2,008,473</u>	<u>2,312,015</u>	<u>51,462</u>

(ii) Staff cost (including directors’ emoluments)

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Salaries and allowances	194,604	213,627	234,144	4,645
Contributions to retirement benefit scheme	10,492	11,206	10,456	133
Total employee benefits	205,096	224,833	244,600	4,778
Less: capitalized in biological assets	(56,402)	(70,444)	(81,059)	(1,471)
	<u>148,694</u>	<u>154,389</u>	<u>163,541</u>	<u>3,307</u>

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(iii) Depreciation and amortisation

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Depreciation of property, plant and equipment	138,088	168,604	179,567	3,589
Depreciation of investment properties	66	420	424	8
Depreciation of right-of-use assets	11,643	15,998	18,292	343
Less: capitalized in biological assets	(65,020)	(79,433)	(85,040)	(1,313)
	<u>84,777</u>	<u>105,589</u>	<u>113,243</u>	<u>2,627</u>
Amortisation of intangible assets	<u>173</u>	<u>173</u>	<u>173</u>	<u>3</u>

(iv) Other items

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Impairment loss on inventories	–	5,030	45,959	18
Impairment loss of property, plant and equipment	–	1,224	–	–
Impairment losses recognized/(reversal) on:				
– Trade and bills receivables	13,945	–	–	–
– Other receivables	(1,160)	–	–	–
Credit losses recognized on:				
– Trade and bills receivables	–	9,821	14,212	37
– Other receivables	–	94	469	46
Auditor’s remuneration	<u>700</u>	<u>500</u>	<u>500</u>	<u>–</u>

Research and development expenses included in administrative expenses were RMB8,296,000, RMB8,812,000, RMB9,441,000, and RMB155,000, for the three years ended December 31, 2017, 2018 and 2019 and for the seven days ended January 7, 2020, respectively.

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- (v) An analysis of SKX Group’s results before biological assets fair value adjustments during the Pre-acquisition Period is as follows:

	Year ended December 31,			Seven days ended
	2017	2018	2019	January 7, 2020
	RMB’000	RMB’000	RMB’000	RMB’000
Profit for the year/period before biological assets fair value adjustments	407,905	452,615	376,402	11,156
Loss arising from changes in fair value less costs to sell of biological assets*	(69,869)	(399,789)	(267,165)	(4,584)
Profit for the year/period	<u>338,036</u>	<u>52,826</u>	<u>109,237</u>	<u>6,572</u>

* Included in balances are unrealized gain/(loss) of RMB180,200,000, RMB(109,705,000), RMB206,750,000 and RMB4,420,000 for the year ended December 31, 2017, 2018, 2019 and seven days ended January 7, 2020, respectively, arising from changes in fair value less costs to sell of biological as estimated by SKX Group’s management.

F. FINANCE COSTS

	Year ended December 31,			For the seven days ended
	2017	2018	2019	January 7, 2020
	RMB’000	RMB’000	RMB’000	RMB’000
Interest expenses on:				
– Bank borrowings	121,204	113,040	107,874	2,470
– Lease liabilities	9,932	15,302	15,480	310
– Interest on contract liabilities from customers (note X)	–	1,102	17,710	20
	<u>131,136</u>	<u>129,444</u>	<u>141,064</u>	<u>2,800</u>

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G. INCOME TAX EXPENSES/(CREDIT)

	Year ended December 31,			For the seven days ended January 7, 2020
	2017	2018	2019	
	RMB’000	RMB’000	RMB’000	RMB’000
Current enterprise income tax	498	1,080	–	–
Deferred tax	–	(795)	–	–
Over provision in prior years	–	–	(192)	–
	<u>498</u>	<u>285</u>	<u>(192)</u>	<u>–</u>

SKX Group are subject to enterprise income tax at statutory tax rate of 25% for the Pre-acquisition Period.

According to the prevailing tax rules and regulation in the PRC, certain subsidiaries of SKX are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

The tax expense for the Pre-acquisition Period can be reconciled to the profit before tax of the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			For the seven days ended January 7, 2020
	2017	2018	2019	
	RMB’000	RMB’000	RMB’000	RMB’000
Profit before tax	338,534	53,111	109,045	6,572
Tax at the statutory rate of 25%	84,633	13,278	27,261	1,643
Effect of tax exemptions granted to agricultural business	(98,163)	(103,750)	(97,563)	(2,772)
Effect of tax losses and deductible temporary difference not recognized	13,187	89,956	68,939	1,127
Effect on expenses not deductible for tax purpose	664	828	1,417	2
Tax effect of share of profit of a joint venture	177	(27)	(54)	–
Over provision in respect of prior years	–	–	(192)	–
	<u>498</u>	<u>285</u>	<u>(192)</u>	<u>–</u>

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ACCOUNTANTS’ REPORT

H. DIRECTORS’, CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS

(i) Directors’ emoluments

Details of the emoluments paid or payable to the directors of SKX during the Pre-acquisition Period are as follows:

	Directors’ fees	Salaries and allowance	Retirement benefit scheme contributions	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Year ended December 31, 2017:				
Executive directors:				
– Mr. Yang Wenjun (Chief executive)	–	6	–	6
– Mr. Li Xihe	–	340	7	347
– Mr. Cui Zhigang (<i>note i</i>)	–	120	7	127
– Mr. Zhang Jian	–	365	6	371
	–	831	20	851
Non-executive directors:				
– Mr. Chen Xiaodong	–	–	–	–
– Mr. Xie Maohua	–	–	–	–
– Mr. Zhang Yuan	–	–	–	–
– Mr. Ma Xiaowei (<i>note ii</i>)	–	–	–	–
– Mr. Liu Xin (<i>note iii</i>)	–	–	–	–
	–	–	–	–
Year ended December 31, 2018:				
Executive directors:				
– Mr. Yang Wenjun (Chief executive)	–	29	7	36
– Mr. Li Xihe	–	401	7	408
– Mr. Zhang Jian	–	373	6	379
	–	803	20	823
Non-executive directors:				
– Mr. Chen Xiaodong	–	–	–	–
– Mr. Xie Maohua	–	–	–	–
– Mr. Zhang Yuan	–	–	–	–
– Mr. Ma Xiaowei	–	–	–	–
– Mr. Liu Xin	–	–	–	–
	–	–	–	–

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	Directors’ fees	Salaries and allowance	Retirement benefit scheme contributions	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Year ended December 31, 2019:				
Executive directors:				
– Mr. Yang Wenjun (Chief executive)	–	21	7	28
– Mr. Li Xihe	–	461	7	468
– Mr. Zhang Jian	–	467	6	473
	–	949	20	969
Non-executive directors:				
– Mr. Chen Xiaodong	–	–	–	–
– Mr. Xie Maohua	–	–	–	–
– Mr. Zhang Yuan	–	–	–	–
– Mr. Ma Xiaowei	–	–	–	–
– Mr. Liu Xin	–	–	–	–
	–	–	–	–
For the seven days ended January 7, 2020:				
Executive directors:				
– Mr. Yang Wenjun (Chief executive)	–	–	–	–
– Mr. Li Xihe	–	–	–	–
– Mr. Zhang Jian	–	–	–	–
	–	–	–	–
Non-executive directors:				
– Mr. Chen Xiaodong	–	–	–	–
– Mr. Xie Maohua	–	–	–	–
– Mr. Zhang Yuan	–	–	–	–
– Mr. Ma Xiaowei	–	–	–	–
– Mr. Liu Xin	–	–	–	–
	–	–	–	–

Notes:

- (i) Mr. Cui Zhigang resigned from the directorship of SKX on July 14, 2017.
- (ii) Mr. Ma Xiaowei was appointed as non-executive of SKX on May 16, 2017.
- (iii) Mr. Liu Xin was appointed as non-executive of SKX on September 15, 2017.

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(ii) Employees’ emoluments

The five highest paid individuals of SKX Group included 2, 2, 2 and 2 directors of SKX for each of the Pre-acquisition Period, respectively, whose emoluments and included in the disclosure above. The emoluments of the remaining 3, 3, 3 and 3 individuals for each of the Pre-acquisition Period, respectively, are as follows:

	Year ended December 31,			For the seven days ended January 7, 2020
	2017	2018	2019	
	RMB’000	RMB’000	RMB’000	RMB’000
Salaries and allowances	1,313	1,061	1,436	39
Retirement benefit scheme contributions	17	17	17	–
	<u>1,330</u>	<u>1,078</u>	<u>1,453</u>	<u>39</u>

The emoluments of the five highest paid individually, other than directors of SKX, were within the following band in Hong Kong Dollar (“HKD”):

	Year ended December 31,			For the seven days ended January 7, 2020
	2017	2018	2019	
Nil to HKD1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Pre-acquisition Period, no emoluments were paid by SKX Group to any of the executive directors, non-executive director, or the five highest paid individuals as an inducement to join or upon joining SKX Group or as compensation for loss of office. None of the directors and chief executive has waived any emoluments during the Pre-acquisition Period.

I. DIVIDEND

In year of 2017, certain subsidiaries of SKX Group declared and paid interim dividends of RMB3,985,000 to SKX Group’s non-controlling shareholders.

The rate of dividend and the number of shares, ranking for the dividend are not presented as such information is not meaningful having regards for the purpose of this report.

Other than the above, no dividend was paid or declared by the other companies comprising SKX Group during the Pre-acquisition Period.

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J. EARNINGS PER SHARE

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

Earnings figures are calculated as follows:

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Profit</u>				
Earnings for the purpose of basic earnings	<u>327,168</u>	<u>49,712</u>	<u>112,004</u>	<u>6,595</u>
<u>Number of shares</u>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>884,364</u>	<u>918,600</u>	<u>918,600</u>	<u>918,600</u>

No diluted loss per share is presented as there was no potential dilutive shares during the Pre-acquisition Period.

K. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Vehicles	Electronic equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
As at January 1, 2017	1,272,517	242,643	91,329	96,575	12,510	108,114	1,823,688
Additions	18,028	28,573	3,978	8,379	249	266,076	325,283
Acquisition of subsidiaries (note AD)	270,590	59,530	1,572	3,575	6,437	2,430	344,134
Transfer to investment properties	(12,283)	–	–	–	–	–	(12,283)
Transfer	237,748	32,111	–	8,458	–	(278,317)	–
Disposals	(2,261)	(7,362)	(2,328)	(4,128)	–	(1,667)	(17,746)

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	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Electronic equipment</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at December 31, 2017	1,784,339	355,495	94,551	112,859	19,196	96,636	2,463,076
Additions	36,497	26,250	721	11,907	3,220	230,193	308,788
Transfer to investment properties	(818)	–	–	–	–	–	(818)
Transfer	228,838	39,191	–	5,758	–	(273,787)	–
Disposals	(1,319)	(24,058)	(582)	(5,155)	–	–	(31,114)
As at December 31, 2018	2,047,537	396,878	94,690	125,369	22,416	53,042	2,739,932
Additions	31,598	32,925	561	12,140	910	175,779	253,913
Transfer	132,758	44,648	–	4,012	–	(181,418)	–
Disposals	(4,563)	(6,646)	(1,235)	(2,711)	–	–	(15,155)
As at December 31, 2019	2,207,330	467,805	94,016	138,810	23,326	47,403	2,978,690
Additions	–	66	–	–	–	286	352
Disposals	–	(300)	–	(262)	–	–	(562)
As at January 7, 2020	2,207,330	467,571	94,016	138,548	23,326	47,689	2,978,480
DEPRECIATION							
As at January 1, 2017	(86,462)	(47,704)	(57,225)	(36,933)	(4,723)	–	(233,047)
Provided for the year	(78,577)	(42,637)	(4,681)	(11,369)	(824)	–	(138,088)
Transfer to investment properties	328	–	–	–	–	–	328
Disposals	370	2,086	2,106	2,578	–	–	7,140
As at December 31, 2017	(164,341)	(88,255)	(59,800)	(45,724)	(5,547)	–	(363,667)
Provided for the year	(95,279)	(51,691)	(2,889)	(15,755)	(2,990)	–	(168,604)
Disposals	109	10,228	439	3,392	–	–	14,168
As at December 31, 2018	(259,511)	(129,718)	(62,250)	(58,087)	(8,537)	–	(518,103)
Provided for the year	(107,025)	(55,038)	(1,178)	(14,694)	(1,632)	–	(179,567)
Disposals	1,073	3,860	1,143	2,116	–	–	8,192
As at December 31, 2019	(365,463)	(180,896)	(62,285)	(70,665)	(10,169)	–	(689,478)
Provided for the period	(2,105)	(989)	(29)	(429)	(37)	–	(3,589)
Disposals	–	236	–	183	–	–	419
As at January 7, 2020	(367,568)	(181,649)	(62,314)	(70,911)	(10,206)	–	(692,648)

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	Buildings	Machinery and equipment	Vehicles	Electronic equipment	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
IMPAIRMENT							
As at January 1, 2017 and December 31, 2017	-	-	-	-	-	-	-
Provided for the year	(1,069)	(46)	-	(109)	-	-	(1,224)
As at December 31, 2018	(1,069)	(46)	-	(109)	-	-	(1,224)
Disposals	1,069	46	-	109	-	-	1,224
As at December 31, 2019 and January 7, 2020	-	-	-	-	-	-	-
CARRYING VALUES							
As at December 31, 2017	<u>1,619,998</u>	<u>267,240</u>	<u>34,751</u>	<u>67,135</u>	<u>13,649</u>	<u>96,636</u>	<u>2,099,409</u>
As at December 31, 2018	<u>1,786,957</u>	<u>267,114</u>	<u>32,440</u>	<u>67,173</u>	<u>13,879</u>	<u>53,042</u>	<u>2,220,605</u>
As at December 31, 2019	<u>1,841,867</u>	<u>286,909</u>	<u>31,731</u>	<u>68,145</u>	<u>13,157</u>	<u>47,403</u>	<u>2,289,212</u>
As at January 7, 2020	<u>1,839,762</u>	<u>285,922</u>	<u>31,702</u>	<u>67,637</u>	<u>13,120</u>	<u>47,689</u>	<u>2,285,832</u>

Property, plant and equipment other than construction in progress are depreciated using the straight line method after taking into account their estimated residual values with the following useful lives:

	<u>Useful lives</u>
Buildings	20-30 years
Machinery and equipment	5-10 years
Vehicles	5 years
Electronic equipment	5 years
Leasehold improvements	Over the lease terms

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L. RIGHT-OF-USE ASSETS

	Leasehold lands	Properties	Machinery	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Carrying amount as at				
January 1, 2017	55,284	3,803	–	59,087
Additions	9,610	6,709	46	16,365
Acquisition of subsidiaries	254,615	28,978	–	283,593
Depreciation charge	(6,773)	(4,847)	(23)	(11,643)
Carrying amount as at				
December 31, 2017	312,736	34,643	23	347,402
Additions	1,418	13,809	3,629	18,856
Early termination of lease agreements	(7,209)	(25,901)	–	(33,110)
Depreciation charge	(9,360)	(6,255)	(383)	(15,998)
Carrying amount as at				
December 31, 2018	297,585	16,296	3,269	317,150
Additions	8,196	15,592	4,204	27,992
Early termination of lease agreements	–	(2,199)	–	(2,199)
Depreciation charge	(9,759)	(6,579)	(1,954)	(18,292)
Carrying amount as at				
December 31, 2019	296,022	23,110	5,519	324,651
Additions	–	–	712	712
Depreciation charge	(180)	(116)	(47)	(343)
Carrying amount as at				
January 7, 2020	295,842	22,994	6,184	325,020
	As at December 31,			As at
	2017	2018	2019	January 7,
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2020
				<i>RMB’000</i>
Expense relating to short-term leases	4,217	278	1,388	23
Total cash outflow for leases	28,763	19,298	27,071	23

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During Pre-acquisition Period, SKX Group leases various lands, properties and machines for its operations. Lease contracts are entered into for fixed term of 1 year to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, SKX Group applies the definition of a contract and determines the period for which the contract is enforceable. Details of the lease maturity analysis of lease liabilities are set out in note AA.

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

Restrictions or covenants on leases

Lease liabilities of RMB34,231,000, RMB18,778,000, RMB28,401,000 and RMB29,143,000 are recognized with related right-of-use assets with an aggregate carrying amount of RMB34,666,000, RMB19,565,000, RMB28,629,000 and RMB29,178,000 as at December 31, 2017, 2018 and 2019, and January 7, 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

M. INVESTMENT PROPERTIES

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
COST:				
At the beginning of the year/period	–	12,283	13,101	13,101
Transfer from property, plant and equipment	12,283	818	–	–
At the end of the year/period	12,283	13,101	13,101	13,101
DEPRECIATION:				
At the beginning of the year/period	–	(394)	(814)	(1,238)
Transfer from property, plant and equipment	(328)	–	–	–
Provided for the year/period	(66)	(420)	(424)	(8)
At the end of the year/period	(394)	(814)	(1,238)	(1,246)
CARRYING VALUES:				
At the beginning of the year/period	–	11,889	12,287	11,863
At the end of the year/period	11,889	12,287	11,863	11,855

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The fair value of SKX Group’s investment properties as at December 31, 2017, December 31, 2018, December 31, 2019 and January 7, 2020 were RMB13,995,000, RMB13,705,000, RMB13,408,000 and RMB13,408,000, respectively.

SKX Group engages a qualified independent valuer Jones Lang LaSalle to perform the valuation. The valuer’s address is set out in note 18. The management of SKX Group works closely with the valuer to establish the appropriate valuation techniques and inputs to the model.

In valuing the investment properties, Jones Lang LaSalle adopted the cost approach with reference to their depreciated replacement cost for the investment property as at the valuation date. There has been no change from the valuation technique used during the Pre-acquisition Period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair values of SKX Group’s investment properties as at December 31, 2017, 2018 and 2019 and January 7, 2020 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 during the Track Record Period.

N. BIOLOGICAL ASSETS

A Nature of activities

The biological assets of SKX Group are dairy cows held to produce raw milk and breeding stock to produce frozen bovine semen.

SKX Group’s dairy cows comprise milkable cows held for milk production, heifers and calves that have not reached the age that can produce raw milk, and breeding stock held for frozen bovine semen production, are all classified as non-current assets. The quantity of dairy cows and breeding stock owned by SKX Group at the end of each reporting period is shown below:

	As at December 31,			As at
	2017	2018	2019	January 7, 2020
	<i>Head</i>	<i>Head</i>	<i>Head</i>	<i>Head</i>
Milkable cows	65,609	66,912	70,134	70,333
Heifers and calves	59,371	64,657	60,500	60,487
Breeding stock	159	129	115	115
Total biological assets	<u>125,139</u>	<u>131,698</u>	<u>130,749</u>	<u>130,935</u>

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

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

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

i. Regulatory and environmental risks

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

ii. Climate, disease and other natural risks

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

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B Quantity of the agricultural produce of SKX Group’s biological assets

	Year ended December 31,			For the seven days ended January 7, 2020
	2017	2018	2019	
	<i>Ton</i>	<i>Ton</i>	<i>Ton</i>	<i>Ton</i>
Volume – sales of raw milk produced	<u>484,763</u>	<u>554,995</u>	<u>605,020</u>	<u>12,569</u>

	Year ended December 31,			For the seven days ended January 7, 2020
	2017	2018	2019	
	<i>Straw</i>	<i>Straw</i>	<i>Straw</i>	<i>Straw</i>
Volume – sales of frozen bovine semen	<u>1,731,608</u>	<u>1,276,488</u>	<u>928,088</u>	<u>9,124</u>

C Value of biological assets

	Year ended December 31, 2017			
	Milkable cows	Heifers and calves	Breeding stock	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2017	964,800	692,410	69,278	1,726,488
Purchase cost	10,276	22,431	608	33,315
Acquisition of subsidiaries (<i>note AD</i>)	124,223	130,803	–	255,026
Feeding cost and other related costs	–	696,158	6,739	702,897
Transfer	708,182	(708,182)	–	–
Decrease due to disposal/death	(132,889)	(178,767)	(1,564)	(313,220)
(Loss)/gain arising from changes in fair value less cost to sell	<u>(333,973)</u>	<u>304,895</u>	<u>(40,791)</u>	<u>(69,869)</u>
Balance at December 31, 2017	<u>1,340,619</u>	<u>959,748</u>	<u>34,270</u>	<u>2,334,637</u>

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	Year ended December 31, 2018			
	Milkable cows	Heifers and calves	Breeding stock	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2018	1,340,619	959,748	34,270	2,334,637
Purchase cost	780	88	3,119	3,987
Feeding cost and other related costs	–	854,340	7,811	862,151
Transfer	723,336	(723,336)	–	–
Decrease due to disposal/death	(183,356)	(69,418)	(6,989)	(259,763)
(Loss)/gain arising from changes in fair value less cost to sell	(409,042)	19,136	(9,883)	(399,789)
Balance at December 31, 2018	<u>1,472,337</u>	<u>1,040,558</u>	<u>28,328</u>	<u>2,541,223</u>

	Year ended December 31, 2019			
	Milkable cows	Heifers and calves	Breeding stock	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2019	1,472,337	1,040,558	28,328	2,541,223
Purchase cost	178	605	966	1,749
Feeding cost and other related costs	–	869,740	9,646	879,386
Transfer	921,780	(921,780)	–	–
Decrease due to disposal/death	(230,711)	(172,662)	(4,981)	(408,354)
(Loss)/gain arising from changes in fair value less cost to sell	(489,403)	214,326	7,912	(267,165)
Balance at December 31, 2019	<u>1,674,181</u>	<u>1,030,787</u>	<u>41,871</u>	<u>2,746,839</u>

	For the seven days ended January 7, 2020			
	Milkable cows	Heifers and calves	Breeding stock	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2020	1,674,181	1,030,787	41,871	2,746,839
Feeding cost and other related costs	–	16,998	111	17,109
Transfer	19,178	(19,178)	–	–
Decrease due to disposal/death	(3,817)	(4,367)	–	(8,184)
(Loss)/gain arising from changes in fair value less cost to sell	(10,610)	5,596	430	(4,584)
Balance at January 7, 2020	<u>1,678,932</u>	<u>1,029,836</u>	<u>42,412</u>	<u>2,751,180</u>

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The directors of SKX have engaged a qualified independent valuer Jones Lang LaSalle to assist SKX Group in assessing the fair values of SKX Group’s cows. The valuer’s address is set out in note 22. The valuer and the management of SKX 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 AI.

The aggregate gain or loss arising on initial recognition of agricultural produce (raw milk and frozen bovine semen) and from the change in fair value less costs to sell of biological assets during the Pre-acquisition Period is analysed as follows:

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	541,932	660,957	717,390	17,837
Loss arising from changes in fair value less costs to sell of biological assets	(69,869)	(399,789)	(267,165)	(4,584)
	<u>472,063</u>	<u>261,168</u>	<u>450,225</u>	<u>13,253</u>

O. DEFERRED TAX ASSETS

	As at December 31,			As at January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Deferred tax assets – ECL provision	<u>–</u>	<u>795</u>	<u>795</u>	<u>795</u>

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Details of tax losses and other temporary differences not recognized during the Pre-acquisition Period are set out below:

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Tax losses	–	–	4,066	4,132
Other temporary differences	–	125	2,921	2,921
	<u>–</u>	<u>125</u>	<u>2,921</u>	<u>2,921</u>

Tax losses not recognized will expire during the period as below:

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
2024	–	–	4,066	4,066
2025	–	–	–	66
	<u>–</u>	<u>–</u>	<u>4,066</u>	<u>4,132</u>

P. INVENTORIES

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Raw materials	438,329	452,827	619,267	627,826
Frozen bovine semen	61,679	56,564	17,065	16,188
Consumables	17,888	18,800	35,712	35,416
	<u>517,896</u>	<u>528,191</u>	<u>672,044</u>	<u>679,430</u>

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Q. TRADE AND BILLS RECEIVABLES

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
				RMB’000
Trade receivables	287,155	254,181	214,781	251,657
Less: allowances for doubtful debts	(15,688)	–	–	–
allowances for credit losses	–	(30,801)	(44,735)	(44,772)
	271,467	223,380	170,046	206,885
Bills receivables	1,795	150	1,000	1,000
	273,262	223,530	171,046	207,885

As at January 1, 2017, trade receivables from contracts with customers amounted to RMB192,211,000.

Trade and bills receivables primarily represent receivables from sales of raw milk and frozen bovine semen.

The following is an aged analysis of trade and bills receivables net of allowance for credit losses (doubtful debts) presented based on the delivery dates at the end of each reporting period.

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
				RMB’000
Trade and bills receivables:				
– within 180 days	240,688	172,177	149,023	180,699
– 180 days to 1 year	18,343	33,382	13,534	18,574
– 1 year to 2 years	12,695	13,995	6,215	6,445
– over 2 years	1,536	3,976	2,274	2,167
	273,262	223,530	171,046	207,885

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Included in SKX Group’s trade receivables balance are debtors with aggregate carrying amount of RMB225,161,000, RMB73,631,000 and RMB73,343,000 as at December 31, 2018, December 31, 2019 and January 7, 2020, respectively, which are past due as at the reporting date. Out of the past due balances, RMB63,089,000, RMB41,364,000 and RMB46,259,000 as at December 31, 2018, December 31, 2019 and January 7, 2020, respectively, has been past due 90 days or more and is not considered as in default because there is no significant change in credit quality and the amounts are still considered recoverable. SKX Group does not hold any collateral over these balances or charge any interest thereon.

Including in SKX Group’s trade and bills receivables balance as at December 31, 2017 are debtors with aggregate carrying amount of RMB47,401,000, which are past due as at the reporting date for which SKX Group has not provided for impairment loss. Based on the historical experience of the Group, those trade receivables that are past due but not impaired are generally recoverable due to the long term cooperation history. In determining the allowance for trade receivables, the management considers the credit history including default in payments, settlement records and subsequent settlements and any changes in the creditability of its customers. SKX Group does not hold any collateral over these balances. Ageing of trade and bills receivables that are past due but not impaired:

	As at December 31, 2017
	<i>RMB’000</i>
Neither past due nor impaired	224,066
Past due within 3 months	14,828
Past due 3 to 9 months	18,343
Past due over 9 months	14,230
	<u>271,467</u>

Movements in the allowance of doubtful debts are set out as follows:

	Year ended December 31, 2017
	<i>RMB’000</i>
At the beginning of the year	1,743
Provided for the year	13,945
	<u>15,688</u>

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Movements of the credit losses under expected loss model are set out as follows:

	Year ended December 31,		For the seven days ended January 7,
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	15,688	30,801	44,735
Adoption of IFRS 9	5,952	–	–
Provided for the year/period	9,821	14,212	37
Written off	(660)	(278)	–
At the end of the year/period	<u>30,801</u>	<u>44,735</u>	<u>44,772</u>

R. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31,			As at January 7,
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment	10,234	12,748	15,705	15,528
Deposits	7,597	6,941	7,112	5,628
Receivables for disposal of biological assets	1,971	7,021	4,382	5,916
Others	3,896	6,590	3,018	6,372
Less: allowances for doubtful debts	(534)	–	–	–
allowances for credit losses	–	(628)	(465)	(511)
	<u>23,164</u>	<u>32,672</u>	<u>29,752</u>	<u>32,933</u>

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S. PLEDGED AND RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

	As at December 31,			As at January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Pledged and restricted bank deposits	45,009	27,963	24,997	24,997
Cash and cash equivalent	247,130	153,131	195,300	162,299
	<u>292,139</u>	<u>181,094</u>	<u>220,297</u>	<u>187,296</u>
Pledged and restricted bank deposits				
– for bills payable	24,055	16,903	5,696	5,696
– for bank borrowings	180	584	60	60
– frozen bank deposits (note)	20,774	10,476	19,241	19,241
	<u>45,009</u>	<u>27,963</u>	<u>24,997</u>	<u>24,997</u>

Note: The frozen bank deposits represent deposits frozen by courts of justice in the PRC in relation to lawsuits where SKX Group is a defendant.

Cash and cash equivalents comprise cash and current deposits held by SKX, carrying interest at prevailing market rates of 0.30% per annum as at December 31, 2017, 2018, and 2019 and January 7, 2020.

The pledged and restricted bank deposits carried interest rates at 1.15% per annum as at December 31, 2017, 2018, and 2019 and January 7, 2020.

T. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	As at December 31, 2017
	RMB’000
Unquoted equity instruments at cost	<u>73,050</u>

The above unquoted equity investments represent SKX Group’s equity investment in Inner Mongolia Xing Lianxing Pastoral Co., Ltd.* (“Xing Lianxing”) (內蒙古星連星牧業有限公司) and Inner Mongolia Yixin Industrial Co., Ltd.* (“Yixin”) (內蒙古壹新實業有限公司), representing 19.76% equity interests in Xing Lianxing and 0.38% equity interests in Yixin at

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December 31, 2017. The investments were measured at cost less impairment because the range of reasonable fair value estimates was so significant and the probability of each value point also can not be estimated that the directors of SKX were of the opinion that their fair values cannot be measured reliably.

On January 1, 2018, SKX Group adopted IFRS 9, and the above equity investments were classified as equity instruments at FVTOCI as set out in note U. The fair value of the above equity investments on January 1, 2018 amounted to RMB40,231,000.

- * The English name of the Chinese company marked with “*” are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

U. EQUITY INSTRUMENTS AT FVTOCI

	As at December 31,		As at
	2018	2019	January 7,
	RMB’000	RMB’000	2020
			RMB’000
Unquoted equity instruments	35,540	46,688	46,688

Upon the adoption of IFRS 9 on January 1, 2018, the equity investments recorded as “available-for-sale equity investment” before January 1, 2018 were classified as equity instruments at FVTOCI because these are strategic investments and SKX Group considers the measurement at fair value through other comprehensive income to be more relevant. The accumulated impact as at January 1, 2018 was recorded as an adjustment to FVTOCI reserve as at January 1, 2018, and subsequent fair value change of the investments are recorded in other comprehensive income.

Details of fair value measurements are set out in note AI.

V. TRADE AND BILLS PAYABLES

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
				RMB’000
Trade payables	601,502	834,533	1,050,239	1,098,733
Bills payable	80,176	94,210	206,184	206,184
	681,678	928,743	1,256,423	1,304,917

The maturity period of bills payables are normally within 1 year.

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The following is an aged analysis of trade and bills payables at the end of each reporting period:

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
				RMB’000
Within 1 year	653,287	869,858	1,207,990	1,256,484
1 to 2 years	7,073	41,187	33,041	33,041
2 to 3 years	9,359	4,511	4,230	4,230
More than 3 years	11,959	13,187	11,162	11,162
	<u>681,678</u>	<u>928,743</u>	<u>1,256,423</u>	<u>1,304,917</u>

W. OTHER PAYABLES AND ACCRUALS

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
				RMB’000
Construction costs payable	189,675	289,697	259,625	259,625
Deposits received	19,098	13,429	13,696	14,142
Accrued staff costs	28,042	33,523	31,546	35,812
Other tax payables	1,096	1,687	626	685
Consideration payables for acquisition of non-controlling interests	–	–	22,922	22,922
Advance received from lessees	1,070	–	–	4
Advance received for disposal of dairy cows	2,420	1,403	1,064	1,827
Others	15,701	16,270	4,680	7,381
	<u>257,102</u>	<u>356,009</u>	<u>334,159</u>	<u>342,398</u>

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X. CONTRACT LIABILITIES

	As at December 31,			As at January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Sales of frozen bovine semen	2,486	2,757	3,426	3,127
Sales of raw milk (<i>note</i>)	231	27,476	185,381	175,029
	<u>2,717</u>	<u>30,233</u>	<u>188,807</u>	<u>178,156</u>

Note: As at January 1, 2017, contract liabilities from contracts with customers amounted to RMB503,000.

During the years ended December 31, 2018 and December 31, 2019, and seven days ended January 7, 2020, certain customers made prepayments for purchase of raw milk from SKX Group. The prepayments from certain customers borne interests at rates ranging of 2.5%-4.5%. Interests shall be settled by delivery of raw milk as well.

Revenue recognized during each of the reporting period include the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognized during each of the Pre-acquisition Period that related to performance obligations that were satisfied in a prior year.

Y. BANK BORROWINGS

	As at December 31,			As at January 7,
	2017	2018	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
Secured (<i>note i</i>)	1,310,899	1,285,828	1,175,102	1,175,127
Unsecured (<i>note ii</i>)	959,337	755,699	911,687	874,032
	<u>2,270,236</u>	<u>2,041,527</u>	<u>2,086,789</u>	<u>2,049,159</u>
The carrying amounts of the above borrowings are repayable:				
Within one year	976,402	1,148,799	1,090,647	1,052,992
Within a period of more than one year but not exceeding two years	492,825	282,753	555,547	532,502
Within a period of more than two years but not exceeding five years	481,833	439,572	340,978	365,943
Within a period of more than five years	319,176	170,403	99,617	97,722
Less: Amounts due within one year shown under current liabilities	<u>(976,402)</u>	<u>(1,148,799)</u>	<u>(1,090,647)</u>	<u>(1,052,992)</u>
Amounts shown under non-current liabilities	<u>1,293,834</u>	<u>892,728</u>	<u>996,142</u>	<u>996,167</u>

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The bank borrowings comprise:

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
Bank borrowings at variable rate	939,020	833,786	842,120	842,120
Bank borrowings at fixed rate	1,331,216	1,207,741	1,244,669	1,207,039
	<u>2,270,236</u>	<u>2,041,527</u>	<u>2,086,789</u>	<u>2,049,159</u>

The ranges of effective interest rates on SKX Group’s bank borrowings are as follows:

	As at December 31,			As at
	2017	2018	2019	January 7,
	%	%	%	2020
Effective interest rates:				
Variable rate	5.00 to 5.70	4.90 to 6.96	4.35 to 6.96	4.35 to 6.96
Fixed rate	4.75 to 7.20	4.35 to 6.80	4.35 to 6.60	4.35 to 6.60

Note:

- (i) As at December 31, 2017, December 31, 2018, December 31, 2019 and January 7, 2020 certain bank borrowings were secured by biological assets owned by SKX Group as set out in note AJ.
- (ii) As at December 31, 2017, 2018 and 2019 and January 7, 2020, certain bank loans with an aggregate carrying amount of RMB868,060,000, RMB633,332,000, RMB735,261,000 and RMB735,261,000, respectively, were under personal guarantee executed by a director of SKX Group and his wife.

Z. DEFERRED INCOME

	Year ended December 31,			For the
	2017	2018	2019	seven days
	RMB’000	RMB’000	RMB’000	ended
Deferred income in respect of government grants:				January 7,
– Balance at beginning of the year	25,518	25,727	31,653	2020
– Addition	6,245	12,146	4,299	
– Release to income				
– related to property, plant and equipment	(3,740)	(4,479)	(3,810)	(51)
– related to research and development activities	(335)	(980)	(2,160)	(7)
– Release to compensate interest expense	(1,961)	(761)	(444)	–
	<u>25,727</u>	<u>31,653</u>	<u>29,538</u>	<u>29,480</u>

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Deferred income arising from government grants of SKX Group represents the government subsidies obtained in relation to the construction of property, plant and equipment, research and development activities and compensation for interest expense. Government grants are included in the consolidated statement of financial position as deferred income and credited to the profit or loss on a straight-line basis over the useful lives of the related assets. The government grants for the purpose of research and development are expensed in the period when the corresponding research and development activities incurred. The government grants related to interest compensation are expensed when corresponding interest accrued.

AA. LEASE LIABILITIES

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within one year	6,020	4,921	5,604	5,651
Within a period of more than one year but not more than two years	7,377	4,639	11,028	11,266
Within a period of more than two years but not more than five years	16,420	11,951	11,890	12,139
Within a period of more than five years	278,597	268,718	274,698	274,925
	308,414	290,229	303,220	303,981
Less: amount due for settlement with 12 months shown under current liabilities	(6,020)	(4,921)	(5,604)	(5,651)
Amount due for settlement after 12 months shown under non-current liabilities	302,394	285,308	297,616	298,330

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AB. OTHER LIABILITIES

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
Contingent consideration to non-controlling equity holders (note i)	4,060	3,460	660	660
Provision for other obligation (note ii)	5,760	—	—	—
	<u>9,820</u>	<u>3,460</u>	<u>660</u>	<u>660</u>

Notes:

- (i) In July 2016, SKX acquired 28.125% equity interests of Xundian Saiyou, a subsidiary of SKX, from the non-controlling equity holders at cash consideration of RMB22,500,000 including contingent consideration of RMB4,500,000 which is conditional upon the non-controlling equity holders assisted the subsidiary to meet certain compliance requirements regarding land-use-right registration and environment requirements. The contingent consideration was settled as to RMB2,500,000 and RMB2,000,000 in year of 2017 and 2019, respectively. On March 6, 2017, SKX acquired 55% of the issued share capital of Dalateqi Saiyou for consideration of RMB55,000,000 including RMB2,060,000 of contingent consideration related to the compliance with land-use-right and environment requirements. During the Pre-acquisition Period, RMB600,000 and RMB800,000 was settled in year of 2018 and 2019, respectively, based on the purchase agreement.
- (ii) In July 2017, SKX Group entered into a biological assets lease agreement with a third party to lease certain dairy cows from the third party for a period of ten years. Pursuant to the relevant lease agreement, the Group is required to return the same number of dairy cows with same aging group to the third party upon the expiry of the lease agreement. At initial recognition, the provision for the obligation to return the dairy cows represented the best estimate of the consideration required to settle the present obligation which approximate the fair value of the biological assets to be returned to the third party. In May 2018, SKX Group and the third party mutually agreed to early terminate the above lease agreement.

AC. OTHER PROVISION

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
Litigation	—	—	13,346	13,346

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Litigation provision as at December 31, 2019 and January 7, 2020 represents expected loss from a civil litigation against SKX Group for alleged failure of supply of raw milk to a customer. The best estimation of compensation for the plaintiff is RMB13,346,000. As at the date of this report, the litigation was still in the process of the first instance.

AD(I). SHARE CAPITAL

The balances of share capital as at December 31, 2017, December 31, 2018, December 31, 2019 and January 7, 2020 represent the share capital of SKX.

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
				RMB’000
Issued and fully paid				
At beginning of year/period	840,500	918,600	918,600	918,600
Issued and fully paid during the year/period	78,100	—	—	—
At end of year/period	<u>918,600</u>	<u>918,600</u>	<u>918,600</u>	<u>918,600</u>

AD(II). ACQUISITION OF SUBSIDIARIES

On June 10, 2017, SKX and Huaxia Jinai Dairy Xinghua Co., Ltd* (華夏基耐乳業興化有限公司) (“Huaxia Jinai”) entered into an agreement pursuant to which SKX agreed to purchase and Huaxia Jinai agreed to sell the 100% equity interests in Beijing Haihuayundu and Huaxia Xinghua (the “Acquired Companies”). The acquisitions have been accounted for using the purchase method. The Acquired Companies were engaged in producing raw milk and the acquisition was for expansion of SKX Group’s raw milk producing operations.

* The English name of the Chinese company marked with “*” are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

Consideration transferred

	RMB’000
Cash	13,600
Fair value of equity ordinary shares issued (<i>note</i>)	<u>593,560</u>
	<u>607,160</u>

Note: Pursuant to the agreement, SKX issued 78,100,000 ordinary shares to Huaxia Jinai in exchange for 100% equity interests in the Acquired Companies. The fair value of the ordinary shares issued was determined by reference to a valuation performed by SKX Group using market approach.

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Acquisition-related costs amounting to RMB44,000 have been excluded from the consideration transferred and have been recognized as a debit to share premium in the year of 2017, within the share premium line item in the consolidated statements of changes in equity.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	<i>RMB’000</i>
Property, plant and equipment	344,134
Biological assets	255,026
Right-of-use assets	283,593
Bank balances and cash	62,295
Trade receivables	47,905
Inventories	66,608
Prepayments, deposits and other receivables	33,695
Prepayment for biological assets	1,200
Borrowings	(70,000)
Lease liabilities	(273,864)
Trade payables	(72,416)
Other payables and accrued expenses	(43,043)
	<u>635,133</u>

The fair value of trade receivables at the acquisition date was equivalent to the gross contractual amounts of RMB47,905,000.

Bargain purchase gain arising on acquisition

	<i>RMB’000</i>
Consideration transferred	607,160
Less: net assets acquired	<u>(635,133)</u>
Bargain purchase gain included in other gains and losses	<u>(27,973)</u>

The bargain purchase gain, amounting to RMB27,973,000, was recognized in the profit or loss for the year ended December 31, 2017, mainly due to the seller’s strategy to exit the China market, so the Acquired Companies were sold at lower price to expedite the transaction.

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Net cash inflow from the acquisition

	<i>RMB’000</i>
Bank balances and cash acquired	62,295
Less: cash consideration paid	<u>(13,600)</u>
Net cash inflow	<u><u>48,695</u></u>

After the acquisition, revenue for the year ended December 31, 2017 includes RMB215,067,000 attributed by the Acquired Companies, and profit for the year includes RMB45,561,000 generated by Acquired Companies.

[REDACTED]

AE. RETIREMENT BENEFIT PLANS

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

The amounts of contributions made by SKX Group in respect of the retirement benefit scheme during the Pre-acquisition Period are disclosed in note E.

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AF. CAPITAL COMMITMENTS

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

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
Capital expenditures in respect of acquisition of property plant and equipment: contracted but not provided for	35,499	64,721	57,980	57,980

AG. CAPITAL RISK MANAGEMENT

SKX Group manages its capital to ensure that SKX Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balances. SKX Group’s overall strategy remains unchanged during the Pre-acquisition Period.

The capital structure of SKX Group consists of net debt, which included bank borrowings as disclosed in note Y net of cash and cash equivalent, and equity attributable to owners of SKX, comprising share capital, reserves and accumulated profits.

During the Pre-acquisition Period, the management of SKX Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of SKX Group, SKX Group will balance its overall capital structure through new share issues as well as the issue of new debts.

AH. FINANCIAL INSTRUMENTS

	As at December 31,			As at
	2017	2018	2019	January 7,
	RMB’000	RMB’000	RMB’000	2020
Available-for-sale equity investments	73,050	–	–	–
Financial assets at FVTOCI	–	35,540	46,688	46,688
Financial assets at amortised cost	578,331	424,548	405,390	412,586
Financial liabilities at amortised cost	3,179,878	3,291,069	3,645,199	3,659,977
Financial liabilities at FVTPL	4,060	3,460	660	660

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Financial risk management objectives and policies

SKX Group’s major financial instruments include bank balances and cash, pledged and restricted bank deposits, trade and bills receivables, other receivables, available-for-sale equity investments, equity investments at FVTOCI, trade and bills payables, other payables, lease liabilities, contingent consideration to non-controlling equity holders and bank borrowings. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The management of SKX Group manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. SKX Group’s overall strategy remains unchanged during the Pre-acquisition Period.

Market risk

(i) Currency risk

As at the end of each reporting period, the SKX Group had no financial assets or financial liabilities in currencies other than RMB. SKX Group is not exposed to any significant currency risk.

(ii) Interest rate risk

SKX Group’s fair value interest rate risk relates primarily to its fixed-rate bank borrowings and lease liabilities. SKX Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities at variable rates, mainly pledged and restricted bank deposits, bank balances and variable-rates bank borrowings. SKX Group cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Deposit Rate of the People’s Bank of China.

Interest rate sensitivity analyses

The sensitivity analysis below has been determined based on the exposure to interest rates for pledged and restricted bank deposits, bank balances and borrowings at the end of each reporting period and assumed that the amount outstanding at the end of each reporting period was outstanding for the whole year. A 50 basis point increase or decrease for pledged and restricted bank deposits, bank balances and bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, SKX Group’s post-tax profit for the three years ended December 31, 2019 and seven days ended January 7, 2020 would decrease/increase by RMB3,304,000, RMB3,356,000, RMB3,058,000 and RMB3,204,000, respectively. This is mainly attributable to SKX Group’s exposure to interest rates on its pledged and restricted bank deposits, bank balances and borrowings with variable rates.

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(iii) Other price risk

SKX Group is exposed to equity price risk through its investments in unquoted equity investments measured at FVTOCI. SKX Group invested in certain unquoted equity securities for investees operating in pastoral industry sector for long term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Credit risk and impairment assessment

SKX Group’s maximum exposure to credit risk which will cause a financial loss to SKX Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position.

SKX Group has concentration of credit risk as 14.56%, 15.16%, 17.90% and 19.07% of the total trade receivables were due from SKX Group’s largest customer as at December 31, 2017, 2018 and 2019 and January 7, 2020, respectively.

The Group also has concentration of credit risk on trade receivables. As at December 31, 2017, December 31, 2018, December 31, 2019 and January 7, 2020, 68.13%, 71.93%, 80.60% and 74.84% of the total trade receivables were due from SKX Group’s top five customers, respectively.

Overview of SKX Group’s exposure to credit risk before adoption of IFRS 9 as at January 1, 2018

In order to minimize the credit risk of trade receivables and other receivables, the management of SKX Group makes periodic collective assessments as well as individual assessment on the recoverability of trade receivables, other receivables based on historical settlement records and past experience. SKX Group reviews the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of SKX Group considers that SKX Group’s credit risk is significantly reduced.

Other than concentration of credit risk on bills receivables, pledged and restricted bank deposits, bank balances and cash in which the counterparties are banks with good reputation, SKX Group has no other significant concentration of credit risk on its receivables, with exposure spread over a number of counterparties.

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Overview of SKX Group’s exposure to credit risk after adoption of IFRS 9 as at January 1, 2018

Credit risk refers to the risk that SKX Group’s counterparties default on their contractual obligations resulting in financial losses to SKX Group. SKX Group’s credit risk exposures are primarily attributable to trade and bills receivables, other receivables, pledged and restricted bank deposits, and bank balances and cash. SKX Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimize the credit risk, the management of SKX Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In addition, SKX Group performs impairment assessment under ECL model in accordance with IFRS 9 on receivable balances individually or based on provision matrix.

SKX Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on pledged and restricted bank deposits and bank balances and cash is limited because the majority of the counterparties are banks with good reputation.

For trade receivables, SKX Group has applied the simplified approach of IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, SKX Group determines the ECL on these items by using a provision matrix by risk portfolio, which is estimated based on the financial quality of the debtors, historical credit loss experience and the past due status of the debtors, general economic conditions of the industry in which the debtors operate and assessment of both the current as well as the forward-looking information that available without undue cost or effort at the reporting date.

The SKX Group measures the loss allowance of other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL.

SKX Group measures the loss allowance on bank balances and pledged and restricted bank deposits on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition. The credit risk is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies.

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The SKX Group’s internal credit risk grading assessment comprises the following categories:

<u>Internal credit rating</u>	<u>Description</u>	<u>Trade and bills receivables</u>	<u>Other financial assets</u>
Low risk	The counterparty has a low risk of default	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and SKX Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at January 1, 2018, December 31, 2018, December 31, 2019, and January 7, 2020, respectively, within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of RMB12,431,000, RMB16,426,000, RMB23,379,000 and RMB23,379,000 as at December 31, 2018, December 31, 2019 and January 7, 2020, respectively, were assessed individually.

January 1, 2018		
Trade receivables –		
	<u>Average loss rate</u>	<u>Gross carrying amount</u>
		<i>RMB’000</i>
Low risk	0.85%	192,910
Doubtful	9.26%	81,814
Total		<u>274,724</u>

December 31, 2018		
Trade receivables –		
	<u>Average loss rate</u>	<u>Gross carrying amount</u>
		<i>RMB’000</i>
Low risk	2.37%	164,203
Doubtful	14.26%	73,552
Total		<u>237,755</u>

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		December 31, 2019
	Average loss rate	Trade receivables – Gross carrying amount
		<i>RMB’000</i>
Low risk	1.78%	137,542
Doubtful	35.10%	53,860
Total		191,402
		January 7, 2020
	Average loss rate	Trade receivables – Gross carrying amount
		<i>RMB’000</i>
Low risk	1.46%	173,932
Doubtful	34.68%	54,346
Total		228,278

The following table shows the movement of loss allowances in lifetime ECL that has been recognized for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at December 31, 2017	3,257	12,431	15,688
Adoption of IFRS 9	5,952	–	5,952
As at January 1, 2018	9,209	12,431	21,640
Impairment losses recognized	5,220	4,614	9,834
Impairment losses reversed	(13)	–	(13)
Written-off	(41)	(619)	(660)
As at December 31, 2018	14,375	16,426	30,801
Impairment losses recognized	7,402	8,048	15,450
Impairment losses reversed	(143)	(1,095)	(1,238)
Written-off	(278)	–	(278)
As at December 31, 2019	21,356	23,379	44,735

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	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Impairment losses recognized	37	–	37
Impairment losses reversed	–	–	–
Written-off	–	–	–
As at January 7, 2020	<u>21,393</u>	<u>23,379</u>	<u>44,772</u>

The following tables show reconciliation of loss allowances that has been recognized for other receivables.

	12-month ECL	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at January 1, 2018	<u>534</u>	<u>–</u>	<u>–</u>	<u>534</u>
Impairment losses recognized	192	–	–	192
Impairment losses reversed	<u>(98)</u>	<u>–</u>	<u>–</u>	<u>(98)</u>
At December 31, 2018	<u>628</u>	<u>–</u>	<u>–</u>	<u>628</u>
Impairment losses recognized	835	–	–	835
Impairment losses reversed	(366)	–	–	(366)
Transfer to lifetime ECL	(632)	632	–	–
Written-off	<u>–</u>	<u>(632)</u>	<u>–</u>	<u>(632)</u>
At December 31, 2019	<u>465</u>	<u>–</u>	<u>–</u>	<u>465</u>
Impairment losses recognized	46	–	–	46
Impairment losses reversed	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at January 7, 2020	<u>511</u>	<u>–</u>	<u>–</u>	<u>511</u>

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SKX Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written-off is subject to enforcement activities.

Liquidity risk

In management of the liquidity risk, SKX Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance SKX Group’s operations and mitigate the effects of fluctuations in cash flows. SKX Group relies on bank loans as a source of liquidity.

SKX Group had net current liabilities of RMB1,789,932,000 as at January 7, 2020, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the directors of SKX Group regularly monitor the operating cash flows of the Group to meet its liquidity requirement in the short and long term. SKX Group’s net current liabilities position as at January 7, 2020 was mainly attributable to trade and bills payables and bank borrowings due within one year.

In view of these circumstances, the directors of SKX Group have given consideration to the future liquidity and performance of SKX Group and its available sources of finance in assessing whether SKX Group will have sufficient financial resources to continue as a going concern. Meanwhile, SKX Group recorded positive profit, positive net assets and net operating cash inflows during the Track Record Period.

The directors of SKX Group, after taking into account the reasonably possible changes in the operational performance, the availability of retained profits and the expected renewal of the short-term borrowings, are of the opinion that, SKX Group will have sufficient working capital to meet its financial obligations as and when they fall due.

The following table details SKX Group’s remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which SKX Group can be required to pay. The table includes both interest and principal cash flows.

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Liquidity tables

	Weighted average effective interest rate	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31/12/2017
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended							
December 31, 2017							
Non-derivative financial liabilities							
Trade payables	–	601,502	–	–	–	601,502	601,502
Bills payable	–	80,176	–	–	–	80,176	80,176
Other payables	–	227,964	–	–	–	227,964	227,964
Lease liabilities	5.25	13,786	14,482	36,409	751,173	815,850	308,414
Borrowings							
– fixed-rate	4.75 to 7.20	777,181	301,218	441,205	209,620	1,729,224	1,331,216
– variable-rate	5.00 to 5.70	295,592	248,926	126,492	156,110	827,120	939,020
		<u>1,996,201</u>	<u>564,626</u>	<u>604,106</u>	<u>1,116,903</u>	<u>4,281,836</u>	<u>3,488,292</u>

	Weighted average effective interest rate	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31/12/2018
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended							
December 31, 2018							
Non-derivative financial liabilities							
Trade payables	–	834,533	–	–	–	834,533	834,533
Bills payable	–	94,210	–	–	–	94,210	94,210
Other payables	–	320,799	–	–	–	320,799	320,799
Lease liabilities	5.25	17,293	14,355	45,033	745,235	821,916	290,229
Borrowings							
– fixed-rate	4.35 to 6.80	801,493	195,243	295,361	–	1,292,097	1,207,741
– variable-rate	4.90 to 6.96	409,090	119,724	196,781	189,072	914,667	833,786
		<u>2,477,418</u>	<u>329,322</u>	<u>537,175</u>	<u>934,307</u>	<u>4,278,222</u>	<u>3,581,298</u>

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	Weighted average effective interest rate	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31/12/2019
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended							
December 31, 2019							
Non-derivative financial							
liabilities							
Trade payables	–	1,050,239	–	–	–	1,050,239	1,050,239
Bills payable	–	206,184	–	–	–	206,184	206,184
Other payables	–	301,987	–	–	–	301,987	301,987
Lease liabilities	5.25	21,863	22,380	46,588	737,250	828,081	303,220
Borrowings							
– fixed-rate	4.35 to 6.60	668,933	511,235	150,335	–	1,330,503	1,244,669
– variable-rate	4.35 to 6.96	499,155	82,817	232,875	106,301	921,148	842,120
		<u>2,748,361</u>	<u>616,432</u>	<u>429,798</u>	<u>843,551</u>	<u>4,638,142</u>	<u>3,948,419</u>

	Weighted average effective interest rate	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 07/01/2020
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the seven days ended							
January 7, 2020							
Non-derivative financial							
liabilities							
Trade payables	–	1,098,733	–	–	–	1,098,733	1,098,733
Bills payable	–	206,184	–	–	–	206,184	206,184
Other payables	–	305,901	–	–	–	305,901	305,901
Lease liabilities	5.25	23,923	21,054	46,109	734,499	825,585	303,981
Borrowings							
– fixed-rate	4.35 to 6.60	628,062	487,193	174,442	–	1,289,697	1,207,039
– variable-rate	4.35 to 6.96	505,667	82,873	233,940	104,160	926,640	842,120
		<u>2,768,470</u>	<u>591,120</u>	<u>454,491</u>	<u>838,659</u>	<u>4,652,740</u>	<u>3,963,958</u>

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AI. FAIR VALUE MEASUREMENTS

SKX Group’s biological assets and certain of SKX Group’s financial assets and financial liabilities are measured at fair value on a recurring basis at the end of each Pre-acquisition Period. The following table gives information about how the fair values of these biological assets, financial assets and financial liabilities 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 categorized based on the degree to which the inputs to the fair value measurements is observable.

Recurring fair value	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Heifers and calves	–	–	959,748	959,748
Milkable cows	–	–	1,340,619	1,340,619
Breeding stock	–	–	34,270	34,270
Contingent consideration to non-controlling equity holders	–	–	4,060	4,060
Total assets	–	–	2,338,697	2,338,697

Recurring fair value	As at December 31, 2018			
	Level 1	Level 2	Level 3	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Heifers and calves	–	–	1,040,558	1,040,558
Milkable cows	–	–	1,472,337	1,472,337
Breeding stock	–	–	28,328	28,328
Equity instruments at FVTOCI	–	–	35,540	35,540
Contingent consideration to non-controlling equity holders	–	–	3,460	3,460
Total assets	–	–	2,580,223	2,580,223

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Recurring fair value	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Heifers and calves	–	–	1,030,787	1,030,787
Milkable cows	–	–	1,674,181	1,674,181
Breeding stock	–	–	41,871	41,871
Equity instruments at FVTOCI	–	–	46,688	46,688
Contingent consideration to non-controlling equity holders	–	–	660	660
Total assets	–	–	2,794,187	2,794,187
Recurring fair value	As at January 7, 2020			
	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Heifers and calves	–	–	1,029,836	1,029,836
Milkable cows	–	–	1,678,932	1,678,932
Breeding stock	–	–	42,412	42,412
Equity instruments at FVTOCI	–	–	46,688	46,688
Contingent consideration to non-controlling equity holders	–	–	660	660
Total assets	–	–	2,798,528	2,798,528

Valuation techniques used in fair value measurements

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used in the valuation models.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Unquoted equity Investments	Market approach.	Fair value is estimated based on comparable company enterprise value/ revenue and discount for lack of marketability (“DLOM”).	The higher the DLOM, the lower the fair value.

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Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Biological assets Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling prices of the heifers of 14 months old were estimated at RMB17,000, RMB17,000, RMB18,500 and RMB18,500 per head at December 31, 2017, 2018, 2019 and January 7, 2020, respectively.	An increase in the estimated local market selling price used would result in an increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves 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. 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.	Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old are RMB7,724, RMB9,278, RMB11,766 and RMB11,766 at December 31, 2017, 2018, 2019 and January 7, 2020, respectively; average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB6,136, RMB7,403, RMB8,902 and RMB8,902, respectively.	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 the heifers and calves older/younger than 14 months old, and vice versa.

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Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
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.	The estimated feed costs per kg of raw milk used in the valuation process are RMB1.97, RMB1.94, RMB2.06 and RMB2.06 for the three years ended 2019 and seven days ended, January 7, 2020, respectively, based on the historical average feed costs per kg of raw milk after taking into consideration of inflation. A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 21.91 kg to 25.25 kg during year end December 31, 2017, lactation cycle is ranged from 23.65 kg to 26.31 kg during year end December 31, 2018, lactation cycle is ranged from 22.40 kg to 24.28 kg during year ended December 31, 2019 depending on the number of the lactation cycles and the individual physical condition. Lactation cycle is ranged from 22.40 kg to 24.28 kg for the seven days ended January 7, 2020. Estimated local future market prices for raw milk are RMB3,595, RMB3,671, RMB3,881 and RMB3,881 and per tonne at December 31, 2017, 2018, 2019 and January 7, 2020, Respectively. Discount rate for estimated future cash flow used is 13.00%, as at December 31, 2017, 2018, 2019 and January 7, 2020.	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. An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of the milkable cows, and vice versa. An increase in the estimated average selling price of raw milk used would result in an increase in the fair value measurement of the milkable cows, and vice versa. An increase in the estimated discount rate used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.

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Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
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.	The estimated feed costs per day of breeding stock used in the valuation process are RMB31, RMB32, RMB33 and RMB33 for the three years ended 2019 and seven days ended, January 7, 2020, respectively, based on the historical average feed costs per day of breeding stock after taking into consideration of inflation. Estimated local future market prices for sex-sorting frozen bovine semen are RMB122, RMB102, RMB107 and RMB107 per straw at December 31, 2017, 2018, 2019 and January 7, 2020, Respectively. Estimated local future market prices for conventional frozen bovine semen are RMB25, RMB22, RMB18 and RMB18 per straw at December 31, 2017, 2018, 2019 and January 7, 2020, Respectively. Discount rate for estimated future cash flow used is 13.00%, as at December 31, 2017, 2018, 2019 and January 7, 2020.	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. An increase in the estimated average selling price of frozen bovine semen used would result in an increase in the fair value measurement of the breeding stock, and vice versa. An increase in the estimated discount rate used would result in a decrease in the fair value measurement of the breeding stock, and vice versa.

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Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI	Contingent consideration to non- controlling equity holders
	<i>RMB’000</i>	<i>RMB’000</i>
As at January 1, 2017	–	4,500
Recognition of contingent consideration to non-controlling equity holders	–	2,060
Payment of contingent consideration to non-controlling equity holders	–	(2,500)
As at December 31, 2017	–	4,060
Adoption of IFRS 9	40,231	–
At January 1, 2018 (as restated)	40,231	4,060
Change in fair value	(4,791)	–
Investment in equity instruments at FVTOCI	100	–
Payment of contingent consideration to non-controlling equity holders	–	(600)
As at December 31, 2018	35,540	3,460
Change in fair value	11,148	–
Payment of contingent consideration to non-controlling equity holders	–	(2,800)
As at December 31, 2019	46,688	660
Change in fair value	–	–
As at January 7, 2020	46,688	660

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The reconciliation from the beginning balances as at January 1, 2017 to the ending balances as at January 7, 2020 for fair value measurements of the biological assets are disclosed in note N.

During the Pre-acquisition Period, the management of SKX Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values at the end of each reporting period.

AJ. PLEDGE OF OR RESTRICTIONS ON ASSETS

SKX Group’s borrowings had been secured by the pledge of SKX Group’s biological assets and the carrying amounts are as follows:

	Year ended December 31,			For the seven days ended January 7,
	2017	2018	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Biological assets	<u>1,106,755</u>	<u>1,403,989</u>	<u>1,449,034</u>	<u>1,449,034</u>

SKX Group’s pledged and restricted bank deposits and their carrying amounts are set out in note S.

AK. MAJOR NON-CASH TRANSACTIONS

As disclosed in the note (iii) and (v) of SKX Group’s statements of changes in equity, SKX Group had non-cash distribution to non-controlling shareholders during the year ended December 31, 2018 and 2019. Same as disclosed in note AD, where SKX Group issued ordinary shares in the acquisition of Beijing Haihuayundu and Huaxia Xinghua in 2017. SKX Group did not have other major non-cash transactions during the Pre-acquisition Period.

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AL. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in SKX Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group’s consolidated statement of cash flows as cash flows from financing activities.

	Consideration payables for acquisition of non- controlling interests	Bank borrowings	Lease liabilities	Contingent consideration to non- controlling equity holders	Total
	<i>Note W</i> <i>RMB’000</i>	<i>Note Y</i> <i>RMB’000</i>	<i>Note AA</i> <i>RMB’000</i>	<i>Note AB</i> <i>RMB’000</i>	<i>RMB’000</i>
At January 1, 2017	–	1,771,648	323,028	4,500	2,099,176
Financing cash flows	–	375,423	(24,546)	(2,500)	348,377
Interest expenses	–	121,204	9,932	–	131,136
Increase for the year	–	–	–	2,060	2,060
Others	–	1,961	–	–	1,961
At December 31, 2017	–	2,270,236	308,414	4,060	2,582,710
Financing cash flows	–	(342,510)	(19,020)	(600)	(362,130)
Interest expenses	–	113,040	15,302	–	128,342
Decrease for the year	–	–	(14,467)	–	(14,467)
Others	–	761	–	–	761
At December 31, 2018	–	2,041,527	290,229	3,460	2,335,216
Financing cash flows	(206,295)	(63,056)	(25,683)	(2,800)	(297,834)
Interest expenses	–	107,874	15,480	–	123,354
Acquisition of non-controlling interests	229,217	–	–	–	229,217
Increase for the year	–	–	23,194	–	23,194
Others	–	444	–	–	444
At December 31, 2019	22,922	2,086,789	303,220	660	2,413,591
Financing cash flows	–	(40,100)	–	–	(40,100)
Interest expenses	–	2,470	310	–	2,780
Increase for the period	–	–	451	–	451
At January 7, 2020	22,922	2,049,159	303,981	660	2,376,722

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AM. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF SKX

As at the date of this report, SKX has the following subsidiaries:

Name of subsidiary	Place of establishment	Paid up/Issue Registered capital	Shareholding/equity interest attributable to SKX Group as at				Principal activities
			December 31, 2017	December 31, 2018	December 31, 2019	January 7, 2020	
Inner Mongolia SK Xing Dairy Limited (<i>note vi</i>)	PRC	88,000,000/ 88,000,000	100%	100%	100%	100%	Raising and breeding dairy cows, and raw milk production
Inner Mongolia Benteng Dairy Limited (<i>note vi</i>)	PRC	560,000,000/ 560,000,000	100%	100%	100%	100%	Raising and breeding dairy cows, and raw milk production
Ningxia SKX (<i>note vi</i>)	PRC	74,200,000/ 74,200,000	70%	70%	89.108%	89.108%	Raising and breeding dairy cows, and raw milk production
Ordos SKX (<i>note vi</i>)	PRC	50,000,000/ 50,000,000	70%	70%	100%	100%	Raising and breeding dairy cows, and raw milk production
Etuoqeqi Saiyou (<i>note ix</i>)	PRC	45,000,000/ 45,000,000	70%	70%	100%	100%	Raising and breeding dairy cows, and raw milk production
內蒙古賽科星農業有限公司 (<i>note i</i>) (Inner Mongolia SK Xing Agriculture Limited*)	PRC	–/ 10,000,000	100%	100%	/	/	Raising and breeding dairy cows, and raw milk production
Inner Mongolia Northern Lianiu Agriculture and Dairy Co. Ltd (<i>note viii</i>)	PRC	190,977,100/ 190,977,100	99.9961%	99.9961%	99.9961%	99.9961%	Raising and breeding dairy cows, and raw milk production
Beijing Haihuayundu (<i>note vi</i>)	PRC	477,188,074/ 477,188,074	100%	100%	100%	100%	Raising and breeding dairy cows, and raw milk production
Hulun Buir Saiyou (<i>note vi</i>)	PRC	60,000,000/ 210,000,000	70%	70%	100%	100%	Raising and breeding dairy cows, and raw milk production
Hebei Benfang Dairy Limited (<i>note vi</i>)	PRC	240,000,000/ 240,000,000	100%	100%	100%	100%	Raising and breeding dairy cows, and raw milk production

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Name of subsidiary	Place of establishment	Paid up/Issue Registered capital	Shareholding/equity interest attributable to SKX Group as at				Principal activities
			December 31, 2017	December 31, 2018	December 31, 2019	January 7, 2020	
Cangzhou SKX (<i>note x</i>)	PRC	40,000,000/ 40,000,000	70%	70%	100%	100%	Raising and breeding dairy cows, and raw milk production
Dingzhou SKX (<i>note x</i>)	PRC	41,000,000/ 41,000,000	70%	70%	100%	100%	Raising and breeding dairy cows, and raw milk production
Dalateqi Saiyou (<i>note ix</i>)	PRC	100,000,000/ 100,000,000	100%	100%	100%	100%	Raising and breeding dairy cows, and raw milk production
Wuqiang Saiyou Dairy Limited (<i>note x</i>)	PRC	51,000,000/ 51,000,000	100%	100%	100%	100%	Raising and breeding dairy cows, and raw milk production
Huaxia Xinghua (<i>note vi</i>)	PRC	462,457,540/ 462,457,540	100%	100%	100%	100%	Raising and breeding dairy cows, and raw milk production
Jiyuan SKX (<i>note vi</i>)	PRC	66,000,000/ 66,000,000	70%	70%	100%	100%	Raising and breeding dairy cows, and raw milk production
Xundian Saiyou (<i>note viii</i>)	PRC	78,800,000/ 80,000,000	98.5%	98.5%	98.5%	98.5%	Raising and breeding dairy cows, and raw milk production
Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd (<i>note ix</i>)	PRC	48,000,000/ 48,000,000	100%	100%	100%	100%	Breeding of livestock; Cloning technology development
Qinhuangdao Quannong Cow Breeding Co. Ltd (<i>note ii</i>)	PRC	2,000,000/ 2,000,000	80%	80%	/	/	Trading of frozen bovine semen
Inner Mongolia SK Xing Jingyuan Technology Company Limited (<i>note vi</i>)	PRC	10,000,000/ 10,000,000	100%	100%	100%	100%	Trading of frozen bovine semen
Chengde Saiyou Dairy Co., Ltd. (<i>note vii</i>)	PRC	40,000,000/ 40,000,000	–	–	100%	100%	Raising and breeding dairy cows, and raw milk production
內蒙古順星源畜牧科技有限公司 (<i>note iii</i>) (Inner Mongolia Shun Xing Yuan Livestock Technology Co. Ltd ^(*)) (“Shun Xing Yuan”)	PRC	–/500,000	/	/	/	/	Livestock technical development

APPENDIX I

ACCOUNTANTS’ REPORT

Name of subsidiary	Place of establishment	Paid up/Issue Registered capital	Shareholding/equity interest attributable to SKX Group as at				Principal activities
			December 31, 2017	December 31, 2018	December 31, 2019	January 7, 2020	
內蒙古賽科星家畜種業與繁育生物技術研究院(note iv) (note xi) (Inner Mongolia SK Xing Livestock Breeding and Breeding Biotechnology Research Institute *)	PRC	-/5,000,000	100%	/	/	/	Livestock technical development
Qiqihar Saiyou (note v) (note xi)	PRC	-/ 1,000,000,000	85%	/	/	/	Raising and breeding dairy cows, and raw milk production

* The English name of the Chinese company marked with “*” are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

Notes:

- (i) This company was deregistered on September 2019. No audited statutory financial statements for the year ended December 31, 2017 and December 31, 2018 were available as there was no requirement to issue audited accounts by the local authorities.
- (ii) This company was deregistered on July 2019. No audited statutory financial statements for the year ended December 31, 2017 and December 31, 2018 were available as there was no requirement to issue audited accounts by the local authorities.
- (iii) SKX Group dispose Shun Xing Yuan at the consideration of RMB255,000 on August 2018 after establishment on April 2018. The net cash outflow of the disposal is RMB118,000. No audited statutory financial statements for the period were available as there was no requirement to issue audited accounts by the local authorities.
- (iv) This company was deregistered on July 2018.
- (v) This company was deregistered on September 2018.
- (vi) The statutory financial statements were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC Financial Reporting Standards. These financial statements for the years ended December 31, 2017, December 31, 2018, December 31, 2019 were audited by Da Hua CPA.
- (vii) No audited statutory financial statements were available for the years ended December 31, 2017 and December 31, 2018 as this entity was incorporated/established during the year ended December 31, 2019. No audited statutory financial statements for the year ended December 31, 2019 were available as there was no requirement to issue audited accounts by the local authorities.
- (viii) No audited statutory financial statements were available for the year ended December 31, 2017, December 31, 2018, December 31, 2019 as there was no requirement to issue audited accounts by the local authorities.
- (ix) The statutory financial statements were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC Financial Reporting Standards. These financial statements for the years ended December 31, 2018 and December 31, 2019 were audited by Da Hua CPA. No audited statutory financial statements for the year ended December 31, 2017 were available as there was no requirement to issue audited accounts by the local authorities.

APPENDIX I

ACCOUNTANTS’ REPORT

- (x) The statutory financial statements were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC Financial Reporting Standards. These financial statements for the years ended December 31, 2019 were audited by Da Hua CPA. No audited statutory financial statements for the year ended December 31, 2017 and December 31, 2018 were available as there was no requirement to issue audited accounts by the local authorities.
- (xi) No audited statutory financial statements for the year ended December 31, 2017 were available as there was no requirement to issue audited accounts by the local authorities.

None of the subsidiaries had issued any debt securities during the Pre-acquisition Period.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

The following is the text of a report set out on pages II-1 to II-[●], received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong, on the historical financial information of Fonterra China Farms Group for the purpose of incorporation in this Document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION OF FONTERRA CHINA FARMS GROUP TO THE DIRECTORS OF CHINA YOURAN DAIRY GROUP LIMITED

Introduction

We report on the historical financial information of Fonterra China Farms Group (as described in Note 1) set out on pages II-[●] to II-[●], which comprises the combined statements of financial position of Fonterra China Farms Group as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of Fonterra China Farms Group for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the “Track Record Period”), and a summary of significant accounting policies and other explanatory information (together, the “Fonterra Historical Financial Information”). The Fonterra Historical Financial Information set out on pages II-[●] to II-[●] forms an integral part of this report, which has been prepared for inclusion in the document of China Youran Dairy Group Limited (the “Company”) dated [date] (the “Document”) in connection with the [REDACTED] of the shares of the Company on the [REDACTED] of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for Fonterra Historical Financial Information

The directors of the Company are responsible for the preparation of Fonterra Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Fonterra Historical Financial Information.

The underlying financial statements of Fonterra China Farms Group as defined on page II-[●], on which the Fonterra Historical Financial Information is based, were prepared by the directors of Fonterra China Farms Group. The directors of Fonterra China Farms Group are responsible for the preparation of the underlying financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”), and for such internal control as the directors of Fonterra China Farms Group determine is necessary to enable the preparation of the underlying financial statements that is free from material misstatement, whether due to fraud or error.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Fonterra Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Fonterra Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Fonterra Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Fonterra Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the Fonterra China Farms Group’s preparation of Fonterra Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Fonterra Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fonterra China Farms Group’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Fonterra Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Fonterra Historical Financial Information gives, for the purpose of the accountants’ report, a true and fair view of Fonterra China Farms Group’s financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of Fonterra China Farms Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Fonterra Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of Fonterra China Farms Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the “Stub Period Corresponding Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

presentation set out in Note 1 to the Fonterra Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our 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 (“IAASB”). A review consists of making enquiries, 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. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Fonterra Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Fonterra Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-[●] have been made.

Dividends

We refer to Note 11 to the Fonterra Historical Financial Information which states that no dividends have been paid by Fonterra China Farms Group in respect of the Track Record Period.

Certified Public Accountants

8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

[Date]

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

A FONTERRA HISTORICAL FINANCIAL INFORMATION

Set out below is the Fonterra Historical Financial Information which forms an integral part of this Accountants’ Report.

The combined financial statements of Fonterra China Farms Group for the Track Record Period, on which the Fonterra Historical Financial Information is based, were audited by KPMG Huazhen LLP under separate terms of engagement in accordance with International Standards on Auditing issued by the IAASB (“Underlying Financial Statements”).

Fonterra Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand (RMB’000) except where otherwise indicated.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Notes	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Revenue	4	1,055,658	957,654	1,111,354	530,599	587,492
Cost of sales		(983,776)	(867,282)	(1,011,171)	(480,524)	(548,123)
Gains/(losses) arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		82,207	(12,269)	94,418	18,506	93,297
Gross profit		154,089	78,103	194,601	68,581	132,666
(Losses)/gains arising from changes in fair value less costs to sell of biological assets	15	(89,192)	(157,748)	(8,922)	11,567	(47,272)
Other income	5	11,840	5,401	23,100	10,199	5,317
Other gains and losses	6	5,750	(10,133)	(902,126)	(504)	173
Selling and distribution expenses		(51,087)	(62,876)	(69,338)	(35,982)	(23,934)
Administrative expenses		(77,342)	(70,280)	(60,622)	(34,972)	(30,432)
(Loss)/profit from operations		(45,942)	(217,533)	(823,307)	18,889	36,518
Finance costs	7	(59,333)	(53,262)	(50,079)	(25,478)	(25,259)
(Loss)/profit before tax		(105,275)	(270,795)	(873,386)	(6,589)	11,259
Income tax expense	8	—	—	—	—	—
(Loss)/profit and total comprehensive income for the year/period	9	<u>(105,275)</u>	<u>(270,795)</u>	<u>(873,386)</u>	<u>(6,589)</u>	<u>11,259</u>

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	Notes	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	12	2,074,821	1,988,154	1,057,016	1,038,220
Right-of-use assets	13	94,687	91,396	87,701	85,620
Intangible assets	14	4,406	2,268	171	140
Biological assets	15	1,216,839	1,090,607	1,184,660	1,150,661
		<u>3,390,753</u>	<u>3,172,425</u>	<u>2,329,548</u>	<u>2,274,641</u>
Current assets					
Inventories	16	199,358	186,681	180,292	104,094
Trade receivables	17	105,400	99,806	121,661	125,115
Prepayments, deposits and other receivables	18	10,874	7,602	8,166	8,496
Amounts due from related parties	29	120,949	109,239	56,838	202,588
Cash and cash equivalents	19	54,774	18,320	14,399	15,555
		<u>491,355</u>	<u>421,648</u>	<u>381,356</u>	<u>455,848</u>
Current liabilities					
Trade payables	20	163,051	149,627	161,543	162,247
Other payables and accruals	21	51,270	69,021	65,250	55,413
Contract liabilities	22	172	608	1,390	1,320
Amounts due to related parties	29	34,728	38,311	36,269	31,856
Bank borrowings	23	222,036	143,982	95,936	95,936
Non-current borrowings from immediate controlling company due within one year	23	–	–	740,539	930,646
Lease liabilities	25	–	14,973	5,715	3,738
		<u>471,257</u>	<u>416,522</u>	<u>1,106,642</u>	<u>1,281,156</u>
Net current assets/(liabilities)		<u>20,098</u>	<u>5,126</u>	<u>(725,286)</u>	<u>(825,308)</u>
Total assets less current liabilities		<u>3,410,851</u>	<u>3,177,551</u>	<u>1,604,262</u>	<u>1,449,333</u>

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

		As at 31 December			As at 30 June
	Notes	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Non-current liabilities					
Borrowings from immediate controlling company	23	2,591,488	2,458,632	1,733,220	1,563,232
Lease liabilities	25	53,887	41,901	38,110	38,867
Deferred income	24	1,250	1,100	950	875
		<u>2,646,625</u>	<u>2,501,633</u>	<u>1,772,280</u>	<u>1,602,974</u>
Net assets/(liabilities)		<u>764,226</u>	<u>675,918</u>	<u>(168,018)</u>	<u>(153,641)</u>
Capital and reserves	26				
Share capital		1,343,927	1,343,927	1,343,927	1,343,927
Reserves		<u>(579,701)</u>	<u>(668,009)</u>	<u>(1,511,945)</u>	<u>(1,497,568)</u>
Total equity/(deficit)		<u>764,226</u>	<u>675,918</u>	<u>(168,018)</u>	<u>(153,641)</u>

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

COMBINED STATEMENTS OF CHANGES IN EQUITY

	<i>Note</i>	Share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2017		1,343,927	131,752	(647,704)	827,975
Loss and total comprehensive income for the year		–	–	(105,275)	(105,275)
Capital contribution from the immediate controlling company through discounting of interest-free loans	26(b)	<u>–</u>	<u>41,526</u>	<u>–</u>	<u>41,526</u>
As at 31 December 2017 and 1 January 2018		1,343,927	173,278	(752,979)	764,226
Loss and total comprehensive income for the year		–	–	(270,795)	(270,795)
Capital contribution from the immediate controlling company through discounting of interest-free loans	26(b)	<u>–</u>	<u>182,487</u>	<u>–</u>	<u>182,487</u>
As at 31 December 2018 and 1 January 2019		1,343,927	355,765	(1,023,774)	675,918
Loss and total comprehensive income for the year		–	–	(873,386)	(873,386)
Capital contribution from the immediate controlling company through discounting of interest-free loans	26(b)	<u>–</u>	<u>29,450</u>	<u>–</u>	<u>29,450</u>
As at 31 December 2019		<u><u>1,343,927</u></u>	<u><u>385,215</u></u>	<u><u>(1,897,160)</u></u>	<u><u>(168,018)</u></u>

The accompanying Notes form the part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

	<i>Note</i>	Share capital RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2020		1,343,927	385,215	(1,897,160)	(168,018)
Profit and total comprehensive income for the period		–	–	11,259	11,259
Capital contribution from the immediate controlling company through discounting of interest-free loans	26(b)	–	3,118	–	3,118
As at 30 June 2020		<u>1,343,927</u>	<u>388,333</u>	<u>(1,885,901)</u>	<u>(153,641)</u>
Unaudited:					
As at 1 January 2019		1,343,927	355,765	(1,023,774)	675,918
Loss and total comprehensive income for the period		–	–	(6,589)	(6,589)
Capital contribution from the immediate controlling company through discounting of interest-free loans	26(b)	–	29,450	–	29,450
As at 30 June 2019		<u>1,343,927</u>	<u>385,215</u>	<u>(1,030,363)</u>	<u>698,779</u>

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

COMBINED STATEMENTS OF CASH FLOWS

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> (unaudited)	<i>RMB’000</i>
Operating activities						
(Loss)/profit before tax		(105,275)	(270,795)	(873,386)	(6,589)	11,259
Adjustments for:						
Losses/(gains) arising from changes in fair value less costs to sell of biological assets	15	89,192	157,748	8,922	(11,567)	47,272
Interest income	5	(4,554)	(4,231)	(3,316)	(1,581)	(2,753)
Finance costs	7	59,333	53,262	50,079	25,478	25,259
Depreciation and amortisation	9	117,934	110,190	86,574	55,173	23,531
Losses/(gains) on disposal of property, plant and equipment	6	1,755	2,879	(171)	–	–
Impairment losses on property, plant and equipment and intangible assets	6	–	–	899,132	–	–
Government grants	5	(150)	(150)	(150)	(75)	(75)
Operating cash flows before movements in working capital		158,235	48,903	167,684	60,839	104,493

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> (unaudited)	<i>RMB’000</i>
Operating cash flows before movements in working capital	158,235	48,903	167,684	60,839	104,493
Movements in working capital:					
Decrease in inventories	39,137	12,676	6,390	61,885	76,197
(Increase)/decrease in trade receivables	(2,800)	5,594	(21,854)	(20,762)	(3,455)
Decrease/(increase) in prepayments and other receivables	8,895	3,274	(565)	(4,465)	(328)
Decrease/(increase) in amounts due from related parties	6,137	573	909	347	(149)
(Decrease)/increase in trade payables	(39,893)	(13,424)	11,916	31,552	704
(Decrease)/increase in other payables and accruals	(42,130)	17,450	(5,201)	(4,552)	(7,731)
Increase/(decrease) in contract liabilities	90	436	781	202	(70)
Increase/(decrease) in amounts due to related parties	6,534	(1,043)	1,356	(4,727)	(4,326)
Cash generated from operations	134,205	74,439	161,416	120,319	165,335
Interest received	226	157	25	11	25
Net cash generated from operating activities	134,431	74,596	161,441	120,330	165,360

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> (unaudited)	<i>RMB’000</i>
Investing activities					
Payments for purchase of property, plant and equipment	(10,898)	(20,712)	(51,596)	(34,998)	(4,775)
Expenditure on biological assets	(243,167)	(215,163)	(157,420)	(72,064)	(77,691)
Proceeds from disposal of biological assets	122,689	188,136	51,594	13,424	64,689
Payments for purchases of intangible assets	(138)	–	–	–	–
Proceeds from disposal of property, plant and equipment	85	343	4,024	–	–
Net lending to related parties through cash pooling arrangement	–	(107,834)	–	–	(145,346)
Repayment of net lending by related parties through cash pooling arrangement	–	–	51,430	3,382	–
Loans repaid by related parties	20,000	110,000	–	–	–
Interest received	121	13,043	3,354	1,714	2,472
Net cash used in investing activities	(111,308)	(32,187)	(98,614)	(88,542)	(160,651)

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
					(unaudited)	
Financing activities						
Proceeds from borrowings						
from immediate controlling company		36,000	–	–	–	–
Repayment of bank loans		(197,311)	(177,509)	(131,224)	(93,982)	–
Proceeds from bank loans		122,613	99,455	83,178	63,873	–
Interest paid		(11,433)	(6,614)	(5,094)	(2,509)	(3,178)
Capital element of lease rentals paid		(2,080)	(108)	(13,261)	(11,332)	(1,199)
Interest element of lease rentals paid		(2,568)	(9)	(2,381)	(1,090)	(1,035)
Net cash used in financing activities		(54,779)	(84,785)	(68,782)	(45,040)	(5,412)
Net decrease in cash and cash equivalents		(31,656)	(42,376)	(5,955)	(13,252)	(703)
Cash and cash equivalents at the beginning of the year/period		93,680	54,774	18,320	18,320	14,399
Effect of foreign exchange rate changes		(7,250)	5,922	2,034	207	1,859
Cash and cash equivalents at the end of the year/period	19	54,774	18,320	14,399	5,275	15,555

The accompanying Notes form part of this Fonterra Historical Financial Information.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

B NOTES TO THE FONTERRA HISTORICAL FINANCIAL INFORMATION OF FONTERRA CHINA FARMS GROUP

1 BASIS OF PREPARATION AND PREPARATION OF FONTERRA HISTORICAL FINANCIAL INFORMATION

1.1 General information

The Fonterra China Farms Group consists of two companies which are owned by Fonterra Tangshan Dairy Farm (HK) Limited (“Fonterra HK”) and ultimately controlled by Fonterra Co-operative Group Limited (“Fonterra Group”).

The Fonterra China Farms Group is comprised of two dairy farm legal entities situated in Ying County in Shanxi province and Yutian County in Hebei province in the People’s Republic of China (“PRC”). The Fonterra China Farms Group is principally engaged in the raising and breeding of dairy cows and the production of raw milk.

On 3 October 2020, Fonterra HK reached an agreement to sell its equity interests in the Fonterra China Farms Group to Inner Mongolia Natural Dairy Co., Ltd. (“Youran Dairy”), which is a subsidiary of the Company (the “Transaction”) for a consideration of RMB2.31 billion subject to customary closing conditions. Refer to Note 32 for details.

Detailed information of the two companies, both of which are private companies, that form the Fonterra China Farms Group during the Track Record Period are as follows:

Companies comprising Fonterra China Farms Group	Nature of legal entity	Place and date of incorporation	Currency	Principal activity	Share capital/paid-in capital	Proportion of ownership interest by Fonterra Group (indirect)	Note
Fonterra (Yutian) Dairy Farm Co., Ltd. (“Yutian HubCo”)	Limited company	Mainland China 14/12/2010	RMB	Dairy farming	USD96,900,000	100%	(i),(ii)
Fonterra (Ying) Dairy Farm Co., Ltd. (“Ying HubCo”)	Limited company	Mainland China 11/02/2014	RMB	Dairy farming	USD118,280,000	100%	(i),(ii)

(i) The statutory financial statements of the two companies for each of the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance applicable to enterprises in PRC. The statutory financial statements for the years ended 31 December 2017 and 2018 were audited by PricewaterhouseCoopers Zhongtian LLP while those for the year ended 31 December 2019 were audited by KPMG Huazhen LLP.

(ii) Both companies adopt 31 December as their financial year end date.

1.2 Basis of preparation of the Fonterra Historical Financial Information

The Fonterra Historical Financial Information represents the combined financial statements of Fonterra China Farms Group, which is to be acquired by the Company in the aforementioned Transaction. Fonterra China Farms Group is not a separate legal consolidated group but is operated and controlled by Fonterra Group. Accordingly, the Fonterra Historical Financial Information has been prepared and presented on a combined basis as Yutian HubCo and Ying HubCo are under the common control of Fonterra Group. The assets and liabilities included in the Fonterra Historical Financial Information have been stated at the respective underlying book values of each legal entity which forms Fonterra China Farms Group.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

The combined statements of financial position of Fonterra China Farms Group as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of Fonterra China Farms Group throughout the Track Record Period have been prepared by combining the financial statements of both companies, which are directly derived from the historical books and records of these companies. All intercompany transactions, balances and unrealised gains/losses on transactions and balances within Fonterra China Farms Group have been eliminated on combination.

The Fonterra Historical Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by IASB and the accounting policies adopted by the Company. Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Fonterra Historical Financial Information, Fonterra China Farms Group has consistently applied all applicable new and revised IFRSs, which are effective for the accounting period beginning on 1 January 2020 throughout the Track Record Period, including IFRS 15, *Revenue from Contracts with Customers* and IFRS 16, *Leases*, but except for IFRS 9, *Financial instruments*, which was adopted since 1 January 2018, replacing International Accounting Standard (“IAS”) 39, *Financial Instruments: Recognition and Measurement*. Note 1.3 provides information on changes in accounting policies resulting from initial application of IFRS 9 to the extent that they are relevant to Fonterra China Farms Group for the accounting periods reflected in the Fonterra Historical Financial Information. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2020 are set out in Note 31.

The Fonterra Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Fonterra Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and accounting policies adopted in respect of the Fonterra Historical Financial Information.

As at 31 December 2019 and 30 June 2020, Fonterra China Farms Group had net current liabilities of RMB725,286,000 and RMB825,308,000 and a net deficit in total equity of RMB168,018,000 and RMB153,641,000 respectively. Notwithstanding the net current liabilities and net deficit in total equity of Fonterra China Farms Group as at 31 December 2019 and 30 June 2020, the Fonterra Historical Financial Information has been prepared on a going concern basis considering the inclusion of Fonterra China Farms Group’s business in a broader group and that Fonterra Group and Youran Dairy are committed to support the Fonterra China Farms Group’s business operation until and after the date of the Transaction and for the following 12 months, respectively. In addition, the directors of Fonterra HK have stated their plan to convert borrowings from the immediate controlling company into additional registered capital of the Fonterra China Farms Group prior to the expected completion date of the Transaction.

1.3 Change in accounting policies

On 1 January 2018, Fonterra China Farms Group has adopted IFRS 9 and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets) that are subject to the impairment provisions; and 3) general hedge accounting.

The key requirement of IFRS 9 which is relevant to Fonterra China Farms Group is in relation to the impairment of financial assets. IFRS 9 requires an ECL model, as opposed to an incurred credit loss model under IAS 39. The ECL model requires an entity to account for ECL and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The application of the ECL model of IFRS 9 on 1 January 2018 resulted in earlier provision of credit losses which have not yet been incurred in relation to Fonterra China Farms Group’s financial assets measured at amortised cost that are subject to the impairment provisions.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

Fonterra China Farms Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and trade related amounts due from fellow subsidiaries. To measure the ECL, trade receivables and trade related amounts due from fellow subsidiaries have been grouped based on shared credit risk characteristics and debtors’ aging.

For other financial assets (including cash and cash equivalents, other receivables and non-trade related amounts due from related parties), Fonterra China Farms Group recognises a loss allowance equal to 12-month ECLs at the date of initial application.

Fonterra China Farms Group has initially applied IFRS 9 from 1 January 2018. Fonterra China Farms Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application of IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. The Fonterra Historical Financial Information as at and for the year ended 31 December 2017 has not been restated and continues to be reported under IAS 39.

No additional loss allowance is charged against the respective assets as at 1 January 2018 upon the application of IFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Fonterra Historical Financial Information has been prepared on the historical cost basis except for biological assets (Note 2(p)) that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

The fair value measurement of biological assets takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; and

Level 2: inputs are other than quoted prices included within Level 1, observable for the asset or liability, either directly or indirectly; and

Level 3: inputs are unobservable inputs for the asset or liability.

The Fonterra Historical Financial Information is presented in RMB, rounded to the nearest thousand (unless otherwise stated), as Fonterra China Farms Group’s businesses are all located in the PRC. The functional currency of Fonterra China Farms Group is RMB.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

(b) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Revenue from contracts with customers and other income

Fonterra China Farms Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which Fonterra China Farms Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of Fonterra China Farms Group’s revenue and other income recognition policies are as follows:

(i) *Sales of goods*

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) *Provision of inspection services*

Revenue is recognised when services are rendered to customers for dairy cows’ blood inspection services.

(iii) *Interest income*

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(d) Leases

Definition of a lease

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

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

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

As a lessee

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of a right-of-use asset includes:

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

Except for short-term leases, Fonterra China Farms Group recognises a right-of-use asset at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

A right-of-use asset in which Fonterra China Farms Group is reasonably certain to obtain ownership of the underlying leased asset at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, a right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Fonterra China Farms Group presents right-of-use assets as a separate line item on the combined statements of financial position.

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees; and
- payments of penalties for terminating a lease, if the lease term reflects Fonterra China Farms Group exercising the option to terminate the lease.

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

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

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

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

Fonterra China Farms Group presents lease liabilities as a separate line item on the combined statements of financial position.

(e) Foreign currencies

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

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

(f) Borrowing costs

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

(g) Government grants

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

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

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

(h) Retirement benefit costs

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

(i) Short-term employee benefits

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

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

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

(j) Taxation

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

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

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

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

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

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

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

(k) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses (Note 2(m)), if any.

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

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

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

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Construction in progress represents property, plant and equipment under construction and equipment pending installation. The construction in progress items are initially recognised at cost less impairment losses (Note 2(m)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant, and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

(l) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (Note 2(m)). Amortisation of intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

(m) Impairment on property, plant and equipment, right-of-use assets and intangible assets other goodwill

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

Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). Fonterra China Farms Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, Fonterra China Farms Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

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(n) Inventories

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

(o) Provisions

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

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

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

(p) Biological assets and agricultural produce

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

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

Agricultural produce refers to the raw milk, which is recognised at the point of harvest at fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

(q) Financial instruments

Financial assets and financial liabilities are initially recognised when Fonterra China Farms Group becomes a party to the contractual provisions of the instrument.

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

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

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

Financial assets

(i) *Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)*

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, amounts due from related parties and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include Fonterra China Farms Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

Fonterra China Farms Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Fonterra China Farms Group retains substantially all the risks and rewards of ownership of a transferred financial asset, Fonterra China Farms Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

(ii) *Classification and subsequent measurement of financial assets (upon application of IFRS 9 on 1 January 2018)*

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset Fonterra China Farms Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

Impairment of financial assets (upon application of IFRS 9 on 1 January 2018)

Fonterra China Farms Group performs impairment assessment under ECL model on financial assets (including trade receivables, other receivables, amounts due from fellow subsidiaries and bank balances) and other items which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

Fonterra China Farms Group always recognises lifetime ECL for trade receivables, and trade-related receivables from fellow subsidiaries. The ECL on these assets are assessed individually.

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

(iii) *Significant increase in credit risk*

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

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

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

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

(iv) Definition of default

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

(v) Write-off policy

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

(vi) Measurement and recognition of ECL

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

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

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

Fonterra China Farms Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

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(r) Contract liabilities

A contract liability is recognised when the customer pays consideration before Fonterra China Farms Group recognises the related revenue (see Note 2(c)). A contract liability would also be recognised if Fonterra China Farms Group has an unconditional right to receive consideration before Fonterra China Farms Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(s)).

For a single contract with a customer, a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis. When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(c)).

(s) Trade and other receivables

A receivable is recognised when Fonterra China Farms Group has an unconditional right to receive consideration.

A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(q)).

(t) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(q).

(v) Borrowings

Borrowings are measured initially at fair value less transaction costs.

With regard to the interest-free borrowings from the shareholder, borrowings are initially measured as the present value of all future cash repayments discounted using an effective borrowing interest rate. The difference between the amount borrowed and the fair value of the borrowing on initial recognition is credited to capital reserve as an additional capital contribution from the shareholder.

Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method. Interest expenses are recognised in accordance with Fonterra China Farms Group’s accounting policy for borrowing costs (see Note 2(f)).

(w) Related parties

For the purposes of the Fonterra Historical Financial Information, a party is considered to be related to Fonterra China Farms Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control Fonterra China Farms Group or exercise significant influence over Fonterra China Farms Group in making financial and operating policy decisions, or has joint control over Fonterra China Farms Group;
- (ii) Fonterra China Farms Group and the party are subject to common control;

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- (iii) the party is an associate of Fonterra China Farms Group or a joint venture in which Fonterra China Farms Group is a venturer;
 - (iv) the party is a member of key management personnel of Fonterra China Farms Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
 - (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
 - (vi) close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.
- (x) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the Fonterra Historical Financial Information, are identified from the financial information provided regularly to Fonterra China Farms Group’s most senior executive management for the purpose of allocating resources to, and assessing the performance of Fonterra China Farms Group’s various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Sources of estimation uncertainty

Note 27 contains information about the assumptions and their risk factors relating to financial instruments. Key sources of estimation uncertainty are as follows:

(i) ***Impairment of non-current assets***

Internal and external sources of information are reviewed by Fonterra China Farms Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years.

(ii) ***Impairment losses and credit losses on trade and other receivables***

Impairment losses on trade and other receivables are assessed and provided based on management’s regular review of ageing analysis and evaluation of collectability. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the combined statements of profit or loss and other comprehensive income in future years.

(iii) ***Fair value of dairy cows***

Fonterra China Farms Group’s dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of the reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of the dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable; or the cost when appropriate. Any change in the estimates may affect the fair value of the dairy cows significantly. An independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of assumptions used are disclosed in Note 27(e).

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4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

(i) Disaggregation of revenue from contracts with customers

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
<i>Types of goods and services</i>					
Sales of raw milk	1,034,863	930,158	1,080,509	516,506	572,056
Sales of bull-calves	20,735	26,913	29,863	13,505	15,014
Revenue from provision of inspection services	60	583	982	588	422
	<u>1,055,658</u>	<u>957,654</u>	<u>1,111,354</u>	<u>530,599</u>	<u>587,492</u>
<i>Timing of revenue recognition</i>					
A point in time	<u>1,055,658</u>	<u>957,654</u>	<u>1,111,354</u>	<u>530,599</u>	<u>587,492</u>

(ii) Performance obligations for contracts with customers

Fonterra China Farms Group sells raw milk and bull-calves and provides inspection services directly to its customers. Revenue is recognised when control of the goods or services has transferred, being at the point the customer takes possession of and accepts the goods or the services.

Payments are generally due within 30 to 90 days from the date of invoicing for the above contracts with customers. Fonterra China Farms Group requests advance payments from certain new customers and such advance payments are recorded as contract liabilities until the control of the goods is transferred to the customers.

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

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

(iv) Revenue from major customers

Revenue from customers individually contributing over 10% of the total revenue of Fonterra China Farms Group during the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue from sale of raw milk:					
Customer A	182,951	120,201	N/A*	N/A*	N/A*
Customer B	178,459	142,593	N/A*	N/A*	N/A*
Customer C	128,612	139,842	163,194	80,421	N/A*
Customer D	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>62,146</u>

* Less than 10% of Fonterra China Farms Group’s revenue in the respective years/periods.

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(b) Segment reporting

Fonterra China Farms Group has one business segment, the dairy farming business, which is raising and breeding dairy cows and raw milk production. Based on information reported by the chief operating decision maker for the purpose of resource allocation and performance assessment, Fonterra China Farms Group’s only operating segment is the dairy farming business. Accordingly, no additional business segment information is presented.

(c) Geographic information

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

5 OTHER INCOME

An analysis of other income during the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Government grants					
– released from deferred income (Note 24)	150	150	150	75	75
– recognised through profit or loss upon receipt	7,068	860	18,025	7,046	103
Interest income					
– Interest income from bank	226	157	24	11	25
– Interest income from related parties	4,328	4,074	3,292	1,570	2,728
Income from sale of scrap materials	64	160	224	116	79
Insurance compensation	–	–	1,379	1,379	2,307
Others	4	–	6	2	–
	<u>11,840</u>	<u>5,401</u>	<u>23,100</u>	<u>10,199</u>	<u>5,317</u>

6 OTHER GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
(Losses)/gains on disposal of property, plant and equipment	(1,755)	(2,879)	171	–	–
Gains on waiver of liabilities (Note)	–	–	–	–	2,020
Impairment losses on property, plant and equipment (Note 12)	–	–	(898,475)	–	–
Impairment losses on intangible assets (Note 14)	–	–	(657)	–	–
Net foreign exchange gains/(losses)	7,772	(6,538)	(2,463)	(274)	(1,822)
Others	(267)	(716)	(702)	(230)	(25)
	<u>5,750</u>	<u>(10,133)</u>	<u>(902,126)</u>	<u>(504)</u>	<u>173</u>

Note: For the six months ended 30 June 2020, the fellow subsidiary under Fonterra Group waived the repayment for the purchase of properties from the Fonterra China Farms Group, which amounted to RMB2,020,000.

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7 FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expenses on:					
Bank borrowings	11,340	6,446	4,776	2,896	2,065
Borrowings from cash pooling arrangement	–	845	898	60	817
Borrowings from immediate controlling company	45,736	43,709	42,542	21,560	21,377
Lease liabilities	2,257	2,262	1,863	962	1,000
Total borrowing costs	<u>59,333</u>	<u>53,262</u>	<u>50,079</u>	<u>25,478</u>	<u>25,259</u>

8 INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax:					
PRC Enterprise Income Tax	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Pursuant to the PRC Corporate Income Tax (“CIT”) Law, Fonterra China Farms Group’s PRC entities are subject to PRC CIT at 25% during the Track Record Period.

Pursuant to the related regulations in respect of Article 27 of Corporate Income Tax Law of the People’s Republic of China, Article 86 of Implementation Regulations for the Corporate Income Tax Law of the People’s Republic of China, and Article 4 of State Administration of Taxation Announcement [2018] No. 23 Measures on Handling of Enterprise Income Tax Incentives, the PRC entities of Fonterra China Farms Group are entitled to be exempt to Enterprise Income Tax as the principal activities of the PRC entities are raising and breeding of dairy cows and raw milk production in the PRC.

9 (LOSS)/PROFIT FOR THE YEAR/PERIOD

An analysis of Fonterra China Farms Group’s results before biological assets fair value adjustments during the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(Loss)/profit for the year/period before biological assets fair value adjustments	(16,083)	(113,047)	(864,464)	(18,156)	58,531
(Losses)/gains arising from changes in fair value less costs to sell of biological assets	<u>(89,192)</u>	<u>(157,748)</u>	<u>(8,922)</u>	<u>11,567</u>	<u>(47,272)</u>
(Loss)/profit for the year/period	<u>(105,275)</u>	<u>(270,795)</u>	<u>(873,386)</u>	<u>(6,589)</u>	<u>11,259</u>

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Fonterra China Farms Group’s (loss)/profit for the year/period during the Track Record Period is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Depreciation of:					
Property, plant and equipment	112,571	104,701	81,563	52,462	21,677
Right-of-use assets	3,705	3,825	4,057	1,991	2,081
Amortisation of intangible assets	2,130	2,138	1,440	961	31
Total depreciation and amortisation	118,406	110,664	87,060	55,414	23,789
Less: Capitalised in biological assets	(472)	(474)	(486)	(241)	(258)
Depreciation and amortisation charged directly to profit or loss	117,934	110,190	86,574	55,173	23,531
Less: Amounts included in cost of sales	(112,360)	(103,629)	(81,176)	(50,150)	(21,004)
	<u>5,574</u>	<u>6,561</u>	<u>5,398</u>	<u>5,023</u>	<u>2,527</u>
Lease payments not included in the measurement of lease liabilities	<u>2,915</u>	<u>5,573</u>	<u>3,168</u>	<u>1,943</u>	<u>1,563</u>
Auditors’ remuneration	<u>1,296</u>	<u>727</u>	<u>1,836</u>	<u>1,155</u>	<u>1,288</u>
Employee benefits expenses (including directors’ remuneration as disclosed in Note 10):					
Salaries and other benefits	79,693	74,430	77,852	38,491	41,070
Contributions to retirement benefit schemes	20,384	22,040	17,775	8,739	5,322
Total staff costs	100,077	96,470	95,627	47,230	46,392
Less: Capitalised in biological assets	<u>(14,864)</u>	<u>(15,433)</u>	<u>(14,035)</u>	<u>(6,913)</u>	<u>(6,637)</u>
	<u>85,213</u>	<u>81,037</u>	<u>81,592</u>	<u>40,317</u>	<u>39,755</u>

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10 DIRECTORS’ AND EMPLOYEES’ EMOLUMENTS

(a) Directors’ emoluments

Details of emoluments paid or payable to the directors and the chief executive of Fonterra China Farms Group during the Track Record Period are as follows:

	Directors’ fees	Salaries and allowance	Discretionary performance – related payments	Retirement benefit scheme contribution	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Year ended					
31 December 2017:					
Executive directors:					
Mr. Ralph Mark Kennerley (<i>Note (i)</i>)	–	–	–	–	–
Mr. Hans Robert Berghorst (<i>Note (ii)</i>)	–	–	–	–	–
Mr. Grant Alistair Duncan (<i>Note (iii)</i>)	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Year ended					
31 December 2018:					
Executive directors:					
Mr. Ralph Mark Kennerley (<i>Note (i)</i>)	–	–	–	–	–
Mr. Hans Robert Berghorst (<i>Note (ii)</i>)	–	–	–	–	–
Mr. Grant Alistair Duncan (<i>Note (iii)</i>)	–	–	–	–	–
Mr. Miles Wilson Hurrell (<i>Note (v)</i>)	–	–	–	–	–
Mr. Sardar Iftekharuddin Ahmed (<i>Note (iv)</i>)	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Year ended					
31 December 2019:					
Executive directors:					
Mr. Hans Robert Berghorst (<i>Note (ii)</i>)	–	–	–	–	–
Mr. Grant Alistair Duncan (<i>Note (iii)</i>)	–	–	–	–	–
Mr. Sardar Iftekharuddin Ahmed (<i>Note (iv)</i>)	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

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	Directors’ fees	Salaries and allowance	Discretionary performance – related payments	Retirement benefit scheme contribution	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Six months ended					
30 June 2019:					
(unaudited)					
Executive directors:					
Mr. Hans Robert Berghorst (<i>Note (ii)</i>)	–	–	–	–	–
Mr. Grant Alistair Duncan (<i>Note (iii)</i>)	–	–	–	–	–
Mr. Sardar Iftekhharuddin Ahmed (<i>Note (iv)</i>)	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Six months ended					
30 June 2020:					
Executive directors:					
Mr. Hans Robert Berghorst (<i>Note (ii)</i>)	–	–	–	–	–
Mr. Grant Alistair Duncan (<i>Note (iii)</i>)	–	–	–	–	–
Mr. Sardar Iftekhharuddin Ahmed (<i>Note (iv)</i>)	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

During the Track Record Period, no emoluments were paid by Fonterra China Farms Group to the directors as an inducement to join or upon joining Fonterra China Farms Group or as compensation for loss of office. None of the directors has waived any emoluments during the Track Record Period.

Notes:

- (i) Mr. Ralph Mark Kennerley was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 17 September 2014 and resigned on 4 April 2018. He was also appointed as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 9 June 2015 and resigned on 2 November 2018.
- (ii) Mr Hans Robert Berghorst was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 2 November 2016 and resigned on 8 July 2020. He was also appointed as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 10 November 2016 and resigned on 29 July 2020.
- (iii) Mr. Grant Alistair Duncan was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 17 September 2014 and also as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 9 June 2015.
- (iv) Mr. Sardar Iftekhharuddin Ahmed was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 15 October 2018 and resigned on 8 July 2020. He was also appointed as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 2 November 2018 and resigned on 29 July 2020.
- (v) Mr. Miles Wilson Hurrell was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 4 April 2018 and resigned on 15 October 2018.
- (vi) Mr. Paul David Washer and Mrs. Xu Xiaohong were appointed as directors of Fonterra (Yutian) Dairy Farm Co., Ltd. on 8 July 2020 and as directors of Fonterra (Ying) Dairy Farm Co., Ltd. on 29 July 2020 respectively.

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(b) Employees’ emoluments

None of the five individuals with the highest emoluments of Fonterra China Farms Group during the Track Record Period are directors. The emoluments in respect of the five highest paid individuals for each of the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				(unaudited)	
Salaries and allowances	2,011	2,072	1,635	794	869
Discretionary bonuses	430	468	156	–	33
Retirement benefit scheme contributions	182	141	176	130	27
	<u>2,623</u>	<u>2,681</u>	<u>1,967</u>	<u>924</u>	<u>929</u>

The number of the five highest paid individuals whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

11 DIVIDEND

No dividend has been paid or declared by Fonterra China Farms Group during the Track Record Period to its equity shareholder.

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12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Vehicles	Electronic equipment	Construction in progress (“CIP”)	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cost						
At 1 January 2017	1,184,508	917,271	54,949	33,182	304,399	2,494,309
Additions	–	–	–	–	14,438	14,438
Transfers to intangible asset	–	–	–	–	(380)	(380)
Transfers from CIP	48,215	262,097	1,123	3,129	(314,564)	–
Disposals	(474)	(1,371)	–	(227)	–	(2,072)
At 31 December 2017	1,232,249	1,177,997	56,072	36,084	3,893	2,506,295
Additions	–	–	–	–	21,258	21,258
Transfers from CIP	8,065	10,015	53	588	(18,721)	–
Disposals	(78)	(6,169)	(62)	(2,167)	–	(8,476)
At 31 December 2018	1,240,236	1,181,843	56,063	34,505	6,430	2,519,077
Additions	–	–	–	–	52,755	52,755
Transfers from CIP	21,850	16,969	3,504	2,013	(44,336)	–
Disposals	–	–	(8,384)	(100)	–	(8,484)
At 31 December 2019	1,262,086	1,198,812	51,183	36,418	14,849	2,563,348
Additions	–	–	–	–	2,881	2,881
Transfers from CIP	14,494	491	1,316	818	(17,119)	–
At 30 June 2020	1,276,580	1,199,303	52,499	37,236	611	2,566,229
	Buildings	Machinery and equipment	Vehicles	Electronic equipment	Construction in progress	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Depreciation						
At 1 January 2017	(127,109)	(96,789)	(17,980)	(15,717)	–	(257,595)
Provided for the year	(48,229)	(50,897)	(6,693)	(6,752)	–	(112,571)
Disposals	9	223	–	–	–	232
At 31 December 2017	(175,329)	(147,463)	(24,673)	(22,469)	–	(369,934)
Provided for the year	(41,665)	(52,597)	(6,217)	(4,222)	–	(104,701)
Disposals	18	3,942	45	1,247	–	5,252
At 31 December 2018	(216,976)	(196,118)	(30,845)	(25,444)	–	(469,383)
Provided for the year	(32,826)	(41,191)	(4,914)	(2,632)	–	(81,563)
Disposals	–	–	4,559	70	–	4,629
At 31 December 2019	(249,802)	(237,309)	(31,200)	(28,006)	–	(546,317)
Provided for the period	(10,468)	(9,940)	(1,038)	(231)	–	(21,677)
Disposals	–	–	–	–	–	–
At 30 June 2020	(260,270)	(247,249)	(32,238)	(28,237)	–	(567,994)

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	Buildings	Machinery and equipment	Vehicles	Electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Impairment						
At 1 January 2017, 31 December 2017 and 31 December 2018	(5,083)	(56,457)	–	–	–	(61,540)
Impairment	(444,285)	(440,427)	(9,729)	(4,034)	–	(898,475)
At 31 December 2019 and 30 June 2020	(449,368)	(496,884)	(9,729)	(4,034)	–	(960,015)
Carrying values						
At 31 December 2017	1,051,837	974,077	31,399	13,615	3,893	2,074,821
At 31 December 2018	1,018,177	929,268	25,218	9,061	6,430	1,988,154
At 31 December 2019	562,916	464,619	10,254	4,378	14,849	1,057,016
At 30 June 2020	566,942	455,170	10,532	4,965	611	1,038,220

Depreciation is calculated to write off the cost or valuation of the above items of property, plant and equipment (other than construction in progress), less their estimated residual values, using the straight-line method over their estimated useful lives as follows:

	Useful lives	Residual rate
Buildings	15-30 years	10%
Machinery and equipment	5-30 years	10%
Vehicles	5-8 years	10%
Electronic equipment	3-8 years	10%

Impairment of property, plant and equipment

As stated in Note 2(m), at the end of each Fonterra Group’s fiscal year and at the end of reporting period, the Fonterra China Farms Group reviews internal and external sources of information to identify indications that property, plant and equipment may be impaired. As the two companies of Fonterra China Farms Group, Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd., incurred operating losses in the past few consecutive years, there are indications of possible impairment in respect of their property, plant and equipment during the Track Record Period.

Fonterra China Farms Group assessed the recoverable amounts of its property, plant and equipment compared to its carrying amount. The estimates of recoverable amount were based on value in use of the assets, by discounting the estimated future cash flows using a pre-tax discount rate of 8.21%, 9.13% and 9.14% for the Fonterra Group’s fiscal years ended 31 July 2017, 2018 and 2019 respectively that reflects current market assessments of the time value of money and the risks specific to the assets.

No impairment was recognised with respect to Fonterra China Farms Group’s property, plant and equipment for the years ended 31 December 2017 and 31 December 2018 as the total carrying amount of property, plant and equipment is lower than its assessed recoverable amount.

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Impairment losses of RMB898,475,000 and RMB657,000 were recognised in “Other gains and losses” for the year ended 31 December 2019, as a result of the carrying amount of property, plant and equipment and intangible assets respectively being written down to their recoverable amount as at 31 December 2019. The reduction in recoverable amount was due to an increased level of risk in operating the farms than previously anticipated, which led to an expected reduction in sustainable milk production of around seven percent.

No impairment indicators were identified with respect to Fonterra China Farms Group’s property, plant and equipment for the six months ended 30 June 2020.

13 RIGHT-OF-USE ASSETS

	Leasehold lands	Vehicles	Total
	RMB’000	RMB’000	RMB’000
Carrying amount as at 1 January 2017	97,944	–	97,944
Additions (<i>Note (i)</i>)	448	–	448
Depreciation charges	(3,705)	–	(3,705)
Carrying amount as at 31 December 2017	94,687	–	94,687
Additions (<i>Note (i)</i>)	–	534	534
Depreciation charges	(3,714)	(111)	(3,825)
Carrying amount as at 31 December 2018	90,973	423	91,396
Additions (<i>Note (i)</i>)	–	362	362
Depreciation charges	(3,714)	(343)	(4,057)
Carrying amount as at 31 December 2019	87,259	442	87,701
Depreciation charges	(1,857)	(224)	(2,081)
Carrying amount as at 30 June 2020	85,402	218	85,620

Year ended 31 December			Six months ended 30 June	
2017	2018	2019	2019	2020
RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
			(unaudited)	

Amounts recognised in profit or loss:

Interest on lease liabilities (<i>Note 7</i>)	2,257	2,262	1,863	962	1,000
Variable lease payments not included in the measurement of lease liabilities (<i>Note (i)</i>)	2,915	5,573	3,168	1,943	1,563

Amounts recognised in the combined statements of cash flows:

Total cash flows for leases	7,563	5,690	18,810	14,365	3,797

Note:

- (i) Lease payments for certain vehicles are variable payments, and determined based on the frequency of vehicles use during the relevant lease periods.

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

Fonterra China Farms Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB91,535,000, RMB87,893,000, RMB84,251,000 and RMB82,430,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Fonterra China Farms Group has obtained the right to use these lands without certificates through tenancy agreements. The leases typically run for an initial period of between 24 to 30 years.

No impairment was recognised with respect to Fonterra China Farms Group’s right-of-use assets during the Track Record Period as the carrying amount of the right-of-use assets is lower than the market value of the relevant assets.

14 INTANGIBLE ASSETS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At the beginning of the year/period	10,606	11,124	11,124	11,124
Additions	518	–	–	–
At the end of the year/period	11,124	11,124	11,124	11,124
Accumulated amortisation				
At the beginning of the year/period	(4,588)	(6,718)	(8,856)	(10,296)
Provided for the year/period	(2,130)	(2,138)	(1,440)	(31)
At the end of the year/period	(6,718)	(8,856)	(10,296)	(10,327)
Impairment				
At the beginning of the year/period	–	–	–	(657)
Impairment for the year/period	–	–	(657)	–
At the end of the year/period	–	–	(657)	(657)
Carrying value	4,406	2,268	171	140

Amortisation of intangible assets, which is computer software with finite useful lives is charged to profit or loss on a straight-line basis over the assets’ estimated useful lives over a period of 3 to 5 years.

During the year ended 31 December 2019, intangible assets were impaired in the amount of RMB657,000 to reduce their carrying amount to their recoverable amount of RMB171,000. Refer to Note 12 for details.

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15 BIOLOGICAL ASSETS

A Nature of activities

The biological assets of Fonterra China Farms Group are dairy cows comprising milkable cows held for milk production and heifers and calves that have not reached the age that can produce raw milk. The quantity of cows owned by the Fonterra China Farms Group at the end of each reporting period is shown below:

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	<i>Heads</i>	<i>Heads</i>	<i>Heads</i>	<i>Heads</i>
Heifers and calves	29,382	23,922	24,931	24,638
Milkable cows	30,260	28,473	31,618	30,304
Total	59,642	52,395	56,549	54,942

Milkable cows, heifers and calves are dairy cows of Fonterra China Farms Group for the purpose of production of raw milk and are classified as non-current assets.

Fonterra China Farms Group is exposed to financial risks arising from changes in the market price of raw milk. The management of Fonterra China Farms Group are of the view that there is currently no available derivative or other contracts which Fonterra China Farms Group can enter into to manage the risk of a decline in the market price of raw milk.

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

Fonterra China Farms Group is exposed to a number of risks related to its biological assets as follows:

i. Regulatory and environmental risks

Fonterra China Farms Group is subject to laws and regulations in the location in which it operates. Fonterra China Farms Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify any significant environmental risks and to assess whether the systems in place are adequate to manage these risks.

ii. Climate, disease and other natural risks

Fonterra China Farms Group’s biological assets are (as with any business involved in agricultural activities) exposed to the risk of loss or damage arising from climatic changes, diseases and other natural forces. Fonterra China Farms Group has extensive processes in place aimed at monitoring and mitigating any such risks of a material nature, including by undertaking regular inspections, disease controls and surveys and, where appropriate and available, through the maintenance of insurance.

B Quantity of agricultural produce of Fonterra China Farms Group’s biological assets

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>Ton</i>	<i>Ton</i>	<i>Ton</i>	<i>Ton</i>	<i>Ton</i>
				(unaudited)	
Volume of raw milk sold	285,644	246,261	269,048	136,635	146,268

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C Value of biological assets

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

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB’000	RMB’000	RMB’000	RMB’000
Dairy cows:				
Heifers and calves	569,760	444,339	416,964	419,073
Milkable cows	647,079	646,268	767,696	731,588
Total	1,216,839	1,090,607	1,184,660	1,150,661

The directors of Fonterra China Farms Group have engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”) to assist Fonterra China Farms Group in assessing the fair values of Fonterra China Farms Group’s biological assets. The independent valuer and the management of Fonterra China Farms 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 27.

Movements in biological assets during the Track Record Period are set out below:

	Heifers and calves	Milkable cows	Total
	RMB’000	RMB’000	RMB’000
At 1 January 2017	614,301	590,427	1,204,728
Purchase costs	23,551	–	23,551
Feeding and other related costs	200,441	–	200,441
Transfers	(378,077)	378,077	–
Decrease due to disposals/death	(36,597)	(86,092)	(122,689)
Gains/(losses) arising from changes in fair value less costs to sell of biological assets	146,141	(235,333)	(89,192)
At 31 December 2017	569,760	647,079	1,216,839
Purchase costs	45,480	–	45,480
Feeding and other related costs	174,172	–	174,172
Transfers	(344,761)	344,761	–
Decrease due to disposals/death	(79,117)	(109,019)	(188,136)
Gains/(losses) arising from changes in fair value less cost to sell of biological assets	78,805	(236,553)	(157,748)
At 31 December 2018	444,339	646,268	1,090,607
Purchase costs	8,160	–	8,160
Feeding and other related costs	146,409	–	146,409
Transfers	(246,963)	246,963	–
Decrease due to disposal/death	(6,738)	(44,856)	(51,594)
Gains/(losses) arising from changes in fair value less cost to sell of biological assets	71,757	(80,679)	(8,922)
At 31 December 2019	416,964	767,696	1,184,660
Feeding and other related costs	77,962	–	77,962
Transfers	(105,651)	105,651	–
Decrease due to disposals/death	(13,908)	(50,781)	(64,689)
Gains/(losses) arising from changes in fair value less cost to sell of biological assets	43,706	(90,978)	(47,272)
At 30 June 2020	419,073	731,588	1,150,661

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16 INVENTORIES

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Feed	182,833	170,424	162,712	88,046
Others	16,525	16,257	17,580	16,048
	<u>199,358</u>	<u>186,681</u>	<u>180,292</u>	<u>104,094</u>

(a) The amount of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Carrying amount of inventories consumed	569,680	526,140	582,705	287,085	305,335

17 TRADE RECEIVABLES

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	<u>105,400</u>	<u>99,806</u>	<u>121,661</u>	<u>125,115</u>

All of the trade receivables are expected to be recovered or recognised as an expense within one year.

As of the end of the reporting period, all trade receivables based on invoice date are aged within 90 days.

The following is the aging analysis of trade receivables presented based on invoice date.

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	98,551	86,747	121,519	119,038
31 to 60 days	6,849	13,059	90	6,077
61 to 90 days	—	—	52	—
	<u>105,400</u>	<u>99,806</u>	<u>121,661</u>	<u>125,115</u>

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Impairment assessment of trade receivables under IFRS 9 for the year ended 31 December 2018 and onwards

Trade receivables are normally due within 30 to 90 days from the date of invoicing. Fonterra China Farms Group generally does not hold any collateral over the trade receivable balances. An impairment analysis is performed at each reporting date using a provision matrix. 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. Further details as to Fonterra China Farms Group’s credit policy are set out in Note 27(a).

Impairment assessment of trade receivables under IAS 39 for the year ended 31 December 2017

No credit loss allowance was incurred under IAS 39 as at 31 December 2017. Movements in the allowance of doubtful debts for the year ended 31 December 2017 are set out as follows:

	As at 31 December 2017
	<i>RMB’000</i>
At 1 January 2017	1,507
Written-off during the year	(1,507)
At 31 December 2017	–

The following table sets out an ageing analysis of trade receivables based on due date as at 31 December 2017 indicated:

	As at 31 December 2017
	<i>RMB’000</i>
Neither past due nor impaired	98,551
Past due within 1 month	6,849
Past due 1 to 3 months	–
	105,400

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to customers that have a good repayment history with Fonterra China Farms Group. Based on past experience, management of Fonterra China Farms Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The financial position of the customers will be closely monitored by the management of Fonterra China Farms Group and provision will be made as appropriate.

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18 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Prepayments to suppliers	2,186	1,420	1,549	2,578
Utilities and other deposits	4,729	4,331	4,440	4,363
Compensations receivable	840	870	903	–
Advances to staff	2,783	500	590	507
Insurance prepayments	–	274	639	996
Other receivables	336	207	45	52
	<u>10,874</u>	<u>7,602</u>	<u>8,166</u>	<u>8,496</u>

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalent comprise:

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Cash at bank	<u>54,774</u>	<u>18,320</u>	<u>14,399</u>	<u>15,555</u>
Cash and cash equivalents in the combined statements of financial position	<u>54,774</u>	<u>18,320</u>	<u>14,399</u>	<u>15,555</u>

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(b) Reconciliation of liabilities arising from financing activities:

	Lease liabilities	Bank borrowings	Borrowings from immediate controlling company	Interest payable	Amounts due to related parties	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2017	55,519	296,734	2,561,335	456	11,593	2,925,637
Changes from financing cash flows:						
Proceeds from new loans	–	122,613	36,000	–	–	158,613
Repayments of bank loans	–	(197,311)	–	–	–	(197,311)
Capital element of lease rentals paid	(2,080)	–	–	–	–	(2,080)
Interest element of lease rentals paid	(2,568)	–	–	–	–	(2,568)
Other borrowing costs paid	–	–	–	(11,433)	–	(11,433)
Total changes from financing cash flows	(4,648)	(74,698)	36,000	(11,433)	–	(54,779)
Exchange adjustments	–	–	(7,250)	–	–	(7,250)
Other changes:						
Increase in lease liabilities from entering into new leases during the year	448	–	–	–	–	448
Interest expenses	2,257	–	42,929	11,340	2,807	59,333
Capitalised interest expenses	311	–	–	–	–	311
Capital contribution from immediate controlling company	–	–	(41,526)	–	–	(41,526)
Total other changes	3,016	–	1,403	11,340	2,807	18,566
At 31 December 2017	<u>53,887</u>	<u>222,036</u>	<u>2,591,488</u>	<u>363</u>	<u>14,400</u>	<u>2,882,174</u>

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	Lease liabilities	Bank borrowings	Borrowings from immediate controlling company	Interest payable	Amounts due to related parties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2018	53,887	222,036	2,591,488	363	14,400	2,882,174
Changes from financing cash flows:						
Proceeds from new loans	–	99,455	–	–	–	99,455
Repayments of bank loans	–	(177,509)	–	–	–	(177,509)
Capital element of lease rentals paid	(108)	–	–	–	–	(108)
Interest element of lease rentals paid	(9)	–	–	–	–	(9)
Other borrowing costs paid	–	–	–	(6,144)	(470)	(6,614)
Total changes from financing cash flows	(117)	(78,054)	–	(6,144)	(470)	(84,785)
Exchange adjustments	–	–	5,922	–	–	5,922
Other changes:						
Increase in lease liabilities from entering into new leases during the year	534	–	–	–	–	534
Interest expenses	2,262	–	43,709	6,446	845	53,262
Capitalised interest expenses	308	–	–	–	–	308
Capital contribution from immediate controlling company	–	–	(182,487)	–	–	(182,487)
Total other changes	3,104	–	(138,778)	6,446	845	(128,383)
At 31 December 2018	<u>56,874</u>	<u>143,982</u>	<u>2,458,632</u>	<u>665</u>	<u>14,775</u>	<u>2,674,928</u>

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

	Lease liabilities	Bank borrowings	Borrowings from immediate controlling company	Interest payable	Amounts due to related parties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2019	56,874	143,982	2,458,632	665	14,775	2,674,928
Changes from financing cash flows:						
Proceeds from new loans	–	83,178	–	–	–	83,178
Repayment of bank loans	–	(131,224)	–	–	–	(131,224)
Capital element of lease rentals paid	(13,261)	–	–	–	–	(13,261)
Interest element of lease rentals paid	(2,381)	–	–	–	–	(2,381)
Other borrowing costs paid	–	–	–	(4,504)	(590)	(5,094)
Total changes from financing cash flows	(15,642)	(48,046)	–	(4,504)	(590)	(68,782)
Exchange adjustments	–	–	2,035	–	–	2,035
Other changes:						
Increase in lease liabilities from entering into new leases during the year	362	–	–	–	–	362
Interest expenses	1,863	–	42,542	4,776	898	50,079
Capitalised interest expenses	368	–	–	–	–	368
Capital contribution from immediate controlling company	–	–	(29,450)	–	–	(29,450)
Total other changes	2,593	–	13,092	4,776	898	21,359
At 31 December 2019	43,825	95,936	2,473,759	937	15,083	2,629,540

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

	Lease liabilities	Bank borrowings	Borrowings from immediate controlling company	Interest payable	Amounts due to related parties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2020	43,825	95,936	2,473,759	937	15,083	2,629,540
Changes from financing cash flows:						
Capital element of lease rentals paid	(1,199)	–	–	–	–	(1,199)
Interest element of lease rentals paid	(1,035)	–	–	–	–	(1,035)
Other borrowing costs paid	–	–	–	(2,274)	(904)	(3,178)
Total changes from financing cash flows	(2,234)	–	–	(2,274)	(904)	(5,412)
Exchange adjustments	–	–	1,860	–	–	1,860
Other changes:						
Interest expenses	1,000	–	21,377	2,065	817	25,259
Capitalised interest expenses	14	–	–	–	–	14
Capital contribution from immediate controlling company	–	–	(3,118)	–	–	(3,118)
Total other changes	1,014	–	18,259	2,065	817	22,155
At 30 June 2020	<u>42,605</u>	<u>95,936</u>	<u>2,493,878</u>	<u>728</u>	<u>14,996</u>	<u>2,648,143</u>

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

	Lease liabilities	Bank borrowings	Borrowings from immediate controlling company	Interest payable	Amounts due to related parties	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2019	56,874	143,982	2,458,632	665	14,775	2,674,928
Changes from financing cash flows (unaudited):						
Proceeds from new loans	–	63,873	–	–	–	63,873
Repayments of bank loans	–	(93,982)	–	–	–	(93,982)
Capital element of lease rentals paid	(11,332)	–	–	–	–	(11,332)
Interest element of lease rentals paid	(1,090)	–	–	–	–	(1,090)
Other borrowing costs paid	–	–	–	(2,447)	(62)	(2,509)
Total changes from financing cash flows	(12,422)	(30,109)	–	(2,447)	(62)	(45,040)
Exchange adjustments	–	–	208	–	–	208
Other changes (unaudited):						
Interest expenses	962	–	21,560	2,896	60	25,478
Capitalised interest expenses	129	–	–	–	–	129
Capital contribution from immediate controlling company	–	–	(29,450)	–	–	(29,450)
Total other changes	1,091	–	(7,890)	2,896	60	(3,843)
At 30 June 2019 (unaudited)	<u>45,543</u>	<u>113,873</u>	<u>2,450,950</u>	<u>1,114</u>	<u>14,773</u>	<u>2,626,253</u>

20 TRADE PAYABLES

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<u>163,051</u>	<u>149,627</u>	<u>161,543</u>	<u>162,247</u>

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

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Within 1 month	87,722	83,520	93,129	106,528
2 to 3 months	73,412	62,507	62,456	49,942
4 to 6 months	1,903	3,588	5,652	1,902
Over 6 months	14	12	306	3,875
	<u>163,051</u>	<u>149,627</u>	<u>161,543</u>	<u>162,247</u>

All of the trade payables are expected to be settled or recognised as other income within one year.

21 OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Payables for purchases of property, plant and equipment	4,769	5,313	6,470	4,575
Salaries and welfare payables	7,669	7,436	9,043	11,064
Deposits received from suppliers	3,883	4,240	11,555	7,128
Services and professional fees payable	545	452	569	1,019
Freight charges payable	19,296	16,613	15,623	21,168
Non-income tax related tax payables	–	–	29	1
Interest payables	363	665	937	728
Sundry payables and accrued expenses	14,745	34,302	21,024	9,730
	<u>51,270</u>	<u>69,021</u>	<u>65,250</u>	<u>55,413</u>

22 CONTRACT LIABILITIES

	As at 31 December			As at
	2017	2018	2019	30 June
	RMB'000	RMB'000	RMB'000	2020
Receipts in advance from customers for:				
Sales of bull-calves	<u>172</u>	<u>608</u>	<u>1,390</u>	<u>1,320</u>

Contract liabilities are recognised as revenue when the related performance obligations are satisfied. Management of Fonterra China Farms Group expects the contract liabilities at the respective reporting period end will be recognised as revenue within one year.

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

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23 BANK AND OTHER BORROWINGS

(a) Bank and other borrowings comprise:

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB’000	RMB’000	RMB’000	RMB’000
Bank borrowings – Unsecured	222,036	143,982	95,936	95,936
Borrowings from immediate controlling company	2,591,488	2,458,632	2,473,759	2,493,878
	2,813,524	2,602,614	2,569,695	2,589,814
Less: Amounts due within one year shown under current liabilities	(222,036)	(143,982)	(836,475)	(1,026,582)
Amounts shown under non-current liabilities	2,591,488	2,458,632	1,733,220	1,563,232

The unsecured bank loans carry interest at rates ranging from 4.0% to 5.6% per annum, which is determined based on the borrowing rates announced by the People’s Bank of China (“PBOC”). All bank loans are unsecured and supported by the letter of comfort from Fonterra Group.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the bank and other borrowings were repayable as follows:

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB’000	RMB’000	RMB’000	RMB’000
Within one year	222,036	143,982	836,475	1,026,582
More than one year but within two years	–	726,870	182,815	572,848
More than two years but within five years	1,470,413	767,102	568,105	–
More than five years	1,121,075	964,660	982,300	990,384
	2,813,524	2,602,614	2,569,695	2,589,814

(b) Borrowings from immediate controlling company:

Borrowings from the immediate controlling company are unsecured, interest-free and are in the form of promissory notes, whose terms of repayment is between 3 to 10 years. Borrowings are initially recognised at their fair value, which is represented by the net present value of all future cash repayments discounted using an effective borrowing interest rate. The difference between the principal amount and the fair value of the borrowings on initial recognition is credited to capital reserve as an additional capital contribution from the immediate controlling company.

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As at 31 December 2017, 2018, 2019 and 30 June 2020, the principal amount of borrowings from the immediate controlling company was RMB2,649,928,000, RMB2,656,138,000, RMB2,658,039,000 and RMB2,659,785,000 respectively. The borrowings from the immediate controlling company were discounted to their net present value at an effective borrowing interest rate of 1.71% per annum for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020. Movements in the principal amounts of borrowings and discounted amounts of borrowings from the immediate controlling company during the Track Record Period are as follows:

	Principal amounts	Discounted amounts
	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2017	2,621,531	2,561,335
New loans obtained during the year	36,000	34,793
Credit to capital reserve	–	(41,526)
Foreign exchange gains	(7,603)	(8,850)
Finance costs – imputed interest	–	45,736
At 31 December 2017	2,649,928	2,591,488
Credit to capital reserve	–	(182,487)
Foreign exchange losses	6,210	5,922
Finance costs – imputed interest	–	43,709
At 31 December 2018	2,656,138	2,458,632
Credit to capital reserve	–	(29,450)
Foreign exchange losses	1,901	2,035
Finance costs – imputed interest	–	42,542
At 31 December 2019	2,658,039	2,473,759
Credit to capital reserve	–	(3,118)
Foreign exchange losses	1,746	1,860
Finance costs – imputed interest	–	21,377
At 30 June 2020	<u>2,659,785</u>	<u>2,493,878</u>

24 DEFERRED INCOME

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at the beginning of the year/period	1,400	1,250	1,100	950
Released to other income (<i>Note 5</i>)	(150)	(150)	(150)	(75)
Balance at the end of year/period	<u>1,250</u>	<u>1,100</u>	<u>950</u>	<u>875</u>

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

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25 LEASE LIABILITIES

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities payable:				
Within one year	–	14,973	5,715	3,738
Within a period of more than one year but not more than two years	14,026	5,251	155	16
Within a period of more than two years but not more than five years	8,552	7,708	15,787	16,162
More than five years	31,309	28,942	22,168	22,689
Total	53,887	56,874	43,825	42,605
Less: Amounts due for settlement within 12 months shown under current liabilities	–	(14,973)	(5,715)	(3,738)
Amount due for settlement after 12 months shown under non-current liabilities	53,887	41,901	38,110	38,867

Fonterra China Farms Group leases various properties to operate its farms and these lease liabilities were measured at the present value of the lease payments that are not yet paid. All leases are entered into at fixed prices. As at 31 December 2017, 2018, 2019 and 30 June 2020, the weighted average incremental borrowing rate used for determination of the present value of the remaining lease payments ranged from 4.5% to 4.8%.

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

26 CAPITAL AND RESERVES

(a) Share capital

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised and issued share capital	1,343,927	1,343,927	1,343,927	1,343,927

For the purpose of the Fonterra Historical Financial Information as at 31 December 2017, 2018, 2019 and 30 June 2020, the above authorised and issued share capital balance of Fonterra China Farms Group represents the aggregate amount of the paid-in capital of Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. at the respective dates.

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(b) Capital reserve

The capital reserve represents cumulative contribution from the shareholder generated by the difference between the principal and the initial present value of intra-group borrowings from the immediate controlling company.

(c) Capital risk management

Fonterra China Farms Group’s primary objectives when managing capital are to safeguard Fonterra China Farms Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

Fonterra China Farms Group defines “capital” as including all components of equity plus long-term loans from immediate controlling company.

Fonterra China Farms Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and adjusts the capital structure in light of changes in economic conditions.

Fonterra China Farms Group was not subject to any externally imposed capital requirements during the Track Record Period.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of Fonterra China Farms Group’s business. Fonterra China Farms Group’s exposure to these risks and the financial risk management policies and practices used by Fonterra China Farms Group to management these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fonterra China Farms Group. Fonterra China Farms Group’s credit risk is primarily attributable to trade receivables. Fonterra China Farms Group’s exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks, for which Fonterra China Farms Group considers to having low credit risk.

Trade receivables

Fonterra China Farms Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2017, 2018 and 2019 and 30 June 2020, 15%, 6%, 22% and 9% of the total trade receivables were due from Fonterra China Farms Group’s largest customer respectively and 67%, 59%, 43% and 40% of the total trade receivables were due from Fonterra China Farms Group’s five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer’s past history of payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of invoicing. Normally, Fonterra China Farms Group does not obtain collateral from customers.

Fonterra China Farms Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As Fonterra China Farms Group’s historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between Fonterra China Farms Group’s different customer bases.

Expected loss rates are based on actual historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and Fonterra China Farms Group’s view of economic conditions over the expected lives of the receivables.

As at 31 December 2018, 2019, and 30 June 2020, Fonterra China Farms Group assessed the expected loss rates for trade receivables to be immaterial. As such, no loss allowance has been recognised in accordance with IFRS 9 as 31 December 2018, 2019 and 30 June 2020.

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(b) Liquidity risk

Liquidity risk is the risk that Fonterra China Farms Group will not be able to meet its financial obligations as they fall due.

Fonterra China Farms Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Fonterra China Farms Group’s reputation.

Fonterra China Farms Group’s policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and/or from controlling parties to meet its liquidity requirements in the short and longer term.

During the Track Record Period, Fonterra China Farms Group has been able, if needed, to obtain bank loans, which are supported by the letter of support from Fonterra Group to repay debts upon their maturity and agree with its immediate controlling company to extend intra-group borrowing repayment dates.

The following are the contractual maturities of Fonterra China Farms Group’s financial liabilities at each reporting date, which are based on contractual undiscounted cash flows and the earliest date Fonterra China Farms Group can be required to pay.

	At 31 December 2017 Contractual undiscounted cash flow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Financial statement carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade and other payables	214,321	–	–	214,321	214,321
Amounts due to related parties	34,728	–	–	34,728	34,728
Bank borrowings	224,608	–	–	224,608	222,036
Borrowings from immediate controlling company	–	1,519,928	1,130,000	2,649,928	2,591,488
Lease liabilities	–	25,520	54,849	80,369	53,887
At 31 December 2017	473,657	1,545,448	1,184,849	3,203,954	3,116,460

	At 31 December 2018 Contractual undiscounted cash flow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Financial statement carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade and other payables	218,648	–	–	218,648	218,648
Amounts due to related parties	38,311	–	–	38,311	38,311
Bank borrowings	147,540	–	–	147,540	143,982
Borrowings from immediate controlling company	–	1,526,138	1,130,000	2,656,138	2,458,632
Lease liabilities	15,563	15,141	50,108	80,812	56,874
At 31 December 2018	420,062	1,541,279	1,180,108	3,141,449	2,916,447

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At 31 December 2019 Contractual undiscounted cash flow					
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Financial statement carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade and other payables	226,793	–	–	226,793	226,793
Amounts due to related parties	36,269	–	–	36,269	36,269
Bank borrowings	97,562	–	–	97,562	95,936
Borrowings from immediate controlling company	754,714	773,325	1,130,000	2,658,039	2,473,759
Lease liabilities	5,923	19,265	40,362	65,550	43,825
At 31 December 2019	<u>1,121,261</u>	<u>792,590</u>	<u>1,170,362</u>	<u>3,084,213</u>	<u>2,876,582</u>

At 30 June 2020 Contractual undiscounted cash flow					
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Financial statement carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade and other payables	217,660	–	–	217,660	217,660
Amounts due to related parties	31,856	–	–	31,856	31,856
Bank borrowings	96,806	–	–	96,806	95,936
Borrowings from immediate controlling company	940,460	589,325	1,130,000	2,659,785	2,493,878
Lease liabilities	3,784	19,170	40,362	63,316	42,605
At 30 June 2020	<u>1,290,566</u>	<u>608,495</u>	<u>1,170,362</u>	<u>3,069,423</u>	<u>2,881,935</u>

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fonterra China Farms Group’s interest-bearing financial instruments at variable rates as at 31 December 2017, 2018, 2019 and 30 June 2020 are cash at bank, and the cash flow interest risk arising from a change in market interest rate on these balances of relatively short maturity is not considered significant. Fonterra China Farms Group’s interest-bearing financial instruments at fixed interest rates as at 31 December 2017, 2018, 2019 and 30 June 2020 are fixed-rate bank borrowings, fixed-rate borrowings from the immediate controlling company and fixed-rate lease liabilities that are measured at amortised cost. Fonterra China Farms Group’s cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates arising from the bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of each reporting period. A 50-basis point increase or decrease in the fixed-rate bank borrowings are used during the Track Record Period when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

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If interest rates on fixed interest rate borrowings had been 50 basis points higher/lower and all other variable were held constant, the potential effect on post-tax profit of Fonterra China Farms Group is as follows:

	Years ended 31 December			Six months ended 30 June 2020
	2017	2018	2019	
	RMB’000	RMB’000	RMB’000	RMB’000
Post-tax profit would decrease/increase by	11,102	7,199	4,797	2,399

(d) Currency risk

Fonterra China Farms Group’s businesses are principally conducted in RMB and most of Fonterra China Farms Group’s monetary assets and liabilities are denominated in RMB. Accordingly, the directors consider Fonterra China Farms Group’s exposure to foreign currency risk is not significant.

(e) Fair value

Fonterra China Farms Group’s biological 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 are determined (in particular, the valuation technique(s) and the 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 are observable.

At 31 December 2017	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Biological assets				
Milkable cows (<i>Note (a)</i>)	–	–	647,079	647,079
Heifers and calves (<i>Note (b)</i>)	–	–	569,760	569,760
	–	–	1,216,839	1,216,839
At 31 December 2018	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Biological assets				
Milkable cows (<i>Note (a)</i>)	–	–	646,268	646,268
Heifers and calves (<i>Note (b)</i>)	–	–	444,339	444,339
	–	–	1,090,607	1,090,607
At 31 December 2019	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Biological assets				
Milkable cows (<i>Note (a)</i>)	–	–	767,696	767,696
Heifers and calves (<i>Note (b)</i>)	–	–	416,964	416,964
	–	–	1,184,660	1,184,660

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At 30 June 2020	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Biological assets				
Milkable cows (<i>Note (a)</i>)	–	–	731,588	731,588
Heifers and calves (<i>Note (b)</i>)	–	–	419,073	419,073
	–	–	1,150,661	1,150,661

There were no transfers between Level 1 and 2 during the Track Record Period and there were no transfers into or out of Level 3 during the Track Record Period.

Fonterra China Farms Group engages an external independent professional valuer to evaluate the fair value of Fonterra China Farms Group’s biological assets – dairy cows. The above valuation results are verified and accounted for by Fonterra China Farms Group’s management and are based on verified valuation results to produce disclosures relating to fair value.

Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(a)	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.	Estimated feed costs per kg of raw milk used in valuation process range from RMB2.04 to RMB2.23, RMB2.14 to RMB2.36, RMB2.15 to RMB2.37, RMB2.09 to RMB2.47 for the years ended 31 December 2017, 2018, 2019 and six months ended 30 June 2020, respectively, based on the historical average feed costs per kg of raw milk after taking into consideration inflation. A milkable cow could have as many as seven lactation cycles. Estimated daily milk yield for each lactation cycle ranges from 25.7kg to 26.4kg, 25.1kg to 25.4kg, 23.5kg to 23.9kg, 25.3kg to 25.5kg for the years ended 31 December 2017, 2018, 2019 and six months ended 30 June 2020 respectively, depending on the number of lactation cycles and the individual physical condition. Estimated local future market prices for raw milk ranges from RMB3,860 to RMB4,560 per tonne, RMB3,830 to RMB4,530 per tonne, RMB3,880 to RMB4,590 per tonne, and RMB4,860 to RMB5,630 per tonne as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively. Discount rate for estimated future cash flows used is 12.04%, 11.77%, 11.61% and 10.99% as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively.	An increase in the estimated daily milk yield per head would result in an increase in the fair value measurement of milkable cows, and vice versa. 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. An increase in the estimated discount rate would result in a smaller percentage decrease in the fair value measurement of milkable cows, and vice versa.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

Notes	Assets	Valuation technique(s) input(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(b)	Biological assets – Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price. The fair values of heifers and calves 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. 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.	Estimated local market selling prices of heifers of 14 months old are RMB21,154, RMB21,154, RMB19,154 and RMB19,154 per head as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively. Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old (i.e. from birth to 14 months) are RMB8,150, RMB8,904, RMB9,126 and RMB8,955 as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively. Estimated average feeding costs per head plus margin that would normally be required by a raiser of heifers older than 14 months old range from RMB6,109, RMB6,413, RMB5,847 and RMB6,532 as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively.	An increase in the estimated local market selling price of heifers of 14 months old would result in an increase in the fair value measurement of heifers and calves, and vice versa. An increase in the estimated feeding costs plus the margin that would normally be required by a raiser would result in an increase in the fair value measurement of heifers and calves older/younger than 14 months old, and vice versa.

The reconciliations for biological assets are set out in Note 15.

28 COMMITMENTS

Capital commitments outstanding and not provided for in the combined financial statements were as follows:

	As at 31 December			As at 30 June 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	9,952	10,236	13,287	2,372

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

All members of key management personnel are directors of the Fonterra China Farms Group and the highest paid employees and their remuneration is disclosed in Note 10.

(b) Identity of related parties

During the Track Record Period, the directors of Fonterra China Farms Group are of the view that the following are related parties of Fonterra China Farms Group:

Name of party	Relationship
Fonterra Co-operative Group Limited and its subsidiaries	Ultimate controlling company and its subsidiaries
Falcon Dairy Holdings Limited	Jointly controlled fellow subsidiary

(c) Related party transactions

	Note	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of raw milk		(75)	(239)	(356)	(162)	–
Sales of biological assets		(3,155)	(46,298)	–	–	–
Provision of inspection services		(60)	(583)	(982)	(689)	(233)
Purchase of biological assets		23,551	45,480	8,160	8,160	–
Farm management fees payable		38,763	38,508	27,488	16,522	13,076
Gains on waiver of liabilities	6	–	–	–	–	2,020
Interest income	5	(4,328)	(4,074)	(3,292)	(1,570)	(2,728)
Interest expenses	7	45,736	44,554	43,440	21,620	22,194
Inter-company loan repaid by related parties		20,000	110,000	–	–	–
Intercompany loan borrowed from immediate controlling company		36,000	–	–	–	–
Net increase/(decrease) in amounts due from/(to) related parties through cash pooling arrangements		–	107,834	(51,430)	(3,382)	145,346

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

(d) *Related party balances*

	<i>Note</i>	As at 31 December			As at 30 June 2020
		2017	2018	2019	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from related parties:					
Borrowings to related parties		119,367	–	–	–
Trade receivables from related parties		1,582	1,007	99	247
Other receivables from related parties		–	108,232	56,739	202,341
		<u>120,949</u>	<u>109,239</u>	<u>56,838</u>	<u>202,588</u>
 Borrowings due to immediate controlling company	 23(a)	 <u>(2,591,488)</u>	 <u>(2,458,632)</u>	 <u>(2,473,759)</u>	 <u>(2,493,878)</u>
 Amounts due to related parties:					
Interest payable to related parties		(14,400)	(14,775)	(15,083)	(14,996)
Other payables to related parties		(20,328)	(23,536)	(21,186)	(16,860)
		<u>(34,728)</u>	<u>(38,311)</u>	<u>(36,269)</u>	<u>(31,856)</u>

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

During the Track Record Period, the directors of Fonterra China Farms Group consider the immediate controlling company to be Fonterra HK, which is incorporated in Hong Kong. Fonterra China Farms Group is ultimately controlled by Fonterra Co-operative Group Limited, which is incorporated in New Zealand and produced financial statements available for public use.

APPENDIX II ACCOUNTANTS’ REPORT – FONTERRA CHINA FARMS GROUP

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE TRACK RECORD PERIOD

Up to the date of issue of the Fonterra Historical Financial Information, the IASB has issued a number of amendments and a new standard, which are not yet effective for the Track Record Period. The following table shows developments that may be relevant to Fonterra China Farms Group but have not been adopted in the Fonterra Historical Financial Information.

	Effective for accounting periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, <i>Interest Rate Benchmark Reform - Phase 2</i>	1 January 2021
Amendments to IAS 1, <i>Presentation of financial statements, Classification of liabilities as current or non-current</i>	1 January 2023
Annual Improvements to IFRS Standards 2018-2020 Cycle	1 January 2022
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IFRS 16, <i>Covid-19-Related Rent Concessions</i>	1 June 2020
Amendments to IAS 16, <i>Property, Plant and Equipment Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
IFRS 17, <i>Insurance contracts</i> and related Amendments	1 January 2023
Amendments to IFRS 4, <i>Extension of the temporary exemption from applying IFRS 9</i>	1 January 2023
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

Fonterra China Farms Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Fonterra China Farms Group’s financial statements.

32 SUBSEQUENT EVENTS

On 3 October 2020, Fonterra Group announced that Youran Dairy has agreed to purchase Fonterra Group’s two dairy farm legal entities in Ying and Yutian for RMB2.31 billion subject to customary closing conditions.

33 IMPACT OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the operations and financial conditions of various industry sectors in Mainland China, including the dairy farming industry. Fonterra China Farms Group has been closely monitoring the impact of these developments on its businesses.

As far as Fonterra China Farms Group’s businesses are concerned, the COVID-19 pandemic has not adversely impacted total sales due to Fonterra China Farms Group being involved in the dairy farming business. In view that the COVID-19 pandemic in Mainland China has been controlled over the past months, disruption to business activities continues to lessen.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Fonterra China Farms Group in respect of any period subsequent to 30 June 2020.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH SKX GROUP

(1) BASIS OF PREPARATION

The unaudited pro forma financial information is presented to illustrate the financial performance of the Group as if the acquisition of 58.36% equity interests in Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技術(集團)股份有限公司) (“SKX”, together with its subsidiaries, collectively “SKX Group”) (the “Acquisition”) had been completed on 1 January 2019, which comprise the unaudited pro forma combined statement of profit or loss for the year ended 31 December 2019 of the Group including SKX Group (collectively the “Enlarged Group with SKX Group”) (the “Unaudited Pro Forma Financial Information with SKX Group”).

The unaudited pro forma combined statement of profit or loss of the Enlarged Group with SKX Group are prepared based on the audited combined statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 as set out in Appendix I to the Document and the audited consolidated statement of profit or loss of SKX Group as extracted from Section III “Supplementary Pre-acquisition financial information” of Appendix I to the Document, after making unaudited pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition had been completed on 1 January 2019.

The Unaudited Pro Forma Financial Information of the Enlarged Group with SKX Group has been prepared by the directors of the Company based on a number of assumptions, estimates and uncertainties for illustrative purposes only and, because of its hypothetical nature, it does not purport to describe the actual results of the Enlarged Group with SKX Group for the year ended 31 December 2019 that would have been attained had the Acquisition been completed on 1 January 2019. Further, the Unaudited Pro Forma Information of the Enlarged Group with SKX Group does not purport to predict the Enlarged Group with SKX Group’s future financial results.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

(2) UNAUDITED PRO FORMA COMBINED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP WITH SKX GROUP FOR THE YEAR ENDED 31 DECEMBER 2019

	The Group	SKX Group	Pro forma adjustments			Unaudited pro forma of the Enlarged Group with SKX Group
			Elimination of intercompany transactions	Impact of fair value adjustments	Adjustments to non-controlling interests	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000 (Note 4)	RMB'000 (Note 5)	RMB'000
Revenue	7,667,818	2,407,511	(527,705)	–	–	9,547,624
Cost of sales	(7,014,226)	(2,357,974)	518,483	(22,768)	–	(8,876,485)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	1,232,668	717,390	–	–	–	1,950,058
Gross profit	1,886,260	766,927	(9,222)	(22,768)	–	2,621,197
Loss arising from changes in fair value less costs to sell of biological assets	(133,255)	(267,165)	–	–	–	(400,420)
Other income	55,396	29,752	–	–	–	85,148
Impairment loss under expected credit loss model, net of reversal	(24,761)	(14,681)	–	–	–	(39,442)
Other gains and losses	(16,046)	(18,419)	–	–	–	(34,465)
Selling and distribution expenses	(340,687)	(89,364)	–	–	–	(430,051)
Administrative expenses	(445,453)	(141,008)	–	(1,515)	–	(587,976)
Other expenses	(26,528)	(16,148)	–	–	–	(42,676)
Share of profit of a joint venture	–	215	–	–	–	215
Finance costs	(104,071)	(141,064)	–	–	–	(245,135)
Profit before tax	850,855	109,045	(9,222)	(24,283)	–	926,395
Income tax (expense)/credit	(48,973)	192	2,306	–	–	(46,475)
Profit for the year	801,882	109,237	(6,916)	(24,283)	–	879,920
Profit for the year attributable to:						
Owners of the Company	801,882	112,004	(6,916)	(24,137)	(36,588)	846,245
Non-controlling interests	–	(2,767)	–	(146)	36,588	33,675
	801,882	109,237	(6,916)	(24,283)	–	879,920

Notes:

- The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 as set out in Appendix I to this Document.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

2. The amounts are extracted from the audited consolidated statement of profit or loss and other comprehensive income of SKX Group for the year ended 31 December 2019 as set out in Section III “Supplementary Pre-acquisition financial information” of Appendix I to this Document.
3. The adjustments represent the elimination of intercompany transactions and the related deferred tax effect between the Group and SKX Group.
4. For the purpose of the Unaudited Pro Forma Financial Information with SKX Group, the fair values of the identifiable assets and liabilities of SKX Group at 1 January 2019 have been reassessed as if the Acquisition had been completed on 1 January 2019. The adjustment represents additional depreciation and amortisation charges according to the above fair value adjustments as at 1 January 2019 and the related impact on the non-controlling interests of SKX Group.
5. The adjustment represents share of results of SKX Group by the non-controlling interests for the year ended 31 December 2019 as if the Acquisition had been completed on 1 January 2019. The calculation is as follows:

	RMB'000
SKX Group's profit attributable to owners of SKX Group for the year ended 31 December 2019	112,004
Less: Impact of additional depreciation and amortisation charges (Note 4)	<u>(24,137)</u>
	<u>87,867</u>
Profit for the year attributable to the non-controlling interests (41.64%)	<u>36,588</u>

6. The pro form adjustments relate to elimination of intercompany transactions, additional depreciation and amortisation charges and the related impact on non-controlling interests as set out in Notes 3, 4 and 5 above are expected to have continuing effect on the Enlarged Group with SKX Group's profit.
7. No adjustments have been made to reflect any trading results or other transactions of the Group and SKX Group entered into subsequent to 31 December 2019.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

(C) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP AND SKX GROUP

(1) BASIS OF PREPARATION

On 3 October 2020, the Group entered into a share purchase agreement to acquire the entire equity interest in Fonterra (Ying) Dairy Farm Co., Ltd. and Fonterra (Yutian) Dairy Farm Co., Ltd. (collectively as “Fonterra China Farms Group”) (the “Acquisition of Fonterra China Farms Group”). [The Acquisition of Fonterra China Farms Group has not been completed at the date of this Document.]

The unaudited pro forma financial information is presented to illustrate the impact on the financial performance and financial position of the Group as if the Acquisition of Fonterra China Farms Group has been completed at 1 January 2019 and 30 June 2020, respectively, which comprise the unaudited pro forma combined statement of profit or loss for the year ended 31 December 2019 and the six months ended 30 June 2020, and the unaudited pro forma combined statement of financial position at 30 June 2020 of the Group and Fonterra China Farms Group (collectively as the “Enlarged Group with Fonterra China Farms Group”). The unaudited pro forma financial information has been prepared in accordance with paragraph 4.29 of the Listing Rules.

The unaudited pro forma combined statements of profit or loss of the Enlarged Group with Fonterra China Farms Group are prepared based on the audited combined statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 and the six months ended 30 June 2020 as set out in Appendix I to the Document, after making unaudited pro forma adjustments relating to the Acquisition of Fonterra China Farms Group that are (i) directly attributable to the acquisition; and (ii) factually supportable as if the acquisition had been completed on 1 January 2019.

The unaudited pro forma combined statement of financial position of the Enlarged Group with Fonterra China Farms Group is prepared based on the audited combined statement of financial position of the Group at 30 June 2020 as set out in Appendix I to the Document, after making unaudited pro forma adjustments relating to the Acquisition of Fonterra China Farms Group that are (i) directly attributable to the acquisition; and (ii) factually supportable as if the acquisition had been completed on 30 June 2020.

The unaudited pro forma financial information has been prepared by the directors of the Company based on a number of assumptions, estimates and uncertainties for illustrative purposes only and, because of its hypothetical nature, it does not purport to describe the actual results of the Enlarged Group with Fonterra China Farms Group that would have been attained had the acquisition been completed at the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group with Fonterra China Farms Group does not purport to predict the future financial results of the Enlarged Group with Fonterra China Farms Group.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

(2) UNAUDITED PRO FORMA COMBINED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP AND SKX GROUP FOR THE YEAR ENDED 31 DECEMBER 2019

	Fonterra China Farms Group		The Enlarged Group with Fonterra China Farms Group					SKX Group		Pro forma adjustments				The Enlarged Group	
	The Group		Pro forma adjustments					Group		Group				Group	
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	Note 7	Note 8	Note 9	Note 10	Note 11	Note 12	Note 13	Note 14	Note 15
	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	RMB'000	RMB'000
Revenue	7,667,818	1,111,354	-	(85,229)	-	-	-	-	8,693,943	2,407,511	(527,705)	-	-	10,573,749	-
Cost of sales	(7,014,226)	(1,011,171)	-	85,229	-	(56,215)	-	-	(7,996,383)	(2,357,974)	518,483	(22,768)	-	(9,858,642)	-
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	1,232,668	94,418	-	-	-	-	-	-	1,327,086	717,390	-	-	-	2,044,476	-
Gross profit	1,886,260	194,601	-	-	-	(56,215)	-	-	2,024,646	766,927	(9,222)	(22,768)	-	2,759,583	-
Loss arising from changes in fair value less costs to sell of biological assets	(133,255)	(8,922)	-	-	-	-	-	-	(142,177)	(267,165)	-	-	-	(409,342)	-
Other income	55,396	23,100	-	-	-	-	-	-	78,496	29,752	-	-	-	108,248	-
Impairment loss under expected credit loss model, net of reversal	(24,761)	-	-	-	-	-	-	-	(24,761)	(14,681)	-	-	-	(39,442)	-
Other gains and losses	(16,046)	(902,126)	192,256	-	898,475	-	-	-	172,559	(18,419)	-	-	-	154,140	-
Selling and distribution expenses	(340,687)	(69,338)	-	-	-	-	-	-	(410,025)	(89,364)	-	-	-	(499,389)	-
Administrative expenses	(445,453)	(60,622)	-	-	-	(3,421)	-	-	(509,496)	(141,008)	-	(1,515)	-	(652,019)	-
Other expenses	(26,528)	-	-	-	-	-	-	-	(26,528)	(16,148)	-	-	-	(42,676)	-
Share of profit of a joint venture	-	-	-	-	-	-	-	-	-	215	-	-	-	215	-
Finance costs	(104,071)	(50,079)	-	-	-	-	42,542	(106,913)	(218,521)	(141,064)	-	-	-	(359,585)	-
Profit/(loss) before tax	850,855	(873,386)	192,256	-	898,475	(59,636)	42,542	(106,913)	944,193	109,045	(9,222)	(24,283)	-	1,019,733	-
Income tax expense	(48,973)	-	-	-	-	-	-	16,037	(32,936)	192	2,306	-	-	(30,438)	-
Profit/(loss) for the year	801,882	(873,386)	192,256	-	898,475	(59,636)	42,542	(90,876)	911,257	109,237	(6,916)	(24,283)	-	989,295	-
Attributable to:															
Owners of the Company	801,882	(873,386)	192,256	-	898,475	(59,636)	42,542	(90,876)	911,257	112,004	(6,916)	(24,137)	(36,588)	955,620	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	(2,767)	-	(146)	36,588	33,675	-
Profit for the year	801,882	(873,386)	192,256	-	898,475	(59,636)	42,542	(90,876)	911,257	109,237	(6,916)	(24,283)	-	989,295	-

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes to the unaudited pro forma combined statement of profit or loss of the Enlarged Group with Fonterra China Farms Group and SKX Group for the year ended 31 December 2019:

- 1 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 as set out in Appendix I to this Document.
- 2 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of Fonterra China Farms Group for the year ended 31 December 2019 as set out in Appendix II to the Document.
- 3 The adjustments represent the effect of bargain purchase from the Acquisition of Fonterra China Farms Group, which has no continuing effect, as set out below.

	<i>Notes</i>	<i>RMB'000</i>
Fair value of net identifiable assets of Fonterra China Farms Group at 1 January 2019	<i>(a)</i>	2,491,469
Purchase consideration	<i>(b)</i>	2,310,000
Adjustment to purchase consideration	<i>(b)</i>	<u>(10,787)</u>
Adjusted purchase consideration		<u>2,299,213</u>
Bargain purchase gain		<u><u>192,256</u></u>

Notes:

- (a) The fair value is based on the valuation report of Jones Lang La Salle performed for the net identifiable assets of Fonterra China Farms Group at 1 January 2019. Jones Lang La Salle is independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

The fair value of the property are based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

The fair value of the plant and equipment are based on cost approach as the main method. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The fair value of the right-of-use assets are based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the fair value at an appropriate capitalization rate.

- (b) The purchase consideration and adjustment thereto are based on the share purchase agreement dated 3 October 2020. The consideration adjustments are determined by a formula in relation to the net working capital and debts etc. at the completion date. The above adjustment is preliminarily determined based on the management accounts as of 1 January 2019 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

- 4 The adjustment represents the elimination of intercompany transactions, which is expected to have continuing effect.
- 5 The adjustment represents the adjustment of impairment loss of property, plant and equipment of Fonterra China Farms Group for the year ended 31 December 2019. For the purpose of this unaudited pro forma financial information, such property, plant and equipment are measured at fair value at 1 January 2019 as part of the identifiable assets acquired by the Group. This adjustment has no continuing effect.
- 6 The adjustments represent: 1) reversal of depreciation and amortisation based on carrying amount of property, plant and equipment and right of use assets; and 2) depreciation and amortisation charges based on the fair value of property, plant and equipment and right of use assets acquired at 1 January 2019. This is expected to have continuing effect.
- 7 The adjustment represents the reversal of interest expense on the Fonterra China Farms Group’s debt due to the original shareholder converted to equity in accordance with the share purchase agreement dated 3 October 2020 as if the acquisition was completed on 1 January 2019. This is expected to have no continuing effect.
- 8 The directors of the Company intend to fund the adjusted purchase consideration of RMB2,299,213,000 by a term loan, and estimate an interest rate of 4.65% per annum based on the Group’s existing loans with similar terms and tax effect. Total interest expenses on the aforesaid loan is estimated to be RMB106,913,000 for the year ended 31 December 2019. This is expected to have continuing effect.
- 9 The amounts are extracted from the audited consolidated statement of profit or loss and other comprehensive income of SKX Group for the year ended 31 December 2019 as set out in Section III “Supplementary Pre-acquisition Financial Information” of Appendix I to this Document.

The pro forma adjustments 10 to 13 have been prepared to illustrate the impact to the Group as if the acquisition of SKX Group had been completed on 1 January 2019.

- 10 The adjustments represent the elimination of intercompany transactions and the related deferred tax effect between the Group and SKX Group. This is expected to have continuing effect.

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- 11 For the purpose of the unaudited pro forma financial information, the fair values of the identifiable assets and liabilities of SKX Group at 1 January 2019 have been reassessed as if the acquisition had been completed on 1 January 2019. The adjustment represents additional depreciation and amortisation charges according to the above fair value adjustments as at 1 January 2019 and the related impact on the non-controlling interests of SKX Group. This is expected to have continuing effect.
- 12 The adjustment represents share of results of SKX Group by the non-controlling interests for the year ended 31 December 2019 as if the acquisition had been completed on 1 January 2019. The calculation is set out in note 5 in section (2) of (B) “Unaudited Pro Forma Financial Information of the Enlarged Group with SKX Group” above.
- 13 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of the Group and Fonterra China Farms Group and SKX Group entered into subsequent to 31 December 2019.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

(3) UNAUDITED PRO FORMA COMBINED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2020

	The Group	Fonterra China Farms Group	Pro forma adjustments				The Enlarged Group
	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 5 RMB'000	Note 6 RMB'000	RMB'000
Revenue	5,344,427	587,492	–	(46,501)	–	–	5,885,418
Cost of sales	(4,975,241)	(548,123)	–	46,501	(32,331)	–	(5,509,194)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	1,238,129	93,297	–	–	–	–	1,331,426
Gross profit	1,607,315	132,666	–	–	(32,331)	–	1,707,650
Loss arising from changes in fair value less costs to sell of biological assets	(217,637)	(47,272)	–	–	–	–	(264,909)
Other income	37,835	5,317	–	–	–	–	43,152
Impairment losses under expected credit loss model, net of reversal	(11,762)	–	–	–	–	–	(11,762)
Other gains and losses	468	173	–	–	–	–	641
Selling and distribution expenses	(206,302)	(23,934)	–	–	–	–	(230,236)
Administrative expenses	(270,333)	(30,432)	–	–	(2,451)	–	(303,216)
Other expenses	(6,224)	–	–	–	–	–	(6,224)
[REDACTED] expenses	(10,328)	–	–	–	–	–	(10,328)
Share of profit of joint venture	69	–	–	–	–	–	69
Finance costs	(152,554)	(25,259)	21,377	–	–	(53,457)	(209,893)
Profit before tax	770,547	11,259	21,377	–	(34,782)	(53,457)	714,944
Income tax expense	(26,488)	–	–	–	–	8,019	(18,469)
Profit for the period	<u>744,059</u>	<u>11,259</u>	<u>21,377</u>	<u>–</u>	<u>(34,782)</u>	<u>(45,438)</u>	<u>696,475</u>
Attributable to:							
Owners of the Company	731,249	11,259	21,377	–	(34,782)	(45,438)	683,665
Non-controlling interests	12,810	–	–	–	–	–	12,810
	<u>744,059</u>	<u>11,259</u>	<u>21,377</u>	<u>–</u>	<u>(34,782)</u>	<u>(45,438)</u>	<u>696,475</u>

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Notes to the unaudited pro forma combined statement of profit or loss of the Enlarged Group with Fonterra China Farms Group for the six months ended 30 June 2020:

- 1 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2020 as set out in Appendix I to this Document.

The audited combined statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2020 has consolidated the operating results of SKX Group since the acquisition date of 8 January 2020. The operating results of SKX Group for the period from 1 to 7 January 2020 has been disclosed in the audited combined financial information of the Group in Appendix I. For the purpose of this unaudited combined pro forma financial information, no pro forma adjustment is made to present the operating results of SKX Group for the period from 1 to 7 January 2020 as they are considered by the directors as not significant to the Group.

- 2 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of Fonterra China Farms Group for the six months ended 30 June 2020 as set out in Appendix II to the Document.
- 3 The adjustment represents the reversal of interest expense on Fonterra China Farms Group’s debt due to the original shareholder converted to equity in accordance with share purchase agreement dated 3 October 2020 as if the acquisition was completed at 1 January 2019. This is expected to have no continuing effect.
- 4 The adjustment represents the elimination of intercompany transactions, which is expected to have continuing effect.
- 5 The adjustment represents adjustments to depreciation and amortisation charges based on the fair value of property, plant and equipment and right of use assets on 1 January 2019. This is expected to have continuing effect.
- 6 The directors of the Company intend to fund the adjusted purchase consideration of RMB2,299,213,000 by a term loan, and estimate an interest rate of 4.65% per annum and tax effect. Total interest expenses on the aforesaid loan is estimated to be RMB53,457,000 for the six months ended 30 June 2020. This is expected to have continuing effect.
- 7 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of the Group and Fonterra China Farms Group entered into subsequent to 30 June 2020.

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(4) UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP AS AT 30 JUNE 2020

	The Group	Fonterra China Farms Group	Pro forma adjustments					The Enlarged Group
	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 5 RMB'000	Note 6 RMB'000	Note 7 RMB'000	RMB'000
Non-current assets								
Property, plant and equipment	5,461,480	1,038,220	-	104,919	-	-	-	6,604,619
Investment properties	44,331	-	-	-	-	-	-	44,331
Right-of-use assets	1,243,826	85,620	-	14,001	-	-	-	1,343,447
Goodwill	762,741	-	-	-	-	-	-	762,741
Intangible assets	1,932	140	-	-	-	-	-	2,072
Biological assets	6,431,075	1,150,661	-	-	-	-	-	7,581,736
Deferred tax assets	10,453	-	-	-	-	-	-	10,453
Interest in a joint venture	811	-	-	-	-	-	-	811
Equity instrument at fair value through other comprehensive income	55,513	-	-	-	-	-	-	55,513
Pledged and restricted bank deposits	34,621	-	-	-	-	-	-	34,621
Prepayment for purchase of property, plant and equipment	94,908	-	-	-	-	-	-	94,908
Deposits for biological assets	68,174	-	-	-	-	-	-	68,174
	<u>14,209,865</u>	<u>2,274,641</u>	<u>-</u>	<u>118,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,603,426</u>
Current assets								
Inventories	1,186,819	104,094	-	-	-	-	-	1,290,913
Trade receivables	808,709	125,115	-	-	-	(29,284)	-	904,540
Bill receivables at fair value through other comprehensive income	59,916	-	-	-	-	-	-	59,916
Contract assets	8,780	-	-	-	-	-	-	8,780
Biological assets	22,051	-	-	-	-	-	-	22,051
Prepayments, deposits and other receivables	238,167	8,496	-	-	-	-	-	246,663
Amounts due from related parties	345,349	202,588	-	-	-	-	-	547,937
Pledged and restricted bank deposits	80,632	-	-	-	-	-	-	80,632
Bank balances and cash	1,594,505	15,555	-	-	-	-	(11,663)	1,598,397
	<u>4,344,928</u>	<u>455,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,284)</u>	<u>(11,663)</u>	<u>4,759,829</u>

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	The Group	Fonterra China Farms Group	Pro forma adjustments					The Enlarged Group
	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 5 RMB'000	Note 6 RMB'000	Note 7 RMB'000	RMB'000
Current liabilities								
Trade and bills payables	1,321,577	162,247	-	-	-	(29,284)	-	1,454,540
Other payables and accruals	1,143,431	55,413	-	-	-	-	-	1,198,844
Contract liabilities	22,246	1,320	-	-	-	-	-	23,566
Amounts due to related parties	100,321	31,856	-	-	-	-	-	132,177
Bank and other borrowings	3,529,446	95,936	-	-	-	-	-	3,625,382
Non-current borrowings from immediate controlling company due within one year	-	930,646	(930,646)	-	-	-	-	-
Lease liabilities	43,434	3,738	-	-	-	-	-	47,172
Other liabilities	6,100	-	-	-	-	-	-	6,100
Other provisions	18,544	-	-	-	-	-	-	18,544
Income tax payable	15,784	-	-	-	-	-	-	15,784
	6,200,883	1,281,156	(930,646)	-	-	(29,284)	-	6,522,109
Net current liabilities	(1,855,955)	(825,308)	930,646	-	-	-	(11,663)	(1,762,280)
Total assets less current liabilities	12,353,910	1,449,333	930,646	118,920	-	-	(11,663)	14,841,146
Non-current liabilities								
Bank and other borrowings	1,746,282	1,563,232	(1,563,232)	-	2,369,136	-	-	4,115,418
Deferred tax liabilities	5,989	-	-	-	-	-	-	5,989
Deferred income	218,553	875	-	(875)	-	-	-	218,553
Lease liabilities	908,868	38,867	-	-	-	-	-	947,735
Other liabilities	20,309	-	-	-	-	-	-	20,309
Other provision	6,760	-	-	-	-	-	-	6,760
	2,906,761	1,602,974	(1,563,232)	(875)	2,369,136	-	-	5,314,764
Net assets	9,447,149	(153,641)	2,493,878	119,795	(2,369,136)	-	(11,663)	9,526,382
Capital and reserves								
Share capital	110	1,343,927	790	-	(1,344,717)	-	-	110
Reserves	8,399,693	(1,497,568)	2,493,088	119,795	(1,024,419)	-	(11,663)	8,478,926
Equity attributable to owners of the Company	8,399,803	(153,641)	2,493,878	119,795	(2,369,136)	-	(11,663)	8,479,036
Non-controlling interests	1,047,346	-	-	-	-	-	-	1,047,346
Total equity	9,447,149	(153,641)	2,493,878	119,795	(2,369,136)	-	(11,663)	9,526,382

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Notes:

- 1 The amounts are extracted from the audited combined statement of financial position of the Group as at 30 June 2020 as set out in Appendix I to the Document.
- 2 The amounts are extracted from the audited combined statement of financial position of Fonterra China Farms Group as at 30 June 2020 as set out in Appendix II to the Document.
- 3 The adjustments represent the Fonterra China Farms Group’s debt of RMB2,493,878,000 due to the original shareholder converted to equity in accordance with the share purchase agreement dated 3 October 2020 as if the acquisition was completed at 30 June 2020.
- 4 The adjustments represent the fair value adjustments on net identifiable assets of Fonterra China Farms Group at 30 June 2020.

The Group has applied the acquisition method in accordance with IFRS 3 “Business Combinations” to account for the Acquisition of Fonterra China Farms Group as if the acquisition had been completed on 30 June 2020 and the calculation of pro forma bargain purchase gain is as follows:

	<i>Notes</i>	At 30 June 2020
		<i>RMB’000</i>
Carrying amount of identifiable net assets acquired	(a)	2,340,237
Pro forma fair value adjustment	(b)	119,795
Adjusted purchase consideration	(c)	2,369,136
Pro forma bargain purchase gain		90,896

Notes:

- (a) The carrying amount of identifiable net assets acquired is extracted from the audited combined statement of financial position of Fonterra China Farms Group as at 30 June 2020 as set out in Appendix II to the Document, and adjusted for the debt conversion in note 3 above.
- (b) The pro forma fair value adjustment is based on the valuation report of Jones Lang LaSalle on the net identifiable assets of Fonterra China Farms Group at 30 June 2020. Jones Lang La Salle is independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King’s Road, Hong Kong.

The fair value of the property are based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

The fair value of the plant and equipment are based on cost approach as the main method. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The fair value of the right of use assets are based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the fair value at an appropriate capitalization rate.

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- (c) The adjusted purchase consideration is calculated according to the share purchase agreement dated 3 October 2020. The consideration adjustments are determined by a formula in relation to the net working capital and debts etc. as if the acquisition was completed at 30 June 2020. The above adjustment is preliminarily determined based on the management accounts as of 30 June 2020 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

- 5 The directors of the Company intend to fund the consideration of RMB2,369,136,000 by a non-current term loan. The adjustments to share capital and reserves represent the elimination of pre-acquisition reserves of Fonterra China Farms Group at 30 June 2020 and recognition of the pro forma bargain purchase gain of RMB90,896,000 as set out in note 4 above.
- 6 The adjustments represent the elimination of intercompany balances.
- 7 The adjustment represents the acquisition-related costs to be paid before completion date.
- 8 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of the Group and Fonterra China Farms Group entered into subsequent to 30 June 2020.

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[REDACTED]

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX IIIA

[REDACTED]

[REDACTED]

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of the Cayman Companies Law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 21, 2020 under the Cayman Companies Law. Our Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in Section 27(2) of the Cayman Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on [●] with effect from the [REDACTED]. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of our Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general

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meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

Our Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the [REDACTED] or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

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Notwithstanding the foregoing, for so long as any shares are [REDACTED] on the Stock Exchange, titles to such [REDACTED] shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such [REDACTED] shares. The register of members in respect of its [REDACTED] shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Cayman Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such [REDACTED] shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The Board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The Board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of our Company.

(v) Power of our Company to purchase its own shares

Our Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

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Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The Board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the Board determines.

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(b) Directors

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to our Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

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- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company are at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither our Company nor the Board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

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(iii) Power to dispose of the assets of our Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by our Company in general meeting.

(iv) Borrowing powers

The Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An Executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependants or any class or classes of such persons.

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The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The Board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of our Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than our Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, our Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by our Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance as if our Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our

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Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

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(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and our Company's name

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

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(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meeting

Our Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

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Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by our Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;

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(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) *Accounts and audit*

The Board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the Board or our Company in general meeting. However, an exempted company must make available at its

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registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

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Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Our Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

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All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the Board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

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If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANIES LAW

Our Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, our Company’s operations must be conducted mainly outside the Cayman Islands. An exempted company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

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The Cayman Companies Law provides that the share premium account may be applied by a company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Cayman Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

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Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Cayman Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of a company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of a company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

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In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by a company's memorandum and articles of association.

(g) Disposal of assets

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

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An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, our Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from November 13, 2020.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(m) Inspection of corporate records

Members of a company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Cayman Companies Law required or permitted to be kept. A company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

A company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands.

Such requirement does not, however, apply to an exempted company with its shares [REDACTED] on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of a company are [REDACTED] on the Stock Exchange, the company is not required to maintain a beneficial ownership register.

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AND CAYMAN ISLANDS COMPANY LAW**

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

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(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Ogier, our Company's legal counsel as to Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Companies Law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection – 2. Documents available for inspection" in Appendix VI to this document. Any person wishing to have a detailed summary of Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on August 21, 2020. Our registered office is situated at the office of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. We have established a principal place of business in Hong Kong at 31/F., Tower Two, Times Square 1 Matheson Street, Causeway Bay, Hong Kong on September 25, 2020 and have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on October 14, 2020. Ms. Yu Wing Sze (余詠詩) has been appointed as the authorized representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at the above address.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$100,000 divided into 10,000,000,000 shares with a par value of US\$0.00001 each.

The following alterations in the share capital of our Company have taken place within the two years immediately preceding the date of this document:

- (a) On October 27, 2020, 3,301,999,999 Shares were allotted and issued to China Youran Dairy Holding Limited at par value; and
- (b) On October 27, 2020, China Youran Dairy Holding Limited transferred 2,502,000,000 Shares to the following Shareholders:

<u>Name of the Shareholders</u>	<u>Number of Shares</u>
PAG I	1,353,800,000
Jingang Holding	520,800,000
Meadowland	627,400,000

Save as disclosed above and in this document, there has been no alteration in the share capital of our Company since our incorporation.

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3. Resolutions in Writing of the Shareholders of Our Company Passed on [●], 2021

Pursuant to the resolutions in writing passed by our shareholders on [●], 2021:

- (a) our Company approved and adopted the Memorandum of Association and the Articles of Association conditional upon the [REDACTED];
- (b) conditional on: (i) the [REDACTED] granting approval for the [REDACTED] of, and permission to [REDACTED], the Shares in issue and to be issued (a) pursuant to the [REDACTED], including the Shares which may be issued pursuant to the exercise of the [REDACTED], and (b) upon conversion of the Convertible Notes; (ii) the entering into, execution and delivery of the [REDACTED] and the [REDACTED] on or around the [REDACTED]; and (iii) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and the [REDACTED] not being terminated in accordance with the terms of such agreements or otherwise:
 - (i) the [REDACTED] be approved and our Directors be authorized to allot and issue the new Shares pursuant to the [REDACTED];
 - (ii) the proposed [REDACTED] of the Shares on the [REDACTED] be approved and our Directors be authorized to implement such [REDACTED]; and
 - (iii) the [REDACTED] be approved and our Directors be authorized to effect the same and to allot and issue the [REDACTED] upon the exercise of the [REDACTED];
- (c) a general unconditional mandate was given to our Directors to allot, issue and otherwise deal with the Shares (otherwise than pursuant to, or in consequence of, the [REDACTED], the [REDACTED], a rights issue or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by our Company's shareholders) with an aggregate nominal value not exceeding the sum of 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [REDACTED];
- (d) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase for cancellation the Shares representing up to 10% of its share capital in issue, immediately following completion of the [REDACTED] (excluding the Shares which may be issued upon the execution of the [REDACTED]); and

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- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above.

Each of the general mandates referred to in paragraphs (c), (d) and (e) above will remain in effect until the earlier of (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or (ii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

4. Our Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED]. Please refer to the section headed “History, Reorganization and Group Structure” in this document for further details.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this document.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this document:

- (a) On February 12, 2019, Chengde Saiyou Dairy Co. Ltd. (承德賽優牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB40.0 million.
- (b) On March 27, 2019, Shandong Bio-Technology Co., Ltd. (山東牧泉元興生物科技有限責任公司) was established under the laws of PRC with a registered capital of RMB50.0 million;
- (c) On May 16, 2019, Pingdingshan Youran Dairy Co. Ltd. (平頂山優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (d) On May 17, 2019, Hulunbuir Youran Dairy Co. Ltd. (呼倫貝爾優然牧業示範牧場有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (e) On June 4, 2019, Fuxin Youran Dairy Limited (阜新優然牧業有限責任公司) increased its registered capital from RMB100.0 million to RMB114.0 million;

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- (f) On June 18, 2019, Daqing Bio-Technology Co. Ltd. (大慶牧泉元興生物科技有限公司) was established under the laws of PRC with a registered capital of RMB40.0 million;
- (g) On July 24, 2019, Bayinnaoer Bio-Technology Co. Ltd. (巴彥淖爾市牧泉元興飼料有限責任公司) was incorporated under the laws of PRC with a registered capital of RMB35.0 million;
- (h) On September 20, 2019, Wuwei Youran Dairy Co. Ltd. (武威市優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (i) On December 25, 2019, Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd. (內蒙古賽科星家畜種業與繁育生物技術研究院有限公司) increased its registered capital from RMB13.0 million to RMB48.0 million;
- (j) On January 2, 2020, Youran Dairy increased its registered capital from RMB2,500.0 million to RMB4,127.5 million;
- (k) On April 13, 2020, Hulun Buir SK Xing Dairy Co. Ltd. (呼倫貝爾賽科星牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB80.0 million;
- (l) On May 9, 2020, Hinggan League Youran Dairy Co. Ltd. (興安盟優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (m) On May 28, 2020, Hulun Buir Saiyou Dairy Co. Ltd. (呼倫貝爾市賽優牧業有限公司) increased its registered capital from RMB60.0 million to RMB210.0 million;
- (n) On June 5, 2020, Youran Dairy increased its registered capital from RMB4,127.5 million to RMB4,778.5 million;
- (o) On June 18, 2020, Qingshuihe SKX Dairy Co. Ltd. (清水河賽科星牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB40.0 million;
- (p) On July 7, 2020, Tongliao Youran Dairy Co. Ltd. (通遼優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (q) On July 20, 2020, Inner Mongolia Jumucheng Technology Co. Ltd. (內蒙古聚牧城科技有限責任公司) was established under the laws of PRC with a registered capital of RMB10.0 million;

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- (r) On August 6, 2020, Bayan Nur SKX Dairy Co. Ltd. (巴彥淖爾賽科星牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB100.0 million;
- (s) On August 31, 2020, Hohhot Youran Dairy Co. Ltd. (呼和浩特優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (t) On September 18, 2020, Zhumadian Youran Dairy Co. Ltd. (駐馬店優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB250.0 million;
- (u) On September 21, 2020, Liangcheng Youran Dairy Co. Ltd. (涼城優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB50.0 million;
- (v) On October 16, 2020, Shouguang Youran Dairy Co. Ltd. (壽光優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (w) On October 19, 2020, Hohhot Jinhe Youran Dairy Co. Ltd. (呼和浩特金河優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB100.0 million;
- (x) On October 19, 2020, Weifang Youran Dairy Co. Ltd. (濰坊優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (y) On October 20, 2020, Kailu Youran Dairy Co. Ltd. (開魯優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;
- (z) On October 21, 2020, Hebei Muquan Yuanxing Biotechnology Co. Ltd. (河北牧泉元興生物科技有限責任公司) was established under the laws of PRC with a registered capital of RMB50.0 million;
- (aa) On October 23, 2020, Xingtai Youran Dairy Co. Ltd. (邢台優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB68.0 million;
- (bb) On November 9, 2020, Hulunbuir Youran Dairy Co. Ltd. (呼倫貝爾優然牧業示範牧場有限責任公司) increased its registered capital from RMB125.0 million to RMB250.0 million;

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- (cc) On November 10, 2020, Yan’an Luochuan Youran Dairy Co. Ltd. (延安洛川優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB100.0 million;
- (dd) On November 17, 2020, Hohhot Youran Dairy Co. Ltd. (呼和浩特優然牧業有限責任公司) increased its registered capital from RMB125.0 million to RMB700.0 million;
- (ee) On November 19, 2020, Hefei Yuanxing Dairy Co. Ltd. (合肥元興牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB42.0 million.

Save as disclosed in this document, there has been no alteration in the share capital or registered capital of our subsidiaries or of Fonterra China Farms Group within the two years immediately preceding the date of this document.

6. Repurchases of Our Own Shares

The Listing Rules permit companies with a primary [REDACTED] on the Stock Exchange to repurchase their securities on the Stock Exchange. This section includes information relating to the repurchase by us of our own Shares, including information required by the Stock Exchange to be included in this document concerning the repurchase.

(a) Shareholders’ approval

All our proposed repurchases of Shares (which must be fully-paid up) must be approved in advance by an ordinary resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction. On [●], 2021, our Directors were granted a general unconditional mandate (“Repurchase Mandate”) to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the [REDACTED] on the Stock Exchange or on any other stock exchange on which our securities may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of: (i) the conclusion of the next annual general meeting of our Company; (ii) the date by which the next annual general meeting of our Company is required to be held by the Articles or any applicable law; or (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting of our Company.

Under the Listing Rules, the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Number of shares which may be repurchased

Exercising in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately after completion of the [REDACTED], but taking no account of any Shares which may be allotted and issued upon the exercise of the [REDACTED] or any conversion of the Convertible Notes, could accordingly result in up to [REDACTED]

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Shares being repurchased by us during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the section headed “A. Further Information about Our Group – 6. Repurchases of Our Own Shares – (a) Shareholders’ approval” in this Appendix.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such Share repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of repurchase

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Articles of Association, the Cayman Companies Law, the applicable laws and regulations of the Cayman Islands and the Listing Rules. A [REDACTED] company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

We will make repurchases pursuant to the Repurchase Mandate out of funds legally available for such purpose, including out of profits of our Company, out of the share premium account of our Company or out of the proceeds of a fresh issue of shares made for such purpose or, if authorized by the Articles and subject to the Cayman Companies Law, out of capital. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of either or both of the profits of our Company or out of sums standing to the credit of the share premium account of our Company or, if authorized by the Articles and subject to the Cayman Companies Law, out of capital.

On the basis of our current financial position as disclosed in this document and taking into account our current working capital position, our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this document. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

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(e) Status of repurchased shares

The listing of all repurchased shares (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, the repurchased Shares shall be treated as cancelled and the amount of our Company’s issued share capital shall be reduced by the aggregate nominal value of the repurchased Shares accordingly, although the authorized share capital of our Company will not be reduced.

(f) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED]). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of [REDACTED] Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Our Company is required to procure that the broker (appointed by our Company to effect a repurchase of Shares) will disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(g) Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time when the price sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of our board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of our Company’s results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of our shares on the Stock Exchange if our Company has breached the Listing Rules.

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(h) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company’s annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(i) Directors’ undertakings

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands and the Articles of Association.

(j) Takeovers code

If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of such Shareholders’ interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provisions may apply as a result of any such increase. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases pursuant to the Repurchase Mandate.

If the repurchase mandate is fully exercised immediately following completion of the [REDACTED] (but taking no account of any Shares which may be issued upon the exercise of the [REDACTED] or any conversion of the Convertible Notes), the total number of Shares which will be repurchased pursuant to the repurchase mandate shall be [REDACTED] Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions).

(k) Share repurchase made by our Company

No repurchase of Shares has been made by our Company since its incorporation.

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(I) Connected parties

Our Company is prohibited from knowingly purchasing Shares on the Stock Exchange from a connected person (as defined under the Listing Rules), and a connected person shall not knowingly sell his or her or its shares to our Company on the Stock Exchange.

As of the Latest Practicable Date, none of our Directors, nor to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) has any present intention to sell any Shares to us or any of our subsidiaries if the Repurchase Mandate is exercised. As of the Latest Practicable Date, no connected person of our Company has notified us that he, she or it has a present intention to sell any Shares to us or any of our subsidiaries, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

- (a) the shareholders agreement dated November 4, 2020 entered into among our Company, Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), China Youran Dairy Holding Limited (中國優然牧業控股有限公司), HONGKONG JINGANG TRADE HOLDING CO., LIMITED (香港金港商貿控股有限公司), PAGAC Yogurt Holding I Limited, PAGAC Yogurt Holding II Limited and Meadowland Investment Limited Partnership;
- (b) the note subscription agreement dated November 10, 2020 entered into between our Company and Victory Ride Holdings Limited;
- (c) the note subscription agreement dated November 3, 2020 entered into between our Company and PAGAC Yogurt Holding III Limited;
- (d) the note subscription agreement dated November 19, 2020 entered into between our Company and Good Virtue Limited (嘉煌有限公司);
- (e) the note subscription agreement dated November 19, 2020 entered into between our Company and BCC Piano Investments, L.P.; and
- (f) [REDACTED].

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2. Intellectual Property Rights of Our Group

As of the Latest Practicable Date, we have registered the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks, details of which are as follows:

No.	Trademark
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	
11.	
12.	
13.	
14.	
15.	
16.	

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(b) *Domain Names*

As of the Latest Practicable Date, we have registered the following domain names:

<u>No.</u>	<u>Domain Name</u>	<u>Registered Owner</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
1.	yourandairy.hk	Youran Dairy	July 15, 2016	July 15, 2021
2.	yourandairy.com.cn	Youran Dairy	July 15, 2016	July 15, 2021
3.	yourandairy.cn	Youran Dairy	July 15, 2016	July 15, 2021
4.	yourandairy.net	Youran Dairy	July 15, 2016	July 15, 2021
5.	yourandairy.com	Youran Dairy	July 15, 2016	July 15, 2021

(c) *Utility Patents*

As of the Latest Practicable Date, we have registered the following utility patents in the PRC:

<u>No.</u>	<u>Registered Owner</u>	<u>Title of Utility</u>	<u>Place of Registration</u>
1.	Youran Dairy	A feed additive for the treatment of cryptogenic mastitis in cows	PRC
2.	Youran Dairy	A kind of rumen regulator for cows and its preparation method	PRC
3.	Youran Dairy	Functional feed mixes for feeding high-yielding cows	PRC
4.	Youran Dairy	Microbial fermentation method for preparation of dairy feed	PRC
5.	Youran Dairy	Selenium yeast for feed and its preparation method	PRC

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of Our Directors and the Chief Executive of Our Company in the Shares*

Immediately following the completion of the [REDACTED], our Directors are not aware of any Director or chief executive of our Company whose interests or short positions in our Shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be

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required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are [REDACTED].

(b) Interests of the Substantial Shareholders in the Shares

Save as disclosed in the section headed “Substantial Shareholders”, immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] or any conversion of the Convertible Notes, our Directors are not aware of any other person (not being a Director or chief executive of our Company) who will have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

(c) Interests of the Substantial Shareholders in Other Members of our Group

So far as our Directors are aware and save as disclosed in this document, as of the Latest Practicable Date, no persons are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group or of Fonterra China Farms Group.

2. Particulars of Directors’ Service Contracts and Appointment Letters

(a) Executive Directors

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

(b) Non-executive Directors and Independent non-executive Directors

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with our Company effective from [●] and the date of this Document, respectively. The initial term for their appointment letters shall commence from the date of their appointment for a period of three years, whichever is earlier (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than [one month’s] prior notice in writing.

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Details of the Company’s remuneration policy is described in the section headed “Directors and Senior Management – Compensation of Directors and Senior Management” in this Document.

3. Disclaimers

Save as disclosed in this document:

- (a) none of our Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are [REDACTED] on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the persons listed in the section headed “– D. Other Information – 5. Qualification of experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors nor any of the persons listed in the section headed “– D. Other Information – 5. Qualification of experts” below are materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;
- (e) save as set out in the sections headed “ [REDACTED]”, none of the persons listed in the section headed “– D. Other Information – 5. Qualification of experts” below
 - (i) has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares in any member of our Group; or
 - (ii) is legally or beneficially interested in any securities of any member of our Group;

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- (f) none of our Directors have entered or have proposed to enter into any service contracts with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) none of our Directors or their respective associates (as defined under the Listing Rules), or the existing Shareholders (who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Litigation

On September 5, 2019, SKX brought a contractual claim against Guangming Dairy Company Limited (光明乳業股份有限公司), Zhengzhou Guangming Dairy Company Limited (鄭州光明乳業有限公司), Wuhan Guangming Dairy Company Limited (武漢光明乳品有限公司), Heilongjiang Guangming Songhe Dairy Company Limited (黑龍江省光明松鶴乳品有限責任公司), Beijing Guangming Jianneng Dairy Company Limited (北京光明健能乳業有限公司), Tianjin Guangming Mengde Dairy Company Limited (天津光明夢得乳品有限公司) and Guangming Dairy (Dezhou) Company Limited (光明乳業(德州)有限公司) (collectively, “Guangming”), claiming damages for late payment and price difference in relation to a raw milk purchase and sale agreement and seeking termination of such agreement pursuant to the terms therein. On September 25, 2019 Guangming in turn brought a counterclaim for continued performance of the agreement under dispute, and to freeze assets of SKX of approximately RMB20,000,000 as liquidated damages for breach of contract. Our Company is of the view that such counterclaim is without merit since the contractual term of the agreement expired on December 31, 2019, prior to which SKX had indicated to Guangming that it will not extend the term of agreement and therefore the agreement should be terminated. Regarding the amount of liquidated damages, our Company is of the view that any amount of the liquidated damages claimed that exceeds the amount of any actual loss to Guangming shall constitute penal damages and shall not be upheld by the court. As of the Latest Practicable Date, no hearing has been set for this lawsuit. Our Company is of the view that such litigation will not have a material impact on our operations and financial performance.

As of the Latest Practicable Date, save as disclosed above and in the section headed “Business – Legal Proceedings” in this document, no member of our Group or Fonterra China Farms Group was engaged in any litigation, arbitration or administrative proceedings which had a material adverse effect on our financial conditions or results of operations, and no litigation, arbitration or administrative proceedings was known to our Directors to be pending or threatened by or against our Group or Fonterra China Farms Group, that would have a material adverse effect on our financial condition or results of operations.

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2. Joint Sponsors

The Joint Sponsors made an application on behalf of our Company to the [REDACTED] of the Stock Exchange for the [REDACTED] of, and permission to [REDACTED], the Shares in issue, and to be issued (i) pursuant to the [REDACTED], including the Shares which may be issued pursuant to the exercise of the [REDACTED], and (ii) upon conversion of the Convertible Notes.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors’ fees payable by us in respect of the Joint Sponsors’ services as sponsors for [REDACTED] are US\$800,000.

3. Shares will be eligible for CCASS

Our Company has applied to the [REDACTED] of the Stock Exchange for the granting of the [REDACTED] of, and permission to [REDACTED], the Shares in issue and to be issued (i) pursuant to the [REDACTED], including the Shares which may be issued pursuant to the exercise of the [REDACTED], and (ii) upon conversion of the Convertible Notes.

All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

4. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2020 (being the date on which our latest audited combined financial statements was made up) up to the date of this document.

5. Qualification of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

<u>Name</u>	<u>Qualifications</u>
Huatai Financial Holdings (Hong Kong) Limited	Licensed corporation under the SFO for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO

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Name	Qualifications
Credit Suisse (Hong Kong) Limited	Licensed corporation under the SFO for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants Registered Public Interest Entity Auditors
KPMG	Certified Public Accountants Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Tian Yuan Law Firm	PRC legal advisor
Frost & Sullivan (Beijing) Inc.	Industry consultant
Ogier	Cayman Islands legal advisor
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent qualified professional valuer

6. Consents of experts

Each of the experts whose names are set out in the paragraph headed “– D. Other Information – 5. Qualification of experts” in this Appendix has given and has not withdrawn their respective consents to the issue of this document with the inclusion of its report and/or letter and/or summary of valuations and/or valuation certificates and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

As at the Latest Practicable Date and save as disclosed in this document, none of the experts named in the paragraph headed “– D. Other Information – 5. Qualification of experts” in this Appendix has any shareholding interests in any of our Company or any of our subsidiaries or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

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7. Agency fees or commissions received

Save as disclosed in the section headed “[REDACTED]” in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this document.

8. Promoter

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this document to any promoter of our Company nor is any cash, securities or benefit intended to be paid, allotted or given in connection with the [REDACTED] or the related transactions described in this document.

9. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately US\$7,000 and have been paid by our Company.

10. Binding effect

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Taxation of holders of Shares

(a) *Hong Kong*

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

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(b) Cayman Islands

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of our Shares, save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisors

Intending holders of the Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising rights attached to them. It is emphasized that none of our Company, our Directors or the other parties, involved in the [REDACTED] will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attached to them.

12. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

13. Miscellaneous

(a) Save as disclosed in this document:

- (i) none of our Directors or experts referred to in the paragraph headed “– D. Other Information – 5. Qualification of experts” of this Appendix has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;*
- (ii) none of the Directors or experts referred to in the paragraph headed “– D. Other Information – 5. Qualification of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;*
- (iii) save for the [REDACTED], none of the experts referred to under the paragraph headed “– D. Other Information – 5. Qualification of experts” of this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;*

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- (iv) within the two years preceding the date of this document, no share or loan capital of the Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (v) within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group;
- (vi) within the two years preceding the date of this document, no commission has been paid or is payable (except commissions to [REDACTED]) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in the Company;
- (vii) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (viii) our Company has no outstanding convertible debt securities or debentures;
- (ix) no capital of the Company or any of our subsidiaries (or that of Fonterra China Farms Group) is under option or is agreed conditionally or unconditionally to be put under option;
- (x) there is no arrangement under which future dividends are waived or agreed to be waived;
- (xi) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document; and
- (xii) no member of our Group is presently listed on any stock exchange or traded on any trading system, and no listing or permission to deal is being or proposed to be sought.

APPENDIX VI

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of [REDACTED];
- (b) copies of each of the material contracts referred to in “Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts” in Appendix V; and
- (c) the written consents issued by each of the experts referred to in “Statutory and General Information – D. Other Information – 6. Consents of experts” in Appendix V.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell, 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report of the Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this document;
- (c) the Accountants’ Report of Fonterra China Farms Group prepared by KPMG, the text of which is set out in Appendix II to this document;
- (d) the report on the unaudited pro forma financial information from Deloitte Touche Tohmatsu, the text of which is set out in Appendix III to this document;
- (e) the legal opinions issued by Tian Yuan Law Firm, our legal advisors on the PRC law in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (f) the industry report prepared by Frost & Sullivan referred to in the section headed “Industry Overview” in this document;
- (g) the letter prepared by Ogier, our legal advisors on Cayman Islands laws, summarizing certain aspects of the Cayman Islands company law referred to in Appendix IV to this document;

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- (h) the material contracts referred to in “Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts” in Appendix V to this document;
- (i) the written consents referred to in “Statutory and General Information – D. Other Information – 6. Consents of experts” in Appendix V to this document;
- (j) the service contracts and letters of appointment referred to in “Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – Directors’ Service Contracts” in Appendix V to this document;
- (k) the Cayman Companies Law; and
- (l) the written statement of the reporting accountants setting out the adjustments made by them in arriving at the figures shown in their report and giving the reasons therefore.