

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our historical financial information, included in the Accountants’ Report in Appendix I and the Unaudited Financial Information for the Nine Months Ended September 30, 2025 included in Appendix IA, together with the respective accompanying notes. The historical financial information of our Group has been prepared in accordance with the requirements of all applicable China Accounting Standards for Business Enterprises (“CASBE”), which are also referred to as China Accounting Standards, issued by the the Ministry of Finance (“MOF”) of the PRC. The Reporting Accountants had conducted their work on the historical financial information of our Group 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”).

The following discussion and analysis 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 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, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this Document, including the sections headed “Risk Factors” and “Business,” and elsewhere in this Document. For further details, see “Forward-Looking Statements.”

OVERVIEW

We are a leading integrated dairy company in China, driven by our commitment to continuous innovation. Through 30 years of development, we have evolved into a nationwide dairy company with diversified product categories and an integrated value chain. According to Frost & Sullivan, we have built Junlebao (君樂寶) into one of the most recognized dairy brands in China and ranked No. 3 among integrated dairy companies by retail value in China market in 2024, with a market share of 4.3%. Our revenue increased by 13.0% in 2024 as compared to 2023, significantly above the industry average, according to the same source.

Leveraging deep consumer insights and strong R&D capabilities, we have successfully captured the growth in the low-temperature liquid dairy segment and introduced differentiated low-temperature yogurt and fresh milk products that align closely with consumer preferences. Within five years of launch, SimPurity (簡醇) and Freshjoy (悦鲜活) became the No. 1 low-temperature yogurt brand in low-temperature yogurt since 2022 and No. 1 premium fresh milk brand since 2024 by retail value in China market, respectively, according to Frost & Sullivan. Beyond our strong momentum in the fast-growing low-temperature liquid dairy segment, our primary products include formula, ambient liquid dairy products and other dairy products, serving consumers across all age groups with safe, high-quality, nutritious and healthy dairy offerings.

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During the Track Record Period, we achieved sustained revenue and profit growth. Our revenue increased from RMB17,546.2 million in 2023 to RMB19,832.5 million in 2024, representing a year-over-year increase of 13.0%, and from RMB14,908.5 million for the nine months ended September 30, 2024 to RMB15,133.8 million for the same period in 2025. Growth in our low-temperature liquid dairy product segment was particularly strong. Revenue for this segment increased from RMB6,287.4 million in 2023 to RMB7,580.9 million in 2024, representing growth of 20.6%, and from RMB5,738.4 million for the nine months ended September 30, 2024 to RMB6,437.2 million for the same period in 2025, representing growth of 12.2%. Within this segment: (i) revenue of fresh milk products increased from RMB1,573.6 million in 2023 to RMB2,274.5 million in 2024, representing an increase of 44.5%, and from RMB1,598.1 million for the nine months ended September 30, 2024 to RMB2,247.7 million for the same period in 2025, representing an increase of 40.6%; and (ii) revenue of low-temperature yogurt products increased from RMB4,713.8 million in 2023 to RMB5,306.4 million in 2024, representing an increase of 12.6%, and from RMB4,140.3 million for the nine months ended September 30, 2024 to RMB4,189.5 million for the same period in 2025.

Supported by cost efficiencies from our integrated operations, enhanced marketing effectiveness driven by refined and digitalized management, and operating leverage, we recorded rapid net profit growth during the Track Record Period. We define adjusted net profit (non-CASBE measure) as net profit adding back (i) interest expenses on financial liabilities related to shareholders’ special rights; (ii) share-based payment expenses; and (iii) [REDACTED]. Adjusted net profit increased from RMB603.0 million in 2023 to RMB1,160.6 million in 2024, representing growth of 92.5%, and increased from RMB756.1 million for the nine months ended September 30, 2024 to RMB944.7 million for the same period in 2025, representing growth of 24.9%. Adjusted net margin improved from 3.4% in 2023 to 5.9% in 2024, and further to 6.2% for the nine months ended September 30, 2025.

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with the requirements of all applicable CASBE, which are also referred to as China Accounting Standards, issued by MOF of the PRC. Further details of the material accounting policy information are set out in Note (III) to the Accountants’ Report in Appendix I and Note (III) to the Unaudited Financial Information for the Nine Months Ended September 30, 2025 included in Appendix IA to this Document.

MOF has issued a number of new and revised CASBEs. For the purpose of preparing the historical financial information, we have consistently applied all applicable new and revised CASBEs, except for any new standards or interpretations that are not yet effective for the accounting period beginning January 1, 2025, throughout the Track Record Period.

The historical financial information also complies with the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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The historical financial information is presented in Renminbi (“RMB”) except when otherwise indicated.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial conditions are affected by a number of general factors influencing the overall dairy industry in China. These factors include macroeconomic trends, consumer purchasing power, industry development and competitive dynamics. Any adverse development in these areas can have a negative impact on our results of operations.

In addition to these general factors, our results of operations are affected by the following company-specific factors:

Product Portfolio and Continuous Product Upgrade

Our revenue growth and profitability are substantially influenced by our product portfolio and innovation capabilities. The revenue contribution of our low-temperature liquid dairy products, which benefited from stronger product differentiation, continued to increase and contributed 35.9%, 38.2%, 38.5% and 42.5% of our revenue in 2023, 2024 and for the nine months ended September 30, 2024 and 2025, with gross profit margins of 32.7%, 33.7%, 34.5% and 33.9%, respectively. Our ambient liquid dairy products contributed 19.2%, 19.8%, 19.8% and 18.6% of our revenue, with gross profit margins of 24.9%, 22.5%, 22.1% and 19.3%, respectively, for the same periods. Our formula products contributed 30.9%, 27.1%, 26.7% and 22.1% of our revenue, with gross profit margins of 52.6%, 56.6%, 55.9% and 58.8%, respectively, for the same periods.

Continuous product upgrade is essential to sustaining our competitive position and revenue growth. Leveraging deep consumer insights and strong R&D capabilities, we continuously introduce products that align closely with consumer preferences for health-oriented nutrition. For example, we have successfully captured growth opportunities in the low-temperature liquid dairy segment, with our innovation efforts enabling us to build differentiated brands including Freshjoy (悦鲜活) and SimPurity (简醇). The market recognition of these brands demonstrates our ability to translate consumer insights into market-leading products. Our comprehensive product portfolio spans multiple categories and price points, serving consumers across all age groups with diverse nutritional needs. Our gross profit margin for dairy products remained stable at 37.5%, 37.8%, 37.7% and 36.6% in 2023, 2024 and for the nine months ended September 30, 2024 and 2025, respectively, supported by our product mix and operational efficiency. We believe that sustaining our product upgrade capabilities and maintaining strong performance across our diversified portfolio is critical to revenue growth and profitability improvement.

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Sales Network Expansion and Channel Execution

We reach consumers through an extensive multi-channel sales network integrating both distributor and direct sales channels. Effective management and continuous expansion of these channels enable us to deeply penetrate diverse markets, covering different consumption scenarios and geographic regions, thereby supporting revenue growth and market share gains.

Our sales network consisted of over 5,500 distributors as of September 30, 2025, comprising offline distributors who further distribute our products to a wide range of retail terminals including chain supermarkets, convenience stores, grocery stores and mother-and-baby chain stores, and online distributors who sell primarily through e-commerce platforms. Revenue from distributor channels, which accounted for 74.4%, 72.0%, 72.6% and 68.8% of revenue in 2023, 2024 and for the nine months ended September 30, 2024 and 2025, respectively, amounted to RMB13,062.8 million, RMB14,284.6 million, RMB10,825.3 million and RMB10,406.1 million for the same periods.

Our direct sales channels included KA customers, e-commerce platforms, online self-operated stores, and corporate and institutional clients. These direct channels enable us to maintain closer consumer relationships, gather first-hand market insights. Revenue from direct sales channels, which represented 20.3%, 24.1%, 23.6% and 23.9% of revenue in 2023, 2024 and for the nine months ended September 30, 2024 and 2025, respectively, amounted to RMB3,561.2 million, RMB4,772.2 million, RMB3,522.8 million and RMB3,616.1 million for the same periods.

Our channel penetration effectiveness is enhanced by our high-discipline “A-list Sales Force (渠道鐵軍)” strategy, characterized by strong in-store activation, precision outlet and channel management, across different cities. This approach concentrates resources on securing optimal shelf positioning and promotional visibility at strategic retail outlets, with systematic store visits and point-of-sale management coordinated closely with our location-targeted media placements. This integrated model creates reinforcing cycles between brand presence and retail performance. See “Business — Sales and Distribution — Channel Development and ‘A-list Sales Force (渠道鐵軍)’ Model” for details. We believe that continuing to deepen distributor network penetration through disciplined channel execution while expanding direct sales channels across multiple formats is essential to sustaining revenue growth and improving channel efficiency.

Brand Building and Marketing Efficiency

Our brand equity and marketing effectiveness significantly influence our financial performance. We employ a “master brand plus specialized brands” architecture to build strong market positions, with our master brand Junlebao (君樂寶) establishing our corporate identity as a leading national dairy company, while our specialized brands — including Freshjoy (悅鮮活), SimPurity (簡醇), Youcui (優萃), Purjoy (純享) and others — address specific consumer segments and category positioning. This architecture enables efficient resource allocation and cross-brand synergies, with our master brand providing trust endorsement that enhances

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consumer awareness across our portfolio. In 2024, we became the official partner of ten Chinese national sports teams, which reinforces our brand positioning and strengthens consumer association with quality and trust.

Our marketing strategy prioritizes cost-efficient channels that align with our distribution strategy, reflecting our strategic shift from broad-reach media to high-conversion channels. We conduct nationwide television advertising campaigns and collaborate with leading variety shows with broad audiences, employing outdoor media advertising to concentrate resources near target retail locations. This strategy enhances the in-store execution of our sales teams while reallocating sales promotion resources towards top-performing distributors and retail stores with higher sales efficiency. In 2023, 2024 and for the nine months ended September 30, 2024 and 2025, our advertising expenses and selling and promotion expenses amounted to RMB2,306.2 million, RMB1,956.6 million, RMB1,715.3 million and RMB1,454.5 million, representing 13.1%, 9.9%, 11.5% and 9.6% of our revenue for the same periods. This overall decrease was driven by enhanced marketing precision and our strategic shift toward high-conversion channels. The combination of revenue growth and declining marketing-related expense ratio demonstrates improved marketing return on investment. We believe that maintaining strong brand recognition while continuously optimizing marketing efficiency through integrated brand-sales execution and data-driven resource allocation is critical to sustaining revenue growth and expanding operating margins.

Raw Milk Self-sufficiency and Integrated Value Chain

Our cost structure and profitability are substantially influenced by our raw milk self-sufficiency and integrated value chain. Our farm raw milk production reached 1,133 thousand tonnes in 2024. According to Frost & Sullivan, our raw milk self-supply rate was 66% in 2024, ranking top among Chinese large-scale integrated dairy companies. This vertical integration provides stable supply of high-quality raw milk and reduces exposure to market price volatility. During the Track Record Period, Our gross profit margin for dairy products remained stable at 37.5%, 37.8%, 37.7% and 36.6% in 2023, 2024 and for the nine months ended September 30, 2024 and 2025, respectively, reflecting the benefits of our integrated value chain.

Our integrated farming operations deliver operational efficiencies and cost advantages. Through economies of scale in feed procurement, optimized herd structure and refined feed formulations enabled by scientific management, we maintain cost competitiveness across our operations. Our disciplined approach to procurement and farm management enables us to manage cost pressures effectively and preserve our competitive position. We believe that maintaining high raw milk self-sufficiency and continuously optimizing our integrated value chain is essential to preserving cost competitiveness and sustaining profitability improvement.

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Cost Structure and Operational Efficiency

Our profitability depends largely on our ability to effectively control costs and enhance operational efficiency. In 2023, 2024 and for the nine months ended September 30, 2024 and 2025, our operating costs amounted to RMB11,542.6 million, RMB12,958.7 million, RMB9,727.8 million and RMB10,298.4 million, representing 65.8%, 65.3%, 65.3% and 68.0% of revenue, respectively. In addition, our operating efficiency is affected by our ability to control the aggregate of selling and distribution expenses, general and administrative expenses, research and development expenses and financial expenses. As our business continues to grow, we expect total operating costs and expenses to increase in absolute terms while we expect to benefit from economies of scale to improve our operational efficiency in the long term.

Our digitalization initiatives support cost control and operational efficiency improvements. We have established integrated digital systems across our value chain. These systems support the automation of procurement workflows, optimization of logistics route planning, and enhancement of mobile-based outlet management, facilitating more efficient resource allocation and cost control throughout our operations. Our enterprise resource planning system supports the integration of operational data across functions, while financial shared services platforms facilitate process automation. See “Business — Digitalization” for details. We believe that continuously enhancing supply chain management capabilities, improving operational efficiency through digitalization, and benefiting from economies of scale are essential to sustaining our gross profit margin profile and achieving long-term profitability improvement.

SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that we believe to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

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We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our consolidated financial statements. Our significant accounting policies and estimates, which are important for an understanding of our financial conditions and results of operations, are set forth in detail in Notes (III) and (IV) to the Accountants' Report in Appendix I and Notes (III) and (IV) to the Unaudited Financial Information for the Nine Months Ended September 30, 2025 included in Appendix IA to this Document.

Material Accounting Policies

Revenue

We recognize revenue based on the transaction price allocated to the performance obligation when we satisfy a performance obligation in the contract, namely, when the customer obtains control over relevant goods or services.

We assess a contract at contract inception, identify each separate performance obligation included in the contract, and determine whether we satisfy the performance obligation over time or we satisfy the performance obligation at a point in time. Our revenue from goods sales constitutes a performance obligation fulfilled at a point in time, recognized when the customer obtains control of the relevant goods. Revenue recognition across our various channels is primarily based on the point in time when goods are delivered and signed for.

The transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and amounts expected to be refunded to a customer.

In case of the existence of variable consideration in the contract, we shall determine the best estimate of variable consideration based on the expected value or the most probably occurred amount. The transaction price including variable consideration shall not exceed the amount of the cumulatively recognized revenue which is most unlikely to be significantly reversed when relevant uncertainty is eliminated.

In case of the existence of consideration payable to a customer in the contract, we shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service. We shall recognize the reduction of revenue at the later of recognizing relevant revenue and paying (or promising to pay) the consideration.

For sales that are affixed with terms of sales return, as the customer obtains control of related goods, we recognize revenue based on the consideration (excluding expected refund amounts due to sales returns) that we are expected to charge due to the transfer of goods to the customer, and recognize liabilities based on the expected refund amounts due to sales returns.

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We assess whether we control each specified good or service before that good or service is transferred to the customer to determine whether we are a principal or an agent. If we control the specified good or service before that good or service is transferred to a customer, we are a principal and recognize revenue in the gross amount of consideration received or receivable. Otherwise, we are an agent and recognize revenue in the amount of any fee or commission to which we expect to be entitled.

Biological Assets

Our biological assets are classified into consumable biological assets and productive biological assets.

Consumable Biological Assets

Consumable biological assets are biological assets held for sale or to be harvested as agricultural produce in the future. A consumable biological asset is initially measured at cost. The cost of a consumable biological asset bred or cultivated by us comprises the costs necessarily incurred before sold and attributable to the asset, and any borrowing costs that satisfy capitalization criteria.

We recognize the cost of a consumable biological asset in profit or loss based on its carrying amount at the time when the asset is sold. Upon sales, the carrying amount is determined using the weighted average method.

At the balance sheet date, a consumable biological asset is measured at the lower of cost and net realizable value, and a provision for write-down of the asset is recognized using the method consistent with that applicable to provide for write-down of inventories. If the circumstances that previously led to a provision for write-down of a consumable biological asset no longer exist, the original provision for write-down is reversed in profit or loss for the current period. The reversal is limited to the amount originally provided.

Productive Biological Assets

Productive biological assets are biological assets, for example, held for the production of agricultural produce, provision of services or rental, including immature productive biological assets (e.g. calves, heifers) and mature productive biological assets (e.g. milkable cows, breeding bulls). Productive biological assets are initially measured at cost. The cost of self-breeding productive biological assets comprises those costs necessarily incurred and directly attributable to the asset before the asset becomes available for its intended production and operating purposes including capitalized borrowing cost.

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When productive biological assets become available for its intended production and operation purposes, we accrue depreciation of productive biological assets using straight-line method over the useful lives. The useful life, estimated net residual value rate and annual depreciation rate of each category of productive biological assets are as follows:

	Estimated Useful Life	Estimated Net Residual Value Rate	Annual Depreciation Rate
	(years)	(%)	(%)
Mature milkable cows	5	20	16.00
Mature breeding bulls	3-5	5	19.00-31.67

The useful lives and estimated net residual values of the above productive biological assets are determined based on historical experience.

We review the useful life and estimated net residual value of productive biological assets and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

On the sale, identification of any shortages during stocktaking, death or damage of productive biological assets, the proceeds on disposal net of the carrying amount and relevant taxes are recognized in profit or loss for the current period.

Inventories

Categories of Inventories

Our inventories mainly include raw materials, finished goods, revolving materials, packaging materials, consumable biological assets, shipped goods, low-value consumables, consigned materials for processing, properties under development and properties for sale, etc. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition. Properties under development comprises costs for acquiring the land use rights, expenditures of support infrastructure, expenditures of construction and installation work, borrowing costs incurred before the development project is completed and other related expenses incurred during the course of development.

Valuation Method of Inventories upon Delivery

The actual cost of inventories upon delivery is calculated using the weighted average method or specific identification method.

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Inventory Count System

The perpetual inventory system is maintained for stock system.

Amortization Method for Low-value Consumables and Packaging Materials

Packaging materials and low-value consumables are amortized using the immediate write-off method.

Recognition Criteria and Methods for Determining the Provision for Write-down of Inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for write-down of inventories is made. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes.

Portfolios for Which Provision for Write-down of Inventories Are Collectively Assessed

For large quantities and low-value items of inventories, provision for write-down is made based on categories of inventories. Therefore, inventories are grouped into raw materials, finished goods, revolving materials, packaging materials, consumable biological assets, shipped goods, low-value consumables, consigned materials for processing, properties under development and properties for sale, for the purpose of provision for write-down of inventories. Finished goods intended for direct sale, shipped goods and consumable biological assets, the net realizable values are determined, in the ordinary course of business, as the estimated selling price less all estimated selling expenses and relevant taxes. For inventories that require further processing in the ordinary course of business, the net realizable values are determined as the estimated selling price less the estimated costs of completion, all estimated selling expenses and relevant taxes. At the balance sheet date, if part of an inventory has a contract price while other parts do not, We separately determine the net realizable values and compares them with their corresponding costs to separately determine the provision for write-down of inventories to be recognized or reversed.

Business Combinations Involving Enterprises Not under Common Control and Goodwill

Where the cost of combination exceeds our interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognized as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than our interest in the fair value of the acquiree's identifiable net assets, we firstly reassess the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than our interest in the fair value of the acquiree's identifiable net assets, we recognize the remaining difference immediately in profit or loss for the period.

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Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated Historical Financial Information.

Fixed Assets

Recognition Criteria for Fixed Assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to us and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Depreciation Method

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The depreciation method, depreciation period, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

<u>Depreciation method</u>	<u>Depreciation period</u>	<u>Estimated net residual value rate</u>	<u>Annual depreciation rate</u>
	<i>(years)</i>	<i>(%)</i>	<i>(%)</i>
Plants and buildings	Straight-line method	10-30	3-5 3.17-9.70
Machinery and equipment	Straight-line method	3-10	3-5 9.50-32.33
Motor vehicles	Straight-line method	3-10	3-5 9.50-32.33
Office equipment	Straight-line method	3-10	3-5 9.50-32.33

Estimated net residual value of a fixed asset is the estimated amount that we would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

We review the useful life and the estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

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Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use. Basis and time point of transferring all construction in progress to fixed assets are as follows:

<u>Criteria and time point of transferring to fixed assets</u>	
Plants and buildings	The earlier of actual commencement of use/ completion of acceptance
Machinery and equipment	The earlier of actual commencement of use/ completion of installation and acceptance

Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to us at no consideration. A government grant is recognized only when we can comply with the conditions attaching to the grant and we will receive the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable.

Accounting Treatment of Government Grants Related to Assets

A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset.

Accounting Treatment of Government Grants Related to Income

Government grants related to income refer to those other than grants related to assets. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related expenses or losses are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

A government grant related to our daily activities is recognized in other income based on the nature of economic activities. A government grant not related to our daily activities is recognized in non-operating income.

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Financial Instruments

Classification, Recognition and Measurement of Financial Assets

Financial assets and financial liabilities are recognized when we become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initially recognized amounts.

After initial recognition, our financial assets of various types are subsequently measured at amortized cost, at fair value through other comprehensive income (“FVTOCI”) or at fair value through profit or loss (“FVTPL”), respectively. If contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows, we classify such financial asset as financial assets at amortized cost. Such financial assets include cash at bank and on hand, accounts receivable, bills receivable, other receivables, other current assets — entrusted loans, and long-term receivables, etc.

Financial assets not satisfying the criteria of classification as financial assets at amortized cost and financial assets at FVTOCI are classified as financial assets at FVTPL.

Impairment of Financial Instruments

For financial assets measured at amortized cost, we account for the impairment and recognize the loss allowance on the basis of expected credit loss (“ECL”).

We make a loss allowance against amount of lifetime ECL of bills receivable and accounts receivable arising from transactions adopting the Revenue Standard as well as lease receivables arising from transactions adopting the CASBE No. 21 — Leases.

For items of other financial instruments, we assess the changes of credit risk since initial recognition of relevant financial instruments at each balance sheet date. If the credit risk of the above financial instruments has increased significantly since initial recognition, we measure loss allowance based on the amount of full lifetime; if credit risk of the financial instrument has not increased significantly since initial recognition, we recognize loss allowance based on 12-month ECL of the financial instrument. The increase or reversal of credit loss allowance is recognized as an impairment loss or gain in profit or loss for the period.

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Significant Increase of Credit Risk

In assessing whether the credit risk has increased significantly since initial recognition, we compare the risk of a default occurring on the financial instrument as at the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition with available reasonable and supportable forward-looking information. Irrespective of the outcome of the above assessment, we presume that the credit risk has increased significantly when contractual payments are more than 30 days (inclusive) past due.

Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events 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 significant financial difficulty of the issuer or debtor, or a breach of contract by the debtor, such as a default or delinquency in interest or principal payments.

Determination of ECL

The ECL on relevant financial instruments are determined on an individual or a portfolio basis. For financial assets and lease receivables, the credit loss represents the present value of the difference between the contractual cash flows receivable by us and the cash flows expected to be received by us.

Classification, Recognition and Measurement of Financial Liabilities

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

For derivative instruments classified as financial liabilities and financial liabilities arising from contingent consideration recognized by us as the buyer in the business combination involving enterprises not under common control, we measure such financial liabilities at fair value through profit or loss. Other financial liabilities are subsequently measured at amortized cost, and any gains or losses arising from termination of recognition or amortization are included in profit or loss.

Derecognition of Financial Liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

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When the Group derecognises a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss for the current period.

Critical Accounting Judgments and Estimates

Credit Loss Allowance for Accounts Receivable

Except for accounts receivable with significantly different credit risk characteristics, which are assessed for ECL on an individual asset basis, we use an impairment matrix to determine the ECL on accounts receivable. We determine the proportion of corresponding loss allowance for all types of accounts receivable with similar risk characteristics. The expected average loss rate is determined based on our historical credit loss experience and considers reasonable and supportable forward-looking information that is available without undue cost or effort. The recognition of credit loss allowance requires the use of judgment and estimates. If the re-estimate results differ from existing estimates, such differences will affect the carrying amount of accounts receivable in the period of the estimate change.

Provision for write-down of Inventories

We recognize provision for write-down of inventories based on the estimated net realizable value of inventories. If the net realizable value is below the cost of inventories, a provision for write-down of inventories is made. The recognition of net realizable value requires the use of judgment and estimates. Where the re-estimated result is different from the current estimates, the difference will impact the carrying amount of the inventories of the period in which the estimates have changed.

Depreciation and Amortization

We depreciate and amortize intangible assets, fixed assets and productive biological assets using the straight-line method over their useful lives. We depreciate right-of-use assets using the straight-line method. The right-of-use assets are depreciated over the remaining useful lives of the leased assets where we are reasonably certain to obtain ownership of the underlying assets at the end of the lease term. Otherwise, right-of-use assets are depreciated over the shorter of the lease term and the remaining useful lives of the leased assets.

We periodically review the useful lives of assets to determine the amount of depreciation and amortization expense to be recognized in each reporting period. Useful lives are determined by us based on historical experience with similar assets, taking into account factors such as anticipated technological advancements and changes in market demand. If there is a significant change in previous estimates, adjustments to depreciation and amortization expense will be made in future periods.

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Impairment of Long-term Assets (Other than Goodwill)

We perform impairment tests when there are indications that long-term assets may be impaired. Impairment exists if the carrying amount of an asset or asset group is higher than the recoverable amount, the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset or asset group. The fair value net of cost of disposal is determined by reference to the agreed selling price of similar assets in an arm's length transaction or observable market price less the incremental cost that can be directly attributable to the disposal of the asset. When estimating the present value of future cash flows, our management estimates the future cash flows of the assets or asset group and adopts an appropriate discount rate to determine the present value of the future cash flows.

Impairment of Goodwill

We test goodwill for impairment at least annually. During testing, the recoverable amounts of the asset groups or sets of asset groups to which the goodwill relates are estimated. Estimating recoverable amount requires us to estimate the future cash flows expected to be generated by the asset group or set of asset groups and to select an appropriate discount rate to calculate the present value of these cash flows. When market conditions change, the recoverable amount of the relevant asset group or set of asset groups may differ from existing estimates, and such differences will affect profit or loss for the period.

Recognition of Deferred Tax Assets

The realization of deferred tax assets mainly depends on taxable profits in the future and actual tax rate in the future year when deductible temporary differences are used. If profit in the future is less than the predicted, or the actual tax rate is less than the predicted, the deferred tax assets recognized shall be reversed and recognized in the income statement for the period when the reversal occurred. If the actual taxable income generated in the future exceeds the forecast, or if the actual tax rate is higher than anticipated, the corresponding deferred tax assets will be adjusted and recognized in the income statement for the period in which such circumstances occur.

FINANCIAL INFORMATION

DESCRIPTION OF SELECTED ITEMS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth selected items of our consolidated statements of profit or loss and other comprehensive income for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this Document. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
Revenue	17,546,175	19,832,490	14,908,471	15,133,827
Operating costs	(11,542,582)	(12,958,710)	(9,727,835)	(10,298,439)
Gross profit	6,003,593	6,873,780	5,180,636	4,835,388
Taxes and surcharges	(140,102)	(151,933)	(121,167)	(113,941)
Selling and distribution expenses	(3,600,984)	(3,377,111)	(2,744,655)	(2,531,183)
General and administrative expenses	(853,298)	(856,309)	(608,603)	(668,433)
Research and development expenses	(106,003)	(98,747)	(73,701)	(66,544)
Financial expenses	(928,527)	(401,632)	(304,878)	(201,576)
Investment income	31,014	12,475	19,071	61,754
Other income	235,352	222,386	149,934	152,177
Losses from changes in fair values	(318)	(15,146)	(15,146)	–
Credit impairment (losses)/ reversal	(41,584)	19,173	(42,425)	(1,292)
Asset impairment losses	(253,132)	(435,142)	(247,299)	(114,063)
Losses from asset disposals	(205,364)	(397,170)	(306,263)	(372,459)
Operating profit	140,647	1,394,624	885,504	979,828
Non-operating income	41,526	52,954	34,833	47,693
Non-operating expenses	(36,142)	(22,005)	(12,380)	(11,036)
Profit before income tax	146,031	1,425,573	907,957	1,016,485
Income tax expenses	(140,451)	(311,056)	(185,675)	(114,211)
Net profit	5,580	1,114,517	722,282	902,274
Net (loss)/profit attributable to:				
– Owners of the Company	(21,442)	1,017,484	646,316	837,392
– Non-controlling interests	27,022	97,033	75,966	64,882

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NON-CASBE FINANCIAL MEASURES

To supplement our consolidated financial statements presented in accordance with CASBE, we use adjusted net profit (*non-CASBE measure*) as an additional financial measure, which is not required by or presented in accordance with CASBE. We believe that this non-CASBE measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of this non-CASBE measure may not be comparable to similarly titled measures presented by other companies. The use of such non-CASBE measures has limitations as an analytical tool, and investors should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial conditions as reported under CASBE.

We define adjusted net profit (*non-CASBE measure*) as net profit adding back (i) interest expenses on financial liabilities related to shareholders’ special rights; (ii) share-based payment expenses; and (iii) [REDACTED].

The following table shows reconciliation from our profit for the year/period to our adjusted net profit (*non-CASBE measure*) for the year/period indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
Net profit	5,580	1,114,517	722,282	902,274
Adjustments:				
– Interest expenses on financial liabilities related to shareholders’ special rights . .	554,428	–	–	–
– Share-based payment expenses	41,828	40,172	31,389	30,178
– [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit <i>(non-CASBE measure)</i>	<u>602,957</u>	<u>1,160,569</u>	<u>756,084</u>	<u>944,661</u>

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Revenue

By Product Categories

During the Track Record Period, we generated our revenue primarily from sales of (i) dairy products, comprising low-temperature liquid dairy products, ambient liquid dairy products, formula and other dairy products such as lactic acid bacteria beverages, yogurt drinks, cheese and whipping cream; (ii) dairy farming products, primarily including raw milk, feed and beef cattle. In addition, we also generated revenue from other businesses, primarily including (i) sales of semi-processed dairy ingredients; (ii) sales of eggs and non-staple food products; (iii) sales of packaging materials; (iv) contract manufacturing services; and (v) sales of residential units primarily to our employees.

The following table sets forth a breakdown of our revenue by product categories, in absolute amounts and as percentages of our total revenue, for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024		2025			
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Liquid dairy products . . .	9,664,255	55.1%	11,503,060	58.0%	8,687,570	58.3%	9,245,130	61.1%
Low-temperature liquid								
dairy products	6,287,370	35.9%	7,580,948	38.2%	5,738,370	38.5%	6,437,199	42.5%
– Low-temperature yogurt	4,713,784	26.9%	5,306,447	26.7%	4,140,257	27.8%	4,189,462	27.6%
– Fresh milk	1,573,586	9.0%	2,274,501	11.5%	1,598,113	10.7%	2,247,737	14.9%
Ambient liquid dairy								
products	3,376,885	19.2%	3,922,112	19.8%	2,949,200	19.8%	2,807,931	18.6%
– Ambient yogurt	1,084,961	6.2%	1,065,961	5.4%	841,646	5.6%	819,064	5.4%
– Ambient milk	2,291,924	13.0%	2,856,151	14.4%	2,107,554	14.2%	1,988,867	13.2%
Formula	5,429,189	30.9%	5,370,792	27.1%	3,974,917	26.7%	3,345,216	22.1%
Other dairy products⁽¹⁾ . .	689,496	4.0%	791,279	4.0%	629,551	4.2%	608,191	4.0%
Subtotal – dairy products	15,782,940	90.0%	17,665,131	89.1%	13,292,038	89.2%	13,198,537	87.2%
Dairy farming	841,024	4.7%	1,391,763	7.0%	1,056,101	7.0%	823,729	5.5%
Raw milk	647,032	3.7%	928,855	4.7%	768,325	5.2%	313,833	2.1%
Feed and beef cattle	193,992	1.0%	462,908	2.3%	287,776	1.8%	509,896	3.4%
Other business⁽²⁾	922,211	5.3%	775,596	3.9%	560,332	3.8%	1,111,561	7.3%
Total	17,546,175	100.0%	19,832,490	100.0%	14,908,471	100.0%	15,133,827	100.0%

Notes:

(1) Other dairy products primarily included products such as lactic acid bacteria beverages, yogurt drinks, cheese and whipping cream.

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- (2) Other business primarily consisted of (i) sales of semi-processed dairy ingredients; (ii) sales of eggs and non-staple food products; (iii) sales of packaging materials; (iv) contract manufacturing services; and (v) sales of residential units primarily to our employees.

Sales Volume and Average Selling Price

The following table sets forth a breakdown of our sales volume and average selling price by product categories for the periods indicated.

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2023		2024		2024		2025	
	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP	Sales volume	ASP
	<i>(tons)</i>	<i>(RMB/Kg)</i>	<i>(tons)</i>	<i>(RMB/Kg)</i>	<i>(tons)</i>	<i>(RMB/Kg)</i>	<i>(tons)</i>	<i>(RMB/Kg)</i>
Liquid dairy products								
Low-temperature liquid dairy products								
– Low-temperature yogurt . . .	534,887	8.8	602,737	8.8	466,333	8.9	484,852	8.6
– Fresh milk	145,881	10.8	227,397	10.0	157,139	10.2	238,602	9.4
Ambient liquid dairy products								
– Ambient yogurt	91,322	11.9	93,977	11.3	74,587	11.3	75,302	10.9
– Ambient milk	309,320	7.4	425,504	6.7	310,402	6.8	319,191	6.2
Formula	55,221	98.3	54,803	98.0	40,631	97.8	33,048	101.2
Other dairy products	117,594	5.9	136,377	5.8	108,047	5.8	100,856	6.0
Dairy farming								
Raw milk	154,888	4.2	230,584	4.0	191,085	4.0	80,194	3.9
Feed and beef cattle	NA*	NA*	NA*	NA*	NA*	NA*	NA*	NA*
Other business	NA*	NA*	NA*	NA*	NA*	NA*	NA*	NA*

Note:

NA*: Not applicable.

By Sales Channel

We have established an extensive sales network covering virtually all major retail formats across China. Our sales channels primarily consisted of (i) sales to distributors; and (ii) direct sales, comprising sales to KA customers, e-commerce platforms and corporate and institutional clients, as well as sales through our online self-operated stores.

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The following table sets forth a breakdown of our revenue by sales channel, in absolute amounts and as percentages of our total revenue, for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024		2025			
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Distributors	13,062,775	74.4%	14,284,645	72.0%	10,825,339	72.6%	10,406,133	68.8%
– Offline distributors . . .	11,634,437	66.3%	12,751,505	64.3%	9,685,518	65.0%	9,449,813	62.5%
– Online distributors . . .	1,428,338	8.1%	1,533,140	7.7%	1,139,821	7.6%	956,320	6.3%
Direct sales	3,561,189	20.3%	4,772,249	24.1%	3,522,800	23.6%	3,616,133	23.9%
– KA customers	880,093	5.0%	1,155,195	5.9%	884,674	5.9%	1,036,513	6.9%
– E-commerce platforms .	577,196	3.3%	734,708	3.7%	534,615	3.6%	623,643	4.1%
– Online self-operated stores	527,124	3.0%	660,015	3.3%	490,169	3.3%	485,667	3.2%
– Corporate and institutional clients and others	1,576,776	9.0%	2,222,331	11.2%	1,613,342	10.8%	1,470,310	9.7%
Other business⁽¹⁾	922,211	5.3%	775,596	3.9%	560,332	3.8%	1,111,561	7.3%
Total	17,546,175	100.0%	19,832,490	100.0%	14,908,471	100.0%	15,133,827	100.0%

Note:

- (1) Other business primarily consisted of (i) sales of semi-processed dairy ingredients; (ii) sales of eggs and non-staple food products; (iii) sales of packaging materials; (iv) contract manufacturing services; and (v) sales of residential units primarily to our employees.

By Geographic Market

During the Track Record Period, we generated substantially all of our revenue from Chinese Mainland.

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The following table sets forth a breakdown of our revenue by geographic market based on delivery location, in absolute amounts and as percentages of our total revenue, for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024		2025			
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
North China	5,276,106	30.0%	5,771,035	29.1%	4,320,554	28.9%	4,365,352	28.9%
East China	4,424,099	25.2%	4,874,123	24.6%	3,734,678	25.0%	3,506,801	23.2%
Central China	1,916,938	10.9%	2,127,251	10.7%	1,605,144	10.8%	1,557,653	10.3%
Northwest China	1,239,839	7.1%	1,598,519	8.1%	1,222,964	8.2%	1,142,491	7.5%
Southwest China	1,077,945	6.1%	1,448,896	7.3%	1,105,204	7.4%	1,045,352	6.9%
South China	958,477	5.5%	1,201,329	6.1%	857,404	5.8%	951,191	6.3%
Northeast China	801,424	4.6%	935,852	4.7%	698,778	4.7%	648,416	4.3%
Online ⁽¹⁾	927,368	5.3%	1,099,646	5.5%	803,184	5.4%	804,061	5.3%
Overseas ⁽²⁾	1,768	0.0%	243	0.0%	229	0.0%	949	0.0%
Other business ⁽³⁾	908,808	5.3%	775,596	3.9%	560,332	3.8%	1,111,561	7.3%
Total	17,546,175	100.0%	19,832,490	100.0%	14,908,471	100.0%	15,133,827	100.0%

Notes:

- (1) Represents revenue generated from online channels where the geographic location of the end customers cannot be distinctly identified.
- (2) Represents revenue derived from overseas markets, primarily including Hong Kong and Macau.
- (3) Other business primarily consisted of (i) sales of semi-processed dairy ingredients; (ii) sales of eggs and non-staple food products; (iii) sales of packaging materials; (iv) contract manufacturing services; and (v) sales of residential units primarily to our employees, all of which were derived from Chinese Mainland.

Operating Costs

By Nature

Our operating costs primarily consisted of (i) costs of direct raw materials, mainly including raw milk and ingredients; (ii) packaging materials, mainly aseptic packaging materials, formula cans, cartons, caps and labels; (iii) manufacturing expenses, mainly representing utilities and depreciation of property, plant and equipment used for production; (iv) transportation expenses, incurred for delivering our products to customers; (v) direct labor, mainly representing employee compensation, including share-based payment expenses for our production personnel; (vi) others under dairy products and dairy farming, mainly including cost of raw milk products, as well as OEM tolling fees and procurement cost of dairy products; and (vii) operating costs of other business.

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The following table below sets forth a breakdown of our operating costs by nature, in absolute amounts and as a percentage of our total operating costs, for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024		2025			
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Direct raw materials	5,864,729	50.7%	6,200,826	47.8%	4,669,064	47.9%	4,600,550	44.7%
Packaging materials	1,796,754	15.6%	2,010,011	15.5%	1,519,049	15.6%	1,537,259	14.9%
Manufacturing expenses	1,113,950	9.7%	1,398,388	10.8%	1,061,411	10.9%	1,039,465	10.1%
Transportation expenses	803,948	7.0%	966,055	7.5%	721,590	7.4%	762,049	7.4%
Direct labor	339,481	2.9%	413,938	3.2%	316,223	3.3%	309,851	3.0%
Others under dairy products and dairy farming	714,912	6.2%	1,193,204	9.2%	881,126	9.1%	842,189	8.2%
Other business ⁽¹⁾	908,808	7.9%	776,288	6.0%	559,372	5.8%	1,207,076	11.7%
Total	11,542,582	100.0%	12,958,710	100.0%	9,727,835	100.0%	10,298,439	100.0%

Note:

- (1) Other business primarily consisted of operating costs for (i) sales of semi-processed dairy ingredients; (ii) sales of eggs and non-staple food products; (iii) sales of packaging materials; (iv) contract manufacturing services; and (v) sales of residential units primarily to our employees.

By Product Categories

The following table below sets forth a breakdown of our operating costs by product categories, in absolute amounts and as a percentage of our total operating costs, for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024		2025			
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Liquid dairy products	6,765,466	58.6%	8,065,841	62.2%	6,054,514	62.2%	6,519,722	63.3%
Low-temperature liquid dairy products	4,230,459	36.6%	5,028,034	38.8%	3,758,432	38.6%	4,253,740	41.3%
– Low-temperature yogurt	3,279,285	28.4%	3,617,474	27.9%	2,780,384	28.6%	2,821,915	27.4%
– Fresh milk	951,174	8.2%	1,410,560	10.9%	978,048	10.0%	1,431,825	13.9%
Ambient liquid dairy products	2,535,007	22.0%	3,037,807	23.4%	2,296,082	23.6%	2,265,982	22.0%
– Ambient yogurt	753,535	6.5%	738,660	5.7%	584,596	6.0%	558,841	5.4%
– Ambient milk	1,781,472	15.5%	2,299,147	17.7%	1,711,486	17.6%	1,707,141	16.6%
Formula	2,571,143	22.3%	2,329,902	18.0%	1,754,243	18.1%	1,377,515	13.4%
Other dairy products	526,463	4.5%	591,397	4.6%	468,406	4.8%	466,908	4.5%

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	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024		2025			
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Subtotal – dairy products	9,863,072	85.4%	10,987,140	84.8%	8,277,163	85.1%	8,364,145	81.2%
Dairy farming	770,702	6.7%	1,195,282	9.2%	891,300	9.1%	727,218	7.1%
Other business⁽¹⁾	908,808	7.9%	776,288	6.0%	559,372	5.8%	1,207,076	11.7%
Total	11,542,582	100.0%	12,958,710	100.0%	9,727,835	100.0%	10,298,439	100.0%

Note:

- (1) Other business primarily consisted of operating costs for (i) sales of semi-processed dairy ingredients; (ii) sales of eggs and non-staple food products; (iii) sales of packaging materials; (iv) contract manufacturing services; and (v) sales of residential units primarily to our employees.

Gross Profit and Gross Profit Margin

During the Track Record Period, our gross profit represents our revenue less our operating costs, and our gross profit margin represents our gross profit as a percentage of our revenue. The following table sets forth a breakdown of our gross profit and gross profit margin by product categories for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024		2025			
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin		
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Liquid dairy products	2,898,789	30.0%	3,437,219	29.9%	2,633,056	30.3%	2,725,408	29.5%
Low-temperature liquid dairy products	2,056,911	32.7%	2,552,914	33.7%	1,979,938	34.5%	2,183,459	33.9%
– Low-temperature yogurt	1,434,499	30.4%	1,688,973	31.8%	1,359,873	32.8%	1,367,547	32.6%
– Fresh milk	622,412	39.6%	863,941	38.0%	620,065	38.8%	815,912	36.3%
Ambient liquid dairy products	841,878	24.9%	884,305	22.5%	653,118	22.1%	541,949	19.3%
– Ambient yogurt	331,426	30.5%	327,301	30.7%	257,050	30.5%	260,223	31.8%
– Ambient milk	510,452	22.3%	557,004	19.5%	396,068	18.8%	281,726	14.2%
Formula	2,858,046	52.6%	3,040,890	56.6%	2,220,674	55.9%	1,967,701	58.8%
Other dairy products	163,033	23.6%	199,882	25.3%	161,145	25.6%	141,283	23.2%
Subtotal – dairy products	5,919,868	37.5%	6,677,991	37.8%	5,014,875	37.7%	4,834,392	36.6%
Dairy farming	70,322	8.4%	196,481	14.1%	164,801	15.6%	96,511	11.7%
Other business⁽¹⁾	13,403	1.5%	(692)	(0.1)%	960	0.2%	(95,515)	(8.6)%
Total	6,003,593	34.2%	6,873,780	34.7%	5,180,636	34.7%	4,835,388	32.0%

Note:

- (1) Other business primarily consisted of (i) sales of semi-processed dairy ingredients; (ii) sales of eggs and non-staple food products; (iii) sales of packaging materials; (iv) contract manufacturing services; and (v) sales of residential units primarily to our employees. During the Track Record Period, we processed certain surplus raw milk into semi-processed dairy ingredients for external sale. As the market selling prices of these semi-processed dairy ingredients were lower than the related production costs, our other business recorded a gross loss.

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Taxes and Surcharges

During the Track Record Period, our taxes and surcharges primarily consisted of (i) urban maintenance and construction tax; (ii) real estate tax; (iii) education surcharge; (iv) stamp tax; (v) local education surcharge; (vi) land use tax; and (vii) other taxes.

The table below sets forth a breakdown of our taxes and surcharges, in absolute amounts and as a percentage of our total taxes and surcharges, for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,					
	2023	2024	2024	2025				
				<i>(unaudited)</i>				
				<i>(RMB in thousands, except for percentages)</i>				
Urban maintenance and construction tax	44,846	32.0%	47,940	31.6%	40,491	33.4%	35,195	30.9%
Real estate tax	24,429	17.4%	27,573	18.1%	20,606	17.0%	21,245	18.6%
Education surcharge	20,343	14.5%	21,494	14.1%	18,101	14.9%	15,701	13.8%
Stamp tax	20,518	14.6%	20,761	13.7%	14,917	12.3%	15,795	13.9%
Local education surcharge	13,605	9.7%	14,331	9.4%	12,069	10.0%	10,467	9.2%
Land use tax	12,895	9.2%	14,028	9.2%	10,502	8.7%	11,029	9.7%
Other taxes	3,466	2.6%	5,806	3.9%	4,481	3.7%	4,509	3.9%
Total	<u>140,102</u>	<u>100.0%</u>	<u>151,933</u>	<u>100.0%</u>	<u>121,167</u>	<u>100.0%</u>	<u>113,941</u>	<u>100.0%</u>

Selling and Distribution Expenses

During the Track Record Period, our selling and distribution expenses primarily consisted of (i) advertising expenses; (ii) employee remuneration, representing salaries, bonuses, social security contributions, share-based payment expenses and other benefits for our selling and marketing personnel; (iii) selling and promotion expenses, mainly representing expenses for in-store sales promoters and promotional activities conducted through online and offline channels; (iv) travel and business development expenses; (v) advisory service fee, representing fees paid to professional institutions for strategic consulting and market research; and (vi) others.

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The table below sets forth a breakdown of our selling and distribution expenses, in absolute amounts and as a percentage of our total selling and distribution expenses, for the periods indicated.

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2023			2024			2024	2025
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Advertising expenses	1,552,361	43.1%	1,108,143	32.8%	1,041,744	38%	743,822	29.4%
Employee remuneration	873,952	24.3%	988,189	29.3%	705,438	25.7%	764,300	30.2%
Selling and promotion expenses	753,822	20.9%	848,496	25.1%	673,566	24.5%	710,705	28.1%
Travel and business development expenses	134,955	3.7%	159,618	4.7%	118,667	4.3%	110,899	4.4%
Advisory service fee	137,165	3.8%	122,328	3.6%	96,532	3.5%	90,212	3.6%
Others ⁽¹⁾	148,729	4.2%	150,337	4.5%	108,708	4.0%	111,245	4.3%
Total	<u>3,600,984</u>	<u>100.0%</u>	<u>3,377,111</u>	<u>100.0%</u>	<u>2,744,655</u>	<u>100.0%</u>	<u>2,531,183</u>	<u>100.0%</u>

Note:

- (1) Others primarily consisted of (i) storage and handling fee; (ii) depreciation and amortization; (iii) conference fee; and (iv) others.

General and Administrative Expenses

During the Track Record Period, our general and administrative expenses consisted of (i) employee remuneration, mainly including salaries, bonuses, social security contributions, share-based payment expenses and other benefits for our management and administrative personnel; (ii) depreciation and amortization, relating to property, plant and office equipment, right-of-use assets and intangible assets used for administrative purposes; (iii) general operating expenses, mainly representing expenses incurred for the daily operations of our headquarters and administrative functions, including energy expenses, office expenses, and inspection and maintenance costs; (iv) travel and business development expenses; (v) [REDACTED]; (vi) disability employment security fund; (vii) advisory service fee, representing fees paid to professional institutions for legal and other consulting services; and (viii) others.

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The table below sets forth a breakdown of our general and administrative expenses, in absolute amounts and as a percentage of our total general and administrative expenses, for the periods indicated.

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2023		2024		2024		2025	
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Employee remuneration	510,152	59.8%	529,925	61.8%	377,096	62.0%	416,382	62.3%
Depreciation and amortization	122,975	14.4%	129,576	15.2%	95,885	15.8%	99,801	14.9%
General operating expenses	65,073	7.7%	44,798	5.2%	30,483	5.0%	31,663	4.7%
Travel and business development expenses	35,766	4.2%	35,088	4.1%	25,652	4.2%	25,004	3.7%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Disability employment security fund	14,620	1.7%	17,090	2.0%	12,790	2.1%	11,051	1.7%
Advisory service fee	44,606	5.2%	16,086	1.9%	13,692	2.2%	9,122	1.4%
Others ⁽¹⁾	58,985	6.9%	77,866	9.1%	50,592	8.3%	63,201	9.5%
Total	853,298	100.0%	856,309	100.0%	608,603	100.0%	668,433	100.0%

Note:

(1) Others primarily included environmental governance fees, labor service fees, information technology service fees and lease expenses.

Research and Development Expenses

During the Track Record Period, our research and development expenses consisted of (i) employee remuneration, representing salaries, bonuses, social security contributions, share-based payment expenses and other benefits for personnel engaged in our R&D activities; (ii) technical R&D and testing expenses, representing expenses of consumables, materials and testing fees incurred during the R&D process; (iii) depreciation and amortization, relating to property, laboratories and equipment used for R&D purposes; (iv) advisory service fee, representing fees paid to external institutions for technical cooperation and consulting; and (v) others.

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The table below sets forth a breakdown of our research and development expenses, in absolute amounts and as a percentage of our total research and development expenses, for the periods indicated.

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2023		2024		2024		2025	
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Employee remuneration . . .	39,983	37.7%	44,653	45.2%	37,024	50.3%	32,317	48.5%
Technical R&D and testing expenses	28,242	26.6%	23,970	24.3%	16,835	22.8%	15,626	23.5%
Depreciation and amortization	14,464	13.6%	14,457	14.6%	10,794	14.6%	9,816	14.8%
Advisory service fee	13,864	13.1%	8,258	8.4%	5,469	7.4%	4,263	6.4%
Others ⁽¹⁾	9,450	9.0%	7,409	7.5%	3,579	4.9%	4,522	6.8%
Total	106,003	100.0%	98,747	100.0%	73,701	100.0%	66,544	100.0%

Note:

- (1) Others primarily included office expenses, repair and maintenance costs, utility expenses and insurance expenses related to research and development.

Financial Expenses

During the Track Record Period, our financial expenses primarily consisted of (i) interest expenses, mainly arising from bank borrowings and lease liabilities, as well as interest expenses on financial liabilities related to shareholders’ special rights arising from certain special rights granted to some Pre-[REDACTED] investors before Track Report Period and subsequently terminated in 2023; (ii) bank charges; (iii) foreign exchange (losses)/gains, arising from foreign currency transactions; and (iv) interest income, derived from bank deposits. The table below sets forth a breakdown of our financial expenses for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
	<i>(unaudited)</i>			
	<i>(RMB in thousands)</i>			
Interest expenses	940,419	404,835	311,366	209,285
Bank charges	2,126	1,480	1,200	1,062
Foreign exchange losses/(gains)	15,486	7,537	1,214	(1,114)
Less:				
Interest income	(29,504)	(12,220)	(8,902)	(7,657)
Total	928,527	401,632	304,878	201,576

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Investment Income

Our investment income primarily included: (i) gains (losses) arising from remeasuring the original equity interests/remained equity interests at fair value due to the acquisition/disposal of subsidiaries; (ii) (losses)/gains from long-term equity investments accounted for using the equity method; (iii) gains (losses) from disposal of long-term equity investments; (iv) interests income from entrusted loans; (v) interests income and disposal loss from derivative financial instruments; (vi) dividends income from other equity instruments; and (vii) others.

The following table sets forth a breakdown of our investment income for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
Gains/(losses) arising from remeasuring the original equity interests/remained equity interests at fair value due to the acquisition/disposal of subsidiaries	19,404	(1,229)	–	–
(Losses)/gains from long- term equity investments accounted for using the equity method	(8,042)	(3,613)	(5,262)	60,564
Gains/(losses) from disposal of long-term equity investments	7,039	(164)	–	578
Interests income from entrusted loans	5,895	–	–	–
Interests income and disposal loss from derivative financial instruments	4,532	8,352	15,205	–
Dividends income from other equity instruments	2,152	994	994	308
Others ⁽¹⁾	34	8,135	8,134	304
Total	<u>31,014</u>	<u>12,475</u>	<u>19,071</u>	<u>61,754</u>

Note:

(1) Others primarily represents reversal on credit losses from our acquired subsidiaries.

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Other Income

Our other income included (i) government grants directly recognized as other income; and (ii) government grants transferred from deferred income. The following table sets forth a breakdown of our other income for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
Government grants directly recognized as other income	70,855	55,011	22,438	27,913
Government grants transferred from deferred income	<u>164,497</u>	<u>167,375</u>	<u>127,496</u>	<u>124,264</u>
Total	<u>235,352</u>	<u>222,386</u>	<u>149,934</u>	<u>152,177</u>

Losses from Changes in Fair Values

Our losses from changes in fair values represented losses from changes in fair values of derivative financial instruments, primarily arising from interest rate swaps and foreign exchange forward contracts in connection with our foreign currency borrowings. In 2023, 2024, and for the nine months ended September 30, 2024 and 2025, we recorded losses from changes in fair values of RMB0.3 million, RMB15.1 million, RMB15.1 million and nil, respectively.

Credit Impairment (Losses)/Reversal

We recorded expected credit impairment (losses)/reversal on (i) accounts receivable; (ii) other receivables; and (iii) long-term receivables. Our credit impairment losses amounted to RMB41.6 million, RMB42.4 million and RMB1.3 million in 2023, and for the nine months ended September 30, 2024 and 2025, respectively. In 2024, we recorded a credit impairment reversal of RMB19.2 million, primarily due to the reversal of impairment losses on accounts receivable, reflecting the reduced credit risk associated with certain customers following the implementation of credit enhancement measures.

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Asset Impairment Losses

We recorded asset impairment losses mainly on (i) loss on inventories write-down, being the write-down of inventories recognized when their net realizable value was below cost; (ii) loss on productive biological assets impairment; (iii) loss on fixed assets impairment; (iv) loss on long-term equity investment impairment; (v) loss on goodwill impairment; and (vi) loss on intangible assets impairment. The following table sets forth a breakdown of our asset impairment losses for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
	<i>(unaudited)</i>			
	<i>(RMB in thousands)</i>			
Loss on inventories write-down	136,291	66,938	61,156	110,393
Loss on productive biological assets impairment	98,447	35,070	7,910	3,670
Loss on fixed assets impairment	14,336	27,468	13,087	–
Loss on long-term equity investment impairment	4,058	64,000	60,000	–
Loss on goodwill impairment	–	229,666	105,146	–
Loss on intangible assets impairment	–	12,000	–	–
Total	<u>253,132</u>	<u>435,142</u>	<u>247,299</u>	<u>114,063</u>

Losses from Asset Disposals

Our losses from asset disposals are mainly related to (i) disposal of biological assets; (ii) disposal of fixed assets; and (iii) disposal of right-of-use assets. The following table sets forth a breakdown of our losses from asset disposals for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
	<i>(unaudited)</i>			
	<i>(RMB in thousands)</i>			
Losses on disposal of biological assets	(213,706)	(394,095)	(303,022)	(372,286)
Gains/(losses) on disposal of fixed assets	7,946	(4,682)	(4,330)	(576)
Gains on disposal of right-of-use assets	396	1,607	1,089	403
Total	<u>(205,364)</u>	<u>(397,170)</u>	<u>(306,263)</u>	<u>(372,459)</u>

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Non-Operating Income

Our non-operating income primarily consisted of (i) scrap income; and (ii) others, mainly including gains on write-off of non-current assets and insurance claim proceeds. In 2023 and 2024, and for the nine months ended September 30, 2024 and 2025, our non-operating income amounted to RMB41.5 million, RMB53.0 million, RMB34.8 million and RMB47.7 million, respectively.

Non-Operating Expenses

Our non-operating expenses primarily consisted of (i) donation expenditure; and (ii) others, mainly including losses on write-off of non-current assets. In 2023, 2024, and for the nine months ended September 30, 2024 and 2025, our non-operating expenses amounted to RMB36.1 million, RMB22.0 million, RMB12.4 million and RMB11.0 million, respectively.

Income Tax Expenses

Our income tax expenses included current tax expenses and deferred tax expenses. In 2023 and 2024, and for the nine months ended September 30, 2024 and 2025, our income tax expenses was RMB140.5 million, RMB311.1 million, RMB185.7 million and RMB114.2 million, respectively.

The following table sets forth a breakdown of our income tax expenses for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
Current tax expenses	89,872	126,985	105,878	113,114
Deferred tax expenses	50,579	184,071	79,797	1,097
Total	<u>140,451</u>	<u>311,056</u>	<u>185,675</u>	<u>114,211</u>

PRC

Under the EIT Law and the Implementation Regulation of the EIT Law, the EIT rate of our Company and our PRC subsidiaries is 25% unless subject to tax exemption or preferential treatment. During the Track Record Period, the income derived from the breeding of livestock and poultry, as well as the primary processing of dairy products generated by certain of our subsidiaries, was exempted from enterprise income tax in accordance with the EIT Law and relevant regulations. In addition, certain of our subsidiaries located in the western region of China met the requirements stipulated in the Preferential Tax Policies for Development of

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China’s Western Regions and were subject to a reduced EIT rate of 15%. Furthermore, in accordance with the relevant tax circulars issued by the MOF and the State Taxation Administration, certain of our subsidiaries qualified as small and low-profit enterprises and were entitled to a preferential EIT rate of 20% on their taxable income during the Track Record Period.

RESULTS OF OPERATIONS

Nine months Ended September 30, 2025 Compared to Nine months Ended September 30, 2024

Revenue

Our revenue remained relatively stable at RMB14,908.5 million and RMB15,133.8 million for the nine months ended September 30, 2024 and 2025, respectively.

Low-temperature liquid dairy products

Our revenue from low-temperature liquid dairy products increased by 12.2% from RMB5,738.4 million for the nine months ended September 30, 2024 to RMB6,437.2 million for the nine months ended September 30, 2025, primarily due to an increase in sales volumes from 623.5 thousand tons for the nine months ended September 30, 2024 to 723.5 thousand tons for the nine months ended September 30, 2025. This increase in sales volumes was mainly attributable to (i) the robust performance of our fresh milk products, whose sales volumes increased significantly from 157.1 thousand tons to 238.6 thousand tons, driven by rising consumer preferences for fresh milk products, our expanded cold-chain distribution capabilities, and the sales growth to freshly made coffee and tea chains; and (ii) the steady growth of our low-temperature yogurt, whose sales volumes increased from 466.3 thousand tons to 484.9 thousand tons, reflecting our strong brand recognition and enhanced marketing efforts. The foregoing was partially offset by a decrease in average selling price of fresh milk from RMB10.2 per kilogram for the nine months ended September 30, 2024 to RMB9.4 per kilogram for the nine months ended September 30, 2025, primarily due to our introduction of large-size formats with lower average selling price and an increased proportion of ingredient products supplied to freshly made coffee and tea chains, which generally command lower average selling price.

Ambient liquid dairy products

Our revenue from ambient liquid dairy products decreased by 4.8% from RMB2,949.2 million for the nine months ended September 30, 2024 to RMB2,807.9 million for the nine months ended September 30, 2025, primarily due to a decrease in average selling price of ambient milk from RMB6.8 per kilogram for the nine months ended September 30, 2024 to RMB6.2 per kilogram for the nine months ended September 30, 2025, primarily reflecting our proactive pricing strategy to increase market penetration and a shift in product mix towards more affordable products. The foregoing was partially offset by an increase in sales volumes from 385.0 thousand tons for the nine months ended September 30, 2024 to 394.5 thousand tons for the nine months ended September 30, 2025, primarily attributable to organic growth from certain ambient milk product lines.

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Formula

Our revenue from formula decreased by 15.8% from RMB3,974.9 million for the nine months ended September 30, 2024 to RMB3,345.2 million for the nine months ended September 30, 2025, primarily due to a decrease in sales volumes from 40.6 thousand tons for the nine months ended September 30, 2024 to 33.0 thousand tons for the nine months ended September 30, 2025. The decrease in sales volume was mainly due to the strategic adjustment of our sales channel, to focus on core mother-and-baby chain stores while streamlining long-tail channels. The foregoing was partially offset by an increase in average selling price from RMB97.8 per kilogram for the nine months ended September 30, 2024 to RMB101.2 per kilogram for the nine months ended September 30, 2025, primarily reflecting a favorable shift in product mix with an increased proportion of premium formula products.

Other dairy products

Our revenue from other dairy products remained relatively stable at RMB629.6 million and RMB608.2 million for the nine months ended September 30, 2024 and 2025, respectively.

Dairy farming

Our revenue from dairy farming decreased by 22.0% from RMB1,056.1 million for the nine months ended September 30, 2024 to RMB823.7 million for the nine months ended September 30, 2025, primarily due to a significant decrease in our revenue from raw milk sales, primarily attributable to a substantial decrease in sales volumes from 191.1 thousand tons to 80.2 thousand tons, as we increased the proportion of self-supply raw milk used in the production of dairy products. The foregoing was partially offset by an increase in revenue from feed and beef cattle from RMB287.8 million for the nine months ended September 30, 2024 to RMB509.9 million for the nine months ended September 30, 2025, primarily attributable to the expansion of our feed processing business.

Other business

Our revenue from other business segments increased significantly by 98.4% from RMB560.3 million for the nine months ended September 30, 2024 to RMB1,111.6 million for the nine months ended September 30, 2025, mainly due to an increase in revenue from sales of residential units primarily to our employees.

Operating Costs

Our operating costs increased by 5.9% from RMB9,727.8 million for the nine months ended September 30, 2024 to RMB10,298.4 million for the nine months ended September 30, 2025. The increase was primarily due to (i) an increase of RMB647.7 million in operating costs of other business, mainly attributable to the additional costs associated with the sales of residential units primarily to our employees; (ii) an increase of RMB40.5 million in

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transportation expenses, driven by increased sales volumes. The foregoing was partially offset by a decrease of RMB68.5 million in direct raw materials, primarily reflecting the decrease in direct raw material costs due to lower sales of formula products.

Gross Profit and Gross Profit Margin

As a result of the above, our gross profit decreased from RMB5,180.6 million for the nine months ended September 30, 2024 to RMB4,835.4 million for the nine months ended September 30, 2025, while our gross profit margin decreased from 34.7% to 32.0% for the same periods. Our gross profit of dairy products decreased from RMB5,014.9 million to RMB4,834.4 million, while our gross profit margin of dairy products decreased from 37.7% to 36.6% for the same periods.

Low-temperature liquid dairy products

Our gross profit margin of low-temperature liquid dairy products decreased from 34.5% for the nine months ended September 30, 2024 to 33.9% for the nine months ended September 30, 2025, primarily due to a decrease in gross profit margin of fresh milk and an increase in its proportion of sales. The decrease in gross profit margin of fresh milk was mainly attributable to our introduction of large-size formats with lower average selling prices.

Ambient liquid dairy products

Our gross profit margin of ambient liquid dairy products decreased from 22.1% for the nine months ended September 30, 2024 to 19.3% for the nine months ended September 30, 2025, primarily due to our proactive pricing strategy to increase market penetration and a shift in product mix towards more affordable products.

Formula

Our gross profit margin of formula increased from 55.9% for the nine months ended September 30, 2024 to 58.8% for the nine months ended September 30, 2025, primarily attributable to (i) a favorable shift in product mix with an increased proportion of premium formula products; and (ii) a decrease in raw material costs, primarily reflecting lower costs for raw milk sourced from our own farms.

Other dairy products

Our gross profit margin of other dairy products decreased from 25.6% for the nine months ended September 30, 2024 to 23.2% for the nine months ended September 30, 2025, mainly due to the change of product mix with a decreased proportion of certain high gross margin products.

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Dairy farming

Our gross profit margin of dairy farming decreased from 15.6% for the nine months ended September 30, 2024 to 11.7% for the nine months ended September 30, 2025, primarily due to an increased proportion of revenue from sales of feed, which generally command lower margins compared to raw milk.

Other business

Our gross profit margin of other business was 0.2% for the nine months ended September 30, 2024, and shifted to a gross loss margin of 8.6% for the nine months ended September 30, 2025, primarily due to an increased revenue from certain semi-processed dairy ingredients in order to consume our self-supply raw milk, which carried a gross loss margin.

Taxes and Surcharges

Our taxes and surcharges remained relatively stable at RMB121.2 million and RMB113.9 million for the nine months ended September 30, 2024 and 2025, respectively.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 7.8% from RMB2,744.7 million for the nine months ended September 30, 2024 to RMB2,531.2 million for the nine months ended September 30, 2025, primarily due to a decrease of RMB297.9 million in advertising expenses, mainly attributable to significant advertising expense incurred in the first three quarters of 2024 for sponsorship of major variety shows and marketing advertising for major sporting events. The foregoing was partially offset by (i) an increase of RMB58.9 million in employee remuneration, primarily attributable to the expansion of our sales team in relation to our “A-list Sales Force (渠道鐵軍)” strategy; and (ii) an increase of RMB37.1 million in selling and promotion expenses, primarily related to promotional activities for our formula products.

General and Administrative Expenses

Our general and administrative expenses increased by 9.8% from RMB608.6 million for the nine months ended September 30, 2024 to RMB668.4 million for the nine months ended September 30, 2025, primarily due to (i) an increase of RMB39.3 million in employee remuneration, primarily attributable to the addition of personnel and salary adjustments to support our business growth; (ii) an increase of RMB12.6 million in other expenses, primarily reflecting an increase in miscellaneous administrative expenditures; and (iii) an increase of RMB[REDACTED] in [REDACTED].

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Research and Development Expenses

Our research and development expenses remained relatively stable at RMB73.7 million and RMB66.5 million for the nine months ended September 30, 2024 and 2025, respectively, with the decrease primarily due to the consolidation of our research and development team and the improved operational efficiency.

Financial Expenses

Our financial expenses decreased by 33.9% from RMB304.9 million for the nine months ended September 30, 2024 to RMB201.6 million for the nine months ended September 30, 2025, primarily due to a decrease of RMB102.1 million in interest expenses, mainly as a result of repayment of certain higher-interest borrowings and optimization of our debt structure amid a declining interest rate environment.

Investment Income

Our investment income increased significantly by 223.8% from RMB19.1 million for the nine months ended September 30, 2024 to RMB61.8 million for the nine months ended September 30, 2025, primarily due to an increase of RMB65.8 million in gains from long-term equity investments accounted for using the equity method as a result of our disposal of partial equity interests in two subsidiaries, which subsequently became our associates.

Other Income

Our other income remained relatively stable at RMB149.9 million and RMB152.2 million for the nine months ended September 30, 2024 and 2025, respectively.

Loss from Changes in Fair Values

We recorded loss from changes in fair values of RMB15.1 million for the nine months ended September 30, 2024, primarily arising from changes in the fair value of derivative financial instruments. We did not record such loss for the nine months ended September 30, 2025.

Credit Impairment Losses

Our credit impairment losses decreased significantly from RMB42.4 million for the nine months ended September 30, 2024 to RMB1.3 million for the nine months ended September 30, 2025, primarily due to a decrease of RMB40.4 million in credit impairment losses on accounts receivable. The decrease was mainly because the credit risk of certain customers was reduced following our implementation of credit enhancement measures in the fourth quarter of 2024, resulting in the decrease in the credit impairment losses in the first nine months of 2025.

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Asset Impairment Losses

Our asset impairment losses decreased by 53.9% from RMB247.3 million for the nine months ended September 30, 2024 to RMB114.1 million for the nine months ended September 30, 2025, primarily due to the recognition of (i) asset impairment losses on goodwill of RMB105.1 million recorded by a historically acquired company for the nine months ended September 30, 2024, which did not recur in the same period in 2025; and (ii) asset impairment losses on long-term equity investments of RMB60.0 million recorded in one investee company for the nine months ended September 30, 2024, which did not recur in the same period in 2025. The foregoing was partially offset by an increase of RMB49.2 million in asset impairment losses on inventories, primarily reflecting provisions made for inventories of certain projects expected to incur sales losses.

Losses from Asset Disposals

Our losses from asset disposals increased by 21.6% from RMB306.3 million for the nine months ended September 30, 2024 to RMB372.5 million for the nine months ended September 30, 2025, primarily due to an increase of RMB69.3 million in losses on disposal of biological assets, primarily reflecting the increased volume of culled dairy cows in line with the expansion of our herd scale and fluctuations in market prices.

Non-Operating Income

Our non-operating income increased by 36.9% from RMB34.8 million for the nine months ended September 30, 2024 to RMB47.7 million for the nine months ended September 30, 2025, primarily due to (i) an increase of RMB9.0 million in income from scrap sales; and (ii) an increase of RMB3.8 million in other miscellaneous income.

Non-Operating Expenses

Our non-operating expenses remained relatively stable at RMB12.4 million and RMB11.0 million for the nine months ended September 30, 2024 and 2025, respectively.

Income Tax Expenses

Our income tax expenses decreased by 38.5% from RMB185.7 million for the nine months ended September 30, 2024 to RMB114.2 million for the nine months ended September 30, 2025, primarily due to (i) non-deductible goodwill impairment losses and impairment of long-term equity investments recorded for the nine months ended September 30, 2024, which did not recur in the same period in 2025; and (ii) increased revenue from our tax exemption agricultural products.

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Net Profit

As a result of the foregoing, our adjusted net profit (non-CASBE measure) increased by 25.0% from RMB756.1 million for the nine months ended September 30, 2024 to RMB944.7 million for the nine months ended September 30, 2025, with our adjusted net profit margin increasing from 5.1% to 6.2% for the same periods, and our net profit increased from RMB722.3 million for the nine months ended September 30, 2024 to RMB902.3 million for the nine months ended September 30, 2025.

Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

Revenue

Our revenue increased by 13.0% from RMB17,546.2 million in 2023 to RMB19,832.5 million in 2024, primarily driven by an increase in sales volumes across our liquid and other dairy products and dairy farming, mainly attributable to the organic growth from our low-temperature and ambient liquid dairy product lines, the consolidation of Yinqiao (銀橋) and LESSON (來思爾), the implementation of the “A-list Sales Force (渠道鐵軍)” strategy and our expansion into emerging markets. The foregoing was partially offset by a slight decline in our revenue from formula due to a decrease in sales volumes.

Low-temperature liquid dairy products

Our revenue from low-temperature liquid dairy products increased by 20.6% from RMB6,287.4 million in 2023 to RMB7,580.9 million in 2024, primarily due to an increase in sales volumes from 680.8 thousand tons in 2023 to 830.1 thousand tons in 2024, mainly driven by (i) strong growth in fresh milk sales volume attributable to rising consumer preferences, our expansion into emerging markets and freshly made coffee and tea chains; and (ii) steady growth in low-temperature yogurt sales volume reflecting our strong brand recognition and enhanced marketing efforts. The foregoing was partially offset by a decrease in average selling price of fresh milk from RMB10.8 per kilogram in 2023 to RMB10.0 per kilogram in 2024, primarily because we launched large-size formats with lower average selling price and increased the proportion of ingredient products supplied to freshly made coffee and tea chains, which generally have lower average selling prices.

Ambient liquid dairy products

Our revenue from ambient liquid dairy products increased by 16.1% from RMB3,376.9 million in 2023 to RMB3,922.1 million in 2024, primarily due to a substantial increase in sales volumes from 400.6 thousand tons in 2023 to 519.5 thousand tons in 2024, mainly driven by (i) the consolidation of Yinqiao (銀橋) and LESSON (來思爾), which significantly contributed to ambient milk sales in the Northwest and Southwest regions; and (ii) our expansion into emerging markets and specific channels. The foregoing was partially offset by a decrease in average selling price of ambient milk from RMB7.4 per kilogram in 2023 to RMB6.7 per kilogram in 2024 and a decrease in average selling price of ambient yogurt from RMB11.9 per

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kilogram in 2023 to RMB11.3 per kilogram in 2024, primarily reflecting the product mix shift driven by the consolidation of Yinqiao (銀橋) and LESSON (來思爾), which generally command lower average selling prices compared to our pre-existing product portfolio.

Formula

Our revenue from formula remained relatively stable at RMB5,429.2 million and RMB5,370.8 million in 2023 and 2024, respectively.

Other dairy products

Revenue from our other dairy product increased by 14.8% from RMB689.5 million in 2023 to RMB791.3 million in 2024, primarily due to the incremental revenue contribution arising from the acquisition of Yinqiao (銀橋).

Dairy farming

Our revenue from dairy farming increased significantly by 65.5% from RMB841.0 million in 2023 to RMB1,391.8 million in 2024, primarily due to (i) an increase in our revenue from raw milk sales, primarily attributable to a substantial increase in sales volumes from 154.9 thousand tons in 2023 to 230.6 thousand tons in 2024, driven by increased raw milk production from our own farms, which was partially offset by a decrease in average selling price reflecting market price fluctuations for raw milk during the period; and (ii) an increase in our revenue from feed, primarily attributable to the expansion of our feed processing business.

Other business

Our revenue from other business decreased by 15.9% from RMB922.2 million in 2023 to RMB775.6 million in 2024, primarily due to a decrease in contract manufacturing services revenue as we prioritized production capacity for our own products.

Operating Costs

Our operating costs increased by 12.3% from RMB11,542.6 million in 2023 to RMB12,958.7 million in 2024, which was primarily due to (i) an increase of RMB478.3 million in other costs under dairy products and dairy farming; (ii) an increase of RMB336.1 million in direct raw material costs; (iii) an increase of RMB284.4 million in manufacturing expenses; (iv) an increase of RMB213.3 million in packaging materials; and (v) an increase of RMB162.1 million in transportation expenses which were all generally in line with the increase in our sales volume.

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Gross Profit and Gross Profit Margin

As a result of the above, our gross profit increased by 14.5% from RMB6,003.6 million in 2023 to RMB6,873.8 million in 2024, while our gross profit margin increased from 34.2% to 34.7% for the same periods. Gross profit of our dairy products increased from RMB5,919.9 million to RMB6,678.0 million, while the gross profit margin of our dairy products increased from 37.5% to 37.8% for the same period.

Low-temperature liquid dairy products

Our gross profit margin of low-temperature liquid dairy products increased from 32.7% in 2023 to 33.7% in 2024, primarily attributable to (i) the increased proportion of high-margin fresh milk in our product mix; and (ii) the increased gross profit margin of our low-temperature yogurt.

Ambient liquid dairy products

Our gross profit margin of ambient liquid dairy products decreased from 24.9% in 2023 to 22.5% in 2024, primarily because ambient liquid dairy products of Yinqiao (銀橋) and LESSON (來思爾) command lower gross profit margins than our pre-existing ambient liquid dairy product portfolio.

Formula

Our gross profit margin of formula increased from 52.6% in 2023 to 56.6% in 2024, primarily attributable to (i) a decrease in feeding costs for self-supply raw milk sourced from our own farms; and (ii) the optimization of product mix with an increased proportion of high-margin formula products.

Other dairy products

Our gross profit margin of other dairy products increased from 23.6% in 2023 to 25.3% in 2024, primarily due to the introduction of lactic acid bacteria beverage products following our acquisition of Yinqiao (銀橋), which typically carry a higher gross profit margin.

Dairy farming

Our gross profit margin of dairy farming increased from 8.4% in 2023 to 14.1% in 2024, primarily attributable to a rise in gross profit margin from sales of raw milk as a result of lower feeding costs for raw milk produced from our self-operated dairy farms, as well as the relatively lower gross profit margin of our beef cattle business in 2023, which ceased in 2024.

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Other business

Our gross profit margin of other business was 1.5% in 2023, and shifted to a gross loss margin of 0.1% in 2024, primarily due to an increased proportion of certain semi-processed dairy ingredients in order to consume our self-supply raw milk, which carried a gross loss margin.

Taxes and Surcharges

Our taxes and surcharges increased by 8.4% from RMB140.1 million in 2023 to RMB151.9 million in 2024, primarily due to our business expansion and increased revenue.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 6.2% from RMB3,601.0 million in 2023 to RMB3,377.1 million in 2024, primarily due to a decrease of RMB444.2 million in advertising expenses, primarily reflecting the improvement in advertising placement efficiency and a shift toward media channels with higher reach efficiency. The foregoing was partially offset by (i) an increase of RMB114.2 million in employee remuneration, primarily attributable to the expansion of the sales team resulting from the implementation of the “A-list Sales Force (渠道鐵軍)” strategy and the expansion into emerging markets; (ii) an increase of RMB94.7 million in selling and promotion expenses, primarily driven by increased expenses for in-store sales promoters and multiple promotional activities at retail outlets.

General and Administrative Expenses

Our general and administrative expenses remained relatively stable at RMB853.3 million and RMB856.3 million in 2023 and 2024, respectively.

Research and Development Expenses

Our research and development expenses remained relatively stable at RMB106.0 million in 2023 and RMB98.7 million in 2024, respectively, with the slight decrease primarily reflecting the completion of certain product development projects.

Financial Expenses

Our financial expenses decreased significantly by 56.7% from RMB928.5 million in 2023 to RMB401.6 million in 2024, primarily due to a decrease of RMB535.6 million in interest expenses, primarily due to the interest expenses on financial liabilities related to shareholders’ special rights of RMB554.4 million incurred in 2023, arising from certain special rights granted to some Pre-[REDACTED] investors before Track Report Period. Such special rights were terminated in 2023, resulting in the derecognition of the relevant liabilities and no interest expenses were subsequently incurred. See Note (VI) 37 to the Accountants’ Report in Appendix I to this Document.

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Investment Income

Our investment income decreased by 59.8% from RMB31.0 million in 2023 to RMB12.5 million in 2024, primarily due to (i) a one-off gain of RMB19.4 million recognized in 2023 arising from the remeasurement of our previously held equity interests in a subsidiary upon the acquisition of its additional equity interests; and (ii) a decrease of RMB4.4 million in losses from long-term equity investments accounted for using the equity method, primarily due to increased investment income resulting from our disposal of partial equity interests in two subsidiaries, which subsequently became our associates, which was partially offset by (i) an increase in gains from investments in derivative financial instruments of RMB3.8 million.

Other Income

Our other income remained relatively stable at RMB235.4 million in 2023 to RMB222.4 million in 2024, respectively.

Losses from Changes in Fair Values

Our losses from changes in fair values increased from RMB0.3 million to RMB15.1 million, primarily due to changes in the fair values of interest rate swaps and foreign exchange forward contracts.

Credit Impairment Reversal/(Losses)

We recorded net credit impairment reversal of RMB19.2 million in 2024, as compared to credit impairment losses of RMB41.6 million in 2023. This shift was primarily due to the reversal of impairment losses on accounts receivable, primarily reflecting the reduced credit risk associated with certain customers following the implementation of credit enhancement measures.

Asset Impairment Losses

Our asset impairment losses increased by 71.9% from RMB253.1 million in 2023 to RMB435.1 million in 2024, primarily due to (i) an increase of RMB229.7 million in losses on goodwill impairment, primarily due to the performance fluctuations of certain acquired subsidiaries; and (ii) an increase of RMB59.9 million in losses on long-term equity investment impairment, primarily reflecting the provision made for certain associates due to their operational performance. The foregoing was partially offset by (i) a decrease of RMB63.4 million in losses on productive biological assets impairment, primarily reflecting the reduced impairment provision for our dairy herds as the operating performance of certain farms improved; and (ii) a decrease of RMB69.4 million in losses on inventories write-down, primarily due to a decrease in provision for whole milk powder resulting from the decreased inventory level.

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Losses from Asset Disposals

Our losses from asset disposals increased by 93.4% from RMB205.4 million in 2023 to RMB397.2 million in 2024, primarily due to an increase of RMB180.4 million in losses on disposal of biological assets, primarily reflecting the increased volume of culled dairy cows in line with the expansion of our herd scale and fluctuations in market prices.

Non-Operating Income

Our non-operating income increased from RMB41.5 million in 2023 to RMB53.0 million in 2024, partially due to an increase in revenue from our scrap sales.

Non-Operating Expenses

Our non-operating expenses decreased from RMB36.1 million in 2023 to RMB22.0 million in 2024, primarily due to several larger donation expenses incurred in 2023.

Income Tax Expenses

Our income tax expenses increased significantly from RMB140.5 million in 2023 to RMB311.1 million in 2024. This increase was primarily due to (i) an increase of RMB133.5 million in deferred tax expenses, primarily reflecting the movements in temporary differences associated with our assets and liabilities; and (ii) an increase of RMB37.1 million in current tax expenses, primarily reflecting the increase in our taxable income following our business growth.

Net Profit

As a result of the foregoing, our adjusted net profit (non-CASBE measure) increased by 92.5% from RMB603.0 million in 2023 to RMB1,160.6 million in 2024, with our adjusted net profit margin increasing from 3.4% to 5.9% for the same periods, and our net profit increased significantly from RMB5.6 million in 2023 to RMB1,114.5 million in 2024.

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DISCUSSION OF SELECTED ITEMS FROM OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected items from our consolidated statements of financial position as of the dates indicated.

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
	<i>(RMB in thousands)</i>		
Current assets			
Cash at bank and on hand	1,488,990	1,584,606	1,421,054
Derivative financial assets	24,827	–	–
Bills receivable	2,582	2,400	6,538
Accounts receivable	978,794	868,967	908,225
Accounts receivable financing	419	–	284
Prepayments	186,330	193,087	160,425
Other receivables	125,219	189,791	258,362
Inventories	3,325,366	3,270,289	2,595,992
Non-current assets due within			
one year	3,378	44,287	14,731
Other current assets	221,950	251,226	283,181
Total current assets	6,357,855	6,404,653	5,648,792
Non-current assets			
Long-term receivables	108,101	80,846	112,517
Long-term equity investments	339,654	647,026	707,618
Investments in other equity			
instruments	87,250	94,650	94,650
Fixed assets	8,127,525	7,993,463	7,828,969
Construction in progress	530,339	363,436	252,000
Productive biological assets	4,758,410	4,796,338	4,905,562
Right-of-use assets	558,822	500,557	482,760
Intangible assets	1,313,992	1,301,983	1,354,363
Goodwill	730,060	500,393	500,393
Long-term deferred expenses	42,726	48,415	36,018
Deferred tax assets	788,231	595,180	589,950
Other non-current assets	154,769	122,666	259,303
Total non-current assets	17,539,879	17,044,953	17,124,103

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	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Current liabilities			
Short-term borrowings	1,939,949	2,241,125	1,907,680
Bills payable	277,266	359,125	228,862
Accounts payable	2,561,563	2,644,091	2,287,998
Contract liabilities	1,963,202	1,928,398	1,316,716
Employee benefits payable	254,042	272,574	230,991
Taxes payable	76,628	101,747	127,094
Other payables	2,167,673	1,543,445	1,598,855
Non-current liabilities due within			
one year	1,430,564	2,397,695	1,653,383
Other current liabilities	248,432	192,673	175,871
Total current liabilities	10,919,319	11,680,873	9,527,450
Net current liabilities	4,561,464	5,276,220	3,878,658
Non-current liabilities			
Long-term borrowings	6,525,487	5,116,351	6,493,295
Lease liabilities	387,572	336,821	328,984
Long-term payables	167,951	109,949	104,724
Provisions	19,652	22,145	22,690
Deferred income	1,064,730	1,020,868	954,638
Deferred tax liabilities	145,748	138,618	134,486
Total non-current liabilities	8,311,140	6,744,752	8,038,817
Total liabilities	19,230,459	18,425,625	17,566,267
Net assets	4,667,275	5,023,981	5,206,628

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Accounts Receivable

Our accounts receivable primarily consisted of amounts due from our customers in the ordinary course of business. The following table sets forth a breakdown of our accounts receivable as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Accounts receivable	1,034,788	904,607	941,368
<i>Less:</i>			
Credit loss allowance	<u>(55,994)</u>	<u>(35,640)</u>	<u>(33,143)</u>
Total	<u>978,794</u>	<u>868,967</u>	<u>908,225</u>

Our accounts receivable decreased by 11.2% from RMB978.8 million as of December 31, 2023 to RMB869.0 million as of December 31, 2024, primarily due to (i) a decrease in receivables from certain customers, primarily attributable to our enhanced collection efforts. Our accounts receivable remained relatively stable at RMB869.0 million and RMB908.2 million as of December 31, 2024 and September 30, 2025, respectively.

The following table sets forth an aging analysis of our accounts receivable based on the timing of revenue recognition, net of credit loss allowance as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Within 1 year (inclusive)	978,794	842,213	883,277
1-2 years (inclusive)	–	15,518	1,821
2-3 years (inclusive)	–	11,236	18,706
Over 3 years	<u>–</u>	<u>–</u>	<u>4,421</u>
Total	<u>978,794</u>	<u>868,967</u>	<u>908,225</u>

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The following table sets forth our average accounts receivable turnover days for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,
	2023	2024	2025
	<i>(days)</i>		
Average accounts receivable turnover days ⁽¹⁾	18	18	16

Note:

- (1) Average accounts receivable turnover days equal the average of the opening and closing balances of the net carrying amount of accounts receivable of the period indicated divided by the revenue of the same period and multiplied by 360 days for a full-year period or 270 days for a nine-month period.

Our average accounts receivable turnover days remained relatively stable at 18 days, 18 days and 16 days in 2023, 2024 and for the nine months ended September 30, 2025, respectively.

As of November 30, 2025, RMB556.0 million, or 59.1%, of our accounts receivable outstanding as of September 30, 2025 had been subsequently settled.

Inventories

Our inventories primarily consisted of (i) raw materials; (ii) finished goods; (iii) turnover materials; (iv) packaging materials; and (v) properties under development and for sale. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	<i>(RMB in thousands)</i>		
	<i>(unaudited)</i>		
Raw materials	1,756,284	1,547,431	1,247,563
Properties under development	927,262	1,066,609	59,111
Properties for sale	–	–	737,343
Finished goods	287,700	335,726	246,033
Turnover materials	132,731	120,259	129,383
Packaging materials	100,909	117,990	126,747
Consumable biological assets	49,996	–	–
Others ⁽¹⁾	70,484	82,274	49,812
Total	3,325,366	3,270,289	2,595,992

Note:

- (1) Others primarily included shipped-goods, low-value consumables, materials on consignment for further processing and costs to fulfill contracts.

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Our inventories remained relatively stable at RMB3,325.4 million and RMB3,270.3 million as of December 31, 2023 and 2024, respectively. Our inventories decreased by 20.6% from RMB3,270.3 million as of December 31, 2024 to RMB2,596.0 million as of September 30, 2025, primarily due to (i) a decrease of RMB299.9 million in raw materials, as our feed procurement is subject to seasonality with higher purchase volumes in the fourth quarter; and (ii) a decrease of RMB270.2 million in properties under development and for sale, primarily attributable to the sales of residential units primarily to our employees.

The following table sets forth an aging analysis of our inventories relating to dairy products and dairy farming as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Within 1 year (inclusive)	2,398,300	2,087,381	1,760,703
1-2 years (inclusive)	79,499	123,572	51,646
2-3 years (inclusive)	49,312	16,741	5,359
Over 3 years	15,762	49,555	45,361
<i>Less:</i>			
Write-down provision	<u>(144,769)</u>	<u>(73,570)</u>	<u>(63,531)</u>
Total	<u>2,398,104</u>	<u>2,203,679</u>	<u>1,799,538</u>

The following table sets forth our average inventories turnover days and average inventories turnover days relating to dairy products and dairy farming for the periods indicated:

	For the Year ended December 31,		For the Nine months ended September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(days)</i>
Average inventories turnover days ⁽¹⁾ . . .	104	92	77
Average inventories turnover days relating to dairy products and dairy farming ⁽²⁾	79	64	55

Notes:

- (1) Average inventories turnover days equal the average of the opening and closing inventory balances for the period indicated divided by the operating costs for the same period and multiplied by 360 days for a full-year period or 270 days for a nine-month period.
- (2) Average inventories turnover days relating to dairy products and dairy farming equal the average of the opening and closing inventory balances relating to dairy products and dairy farming for the period indicated divided by the operating costs relating to dairy products and dairy farming for the same period and multiplied by 360 days for a full-year period or 270 days for a nine-month period.

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Our average inventories turnover days decreased from 104 days in 2023 to 92 days in 2024, primarily due to increased proportion of sales of liquid milk products with shorter shelf life. Our average inventories turnover days decreased from 92 days in 2024 to 77 days for the nine months ended September 30, 2025, primarily due to (i) increased proportion of sales of liquid milk products with shorter shelf life; and (ii) a decrease in balance of properties under development and for sale resulting from sales of residential units primarily to our employees.

As of November 30, 2025, RMB1,110.1 million, or 41.4%, of our inventories as of September 30, 2025 had been sold or utilized.

Other Current Assets

Our other current assets primarily consisted of (i) input VAT to be certified; (ii) prepaid expenses; (iii) input VAT to be deducted; and (iv) prepaid enterprise income tax. The following table sets forth a breakdown of our other current assets as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Input VAT to be certified	59,384	136,139	132,793
Prepaid expenses	64,596	47,607	61,255
Input VAT to be deducted	46,327	18,897	22,564
Prepaid enterprise income tax	31,072	18,583	37,212
Prepaid VAT	8,781	14,708	6,712
Prepaid other taxes	7,272	11,363	13,489
Right to returned goods assets	4,122	1,459	2,378
Others	396	2,470	6,778
Total	221,950	251,226	283,181

Our other current assets increased by 13.2% from RMB222.0 million as of December 31, 2023 to RMB251.2 million as of December 31, 2024, primarily due to an increase of RMB76.8 million in input VAT to be certified, primarily attributable to the timing difference in tax certification by relevant tax authorities. The foregoing was partially offset by (i) a decrease of RMB27.4 million in input VAT to be deducted, primarily reflecting the utilization of deductible input VAT; and (ii) a decrease of RMB17.0 million in prepaid expenses.

Our other current assets increased by 12.7% from RMB251.2 million as of December 31, 2024 to RMB283.2 million as of September 30, 2025, primarily due to (i) an increase of RMB18.6 million in prepaid enterprise income tax, primarily due to the timing of tax prepayments; and (ii) an increase of RMB13.6 million in prepaid expenses.

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Fixed Assets

Our fixed assets primarily consisted of (i) plants and buildings; (ii) machinery and equipment; (iii) office equipment; and (iv) motor vehicles. The following table sets forth a breakdown of our fixed assets as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Plants and buildings	4,858,110	4,743,075	4,658,178
Machinery and equipment	3,160,538	3,173,049	3,109,813
Office equipment	69,145	49,467	40,498
Motor vehicles	39,732	27,872	20,480
Total	<u>8,127,525</u>	<u>7,993,463</u>	<u>7,828,969</u>

Our fixed assets remained relatively stable at RMB8,127.5 million, RMB7,993.5 million and RMB7,829.0 million as of December 31, 2023 and 2024 and September 30, 2025, respectively.

Productive Biological Assets

Our productive biological assets primarily consisted of (i) immature productive biological assets, which primarily included calves and heifers; and (ii) mature productive biological assets, which primarily included milkable cows. The following table sets forth a breakdown of our productive biological assets as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Immature productive biological assets	2,815,853	2,034,999	2,176,586
Mature productive biological assets	1,942,557	2,761,339	2,728,976
Total	<u>4,758,410</u>	<u>4,796,338</u>	<u>4,905,562</u>

Our productive biological assets remained relatively stable at RMB4,758.4 million, RMB4,796.3 million and RMB4,905.6 million as of December 31, 2023 and 2024 and September 30, 2025, respectively.

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Intangible Assets

Our intangible assets primarily consisted of (i) land use rights; (ii) trademarks; (iii) patent and non-patented technology; (iv) computer software; and (v) others. The following table sets forth a breakdown of our intangible assets as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Land use right	548,489	534,044	581,791
Trademarks	510,794	498,419	498,403
Patent and non-patented technology . . .	202,773	180,858	164,318
Computer software	51,895	88,662	109,851
Others	41	—	—
Total	<u>1,313,992</u>	<u>1,301,983</u>	<u>1,354,363</u>

Our intangible assets remained relatively stable at RMB1,314.0 million, RMB1,302.0 million and RMB1,354.4 million as of December 31, 2023 and 2024 and September 30, 2025, respectively.

Accounts Payable

Our accounts payable primarily consisted of (i) payables for purchase of goods; (ii) payables for freight; and (iii) payables for constructions. The following table sets forth a breakdown of our accounts payable as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Payables for purchase of goods	2,291,851	2,279,740	1,996,123
Payables for freight	145,151	232,724	154,500
Payables for constructions	124,561	131,627	137,375
Total	<u>2,561,563</u>	<u>2,644,091</u>	<u>2,287,998</u>

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Our accounts payable remained relatively stable at RMB2,561.6 million and RMB2,644.1 million as of December 31, 2023 and 2024, respectively. Our accounts payable decreased by 13.5% from RMB2,644.1 million as of December 31, 2024 to RMB2,288.0 million as of September 30, 2025, primarily due to (i) a decrease of RMB283.6 million in payables for purchase of goods, as our feed procurement is subject to seasonality with higher purchase volumes in the fourth quarter; and (ii) a decrease of RMB78.2 million in payables for freight, primarily attributable to the settlement of freight payables accumulated at year-end 2024.

The following table sets forth an aging analysis of our accounts payable as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Within 1 year (inclusive)	2,548,253	2,616,514	2,272,980
1-2 years (inclusive)	10,681	22,327	12,910
2-3 years (inclusive)	1,247	2,784	1,988
Over 3 years	1,382	2,466	120
Total	<u>2,561,563</u>	<u>2,644,091</u>	<u>2,287,998</u>

The following table sets forth our average accounts payables turnover days for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,
	2023	2024	2025
			<i>(days)</i>
Average accounts payable turnover days ⁽¹⁾	80	72	65

Note:

- (1) Average accounts payable turnover days equal the average of the opening and closing balances of accounts payable of the period indicated divided by the operating costs of the same period and multiplied by 360 days for a full-year period or 270 days for a nine-month period.

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Our average accounts payable turnover days decreased from 80 days in 2023 to 72 days in 2024, primarily due to our improved payment efficiency. Our average accounts payable turnover days decreased from 72 days in 2024 to 65 days for the nine months ended September 30, 2025. This decrease was primarily attributable to seasonal fluctuations in feed procurement and the settlement of freight payables accumulated at year-end 2024.

As of November 30, 2025, RMB1,492.8 million, or 65.2%, of our accounts payable as of September 30, 2025 had been subsequently settled.

Contract Liabilities

Our contract liabilities primarily consisted of (i) receipts in advance on sales of goods; and (ii) other receipts in advance. The following table sets forth a breakdown of our contract liabilities as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Receipts in advance on sales of goods	1,440,969	1,388,263	1,186,253
Other receipts in advance	522,233	540,135	130,463
Total	1,963,202	1,928,398	1,316,716

Our contract liabilities remained relatively stable at RMB1,963.2 million and RMB1,928.4 million as of December 31, 2023 and 2024, respectively. Our contract liabilities decreased by 31.7% from RMB1,928.4 million as of December 31, 2024 to RMB1,316.7 million as of September 30, 2025, primarily due to (i) a decrease of RMB409.7 million in other receipts in advance, primarily attributable to the recognition of revenue upon the delivery of completed residential units primarily selling to our employees; and (ii) a decrease of RMB202.0 million in receipts in advance on sales of goods, primarily reflecting the fluctuation of orders placed by customers at the end of the year in response to the peak sales season during the New Year.

As of November 30, 2025, approximately RMB873.4 million, or 66.3%, of our contract liabilities as of September 30, 2025 had been recognized as revenue.

Other Payables

Our other payables primarily consisted of (i) payables for purchase of long-term asset; (ii) payables and accruals for advertising expenses; (iii) security deposits; (iv) out-of-pocket expenses payable to distributors; (v) dividends payable; (vi) accrued promotion and other expenses; and (vii) others.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our other payables as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	<i>(RMB in thousands)</i>		<i>(unaudited)</i>
Payables for purchase of long-term asset	529,463	587,999	438,124
Payables and accruals for advertising expenses	496,124	122,088	227,169
Security deposits	366,834	278,609	273,137
Out-of-pocket expenses payable to distributors	269,846	253,422	166,284
Dividends payable	205,463	–	67,822
Accrued promotion and other expenses	178,849	190,177	296,103
Others	121,094	111,150	130,216
Total	2,167,673	1,543,445	1,598,855

Our other payables decreased by 28.8% from RMB2,167.7 million as of December 31, 2023 to RMB1,543.4 million as of December 31, 2024, primarily due to (i) a decrease of RMB374.0 million in payables and accruals for advertising expenses, primarily attributable to the settlement following the conclusion of certain major marketing campaigns; (ii) a decrease of RMB205.5 million in dividends payable, primarily due to the settlement of dividends declared in the previous year; and (iii) a decrease of RMB88.2 million in security deposits, primarily due to the refund of deposits resulting from the termination of cooperation with certain distributors. The foregoing was partially offset by an increase of RMB58.5 million in payables for purchase of long-term asset, primarily due to our continued investment in production facilities. Our other payables remained relatively stable at RMB1,543.4 million and RMB1,598.9 million as of December 31, 2024 and September 30, 2025, respectively.

As of November 30, 2025, RMB535.0 million, or 33.5% of our other payables outstanding as of September 30, 2025, had been subsequently settled.

Deferred Income

Our deferred income primarily consisted of (i) government grants related to assets; and (ii) government grants related to income. The following table sets forth a breakdown of our deferred income as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	<i>(RMB in thousands)</i>		<i>(unaudited)</i>
Government grants related to assets	1,035,636	1,000,909	939,350
Government grants related to income	29,094	19,959	15,288
Total	1,064,730	1,020,868	954,638

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Our deferred income remained relatively stable at RMB1,064.7 million and RMB1,020.9 million as of December 31, 2023 and 2024, respectively. Our deferred income decreased by 6.5% from RMB1,020.9 million as of December 31, 2024 to RMB954.6 million as of September 30, 2025, primarily due to a decrease of RMB61.6 million in government grants related to assets, as a result of the expiration of certain asset-related government grants.

NET CURRENT LIABILITIES

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,		As of September 30,	As of November 30,
	2023	2024	2025	2025
	<i>(unaudited)</i>			
	<i>(RMB in thousands)</i>			
Current assets				
Cash at bank and on hand	1,488,990	1,584,606	1,421,054	1,607,529
Derivative financial assets	24,827	–	–	–
Bills receivable	2,582	2,400	6,538	1,819
Accounts receivable	978,794	868,967	908,225	1,033,349
Accounts receivable financing	419	–	284	3,582
Prepayments	186,330	193,087	160,425	152,351
Other receivables	125,219	189,791	258,362	276,790
Inventories	3,325,366	3,270,289	2,595,992	2,757,353
Non-current assets due within one year	3,378	44,287	14,731	14,766
Other current assets	221,950	251,226	283,181	265,797
Total current assets	<u>6,357,855</u>	<u>6,404,653</u>	<u>5,648,792</u>	<u>6,113,336</u>
Current liabilities				
Short-term borrowings	1,939,949	2,241,125	1,907,680	1,682,500
Bills payable	277,266	359,125	228,862	241,549
Accounts payable	2,561,563	2,644,091	2,287,998	2,628,179
Contract liabilities	1,963,202	1,928,398	1,316,716	1,175,188
Employee benefits payable	254,042	272,574	230,991	233,589
Taxes payable	76,628	101,747	127,094	132,048
Other payables	2,167,673	1,543,445	1,598,855	2,571,004
Non-current liabilities due within one year	1,430,564	2,397,695	1,653,383	1,280,703
Other current liabilities	248,432	192,673	175,871	173,193
Total current liabilities	<u>10,919,319</u>	<u>11,680,873</u>	<u>9,527,450</u>	<u>10,117,953</u>
Net current liabilities	<u>4,561,464</u>	<u>5,276,220</u>	<u>3,878,658</u>	<u>4,004,617</u>

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We had net current liabilities of RMB4,004.6 million as of November 30, 2025, which represented an increase of RMB125.9 million from our net current liabilities of RMB3,878.7 million as of September 30, 2025. This increase was primarily due to (i) an increase of RMB972.1 million in other payables, primarily due to the declaration of dividends of RMB1,000.0 million, which was approved at the extraordinary general meeting of Shareholders held in October 2025; and (ii) an increase of RMB340.2 million in accounts payable. This was partially offset by (i) a decrease of RMB372.7 million in non-current liabilities due within one year; (ii) a decrease of RMB225.2 million in short-term borrowings; and (iii) an increase of RMB186.5 million in cash at bank and on hand.

We had net current liabilities of RMB3,878.7 million as of September 30, 2025, which represented a decrease of RMB1,397.5 million from our net current liabilities of RMB5,276.2 million as of December 31, 2024. This decrease was primarily due to (i) a decrease of RMB744.3 million in non-current liabilities due within one year; (ii) a decrease of RMB611.7 million in contract liabilities; (iii) a decrease of RMB356.1 million in accounts payable; and (iv) a decrease of RMB333.4 million in short-term borrowings. This was partially offset by (i) a decrease of RMB674.3 million in inventories; (ii) a decrease of RMB163.6 million in cash at bank and on hand; and (iii) a decrease of RMB130.3 million in bills payable.

We had net current liabilities of RMB5,276.2 million as of December 31, 2024, which represented an increase of RMB714.7 million from our net current liabilities of RMB4,561.5 million as of December 31, 2023. This increase was primarily due to (i) an increase of RMB967.1 million in non-current liabilities due within one year; (ii) an increase of RMB301.2 million in short-term borrowings; and (iii) a decrease of RMB109.8 million in accounts receivable. This was partially offset by (i) a decrease of RMB624.2 million in other payables; and (ii) an increase of RMB95.6 million in cash at bank and on hand.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our cash requirements principally from cash generated from our operating activities and bank borrowings. We monitor and maintain a level of cash and cash equivalents deemed adequate to finance our operations and mitigate the effects of fluctuations in cash flows. As of December 31, 2023 and 2024 and September 30, 2025, our cash and cash equivalents were RMB1,354.5 million, RMB1,477.4 million and RMB1,366.0 million, respectively.

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Cash flows

The following table presents our selected consolidated cash flow data for the periods indicated.

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
Net cash inflow from operating activities	2,023,010	3,530,528	2,623,352	1,962,141
Net cash outflow from investing activities	(3,760,155)	(2,333,336)	(1,562,339)	(1,474,820)
Net cash inflow/(outflow) from financing activities . .	<u>1,541,021</u>	<u>(1,074,238)</u>	<u>(1,049,859)</u>	<u>(598,630)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>20</u>	<u>(30)</u>	<u>(1)</u>	<u>(116)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(196,104)</u>	<u>122,924</u>	<u>11,153</u>	<u>(111,425)</u>
Cash and cash equivalents at the beginning of the year/period	1,550,567	1,354,463	1,354,463	1,477,387
Cash and cash equivalents at the end of the year/period	<u>1,354,463</u>	<u>1,477,387</u>	<u>1,365,616</u>	<u>1,365,962</u>

Operating activities

For the nine months ended September 30, 2025, we had net cash inflow from operating activities of RMB1,962.1 million, which represents our cash inflow from operations of RMB18,159.6 million, as adjusted by (i) payment for goods and services of RMB11,273.2 million; (ii) payment for other operating activities of RMB2,346.6 million, which primarily consisted of advertising expenses, selling and promotion expenses, payment of deposits, guarantees and advances paid by distributors; and (iii) payment to and for employees of RMB1,832.9 million.

In 2024, we had net cash inflow from operating activities of RMB3,530.5 million, which represents our cash inflow from operations of RMB24,808.7 million, as adjusted by (i) payment for goods and services of RMB14,156.2 million; (ii) payment for other operating activities of RMB3,857.9 million, which primarily consisted of advertising expenses, selling and promotion expenses, payment of deposits, guarantees and advances paid by distributors; and (iii) payment to and for employees of RMB2,308.0 million.

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In 2023, we had net cash inflow from operating activities of RMB2,023.0 million, which represents our cash inflow from operations of RMB21,729.9 million, as adjusted by (i) payment for goods and services of RMB13,266.2 million; (ii) payment for other operating activities of RMB3,552.2 million, which primarily consisted of advertising expenses, selling and promotion expenses, payment of deposits, guarantees and advances paid by distributors; and (iii) payment to and for employees of RMB1,972.1 million.

Investing activities

For the nine months ended September 30, 2025, we had net cash outflow from investing activities of RMB1,474.8 million, which was primarily attributable to payment for acquisition of fixed assets, intangible assets and other long-term assets of RMB1,726.5 million, partially offset by net proceeds from disposal of fixed assets, intangible assets and other long-term assets of RMB262.5 million.

In 2024, our net cash outflow from investing activities was RMB2,333.3 million, which was primarily attributable to payment for acquisition of fixed assets, intangible assets and other long-term assets of RMB2,556.6 million, partially offset by net proceeds from disposal of fixed assets, intangible assets and other long-term assets of RMB331.8 million.

In 2023, our net cash outflow from investing activities was RMB3,760.2 million, which was primarily attributable to (i) payment for acquisition of fixed assets, intangible assets and other long-term assets of RMB3,285.2 million and (ii) payments for investments of RMB956.8 million, primarily related to the purchase of wealth management products and investment in an associate; and (iii) net payments for acquisitions of subsidiaries of RMB654.9 million, primarily due to payments for our acquisition of certain subsidiaries, partially offset by (i) proceeds from disposal of investments of RMB653.4 million, primarily due to the redemption of wealth management products, and (ii) net proceeds from disposal of fixed assets, intangible assets and other long-term assets of RMB435.0 million.

Financing activities

For the nine months ended September 30, 2025, we had net cash outflow from financing activities of RMB598.6 million, which was primarily attributable to (i) repayments of borrowings of RMB4,485.3 million; and (ii) payments for dividends, profit distributions or interests of RMB937.1 million, partially offset by proceeds from borrowings of RMB4,852.5 million.

In 2024, our net cash outflow from financing activities was RMB1,074.2 million, primarily attributable to (i) repayments of borrowings of RMB5,625.2 million; and (ii) payments for dividends, profit distributions or interests of RMB951.6 million, partially offset by proceeds from borrowings of RMB5,671.0 million.

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In 2023, our net cash inflow from financing activities was RMB1,541.0 million, primarily attributable to proceeds from borrowings of RMB6,975.3 million, partially offset by (i) repayments of borrowings of RMB4,480.0 million; and (ii) payments for dividends, profit distributions or interests of RMB674.8 million.

WORKING CAPITAL CONFIRMATION

Our Directors are of the opinion that, taking into account the financial resources available to the Group, including the estimated net [REDACTED] from the [REDACTED] and the expected cash generated from operating activities, we have sufficient working capital for our current requirements and for the next 12 months from the date of this Document.

INDEBTEDNESS

The table below sets forth our indebtedness as of the dates indicated.

	As of December 31,		As of September 30,	As of November 30,
	2023	2024	2025	2025
			<i>(unaudited)</i>	
			<i>(RMB in millions)</i>	
Current				
Short-term borrowings	1,939.9	2,241.1	1,907.7	1,682.5
Other current liabilities – obligation to repurchase non-controlling interests . .	135.0	125.0	125.0	125.0
Non-current liabilities due within one year	1,430.6	2,397.7	1,653.4	1,280.7
Non-Current				
Long-term borrowings	6,525.5	5,116.4	6,493.3	7,224.6
Lease liabilities	387.6	336.8	329.0	336.4
Long-term payables	168.0	109.9	104.7	84.6
Provisions	19.7	22.1	22.7	22.9
Total	<u>10,606.3</u>	<u>10,349.0</u>	<u>10,635.8</u>	<u>10,756.7</u>

Our Directors confirmed that there has not been any material change in our indebtedness since November 30, 2025 to the date of this Document. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, except for bank loans, we did not have plans for other material external debt financing.

FINANCIAL INFORMATION

Short-term and Long-term Borrowings

As of December 31, 2023, 2024, September 30, 2025 and November 30, 2025, we had short-term borrowings of RMB1,939.9 million, RMB2,241.1 million, RMB1,907.7 million and RMB1,682.5 million, respectively. As of the same dates, such borrowings were primarily denominated in Renminbi with effective interest rates ranging from 2.11% to 5.40%. During the Track Record Period, our short-term borrowings were primarily used for capital expenditures for the construction of our integrated value chain, including dairy production facilities and dairy farms. The following table sets forth a breakdown of short-term borrowing by category as of the dates indicated:

	As of December 31,		As of	As of
	2023	2024	September 30,	November 30,
			2025	2025
			<i>(unaudited)</i>	
			<i>(RMB in millions)</i>	
Unsecured borrowings	674.1	727.5	568.3	446.1
Guaranteed borrowings	1,207.8	1,493.6	1,339.4	1,236.4
Secured borrowings	50.0	20.0	–	–
Guaranteed and secured borrowings	8.0	–	–	–
Total	1,939.9	2,241.1	1,907.7	1,682.5

As of December 31, 2023, 2024, September 30, 2025 and November 30, 2025, we had long-term borrowings of RMB6,525.5 million, RMB5,116.4 million, RMB6,493.3 million and RMB7,224.6 million, respectively. As of the same dates, such borrowings were primarily denominated in Renminbi and US dollars with effective interest rates ranging from 2.30% to 5.40%. During the Track Record Period, our long-term borrowings were primarily used for capital expenditures for the construction of our integrated value chain, including dairy production facilities and dairy farms. The following table sets forth a breakdown of long-term borrowings by category as of the dates indicated:

	As of December 31,		As of	As of
	2023	2024	September 30,	November 30,
			2025	2025
			<i>(unaudited)</i>	
			<i>(RMB in millions)</i>	
Unsecured borrowings	1,946.7	1,854.8	2,242.3	2,254.1
Guaranteed borrowings	5,178.1	4,875.8	5,264.2	5,552.2
Guaranteed and secured borrowings	737.5	631.3	581.1	571.5
Secured borrowings	–	30.0	–	80.0
Subtotal	7,862.3	7,391.9	8,087.6	8,457.8
<i>Less:</i>				
Long-term borrowings due within one year	1,336.8	2,275.5	1,594.3	1,233.2
Total	6,525.5	5,116.4	6,493.3	7,224.6

As of November 30, 2025, our unutilized banking facilities amounted to RMB9,165.5 million.

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Our Directors confirm that there was no material covenant on any of our outstanding debt as of the Latest Practicable Date and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of short-term and long-term borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Other Current Liabilities — Obligation to Repurchase Non-controlling Interests

Our other current liabilities in relation to obligation to repurchase non-controlling interests primarily represented our equity repurchase obligations to the non-controlling shareholders of certain of our subsidiaries. Our other current liabilities in relation to obligation to repurchase non-controlling interests decreased by 7.4% from RMB135.0 million as of December 31, 2023 to RMB125.0 million as of December 31, 2024, primarily due to the completion of partial equity repurchase from the non-controlling shareholder of a subsidiary. Our other current liabilities in relation to obligation to repurchase non-controlling interests remained relatively stable at RMB125.0 million, RMB125.0 million and RMB125.0 million at December 31, 2024, September 30, 2025 and November 30, 2025.

Non-current Liabilities Due within One Year

Our non-current liabilities due within one year primarily comprise (i) long-term borrowings due within one year; (ii) lease liabilities due within one year; and (iii) long-term payables due within one year. Our non-current liabilities due within one year increased by 67.6% from RMB1,430.6 million as of December 31, 2023 to RMB2,397.7 million as of December 31, 2024, primarily due to an increase in long-term borrowings due within one year in accordance with the terms of our borrowing agreements with the relevant banks. Our non-current liabilities due within one year decreased by 31.0% from RMB2,397.7 million as of December 31, 2024 to RMB1,653.4 million as of September 30, 2025, and further decreased by 22.5% to RMB1,280.7 million as of November 30, 2025, primarily due to a decrease in long-term borrowings due within one year as we repaid borrowings upon maturity in accordance with the terms of our borrowing agreements with the relevant banks.

Lease Liabilities

Our lease liabilities primarily comprise lease contracts for land, plant, building and equipment. Our lease liabilities decreased by 13.1% from RMB387.6 million as of December 31, 2023 to RMB336.8 million as of December 31, 2024, primarily due to a decrease in lease liabilities related to dairy farming equipment as a result of our disposal of partial equity interests in two subsidiaries, upon which such subsidiaries were reclassified as our associates. Our lease liabilities remained relatively stable at RMB336.8 million, RMB329.0 million and RMB336.4 million as of December 31, 2024, September 30, 2025 and November 30, 2025, respectively.

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Long-term Payables

Our long-term payables mainly comprise fixed returns that we are required to pay periodically in respect of policy-related funding support and poverty alleviation funding support obtained for factory and farm construction. Our long-term payables decreased by 34.6% from RMB168.0 million as of December 31, 2023 to RMB109.9 million as of December 31, 2024, primarily due to (i) the repayment of certain long-term payables; and (ii) the reclassification of certain long-term payables to payables due within one year. Our long-term payables remained relatively stable at RMB109.9 million and RMB104.7 million as of December 31, 2024 and September 30, 2025, respectively. Our long-term payables decreased by 19.2% from RMB104.7 million as of September 30, 2025 to RMB84.6 million as of November 30, 2025, primarily due to our repayments of such payables.

Provisions

Our provisions mainly comprise reclamation fees related to dairy farming land leases. Our provisions remained relatively stable at RMB19.7 million, RMB22.1 million, RMB22.7 million and RMB22.9 million as of December 31, 2023, 2024 and September 30, 2025 and November 30, 2025, respectively.

Indebtedness Statement

Except as disclosed above and as otherwise disclosed in this Document, as of November 30, 2025, being our indebtedness statement date, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since November 30, 2025 and up to the Latest Practicable Date.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprise expenditures for (i) construction of fixed assets, intangible assets and construction in progress, (ii) purchase and cultivation of biological assets, and (iii) payments for right-of-use assets. The following table sets forth our capital expenditures for the periods indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2023	2024	2024	2025
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
Construction of fixed assets, intangible assets and construction in progress . . .	1,540,196	1,095,558	714,151	608,138
Purchase and cultivation of biological assets	2,333,274	1,861,091	1,419,395	1,242,354
Payments for right-of-use assets	1,414	6,741	4,874	–
Total	<u>3,874,884</u>	<u>2,963,390</u>	<u>2,138,420</u>	<u>1,850,492</u>

FINANCIAL INFORMATION

During the Track Record Period, our expenditures for construction of fixed assets, intangible assets and construction in progress decreased gradually from RMB1,540.2 million in 2023 to RMB608.1 million for the nine months ended September 30, 2025, primarily due to the gradual completion of construction of our dairy production facilities and dairy farms. Our expenditures for purchase and cultivation of biological assets decreased gradually from RMB2,333.3 million in 2023 to RMB1,242.4 million for the nine months ended September 30, 2025, primarily due to (i) a gradual decrease in capital expenditures related to the external purchase of biological assets as the construction of our dairy farms were progressively completed; and (ii) a decrease in feeding costs.

We expect to finance our capital expenditures through financial resources currently available to us, cash generated from operations and the net [REDACTED] to be received from the [REDACTED]. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, our results of operations and financial conditions, our business plans, market conditions and various other factors. See also “Future Plans and Use of [REDACTED] — Use of [REDACTED]” for details.

CAPITAL COMMITMENTS

The following table sets forth our capital commitments as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Purchase of long-term asset commitments	<u>727,186</u>	<u>379,493</u>	<u>493,710</u>
Total	<u>727,186</u>	<u>379,493</u>	<u>493,710</u>

We expect to satisfy our capital commitments using financial resources currently available to us, cash generated from operations and [REDACTED] to be received from the [REDACTED].

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CONTINGENT LIABILITIES

One of our subsidiaries provides guarantees for mortgage loans to employees who purchase properties in accordance with industry practice. Such guarantees are primarily transitional guarantees, with the guarantee period commencing from the effective date of the guarantee contract and ending on the date when the property ownership certificate for the property purchased by the employee is issued, the mortgage registration procedures are completed and the relevant documents are delivered to the bank for custody. As of September 30, 2025, the total amount of guarantees we provided for mortgage loans to employees who purchased properties was approximately RMB177 million. During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, no default occurred among the employees who purchased properties. We believe that the risks associated with providing such guarantees are low, and no provision is required to be made in respect of such guarantees.

Save as disclosed above, as of September 30, 2025 and up to the Latest Practicable Date, we did not have any contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet agreements.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note (XI) 5 to the Accountants' Report included in Appendix I and Note (XI) 5 to the Unaudited Financial Information for the Nine Months Ended September 30, 2025 included in Appendix IA to this Document was conducted on an arm's-length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

	For the Year Ended December 31,		For the Nine Months Ended September 30,
	2023	2024	2025 <i>(unaudited)</i>
Gross profit margin (%) ⁽¹⁾	34.2	34.7	32.0
Gross profit margin of our dairy products (%) ⁽²⁾	37.5	37.8	36.6
Net profit margin ⁽³⁾	0.03	5.6	6.0
Adjusted net profit margin (non-CASBE measure) (%) ⁽⁴⁾	3.4	5.9	6.2

Notes:

- (1) Gross profit margin equals gross profit divided by revenue and multiplied by 100%.
- (2) Gross profit margin of dairy products equals gross profit of dairy products divided by revenue from dairy products and multiplied by 100%.
- (3) Net profit margin equals net profit divided by revenue and multiplied by 100%. Our net profit margin for 2023 was 0.03%, primarily due to the interest expenses on financial liabilities related to shareholders’ special rights of RMB554.4 million, arising from certain special rights granted to certain Pre-[REDACTED] investors before the Track Report Period. Such special rights were terminated in 2023, resulting in the derecognition of the relevant liabilities and no interest expenses were subsequently incurred. See Note (VI) 37 to the Accountants’ Report in Appendix I to this Document.
- (4) Adjusted net profit margin (non-CASBE measure) equals adjusted net profit (non-CASBE measure) divided by revenue and multiplied by 100%. See “— Non-CASBE Financial Measures.”

BIOLOGICAL ASSETS AND VALUATION

Under the CASBE, our biological assets included (i) consumable biological assets and (ii) productive biological assets, and were measured at cost.

- (i) Consumable biological assets are biological assets held for sale or to be harvested as agricultural produce in the future, primarily including beef cattle. They are recognized in inventories and carried as the lower of the cost and net realizable value at the balance sheet date. See Note (III) 17.1 to the Accountants’ Report in Appendix I to this Document for the measurement method of consumable biological assets, basis for determining net realizable value and method for provision of consumable biological assets.
- (ii) Productive biological assets are biological assets held for the production of agricultural produce, provision of services or rental, including immature productive biological assets and mature productive biological assets. Immature productive biological assets primarily include calves and heifers. Mature productive biological assets primarily include milkable cows. Such productive biological assets are presented as costs less accumulated depreciation and impairment provision. See Note (III) 17.2 to the Accountants’ Report in Appendix I to this Document for the basis of determining the cost, the depreciation method and impairment provision.

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Pursuant to Chapter 4.10 under the Guide for New Listing Applicants published by the Stock Exchange, we have engaged Asia-Pacific Consulting and Appraisal Limited (“APA”) (the “Valuer”), a firm of independent qualified professional valuer, to determine the fair value of our biological assets. The valuation was carried out on a fair value basis, which is defined as 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. To derive the fair value of the biological assets, the Valuer adopted two valuation approaches, namely the market approach and the income approach.

Pursuant to Chapter 4.10 under the Guide for New Listing Applicants, the following table sets forth the fair value of our biological assets as measured by the Valuer as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	<i>(RMB in thousands)</i>		
Productive biological assets			
– Immature productive biological assets	2,159,104	1,653,787	1,906,467
– Mature productive biological assets	2,452,626	2,990,982	2,821,687
Subtotal	4,611,730	4,644,769	4,728,154
Consumable biological assets			
– Beef cattle	49,891	N/A	N/A
Total	4,661,621	4,644,769	4,728,154

The fair value of our biological assets remained relatively stable during the Track Record Period. The fair value of our productive biological assets increased from RMB4,611.7 million as of December 31, 2023 to RMB4,644.8 million as of December 31, 2024, and further increased to RMB4,728.2 million as of September 30, 2025, primarily due to the increases in the number of dairy cows, the decrease of feed costs and the improved herd structure and quality. The fair value of our consumable biological assets was RMB49.9 million as of December 31, 2023, and we ceased to sell beef cattle in 2024.

The following table sets forth the volume of our biological assets as of the dates indicated:

	As of December 31,		As of September 30,
	2023	2024	2025
	<i>(heads)</i>		
Productive biological assets			
– Immature productive biological assets	104,959	91,454	95,667
– Mature productive biological assets	81,146	95,960	96,390
Subtotal	186,105	187,414	192,057
Consumable biological assets			
– Beef cattle	4,101	N/A	N/A
Total	190,206	187,414	192,057

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Our biological assets were independently valued by the Valuer. The Valuer is an independent professional valuer not connected with us and has appropriate and extensive experience in the valuation of biological assets.

Information about the Independent Valuer of Our Biological Assets

We have engaged Asia-Pacific Consulting and Appraisal Limited (“APA”), an independent valuer, to determine the fair value of our biological assets as of December 31, 2023, 2024 and September 30, 2025 (the “**Valuation Dates**”), respectively. The key valuers of the APA team includes Mr. Jack W.J. Li.

Mr. Jack W.J. Li, Executive Director at APA, is a member of the Chartered Financial Analyst and a member of Royal Institution of Chartered Surveyors. He oversees the business valuation services of APA and has over 15 years of valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in China, Hong Kong, Singapore and the United States. Jack has also participated in certain large scale IPOs of State-owned and privately-owned enterprises in China. He oversaw the valuation of biological assets for the initial public offerings and subsequent financial reports of BIOCYTOGEN (stock code: 2315.hk), ZONBONG ENVIRO (stock code: 1855.hk), and UNI HEALTH (stock code: 2211.hk).

Based on market reputation and relevant background research, our Directors and the Joint Sponsors are satisfied that APA is independent from us and is competent in conducting a valuation on our biological assets.

Valuation Methodology

In arriving at the assessed value, two generally accepted approaches have been considered, namely, the market approach and the income approach.

Market approach is adopted to value our calves, heifers and beef cattle. Market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect the conditions and utility of the appraised assets relative to the market comparatives. Assets for which there is an established used market may be valued by this approach.

Income Approach is adopted to value our milkable cows. APA understands from the Company that generally there is no reliable market-based price for dairy cow at maturity 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, APA 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 benefits, 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

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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.

The following valuation methods for each type of biological assets were adopted:

Dairy cows

Calves and heifers

A market-based approach is adopted by APA 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 differences.

Milkable Cows

An income-based approach is adopted by APA 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 MEEM. MEEM is a derivative of the DCF method. Using this method, APA 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 benefits, 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 and assembled workforce.

Beef cattle

Market Approach is adopted by APA to value the beef cattle. Because the market-based prices for newborn beefs and mature beefs can be obtained as of the valuation date. Given the relatively short finishing cycle of beefs, the fair values of the beefs are developed through the application of market approach with reasonable adjustments to reflect the age differences.

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 cow are classified into calves and heifers and milkable cows. Different valuation approaches are adopted for calves and heifers and milkable cows.

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Calves and heifers

The key inputs and assumptions for valuing our calves and heifers are the market prices per head for 14 months old heifers, which was RMB22,800, RMB22,000 and RMB22,000 as of December 31, 2023, 2024 and September 30, 2025.

Milkable cows

The key assumptions and inputs include the revenues from milking the dairy cows and the costs associated with the milkable cows. APA 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, APA 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.

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 newborn 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;
- salary, welfare and social insurance; and
- others.

Beef cattle

The key inputs and assumptions for valuing the beef cattle are the historical average selling price of 20.84 RMB/Kg as at the valuation date. The fair values of the beef cattle are determined with reasonable adjustments to reflect the age differences.

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The following table sets forth a summary of key assumptions and inputs to the valuation of biological assets as of December 31, 2023, 2024 and September 30, 2025.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	The fair value of 14 months old heifers and calves is determined by reference to the local market selling prices.	Estimated local market selling prices of 14 months old heifers were RMB22,800, RMB22,000 and RMB22,000 per head as of December 31, 2023, 2024 and September 30, 2025, respectively.	An increase in the estimated local market selling prices used would result in increase in the fair value measurement of the heifers and calves, and vice versa.
	For age groups of heifers and calves younger than 14 months old, incremental costs required to raise the cows from their respective age at the end of each of the Relevant Periods to 14 months were subtracted.	Incremental costs for the age younger than 14 months old ranged from RMB10,860 to RMB20,403, from RMB9,076 to RMB20,645 and from RMB8,304 to RMB17,526 per head as of December 31, 2023, 2024 and September 30, 2025, respectively.	An increase in the incremental costs used would result in a decrease in the fair value measurement of heifers and calves younger than 14 months, and vice versa.
	For heifers between 14 and 24 months, incremental costs required to raise the heifers from 14 months to their respective age at the end of each of Relevant Periods were added.	Incremental costs for heifers between 14 and 24 months were RMB14,510, RMB14,215, and RMB12,835 per head as of December 31, 2023, 2024 and September 30, 2025, respectively.	An increase in the incremental costs used would result in an increase in the fair value measurement of heifers between 14 and 24 months, 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 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 ranges from RMB2.51 to RMB2.83, from RMB2.17 to RMB2.56 and from RMB2.10 to RMB2.22 as of December 31, 2023, 2024 and September 30, 2025, 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.
		Estimated average prices of raw milk per kg ranges from RMB4.24 to RMB4.94, from RMB3.85 to RMB4.66 and from RMB3.76 to RMB4.44 as of December 31, 2023, 2024 and September 30, 2025, respectively.	An increase in the estimated average price of raw milk would result in an increase in the fair value measurement of milkable cows, and vice versa.
		A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield per head at each lactation cycle ranges from 29.69 kg to 35.90 kg, from 30.28 kg to 36.64 kg and from 30.53 kg to 37.62 kg as of December 31, 2023, 2024 and September 30, 2025, respectively.	An increase in the estimated average daily milk yield per head used would result in an increase in the fair value measurement of milkable cows, and vice versa.
		Discount rate for estimated future cash flows used was 13%, 13% and 13% as of December 31, 2023, 2024 and September 30, 2025, 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.

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Other Assumptions

In this valuation exercise, the Valuer assumed that all proposed facilities and systems will be operated efficiently and have sufficient capacity for future expansion. The Valuer also assumed that the historical trend and data will be maintained and there will be no material change in the existing political, legal, technological, fiscal or economic condition that may adversely affect our business.

The Valuer planned and performed the valuation so as to obtain all the information and explanations that the Valuer considered necessary in order to provide them with sufficient evidence to express the opinion on the subject asset. The Valuer is of the opinion that the valuation procedures they employed provide a reasonable basis for their opinion.

The Joint Sponsors have reviewed and considered the qualification and relevant valuation experience of APA and its professional valuers, and held various discussions with APA 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. In addition, the Joint Sponsors discussed with our management with respect to the techniques chosen and the inputs used in the valuations. The Joint Sponsors further compared the valuation technique chosen, bases and assumptions of the valuation with those used in other similar transactions and market practice. Given the above, the Joint Sponsors are satisfied that the valuation techniques methodology and major inputs used in the valuation of our biological assets are appropriate and reasonable.

Sensitivity Analysis

A significant increase/decrease in the estimated raw milk price, feed cost, market selling price of 14 months old heifers and discount rate in isolation would result in a significant increase/decrease in the fair value of the biological assets. As of December 31, 2023, 2024 and September 30, 2025, if raw milk price increases by 10%, the estimated fair value of biological assets would have increased by 14.2% or RMB655 million, 17.7% or RMB823 million and 16.6% or RMB787 million, respectively, and if raw milk price decreases by 10%, the estimated fair value of biological assets would have decreased by 14.2% or RMB655 million, 17.7% or RMB823 million and 16.6% or RMB787 million, respectively.

If feed cost increases by 10%, the estimated fair value of biological assets would have decreased by 8.2% or RMB380 million, 10.2% or RMB474 million and 9.7% or RMB460 million, respectively, and if feed cost decreases by 10%, the estimated fair value of biological assets would have increased by 8.2% or RMB380 million, 10.2% or RMB474 million and 9.7% or RMB460 million, respectively.

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If market selling price of 14 months old heifers increases by 10%, the estimated fair value of biological assets would have increased by 7.8% or RMB357 million, 7.4% or RMB342 million and 7.3% or RMB344 million, respectively, and if market selling price of 14 months old heifers decreases by 10%, the estimated fair value of biological assets would have decreased by 7.6% or RMB349 million, 7.4% or RMB342 million and 7.3% or RMB344 million, respectively.

If discount rate increases by 500 bps, the estimated fair value of biological assets would have decreased by 3.8% or RMB174 million, 4.7% or RMB219 million and 4.2% or RMB200 million, respectively, and if discount rate decreases by 500 bps, the estimated fair value of biological assets would have increased by 4.4% or RMB205 million, 5.6% or RMB259 million and 5.0% or RMB236 million, respectively.

Stock Take and Internal Control

We have established a standard internal protocol in relation to stock taking for all our dairy farms, which include scheduled and ad hoc stock take, so as to ensure the physical existence and accuracy of data and information of our biological assets. We perform a full stock take for each of our dairy farms on a monthly basis to collect the information such as headcount, gender and age-grouping, health and breeding status, milking process, and milk quality monitoring, which are accurately reflected in our farm management system. We also submit a monthly stock-take report to our financial department. Production personnel are responsible for the stock take process, and financial personnel supervise and review the data.

We have formulated a comprehensive policy for biological asset management, which covers the relevant accounting policies, transferring among age groups, purchase and disposal of biological assets, breeding, record keeping and stock take. For our dairy farms, the quantities of livestock entering the premises and that of livestock leaving are recorded electronically in our farm management system by our production personnel, which are reviewed by financial department at our headquarters.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of market and other financial risks, including market risk, credit risk, and liquidity risk. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. See Note (IX) 1 to the Accountants' Report included in Appendix I and Note (IX) 1 to the Unaudited Financial Information for the Nine Months Ended September 30, 2025 included in Appendix IA to this Document for more information. The discussion below provides a summary of our market and other financial risks.

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Market Risk

Currency Risk

Currency risk is the risk that losses will occur because of changes in foreign exchange rates. Our principal activities are denominated and settled in RMB. As of December 31, 2023 and 2024, and September 30, 2025, the balance of our assets and liabilities are both denominated in RMB except that the assets and liabilities set out below are denominated in USD and HKD. Currency risk arising from the assets and liabilities denominated in foreign currencies may have an impact on our performance.

	As of December 31,		As of September 30,
	2023	2024	2025
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Cash at bank and on hand – USD	1,177	44	–
Cash at bank and on hand – HKD	–	1,357	8,129
Long-term borrowings – USD	754,972	–	–
Total	<u>756,149</u>	<u>1,401</u>	<u>8,129</u>

Interest Rate Risk

Risk of Changes in Cash Flows

Our cash flow interest rate risk of financial instruments relates primarily to variable-rate short-term borrowings and long-term borrowings. As of December 31, 2023 and 2024, and September 30, 2025, our long-term borrowings bearing interest at floating rates and short-term borrowings under revolving credit facilities amounted to RMB6,234.9 million, RMB7,097.1 million and RMB7,700.2 million, respectively. We continue to closely monitor the impact of interest rate changes on our interest rate risk.

Risk of Changes in Fair Value

Our risk of changes in fair value of financial instruments due to changes in interest rates relates primarily to fixed-rate financial assets and financial liabilities, including other receivables — third-party loans, long-term receivables, fixed-rate short-term and long-term borrowings, non-current liabilities due within one year, lease liabilities, and long-term payables. Our objective is to maintain an appropriate mix of fixed and floating rate instruments to manage interest rate risk, and to use derivatives such as interest rate swap contracts as appropriate for managing interest rate risk.

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Other Price Risk

Our price risk mainly arises from investments in derivative financial instruments and other equity instruments. We reduce the price risk associated with investments in equity instruments by holding diversified equity securities portfolios.

Credit Risk

Our maximum exposure to credit risk which will cause a financial loss to us is due to the failure of counterparties to fulfill their an obligation, including the carrying amount of the financial assets recognized on our balance sheet.

In order to minimize credit risk, we have special personnels for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recovery of financial assets at each balance sheet date to ensure that adequate impairment provisions are provided for relevant financial assets.

The credit risk on cash at bank and on hand is limited because it is only deposited with banks with high credit ratings.

As of December 31, 2023 and 2024, and September 30, 2025, details of our accounts receivable from the top five customers and other receivables from the top five debtors are set out in Note (VI) 4 and Note (VI) 6 to the Accountants’ Report in Appendix I and Note (VI) 3 and Note (VI) 5 to the Unaudited Financial Information for the Nine Months Ended September 30, 2025 included in Appendix IA to this Document, respectively. Apart from these, we have no other significant concentration of credit risk.

Liquidity Risk

In the management of liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our 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.

DIVIDENDS

In 2023, 2024, and for the nine months ended September 30, 2025, we paid dividends of RMB337.0 million, RMB555.5 million and RMB732.2 million, respectively, to our Shareholders. Pursuant to the approval at the extraordinary general meeting of Shareholders on October 16, 2025, we declared dividends of RMB1,000.0 million to our Shareholders, which were fully paid in December 2025.

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A decision to declare or to pay dividends in the future and the amount of dividends will be at the discretion of our Board and will depend on a number of factors, including our results of operations, cash flows, financial conditions, payments by our subsidiaries of cash dividends to us, business prospects, statutory and regulatory restrictions on our declaration and payment of dividends and other factors that our Board may consider important. Any declaration and payment of dividends, as well as the amount thereof, shall comply with our Articles of Association and the relevant PRC laws and regulations, and shall be approved by our Board of Directors and the Shareholders’ Meeting.

According to applicable PRC laws and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allocations: recovery of any accumulated historical losses and allocations to the statutory reserve equivalent to 10% of our profit after tax.

DISTRIBUTABLE RESERVES

As of September 30, 2025, we had RMB2,095.6 million in distributable reserves available for distribution to our Shareholders. Pursuant to the approval at the extraordinary general meeting of Shareholders on October 16, 2025, we declared dividends of RMB1,000.0 million to our Shareholders, which were fully paid in December 2025.

PROPERTY INTEREST AND PROPERTY VALUATION

As of December 31, 2024, one of our property interests that is for property activities had a carrying amount of above 1% of our total assets. For such property valued by our property valuer (the “**Valued Property**”), see the property valuation report as set out in Appendix III to this Document pursuant to Rule 5.01A of the Listing Rules. The table below sets forth the reconciliation between the carrying amount of our Valued Property as of December 31, 2024 and the revalued amount of such Valued Property as of December 31, 2025.

	<i>RMB’000</i>
Carrying amount of our Valued Property as of December 31, 2024 . . .	1,032,135
Addition in carrying amount due to development	118,394
Deduction in carrying amount due to sales	(487,452)
Carrying amount of our Valued Property as of December 31, 2025	663,077
Net valuation changes as of December 31, 2025	31,116
Valuation as of December 31, 2025	694,193

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Our Directors are of the view that there was no indication of material change on the valuation of the above Valued Property up to the Latest Practicable Date. Save and except for the Valued Property, our Directors confirm that as of December 31, 2024, no single property interest of ours for property activities had a carrying amount above 1% of our total assets and the total carrying amount of property interests not valued did not exceed 10% of our total assets. Our Directors confirm that as of December 31, 2024, no single property interest that did not form part of our property activities had a carrying amount of 15% or more of our total assets.

[REDACTED]

Our [REDACTED] represent professional fees, [REDACTED] and other fees incurred in connection with the [REDACTED] and the [REDACTED]. Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED], we estimate that our [REDACTED] and [REDACTED] will be approximately RMB[REDACTED], accounting for approximately [REDACTED]% of our [REDACTED], including (i) [REDACTED] of approximately RMB[REDACTED], and (ii) non-[REDACTED] of approximately RMB[REDACTED], comprising (a) sponsor fee of approximately RMB[REDACTED], (b) fees and expenses of legal advisors and Reporting Accountant of approximately RMB[REDACTED], and (c) other fees and expenses of approximately RMB[REDACTED]. As of September 30, 2025, we have incurred RMB[REDACTED] of [REDACTED] and [REDACTED] for the [REDACTED], including [REDACTED] of RMB[REDACTED] and [REDACTED] of RMB[REDACTED]. We expect to further incur [REDACTED] and [REDACTED] of approximately RMB[REDACTED] upon completion of the [REDACTED], out of which approximately RMB[REDACTED] is expected to be charged to our consolidated statements of profit or loss and approximately RMB[REDACTED] is expected to be deducted from equity. The [REDACTED] above are the best estimate as of the Latest Practicable Date and for reference only, and the actual amount may differ from this estimate.

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE LIABILITIES

See “Appendix II — Unaudited [REDACTED] Financial Information” to this Document for details.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, there has been no material adverse change in our business, financial conditions and results of operations since September 30, 2025, being the latest balance sheet date of our consolidated financial statements as set out in the Unaudited Financial Information for the Nine Months Ended September 30, 2025 included in Appendix IA to this Document, and up to the date of this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this Document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.