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CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED
中國中地乳業控股有限公司

(A company incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1492)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	For the year ended 31 December			
	2020	2019	2020	2019
	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000	Results before biological fair value adjustments RMB'000	Results after biological fair value adjustments RMB'000
Revenue	1,927,230	1,927,230	1,499,381	1,499,381
Gross profit margin	41.3%	4.4%	36.7%	4.3%
Profit attributable to:				
Owners of the parent	437,793	236,555	239,390	104,335
Non-controlling interests	(1,645)	(3,853)	(1,962)	(1,962)
	436,148	232,702	237,428	102,373
Basic and diluted earnings per share to owners of the parent (RMB cents)		10.1		4.8

- Revenue increased by 28.5% as compared to 2019.
- As compared to the corresponding period of 2019, profit before biological fair value adjustments increased by 83.7% and profit after biological fair value adjustments increased by 127.3% respectively.

The board (the “**Board**”) of directors (the “**Directors**”) of China ZhongDi Dairy Holdings Company Limited (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) hereby announces the results of the Group for the year ended 31 December 2020 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2019, the details of which are set out as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020			2019		
		Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000	Results before biological fair value adjustments RMB'000	Biological fair value adjustments RMB'000	Total RMB'000
REVENUE	5	1,927,230	-	1,927,230	1,499,381	-	1,499,381
Cost of sales	6	(1,131,700)	(711,537)	(1,843,237)	(948,771)	(486,353)	(1,435,124)
Gross profit		795,530	(711,537)	83,993	550,610	(486,353)	64,257
Losses arising from changes in fair value less costs to sell of biological assets		-	(197,325)	(197,325)	-	(135,055)	(135,055)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		-	705,416	705,416	-	486,353	486,353
Other income	5	24,124	-	24,124	15,424	-	15,424
Other gains and losses	5	(11,927)	-	(11,927)	8,179	-	8,179
Distribution costs		(78,623)	-	(78,623)	(65,272)	-	(65,272)
Administrative expenses		(147,777)	-	(147,777)	(109,877)	-	(109,877)
Other expenses		(2,153)	-	(2,153)	(1,006)	-	(1,006)
Finance costs	7	(142,939)	-	(142,939)	(160,748)	-	(160,748)
Share of profits and losses of an associate		(87)	-	(87)	118	-	118
PROFIT BEFORE TAX	6	436,148	(203,446)	232,702	237,428	(135,055)	102,373
Income tax expenses	8	-	-	-	-	-	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>436,148</u>	<u>(203,446)</u>	<u>232,702</u>	<u>237,428</u>	<u>(135,055)</u>	<u>102,373</u>
Attributable to:							
Owners of the parent		437,793	(201,238)	236,555	239,390	(135,055)	104,335
Non-controlling interests		(1,645)	(2,208)	(3,853)	(1,962)	-	(1,962)
		<u>436,148</u>	<u>(203,446)</u>	<u>232,702</u>	<u>237,428</u>	<u>(135,055)</u>	<u>102,373</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:							
- Basic and diluted (RMB cents)	10			<u>10.1</u>			<u>4.8</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,349,538	1,905,714
Prepayments		227,422	71,564
Right-of-use assets		450,873	545,638
Pledged deposits		50,766	32,590
Biological assets	11	1,752,420	1,693,560
Investments in an associate		10,314	10,401
Total non-current assets		<u>4,841,333</u>	<u>4,259,467</u>
CURRENT ASSETS			
Inventories		538,072	465,326
Trade and other receivables	12	216,070	184,100
Pledged bank deposits		13,867	23,852
Cash and bank balances		251,728	390,765
Total current assets		<u>1,019,737</u>	<u>1,064,043</u>
CURRENT LIABILITIES			
Trade and other payables	13	458,635	783,997
Contract liabilities		3,482	6,405
Interest-bearing bank and other borrowings	14	1,362,650	1,146,449
Total current liabilities		<u>1,824,767</u>	<u>1,936,851</u>
NET CURRENT LIABILITIES		<u>(805,030)</u>	<u>(872,808)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,036,303</u>	<u>3,386,659</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	1,324,535	1,087,959
Deferred income		33,492	34,364
Total non-current liabilities		<u>1,358,027</u>	<u>1,122,323</u>
Net assets		<u>2,678,276</u>	<u>2,264,336</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		165	135
Share premium and reserves		2,623,926	2,206,163
		<u>2,624,091</u>	<u>2,206,298</u>
Non-controlling interests		54,185	58,038
Total equity		<u>2,678,276</u>	<u>2,264,336</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 2 December 2015. The registered address of the Company is P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

The principal activity of the Company is investment holding. The Group is mainly engaged in operations of dairy farms to produce raw milk and importing and selling cows in the mainland of the People’s Republic of China (the “**PRC**”).

2.1 BASIS OF PRESENTATION

The Group had net current liabilities of RMB805,030,000 as at 31 December 2020. In view of the net current liability position, the board of directors (the “**Directors**”) has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the new borrowings raised subsequent to 31 December 2020, the unutilised banking facilities available as at the date of this report and cash flow projections for the year ending 31 December 2021, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) (which include all International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and Interpretations) issued by the International Accounting Standards Board (“**IASB**”), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for biological assets and agricultural produce upon harvest which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group.
- (e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

4. OPERATING SEGMENT INFORMATION

For the year ended 31 December 2020, over 90% of the Group’s revenue, net profit and assets (2019: over 90%) were attributable to the dairy farming business, therefore operation segment information disclosure is no longer required.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
<i>Revenue from contracts with customers</i>		
Sale of goods		
– Raw milk	1,883,169	1,498,727
Rendering of import trading business		
– Import trading business	44,061	654
	<u>1,927,230</u>	<u>1,499,381</u>

Revenue from contracts with customers

(a) *Disaggregated revenue information*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>6,405</u>	<u>25,425</u>

(b) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon when control of the goods is transferred to the customer, generally on receipt of the goods by customers, and payment is generally due within 30 to 90 days from delivery.

Rendering of import trading business

Import trading business includes import trading business as principal and agency. Revenue from import trading business is recognised when customers receive import products.

5. REVENUE, OTHER INCOME AND GAINS (continued)

	Notes	2020 RMB'000	2019 RMB'000
Other income			
Government grants related to			
– Assets	i	3,272	3,132
– Income	ii	15,281	3,460
		<u>18,553</u>	<u>6,592</u>
Interest income		4,448	7,113
Others		1,123	1,719
		<u>24,124</u>	<u>15,424</u>
Other gains and losses			
– (Losses)/gains on disposal of items of property, plant and equipment		(9,063)	2,770
– Exchange (losses)/gains, net		(3,447)	4,315
– Others		583	1,094
		<u>(11,927)</u>	<u>8,179</u>

Notes:

- i. These government grants are released from deferred income.
- ii. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2020 RMB'000	2019 RMB'000
Cost of sales		
Feeds and other related costs for raw milk production	1,100,367	948,598
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	<u>705,416</u>	<u>486,353</u>
Cost of sales of raw milk	1,805,783	1,434,951
Purchase, feed costs and other related costs for cows held for sale	31,241	173
Gains arising from changes in fair value less costs to sell of biological assets	<u>6,121</u>	<u>—</u>
Cost of sales of cows held for sale	37,362	173
Cost related to the trading of alfalfa and others	<u>92</u>	<u>—</u>
	<u>1,843,237</u>	<u>1,435,124</u>
Staff costs (including the directors' emoluments)		
Salaries, bonuses and allowances	194,299	129,179
Contributions to a retirement benefit scheme	<u>3,123</u>	<u>13,158</u>
Total employee benefits	197,422	142,337
Less: Capitalised in biological assets	<u>(51,100)</u>	<u>(32,866)</u>
Employee benefits charged in profit or loss	<u>146,322</u>	<u>109,471</u>
Depreciation and recognition of lease expenses		
Depreciation of items of property, plant and equipment	130,980	122,937
Less: Capitalised in biological assets	<u>(60,937)</u>	<u>(58,780)</u>
Depreciation charged to profit or loss	<u>70,043</u>	<u>64,157</u>
Depreciation of right-of-use assets	52,883	58,082
Less: Capitalised in inventories	<u>(32,216)</u>	<u>(38,399)</u>
Depreciation of right-of-use assets	<u>20,667</u>	<u>19,683</u>
Lease payments not included in the measurement of lease liabilities	<u>462</u>	<u>305</u>
Other items		
Auditors' remuneration	<u>3,050</u>	<u>2,400</u>

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on borrowings	123,224	129,783
Interest on lease liabilities	26,471	32,362
Less: Interest capitalised	<u>(6,756)</u>	<u>(1,397)</u>
	<u>142,939</u>	<u>160,748</u>

Borrowing costs capitalised during the year arose from the special borrowing and are calculated by applying the capitalisation rate of 4.96% per annum during the year ended 31 December 2020 (2019: 5.49%) to expenditures on construction in progress.

8. INCOME TAX

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2020		2019	
	RMB'000	%	RMB'000	%
Profit before tax	232,702		102,373	
Tax at corporate income tax rate of 25%	58,176	25	25,593	25
Effect of items that are not deductible in determining taxable profit	51,315	22	34,137	33
Effect of losses incurred for agricultural business	9,081	4	10,319	10
Tax losses not recognised	12,546	5	11,737	12
Effect of tax exemption granted to agricultural operations	<u>(131,118)</u>	<u>(56)</u>	<u>(81,786)</u>	<u>(80)</u>
Income tax expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

Pursuant to the prevailing tax rules and regulation in the PRC, the Company's certain subsidiaries engaged in agricultural business are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for preferential treatments available to certain subsidiaries as mentioned above, subsidiaries within the Group were subject to corporate income tax at the statutory rate of 25%.

9. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31 December 2020 (2019: nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 (2019: nil).

The calculations of basic and diluted earnings per share are based on:

	2020	2019
	RMB'000	RMB'000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	236,555	104,335
	Number of shares	
	2020	2019
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year	2,342,393,332	2,174,078,000

11. BIOLOGICAL ASSETS

A – Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, heifers and calves), and cows held for sale. Dairy cows held to produce raw milk are categorised as bearer biological assets and cows held for sale are categorised as consumable biological assets given the attributes illustrated below.

The Group's cows comprise cows held for sale, milkable cows held for milk production and heifers and calves that have not reached the age that can produce raw milk. The quantity of cows owned by the Group at the end of each reporting period is shown below:

	2020	2019
	Heads	Heads
Cows held for sale	–	–
Milkable cows	38,277	37,880
Heifers and calves	30,790	27,549
	69,067	65,429

Cows held for sale comprise heifers imported and held in quarantine farms and heifers/calves reproduced by the Group for sale to external customers. Cows held for sale are classified as current assets.

Milkable cows, heifers and calves are dairy cows of the Group for the purpose of production of raw milk and are classified as non-current assets.

11. BIOLOGICAL ASSETS (continued)

B – Value of biological assets

The amounts of cows at the end of the reporting period are set out below:

	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Total RMB'000
At 1 January 2020	440,030	1,253,530	–	1,693,560
Purchase cost	–	–	29,612	29,612
Feeding cost	527,138	–	6,045	533,183
Transfer	(386,387)	386,387	–	–
Decrease due to disposal/death	(110,310)	(160,643)	–	(270,953)
Losses arising from changes in fair value less costs to sell of biological assets	(21,953)	(175,372)	–	(197,325)
Transfer out upon selling	–	–	(35,657)	(35,657)
	<u>448,518</u>	<u>1,303,902</u>	<u>–</u>	<u>1,752,420</u>
At 31 December 2020	<u>448,518</u>	<u>1,303,902</u>	<u>–</u>	<u>1,752,420</u>
Represented by:				
Current portion	–	–	–	–
Non-current portion	<u>448,518</u>	<u>1,303,902</u>	<u>–</u>	<u>1,752,420</u>
Total	<u>448,518</u>	<u>1,303,902</u>	<u>–</u>	<u>1,752,420</u>
	Heifers and calves RMB'000	Milkable cows RMB'000	Cows held for sale RMB'000	Total RMB'000
At 1 January 2019	468,620	1,145,290	780	1,614,690
Feeding cost	446,795	–	13	446,808
Transfer	(364,954)	364,954	–	–
Decrease due to disposal/death	(93,799)	(136,833)	–	(230,632)
(Losses)/gains arising from changes in fair value less costs to sell of biological assets	(16,632)	(119,881)	1,458	(135,055)
Transfer out upon selling	–	–	(2,251)	(2,251)
	<u>440,030</u>	<u>1,253,530</u>	<u>–</u>	<u>1,693,560</u>
At 31 December 2019	<u>440,030</u>	<u>1,253,530</u>	<u>–</u>	<u>1,693,560</u>
Represented by:				
Current portion	–	–	–	–
Non-current portion	<u>440,030</u>	<u>1,253,530</u>	<u>–</u>	<u>1,693,560</u>
Total	<u>440,030</u>	<u>1,253,530</u>	<u>–</u>	<u>1,693,560</u>

The directors have engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, to assist the Group in assessing the fair values of Group's biological assets. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure that the valuations have been performed properly.

As at 31 December 2020, the Group pledged certain dairy cows to secure certain bank and other borrowings of the Group (note 14).

11. BIOLOGICAL ASSETS (continued)

B – Value of biological assets (continued)

The gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest are analysed as follows:

	2020 RMB'000	2019 RMB'000
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	<u>705,416</u>	<u>486,353</u>

12. TRADE AND OTHER RECEIVABLES

The Group normally allows a credit period of 30 days to its customers for sales of raw milk. The Group normally requires prepayments for sales of cows and alfalfa. The ageing analysis of the Group's trade receivables presented based on the invoice date which approximates to the date on which revenue is recognised as at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Trade receivables:		
– 0 to 30 days	172,444	153,161
– 31 to 90 days	–	3,957
	<u>172,444</u>	<u>157,118</u>
Other receivables:		
– Advances to suppliers	36,582	16,684
– Others	7,044	10,298
	<u>43,626</u>	<u>26,982</u>
	<u>216,070</u>	<u>184,100</u>

13. TRADE AND OTHER PAYABLES

The credit period granted to the Group for the settlement of trade purchases is within 90 days. The following is an ageing analysis of trade and bills payables from the invoice date at the end of the reporting period:

	2020	2019
	RMB'000	RMB'000
Trade and bills payables:		
– 0 to 90 days	313,237	462,460
– 91 to 180 days	68,152	208,357
– Over 181 days	5,645	34,190
	<hr/> 387,034 <hr/>	<hr/> 705,007 <hr/>
Payable for acquisition of items of property, plant and equipment	5,405	15,439
Accrued staff costs	37,051	19,700
Interest payables	8,272	14,819
Deposits	17,691	18,334
Others	3,182	10,698
	<hr/> 71,601 <hr/>	<hr/> 78,990 <hr/>
	<hr/> 458,635 <hr/> <hr/>	<hr/> 783,997 <hr/> <hr/>

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2020 Maturity	RMB'000	2019 Maturity	RMB'000
Current					
Unsecured lease liabilities		2021	58,423	2020	67,320
Unsecured bank borrowings		2021	380,392	2020	303,220
Guaranteed and unsecured bank borrowings	(i) (a)	2021	357,700	2020	450,000
Guaranteed and unsecured other borrowings	(i) (b)	2021	1,302		–
Secured bank borrowings	(i) (c)	2021	103,000	2020	65,000
Secured other borrowings	(i) (d)		–	2020	50,161
Guaranteed and secured bank borrowings	(i) (e)	2021	28,387	2020	28,372
Guaranteed and secured other borrowings	(i) (f)	2021	433,446	2020	182,376
			<u>1,362,650</u>		<u>1,146,449</u>
Non-current					
Unsecured lease liabilities		2022-2065	303,735	2021-2065	375,951
Unsecured bank borrowings			–	2021	30,000
Unsecured other borrowings		2022-2030	107,328		–
Guaranteed and unsecured bank borrowings	(i) (a)	2022-2023	96,800		–
Guaranteed and unsecured other borrowings	(i) (b)	2022-2027	95,671		–
Secured other borrowings	(i) (d)	2022-2023	47,761	2021-2023	47,776
Guaranteed and secured bank borrowings	(i) (e)	2022-2025	114,470	2021-2025	143,056
Guaranteed and secured other borrowings	(i) (f)	2022-2023	558,770	2021-2023	491,176
			<u>1,324,535</u>		<u>1,087,959</u>
			<u>2,687,185</u>		<u>2,234,408</u>
Analysed into:					
Bank and other borrowings repayable:					
Within one year			1,362,650		1,146,449
In the second year			601,865		305,753
In the third to fifth years, inclusive			530,296		596,198
Over five years			192,374		186,008
			<u>2,687,185</u>		<u>2,234,408</u>
Bank and other borrowings comprise:					
Fixed-rate bank and other borrowings			1,443,763		1,241,491
Variable-rate bank and other borrowings			1,243,422		992,917
			<u>2,687,185</u>		<u>2,234,408</u>

14. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

- (i) (a) As at 31 December 2020, Mr. Zhang Jianshe guaranteed bank borrowings of RMB454,500,000 (2019: RMB450,000,000), among which bank borrowings of RMB186,600,000 (2019: RMB275,000,000) were also guaranteed by Mrs. Li Jingtao.
- (b) As at 31 December 2020, other borrowings of RMB96,973,000 (2019: nil) were guaranteed by Mr. Zhang Jianshe, Mrs. Li Jingtao and Yinan County Xingyi Agricultural Development Co., Ltd.
- (c) As at 31 December 2020, bank borrowings of RMB103,000,000 (2019: RMB65,000,000) were secured by dairy cows of RMB73,500,000 (2019: RMB73,500,000).
- (d) As at 31 December 2020, other borrowings of RMB47,761,000 (2019: RMB97,937,000) were secured by dairy cows of RMB48,553,000 (2019: dairy cows of RMB426,736,000 and bank deposits of RMB9,000,000 with present value of RMB8,997,000).
- (e) As at 31 December 2020, bank borrowings of RMB142,857,000 (2019: RMB171,428,000) were guaranteed by Mr. Zhang Jianshe, Mrs. Li Jingtao and China United SME Guarantee Corporation Company, an independent third party, and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB116,747,000 (2019: RMB147,997,000).
- (f) As at 31 December 2020, other borrowings of RMB398,421,000 (2019: RMB295,008,000) were secured by trade receivables of RMB14,664,000 (2019: RMB11,451,000) and guaranteed by Mr. Zhang Jianshe, of which RMB299,088,000 (2019: RMB295,008,000) were also secured by dairy cows with carrying amount of RMB313,330,000 (2019: RMB322,760,000) under factoring agreements and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao. As at 31 December 2020, other borrowings of RMB200,000,000 (2019: RMB200,000,000) were guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 31 December 2020, other borrowings of RMB70,966,000 (2019: RMB137,046,000) were secured by dairy cows with a carrying amount of RMB212,861,000 (2019: RMB229,756,000), and the Group's deposits amounting to approximately RMB20,000,000 (2019: RMB20,000,000) with present value of RMB19,241,000 (2019: RMB18,426,000), and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 31 December 2020, no other borrowings (2019: RMB41,497,000) were secured the Group's deposits, property, plant and equipment of the Group or prepayment for non-current assets of the Group (2019: bank deposits of RMB5,400,000 with present value of RMB5,176,000, property, plant and equipment of the Group with an aggregate carrying amount of RMB139,687,000, prepayment for non-current assets of the Group of RMB2,603,000), or guaranteed by Mr. Zhang Jianshe.

As at 31 December 2020, other borrowings of RMB68,143,000 (2019: nil) were secured by trade receivables of RMB3,364,000 (2019: nil), property, plant and equipment of the Group with an aggregate carrying amount of RMB174,700,000 (2019: nil), and the Group's deposits amounting to approximately RMB2,400,000 (2019: nil) with present value of RMB2,146,000 (2019: nil), and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 31 December 2020, other borrowings of RMB254,686,000 (2019: nil) were secured by dairy cows with a carrying amount of RMB424,050,000 (2019: nil) and the Group's deposits amounting to approximately RMB33,000,000 (2019: nil) with present value of RMB29,379,000 (2019: nil), and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

- (ii) As at 31 December 2020, the contracted interest rates of the above bank and other borrowings ranged from 2.80% to 8.00% (2019: 4.60% to 6.84%).

- (iii) The Group's bank and other borrowings were denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
RMB	<u>2,687,185</u>	<u>2,234,408</u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2020, the COVID-19 pandemic hit the global economy hard. The coronavirus lockdown measures of various countries led to a global economic shutdown and a surge in unemployment rate. Although the economic recovery accelerated in the third quarter, the pandemic rebounded in various places after entering the autumn and winter season, causing economic activities to shrink again and slow down the economic recovery.

According to the “Global Economic Outlook” released by the International Monetary Fund (IMF) in October 2020, the global economy is expected to shrink by 4.4% in 2020 (equivalent to seven times the decline in 2009), the worst setback since the great depression in 1930s. However, China’s economy stood out among the world’s major economies as the only country registered the positive gross domestic products growth in 2020.

The dairy industry as a segment of the fast moving consumer goods industry was less affected by COVID-19, and even bucked the trend to record a growth against the headwinds in the second half of 2020. According to the “2020 China Milk Merchants Index Report”, the COVID-19 promoted the education of consumers and caused the public to be more concerned about balanced nutrition and immunity improvement. Nearly 50% of the public increased the types of dairy products they consume and insisted on drinking enough milk every day. Public health events have reinforced and maintained the milk drinking habits of the public, sustaining the consumption upgrade in first-and second-tier cities and increasing the market penetration in third-and fourth-tier cities and counties and towns. The major product categories such as pasteurized milk are increasingly popular in the consumption upgrade, bringing a growing market demand. In short, the development of dairy consumption habits and the increase in consumption frequency serve as key drivers for the growth of the dairy industry in recent years and in the future.

After COVID-19 was effectively controlled in China, China’s raw milk production and total dairy imports have increased significantly since May 2020. According to the National Bureau of Statistics, the domestic milk production in 2020 was 34.4 million tonnes, an increase of 7.5% compared with 2019, the highest year-on-year growth rate in recent years. According to customs data, from May to November 2020, the total import volume of dairy products increased by 14.4% year on year, representing a 12.6% increase in total import volume of raw milk. Yet, the growth of domestic raw milk production was lower than the growth of dairy imports, indicating that the domestic raw milk production failed to catch up with the growing demand for dairy products. The short supply of raw milk drove up the price of raw milk in China. Driven by rising demand and costs, especially the sharp increase in feed prices, the price of raw milk kept rising for seven consecutive months from May to December 2020. Specifically, the monthly average price increased by 16.2% from RMB3.57/kg in May to RMB4.15/kg in December.

BUSINESS REVIEW

The Group's principal business is dairy farming business, including production and sales of premium raw milk, and the feeding, breeding and sales of dairy cows, etc.

In 2020, the Group's production and operations remained stable and its business performance continued to grow. Thanks to the steady increase in the price of raw milk during the year and its effective measures for cost reduction and efficiency enhancement, the Company maintained a rapid growth in business performance during the Reporting Period. The Company's profit for the year (after the adjustment of biological assets) was RMB232.7 million, an increase of 127.3% over the previous year, and its profit attributable to owners of the parent was RMB236.6 million. For the year ended 31 December 2020, earnings per share to owners of the parent was RMB10.1 cents.

During the year, the Group mainly adopted the following measures for business operations:

- Strong measures against Covid-19 to ensure efficient and orderly operations

In the face of the sudden COVID-19 outbreak, the Company developed, updated and implemented epidemic prevention and control measures in cooperation with local governments, and kept abreast of its production and epidemic prevention supplies, staff health status and local anti-COVID-19 policies. Under the emergency situations such as closure of villages, blockade of roads and severe shortage of supplies, the Company managed to obtain sufficient supplies and deliver fresh milk in an order manner, thus ensuring the efficient and normal operation of all its dairy farms and laying a solid foundation for achieving excellent results in 2020.

- Strengthening the refined management to further improve the quality of dairy farm operations

The Company continuously improved management and operation quality by strengthening process management. The average annual milk yield of lactating cows amounted to 13.3 tonnes, increased by 8.1% compared with 2019; the average annual yield of milkable dairy cows was 11.6 tonnes, 0.9 ton higher than that in 2019.

1. The dairy cow nutrition system was effectively implemented, and the overall on-site management was improved. Overall, we made improvements in scientific nutrition, TMR audit, quality inspection of ration and raw materials, feeding accuracy, and remaining feed rate control, laying a solid foundation for increasing unit yield and reducing feed cost.
2. Promoting a breeding system to gradually upgrade the genetic quality of cattle. Compared with 2019, the unit yield of core herds of milkable dairy cows increased from 12.2 tonnes to 13.6 tonnes, an increase of 1.4 tonnes. With the use of sex-controlled frozen semen, the calving rate of first-born cows increased by 28.6 percentage points from 48.3% to 76.9%.

3. Effective implementation of an epidemic prevention and control system to enable the healthy dairy farming to stay on track. The Company implemented a full range of anti-epidemic measures with a focus on prevention, including immunisation of the herd against foot-and-mouth disease, brucellosis and other infectious diseases and measures for bovine tuberculosis elimination. We strictly controlled the key procedures such as harmless disposal of culled cows and sick and dead cattle and treatment of medical waste, thus effectively preventing and controlling breeding risks.
 4. Advancing procedural management with great improvements. The Company greatly improved production process KPIs by further refining the operation procedures and combining practical training with on-site supervision.
 5. Achieving excellent results in environmental management to greatly improve the well-being of dairy cows. After our dairy farms in Kuandian, Tianjin, Helan and Ningxia passed the environmental acceptance inspection in 2020, all our dairy farms have been registered as environmentally approved farms. Meanwhile, the Company carried out self-inspection and rectification on environment and safety production to greatly improve the environmental compliance, appearance and safety production of dairy farms, consolidating the foundation for development.
- Optimising procurement channels and expanding sales channels to constantly improve operating results

In terms of procurement, the Company signed direct purchase contracts with a number of manufacturers to expand the scope of direct purchase, and continued to reduce purchase costs by various means including bidding procurement and futures procurement.

In terms of fresh milk sales, the Company made sales plans to pursue favourable pricing methods from customers and raise the price of excess milk, thus increasing the overall sale price. The total sales and unit price of fresh milk for the year increased year on year by 15.2% and 9.3%, respectively. In terms of sales of beef cattle and calves, the total sales volume and unit price also achieved a double-digit growth.

1. *Scale of dairy farms*

Focusing on the dairy industry's status of development and the market demand in various regions of China, the Group strategically situated the bases of its dairy farms in major provinces or regions across the golden milk source belt in Northern China. As at 31 December 2020, the Group operated the following nine modern dairy farms in eight provinces and autonomous regions: Beijing ZhongDi Farm, Inner Mongolia ZhongDi Dairy, Helan ZhongDi Farm, Ningxia ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm, Tianjin ZhongDi Farm and Yinan ZhongDi Farm.

2. Herd size

	31 December 2020 Heads	31 December 2019 Heads
Milkable cows	38,277	37,880
Heifers and calves	30,790	27,549
	<u>69,067</u>	<u>65,429</u>

As at 31 December 2020, the Group's herd size was 69,067 heads, an increase of 3,638 heads as compared with that of the previous year.

3. Milk yield and sales

The average annual milk yield of each lactation cow of the Group for 2020 was 13.3 tonnes, representing an increase of 8.1% as compared to that of the corresponding period of the previous year. Benefited from the intensified marketing efforts, as well as the increased yield per dairy cow and the growth in milking herd in each farm of the Group, the sales volume of raw milk during the Reporting Period reached 430,561 tonnes, an increase of 15.2% compared with the same period of last year.

4. Raw milk quality

The Group strives to produce premium raw milk. According to a range of key quality indicators, the Group's raw milk has stable premium quality and all the indicators outperform the standards in Europe, the US and the PRC, which are the reasons why the Group is able to maintain a selling price higher than the market average level.

Standard	Protein content (Unit:%)	Fat content (Unit:%)	Aerobic plate count (Unit:/ml)	Somatic cell count (Unit:/ml)
The Company ¹	3.36	3.99	12,900	163,200
EU Standard ²	N/A	N/A	<100,000	<400,000
US Standard ³	≥ 3.2	≥ 3.5	<100,000	<750,000
PRC Standard ⁴	≥ 2.8	≥ 3.1	<2,000,000	N/A

Notes:

1. Calculated according to the statistical data of the Group's raw milk quality in 2020.
2. Please refer to the Council Directive 92/46/EEC adopted by the EU.
3. Please refer to Grade "A" Pasteurized Milk Ordinance promulgated by the US Public Health Service.
4. Please refer to the National Food Safety Standard (GB19301-2010) of the PRC.

PROSPECTS

In 2021, given the continuous spread of COVID-19 abroad and the shaky Sino-US relations affected by economic and trade frictions and other non-economic factors, China's economic development will still face uncertainties and downward pressure. So, the economic recovery may be bumpy.

However, the progress in COVID-19 treatment and vaccine development has brought hope for ending the pandemic. The IMF estimates that in 2021, the global economy is expected to return to the level of 2019 before the pandemic. According to the World Economic Outlook report released by the Organisation for Economic Cooperation and Development (OECD) in early December, the global economy is expected to shrink by 4.2% in 2020 and grow by 4.2% in 2021.

As a dairy farming company in the upstream of dairy industry chain, in 2021, the Company will, as always, adhere to the entrepreneurial spirit of being "pragmatic, innovative, precise and efficient", take "ingenuity, innovation and excellence" as the guide, and uphold the mission of "building tech-driven ecological dairy farms and creating high-quality, healthy dairy products" to expand the herd size, increase the yield of dairy cows and increase the sales of raw milk while overcoming the pressure of rising feed costs, in an effort to improve its profitability. The Company will build efficient and intelligent dairy farms through technology upgrades to improve the management and operations of farms in an all-round manner.

FINANCIAL OVERVIEW

Revenue

The Group's revenue for the year ended 31 December 2020 amounted to RMB1,927.2 million as compared with RMB1,499.4 million for the year ended 31 December 2019, representing a year-on-year increase of 28.5%. The increase was mainly attributed to an increase in both the sales volume and selling price of raw milk.

Gross Profit and Gross Profit Margin

A breakdown of the Group's gross profit and gross profit margin before biological fair value adjustments is set out below:

	For the year ended 31 December			
	2020		2019	
	Gross Profit	Gross Profit	Gross Profit	Gross Profit
	RMB'000	Margin	RMB'000	Margin
Before fair value adjustments				
Gross profit and gross profit margin	<u>795,530</u>	<u>41.3%</u>	<u>550,610</u>	<u>36.7%</u>

The gross profit before biological fair value adjustment, mainly from the sale of raw milk, being the Group's principal business, amounted to RMB795.5 million, representing a year-on-year increase of 44.5%. The increase was mainly attributed to the increase in both the selling price and sales volume of raw milk. The gross profit margin was 41.3%, representing a year-on-year increase of 4.6%. The increase was mainly attributed to the increase in milk yield per milkable dairy cow and the increased raw milk selling price in 2020.

Cost of Sales

Cost of sales of the Group is set out below:

	For the year ended 31 December			
	2020		2019	
	RMB'000	Percentage	RMB'000	Percentage
Dairy Farming Business				
Feed	821,449	74.6%	725,760	76.5%
Labour costs	72,545	6.6%	54,651	5.8%
Others	206,373	18.8%	168,187	17.7%
	1,100,367	100%	948,598	100.0%
Import Trading Business	31,333		173	
Total	1,131,700		948,771	

For the year ended 31 December 2020, the Group's feed costs amounted to RMB821.4 million, as compared with RMB725.8 million for the year ended 31 December 2019. The increase was mainly due to the increase in the unit price of feed and adjustment to the feed formula.

Gains/Losses Arising from Changes in the Fair Value of Biological Assets Less Costs of Sales

Net losses arising from changes in the fair value of biological assets less costs of sales for the year ended 31 December 2020 amounted to RMB197.3 million, representing a year-on-year increase of RMB62.2 million as compared with net losses of RMB135.1 million for the year ended 31 December 2019, which was mainly attributed to the increase in the price of major raw materials and the decrease in profitability of biological assets.

Gains Arising from Initial Recognition of Agricultural Products at Fair Value Less Costs of Sales upon Harvest

The gains arising from initial recognition of agricultural products at fair value less costs of sales upon harvest of the Group increased by approximately 45.0% from RMB486.4 million for the year ended 31 December 2019 to RMB705.4 million for the year ended 31 December 2020, primarily reflecting an increase in the sales volume and unit price of the Group's raw milk.

Other Income

Other income includes government subsidies, bank interest income and others. The income from government subsidies for the year ended 31 December 2020 amounted to RMB18.6 million as compared with RMB6.6 million for the year ended 31 December 2019, representing a year-on-year increase of 181.8%. Bank interest income for the year ended 31 December 2020 amounted to RMB4.4 million as compared with RMB7.1 million for the year ended 31 December 2019, representing a year-on-year decrease of 38.0%.

Operating Expenses

	For the year ended 31 December		Rate of Change
	2020	2019	
	RMB'000	RMB'000	
Distribution costs	78,623	65,272	20.5%
Administration expenses	147,777	109,877	34.5%
Other expenses	2,153	1,006	114.0%
	<hr/>	<hr/>	
Total	228,553	176,155	29.7%
	<hr/> <hr/>	<hr/> <hr/>	

Operating expenses increased by 29.7% from RMB176.2 million for the year ended 31 December 2019 to RMB228.6 million for the year ended 31 December 2020, which was mainly attributable to the expansion of the Group's operating scale and an increase in the number of employees.

Finance Costs

Finance costs decreased by 11.1% from RMB160.7 million for the year ended 31 December 2019 to RMB142.9 million for the year ended 31 December 2020, which was mainly attributable to financial institutions' support of the policy of the People's Bank of China to lower interest rate by adopting the Loan Prime Rates as the benchmark for finance costs.

Capital Expenditure

Capital expenditure of the Group for the year ended 31 December 2020 amounted to RMB1,111.7 million as compared with RMB608.2 million for the year ended 31 December 2019, representing a year-on-year increase of 82.8%. During the Reporting Period, the capital expenditure of the Group mainly consisted of the addition of non-current assets including property, plant and equipment and the addition of non-current biological assets.

Liquidity and Sources of Funds

The working capital of the Group mainly derived from cash inflow generated from daily operating activities and borrowings from financial institutions. As at 31 December 2020, the gearing ratio of the Group was approximately 54.3% (as at 31 December 2019: 57.5%). The gearing ratio was calculated by dividing total liabilities by total assets. The bank balances and cash balance were RMB251.7 million (as at 31 December 2019: RMB390.8 million).

Indebtedness

Borrowings of the Group were denominated in RMB. As at 31 December 2020, the balance of short-term borrowings including long-term borrowings due within one year was RMB1,362.7 million. As at 31 December 2020, the balance of long-term borrowings and long-term payables after deducting the portion due within one year was RMB1,324.5 million, of which borrowings with fixed interest rates amounted to approximately RMB1,443.8 million.

Contingent Liabilities

As at 31 December 2020, there were no material contingent liabilities (as at 31 December 2019: Nil).

Foreign Exchange Risk

As at 31 December 2020, save for the pledged bank deposits and cash and bank balances of RMB1.7 million which were USD-denominated assets and RMB20.5 million which were HKD-denominated assets, the other assets and liabilities of the Group were settled in RMB. For the year ended 31 December 2020, the Group did not use any financial instruments such as forward foreign exchange settlement contracts to hedge such risk.

Significant Investments, Material Acquisitions and Disposals of Assets

The Group did not have any significant investments during the Reporting Period. During the Reporting Period, the Group also did not carry out any material acquisitions and disposals regarding subsidiaries, associates and joint ventures.

Pledge of Assets

Save for the amounts disclosed in note 14 of the consolidated financial statements and the amounts recorded in the pledged bank deposits item in the consolidated statement of financial position herein, there was no other pledge of assets of the Group.

Use of Proceeds from Global Offering

The Company issued 391,056,000 new shares at the offer price of HK\$1.2 per share. The net proceeds of the public offering received by the Company were RMB371 million after deducting the listing-related expenses and converting into RMB.

Such net proceeds were used in accordance with the proposed allocation as set out in the section headed “Future Plans and Use of Proceeds” in the Company’s prospectus dated 20 November 2015 (the “**Prospectus**”). The net proceeds were fully used in line with the proposed allocation as set forth in the Prospectus.

Subscription of New Shares under General Mandate

On 31 July 2020, the Company entered into a subscription agreement with Hongkong Jingang Trade Holding Co., Limited (the “**Subscriber**”) for it to subscribe 432,641,522 new shares at a subscription price of HK\$0.47 per share (the “**Yili Subscription**”).

The Yili Subscription was completed on 12 August 2020, and 432,641,522 shares in total were allocated and issued to the Subscriber at the subscription price of HK\$0.47 per share.

The proceeds from the Yili Subscription (after deducting expenses arising from the Yili Subscription) was approximately HK\$201.8 million. The Company intends to use approximately 70% of the net proceeds from the Yili Subscription to supplement the general working capital, mainly for the purchase of production materials such as feed and veterinary drugs necessary for farm operations, and approximately 30% for repayment of bank loans that are falling due to support the operation of the Company’s existing business.

Please refer to the announcements of the Company dated 31 July 2020 and 12 August 2020 respectively for details of the Yili Subscription.

Human Resources

The Group had 1,689 full-time employees in Mainland China and Hong Kong as at 31 December 2020 (as at 31 December 2019: 1,426). During the Reporting Period, total staff costs (excluding the fees of independent non-executive Directors) of the Group were approximately RMB196.6 million (for the corresponding period in 2019: approximately RMB141.5 million).

Upholding the Company's development strategy and annual key targets, the Group adopts an oriented remuneration system focusing on position, performance and capability of employees. In particular, the Group conducts performance appraisal with consideration of responsibilities and performance of employees, and determines the remuneration with reference to their experience, market pay rates and the salary levels prevailing in the industry. With this value-oriented approach, the Group strives to build a remuneration system that matches its human resource management, which can facilitate the compensation distribution in a scientific and rational manner and promote the continuous development of the Company.

Focusing on key aspects such as safe production, business skills, and corporate culture, the Group continues to carry out education and training schemes for talents at all levels comprehensively. Through safety education training and employee exchange schemes, employees' professional and technical skills, comprehensive capabilities and their awareness of occupational health and safety risks are enhanced. The Group strives to ensure that its training plans are carried out effectively with pragmatic outcomes, laying a solid foundation for enriching the talent pool of the Company.

The PRC employees of the Group are participants of a state-managed retirement benefit plan set up by the PRC government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefit plan to fund the benefits.

On 28 October 2015, the Company adopted a share option scheme (the "**Post-IPO Share Option Scheme**") as a means of motivation and incentive, details of which are set out in the section headed "Statutory and General Information-Post-IPO Share Option Scheme" in Appendix IV of the prospectus of the Company. As at the date hereof, the Company has not granted any share options pursuant to the Post-IPO Share Option Scheme.

OTHER INFORMATION

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance within the Group, and the Board considers that effective corporate governance marks an important contribution to corporate success and to enhancing shareholders' value.

The Company adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of chairman of the Board and chief executive officer of the Company are both performed by Mr. Zhang Jianshe (張建設), who is the founder of the Group. The Board believes that vesting the roles of both chairman of the Board and chief executive officer of the Company in Mr. Zhang Jianshe would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. Furthermore, in view of Mr. Zhang Jianshe's extensive industrial experience and significant role in the historical development of the Group, the Board believes that it is beneficial to the business prospects of the Group that Mr. Zhang Jianshe continues to act as both chairman of the Board and chief executive officer of the Company, and the balance of power and authority is sufficiently maintained by the operation of the Board comprising the executive Directors, non-executive Directors and independent non-executive Directors.

Save as disclosed above, none of the Directors is aware of any information that would reasonably indicate that the Company had not complied with the CG Code during the Reporting Period.

Model Code for Securities Transactions by Directors

The Company has devised its own code of conduct for securities transactions (the “**Company's Securities Dealings Code**”) regarding Directors' and Restricted Persons' (as defined in the Company's Securities Dealings Code) dealings in the Company's securities on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with the Company's Securities Dealings Code throughout the Reporting Period.

The Company's Securities Dealings Code also applies to all employees of the Group who are likely to possess unpublished price sensitive information of the Company. No incident of non-compliance with the Company's Securities Dealings Code by the employees was noted by the Company.

Review by the Audit Committee

The audit committee of the Company (the “**Audit Committee**”) comprises Prof. Li Shengli (李勝利) and Dr. Zhang Juying Jerry (張巨英), who are independent non-executive Directors, and Mr. Gao Zhanfeng (高占峰), who is a non-executive Director. The Audit Committee is chaired by Dr. Zhang Juying Jerry. The Audit Committee and the management team of the Company have reviewed the accounting principles and practices adopted by the Group and discussed issues relating to audit, risk management, internal control and financial reporting, including reviewing the annual results of the Group for the year ended 31 December 2020, and they have no objection thereto.

Purchase, Sale or Redemption of Listed Securities of the Company

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

Significant Events after the Reporting Period

On 27 September 2020, Wholesome Harvest Limited (the “**Offeror**”) as issuer and Hongkong Jingang Trade Holding Co., Limited and Zhang Group (being Mr. Zhang Jianshe, YeGu Investment Company Limited and Green Farmlands Group) as subscribers entered into a share subscription agreement for the subscription of 2,606,719,522 shares. Completion of the share subscription took place on 11 January 2021.

Immediately after the completion of the share subscription, the Offeror owns an aggregate of 1,140,519,522 issued shares of the Company (“**Shares**”), representing approximately 43.75% of the issued share capital of the Company. Pursuant to Rule 26.1 of the Code on Takeovers and Mergers (“**Takeovers Code**”) issued by the Securities and Futures Commission of Hong Kong, the Offeror had made a mandatory conditional cash offer (the “**Offer**”) for all the Shares (other than those already owned by the Offeror)(the “**Offer Share(s)**”). The offer price for each Offer Share was HK\$1.132 in cash and the Offer was declared unconditional in all respects on 20 January 2021.

As at the closing date of the Offer (i.e. 8 February 2021) (“**Closing Date**”), the Offeror had received valid acceptances in respect of 1,443,788,000 Shares, representing approximately 55.39% of the issued Shares as at the Closing Date of the Offer and approximately 98.47% of the Offer Shares. Taking into account the valid acceptances in respect of 1,443,788,000 Shares, the Offeror and parties acting in concert with it were interested in an aggregate of 2,584,307,522 Shares, representing approximately 99.14% of the issued Shares right after the close of the Offer.

As a result, the Offeror is entitled to, and will proceed with the privatisation of the Company by exercising its compulsory acquisition rights (the “**Compulsory Acquisition**”) subject to compliance with the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code. Upon completion of the Compulsory Acquisition, the Company will become a wholly-owned subsidiary of the Offeror. An application will be made to The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the withdrawal of listing of the Shares from the Stock Exchange under Rule 6.15(1) of the Listing Rules, which is currently expected to be in around June 2021. The Company will continue the trading of the Shares listed on the Stock Exchange up to and until the date of withdrawal of listing of the Shares from the Stock Exchange.

Reference should be made to the joint announcements made by the Company and the Offeror dated 11 January 2021, 18 January 2021, 20 January 2021 and 8 February 2021, as well as the composite document issued by the Company dated 18 January 2021 for the details of the subscription and the Offer.

As at the date of this announcement, save as disclosed above, and except for the COVID-19 pandemic disclosed in the section captioned as “Prospects”, there are no significant events subsequent to the end of the Reporting Period which are required to be disclosed.

Dividend

The Directors do not recommend the payment of dividend for the year ended 31 December 2020 (31 December 2019: Nil).

Scope of work of Ernst & Young

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young with regard to this announcement.

Annual General Meeting

The 2020 annual general meeting of the Company (the "AGM") will be held on Friday, 21 May 2021. A notice convening the AGM will be published and despatched to the shareholders of the Company in accordance with the requirements of the Listing Rules and the articles of association of the Company in due course.

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both dates inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 14 May 2021.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.zhongdidairy.hk). The Company will despatch the annual report for 2020 and the notice of the AGM to its shareholders and will publish the same on the above-mentioned websites in accordance with the requirements of the Listing Rules.

On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman

Hong Kong, 31 March 2021

As at the date of this announcement, the Board comprises Mr. Zhang Jianshe and Mr. Pang Xin as executive Directors; Mr. Gao Zhanfeng, Ms. Liu Yanbin, Mr. Fu Zhenwen and Mr. Zhang Jianhua as non-executive Directors; and Prof. Li Shengli, Dr. Zhang Shengli and Dr. Zhang Juying Jerry as independent non-executive Directors.