



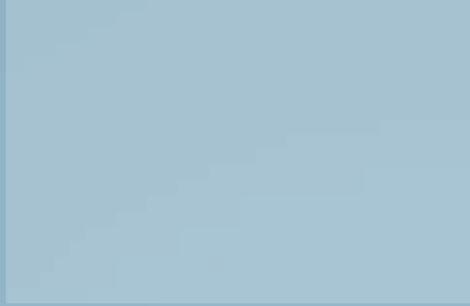
中地乳业
ZhongDi Dairy

中國中地乳業控股有限公司
China ZhongDi Dairy Holdings Company Limited

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

Stock code: 1492

Annual Report **2020**



CORPORATE PROFILE

We are a modern agricultural and animal husbandry enterprise which is mainly engaged in dairy farming in China. Our business models cover participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, premium raw milk production and sale, importing and selling dairy cows of quality breeds and breeding stock, as well as import trading business in alfalfa hay and other animal husbandry-related products. Currently, we are a National Flagship Enterprise for Industrialization of Agriculture (農業產業化國家重點龍頭企業) accredited by the Ministry of Agriculture and Rural Affairs of the People's Republic of China (the "PRC"). We intend to continue expanding our operation scale and producing premium and safe raw milk through the scientific operation of modern large-scale farms, maintain and expand our competitive edge in the high-end premium raw milk supply end, and ultimately become one of the largest dairy farming companies in China.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jianshe (Chairman and Chief Executive Officer)
Mr. Zhang Kaizhan (*resigned on 8 February 2021*)
Mr. Pang Xin (*appointed on 8 February 2021*)

Non-Executive Directors

Mr. Liu Dai (*resigned on 8 February 2021*)
Mr. Du Yuchen (*resigned on 8 February 2021*)
Mr. Li Jian (*resigned on 8 February 2021*)
Ms. Yu Tianhua (*resigned on 8 February 2021*)
Mr. Gao Zhanfeng (*appointed on 8 February 2021*)
Ms. Liu Yanbin (*appointed on 8 February 2021*)
Mr. Fu Zhenwen (*appointed on 8 February 2021*)
Mr. Zhang Jianhua (*appointed on 8 February 2021*)

Independent Non-Executive Directors

Prof. Li Shengli
Dr. Zhang Shengli
Mr. Joseph Chow (*resigned on 23 June 2020*)
Dr. Zhang Juying Jerry (*appointed on 23 June 2020*)

SENIOR MANAGEMENT

Ms. He Shan (*resigned on 18 September 2020*)
Ms. Zhang Xin (*resigned on 29 January 2021*)

STOCK CODE

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange") 1492

INVESTOR RELATIONS CONTACT

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PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

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Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

10th Floor
Block A, Times Fortune Compound
No. A6, Shuguang Xili
Chaoyang District
Beijing
the PRC

Corporate information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall, Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISER

Paul Hastings
21-22/F, Bank of China Tower
1 Garden Road
Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jianshe
Ms. Zhang Xin (*resigned on 29 January 2021*)
Ms. Yiu Suk Han (*appointed on 29 January 2021*)

AUDITORS

Ernst & Young
22/F, CITIC Tower, 1 Tim Mei Avenue
Central
Hong Kong

COMPANY SECRETARY

Ms. Zhang Xin (*resigned on 29 January 2021*)
Ms. Yiu Suk Han (*appointed on 29 January 2021*)

COMPANY'S WEBSITE

www.zhongdidairy.hk

ANNUAL RESULTS HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Results

	For the year ended 31 December									
	2020		2019		2018		2017		2016	
	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments
	RMB' 000	RMB' 000								
Revenue	1,927,230	1,927,230	1,499,381	1,499,381	1,424,986	1,424,986	1,134,282	1,134,282	961,934	961,934
Gross profit margin	41%	4%	37%	4%	35%	4%	35%	4%	34%	2%
Profit for the year attributable to owners of the parent	437,793	236,555	239,390	104,335	256,312	63,190	193,569	13,377	227,982	112,800
Basic and diluted earnings per share to owners of the parent (RMB cents)	–	10.1	–	4.8	–	2.9	–	0.6	–	5.2

	For the year ended 31 December				
	2020 RMB' 000	2019 RMB' 000	2018 RMB' 000	2017 RMB' 000	2016 RMB' 000
Total assets	5,861,070	5,323,510	4,833,304	4,413,850	4,167,366
Total liabilities	3,182,794	3,059,174	2,731,341	2,375,077	2,141,970
Total equity	2,678,276	2,264,336	2,101,963	2,038,773	2,025,396
Of which: Total equity attributable to owners of the parent	2,624,091	2,206,298	2,101,963	2,038,773	2,025,396

CHAIRMAN'S STATEMENT



“ Dear Shareholders,

On behalf of the Board (the “Board”) of Directors (the “Directors” and, each a “Director”) of China ZhongDi Dairy Holdings Company Limited (the “Company”) and its subsidiaries (the “Group” or “ZhongDi”), I am pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2020 (the “Reporting Period”) to all shareholders of the Company (the “Shareholders”).

Chairman's Statement

BUSINESS REVIEW

2020 is an extraordinary year. The sudden COVID-19 outbreak has had a great impact on everyone's life and work and lead to a more complex and changeable economic environment at home and abroad. However, under the correct leadership of the Board and with the joint efforts of the management and all employees of the Company, we took active measures to overcome difficulties and achieved excellent results. We made great progress in team building, cost control, capital management, dairy farm construction and operation, dairy products processing, brand building and product R&D, and successfully achieved our business targets, further enhancing our comprehensive strength.

Thanks to the growing demand for and rising selling price of fresh milk in 2020 and the Group's efforts to continuously improve dairy farm management and milk production and quality, during the Reporting Period, the Group recorded a total revenue of RMB1,927.2 million, a substantial increase of 28.5% from RMB1,499.4 million in 2019, and realised a profit (after biological fair value adjustments) of RMB232.7 million, an increase of 127.3% from RMB102.4 million in 2019.

As of the end of 2020, as the Yinan Zhongdi Farm had been put into operation, we have built 9 modern ecological dairy farms with a total of 69,067 dairy cows, a year-on-year increase of 5.6%. The annual output of high-quality fresh milk was 430,561 tones, an increase of 15.2% as compared with 373,713 tones in 2019.

PROSPECTS

2021 is the first year of China's 14th Five-Year Plan. According to the overall plan of the Chinese government, the animal husbandry will enter a critical period of accelerated transformation and upgrade. The state will speed up the construction of a modern farming system, promote high-standard dairy farming on a large scale, upgrade modern equipment and fine management standards, and implement dairy industry revitalisation projects to promote sound development of the industry. Driven by supporting policies and market demand, the raw milk production industry will once again present new development opportunities while facing challenges from the complex and changeable external environment. Facing the internal and external environment where opportunities and challenges coexist, the Group will make steady progress, seize opportunities in policies, markets and the industry, enhance market competitiveness, strengthen management, promote innovation, fulfill social responsibilities and push high-quality development to a new level.

In 2021, the Group will, as always, uphold the established strategy and the entrepreneurial spirit of being "pragmatic, innovative, precise and efficient", strive to make breakthroughs in business results, do its utmost to meet various business targets, achieve sustainable development and improvement, and give back to shareholders and the society with good performance.

Chairman's Statement

SUSTAINABLE DEVELOPMENT

Sustainable development has always been the core value of ZhongDi Dairy's business operation. On the basis of active expanding its main business, the Group diligently honours its commitment to create long-term value for all stakeholders and give back to the society. Earnestly practicing what it advocates, the Group makes great efforts to recycle the resources of its ecological dairy farms, promote green development, employ local poor people and purchase feeds locally, thereby achieving win-win results in the community and fulfilling its commitment to giving back to the society.

Faced with the abrupt COVID-19 outbreak, the Group proactively performed its social responsibilities and made every effort to prevent and control the epidemic. The Company promptly activated the emergency response mechanism, adopted a series of effective epidemic prevention and control measures, and strictly abided by local anti-COVID-19 policies, thus safeguarding the health and safety of employees and ensuring uninterrupted production and operation.

In addition, the Group is convinced that the values of honesty, integrity and compliance are the keys to achieving outstanding performance and serve as a solid foundation for us to build a win-win relationship of mutual trust with stakeholders and the society.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of the Group is committed to maintaining a high standard of corporate governance and firmly holds the belief that good governance is essential to the long-term success and sustainable development of the Company's business. Under the ever-changing business environment, the Board and its committees proactively lead our teams to maintain a sound corporate governance structure, implement development strategies, promote the sustainable and healthy development of the Company, and improve the Company's management and risk resistance capabilities.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to the management and all employees for their dedicated work and valuable contribution to the great performance of the Group in the past year. The Company will grasp the industry trends, develop its own business characteristics and competitive strengths, continuously improve its profitability and risk resistance ability, so as to achieve all-round development and breakthroughs.

MANAGEMENT DISCUSSION AND ANALYSIS



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.

Management Discussion and Analysis

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%.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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
	69,067	65,429

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 RMB' 000	Gross Profit Margin	Gross Profit RMB' 000	Gross Profit Margin
Before fair value adjustments				
Gross profit and gross profit margin	795,530	41.3%	550,610	36.7%

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.

Management Discussion and Analysis

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%.

Management Discussion and Analysis

Operating Expenses

	For the year ended 31 December		Rate of Change
	2020 RMB' 000	2019 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%
Total	228,553	176,155	29.7%

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.

Management Discussion and Analysis

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 23 of the consolidated financial statements and the amounts recorded in the pledged bank deposits item in the consolidated statement of financial position, 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 (the "**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 Subscription Price of HK\$0.47 per subscription Share represents: (1) a discount of approximately 18.97% to the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on the last trading day; and (2) a discount of approximately 17.83% to the average closing price of HK\$0.572 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the last trading day. The total consideration payable by the Subscriber under the Subscription Agreement was HK\$203,341,515.34.

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.

Management Discussion and Analysis

The proceeds from the Yili Subscription (after deducting expenses arising from the Yili Subscription) was approximately HK\$201.8 million. The Yili Subscription can improve the Company's debt-to-asset ratio, supplement its working capital, reduce financial risks and also optimize the Company's capital structure and expand the Company's Shareholder base. More importantly, it enables the Company to strengthen coordination and cooperation with downstream companies in the industrial chain to build up momentum for future development, which is in the interests of the Company and all Shareholders as a whole. 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. As at 31 December 2020, such net proceeds from the Yili Subscription have been planned to be applied in accordance with that as disclosed in the announcement of the Company dated 31 July 2020, of which approximately 69% were used for supplement the general working capital, mainly for the purchase of production materials such as feed and veterinary drugs necessary for farm operations; and approximately 25% were used for repayment of bank loans. The balance of approximately HK\$11.5 million are proposed to be fully used by the end of year 2021 according to the intentions disclosed in the above announcement.

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.

Management Discussion and Analysis

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 of this annual report, the Company has not granted any share options pursuant to the Post-IPO Share Option Scheme.

DIRECTORS AND SENIOR MANAGEMENT



Directors and Senior Management

DIRECTORS

As at the date of this annual report, the biography of Directors is as follows:

EXECUTIVE DIRECTORS

Mr. Zhang Jianshe (張建設), aged 60, Chairman, executive Director and Chief Executive Officer. He is also the Chairman of the Nomination Committee of our Company. Mr. Zhang Jianshe was appointed as an executive Director in April 2014 and is primarily responsible for the overall management of our Company's strategic planning and supervision of its implementation. He joined our Group in October 2002. He has subsequently assumed various roles in our subsidiaries. He took up the position as a deputy manager of Kuandian ZhongDi Farming Co., Ltd. ("**ZhongDi Kuandian**") from October 2002 to February 2003. Mr. Zhang Jianshe is currently a director of all our subsidiaries and the chairman of ZhongDi Dairy Corporation (中地乳業集團有限公司).

Prior to joining our Group, Mr. Zhang Jianshe served as a staff of the Department of Management on Rural Cooperative Economy of the Ministry of Agriculture of the People's Republic of China (the "**MOA**", now the Ministry of Agriculture and Rural Affairs) (中華人民共和國農業部農村合作經濟經營管理總站) from July 1984 to December 1988. He also served as a department director of China Agricultural Supplies Trading Company Limited (中國農業物資供銷總公司) from January 1989 to May 1996 and the general manager of Beijing Construction and Agriculture Wealth Supplies Trading Company (北京建農順物資商貿公司) from May 1996 to December 1999. He then committed to the pursuit of development of his personal business from January 2000 to October 2002 through which he accumulated both financial and industrial foundation for founding our Group.

Mr. Zhang Jianshe graduated from Northwest Agriculture College (currently known as Northwest Agriculture and Forestry University (西北農林科技大學)) located in Shaanxi Province with a bachelor's degree of science in management of agricultural economics in July 1984. He has been the vice president of China Animal Agriculture Association (中國畜牧業協會) since December 2011 and the vice president of Dairy Association of China (中國奶業協會) since July 2018. He is a senior economist in agricultural economics credentialed by the MOA.

Mr. Pang Xin (龐鑫), aged 45, has joined the Group since October 2020 and was appointed as an executive Director in February 2021. He is currently an executive director of Beijing Sinofarm Stud Livestock Co., Ltd. (北京中地種畜有限公司) ("**Sinofarm Stud Livestock**"), Beijing ZhongDi Livestock Technology Co., Ltd. (北京中地畜牧科技有限公司), Helan ZhongDi Farming Co., Ltd. (賀蘭中地生態牧場有限公司), Ningxia ZhongDi Livestock Co., Ltd. (寧夏中地畜牧養殖有限公司), Ningxia ZhongDi Infant Formula R&D Center (Co., Ltd.) (寧夏中地嬰幼兒配方奶粉研發中心(有限公司)), Beijing Branch of Ningxia ZhongDi Infant Formula R&D Center (Co., Ltd.) (寧夏中地嬰幼兒配方奶粉研發中心(有限公司)北京分公司), Ningxia ZhongDi Dairy Sales Co., Ltd. (寧夏中地乳製品銷售有限公司) and Ningxia ZhongDi Feed Co., Ltd. (寧夏中地飼料有限公司).

Prior to joining the Group, Mr. Pang Xin served in the raw milk department and liquid milk department of Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司) ("**Yili Industrial**") (the shares of which are listed on the Shanghai Stock Exchange (stock code: 600887)) from February 2001 to September 2020, and successively held positions such as manager, department director, as well as general manager of milk source region.

Mr. Pang Xin graduated from Inner Mongolia Agricultural University with a bachelor's degree in agriculture in July 2001.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Gao Zhanfeng (高占峰), aged 52, has joined the Group since October 2020. He was appointed as a non-executive Director and a member of the Audit Committee of the Company in February 2021.

Prior to joining the Group, Mr. Gao Zhanfeng successively served in the liquid milk department and health beverage department of Yili Industrial and finance management department of the headquarters of Yili Industrial and held positions such as finance manager, deputy finance director and finance director. He took full responsibility and made arrangements for matters including financial accounting, budget management and capital management of the business department. Concurrently, he is a director of Yili Finance Co., Ltd., a wholly-owned subsidiary of Yili Industrial (a controlling shareholder of the Company).

Mr. Gao Zhanfeng graduated from Inner Mongolia University of Finance and Economics with a bachelor's degree in accounting in July 1992.

Ms. Liu Yanbin (劉豔彬), aged 42, has joined the Group since October 2020 and was appointed as a non-executive Director in February 2021.

Prior to joining the Group, Ms. Liu Yanbin served in the liquid milk department of Yili Industrial from March 2001 to September 2020, and held positions related to supply chain management.

Ms. Liu Yanbin graduated from Heilongjiang Food Industry School in July 1999.

Mr. Fu Zhenwen (付振文), aged 39, has joined the Group since October 2020 and was appointed as a non-executive Director in February 2021. He is currently an executive director of Langfang ZhongDi Farming Co., Ltd. (廊坊中地生態牧場有限公司), Tianjin ZhongDi Livestock Co. Ltd. (天津中地畜牧養殖有限公司), Luannan Huayuan Livestock Co., Ltd. (灤南華元畜牧養殖有限公司) and ZhongDi Kuandian.

Prior to joining the Group, Mr. Fu Zhenwen had been engaged in jobs related to dairy farming. Mr. Fu Zhenwen served in Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司) from July 2011 to September 2020, and successively held positions such as assistant manager, farm manager and assistant general manager. Mr. Fu Zhenwen successively served in companies such as Modern Farming (Group) Co., Ltd. (現代牧業(集團)有限公司) and Guangze Agricultural and Husbandry Technology Company Limited (廣澤農牧科技有限公司).

Mr. Fu Zhenwen graduated from Inner Mongolia Agricultural University in July 2005 with a bachelor's degree in agriculture.

Mr. Zhang Jianhua (張建華), aged 37, has joined the Group since October 2020 and was appointed as a non-executive Director and a member of the Remuneration Committee in February 2021. He is currently an executive director of Inner Mongolia ZhongDi Dairy Co., Ltd. (內蒙古中地乳業有限公司), Ulanqab ZhongDi Farming Co., Ltd. (烏蘭察布市中地生態牧場有限公司), Tianzhen ZhongDi Farming Co., Ltd. (天鎮中地生態牧場有限公司) and Shanxi Zhongdi Feed Co., Ltd. (山西中地飼料有限公司).

Directors and Senior Management

Prior to joining the Group, Mr. Zhang Jianhua served in the liquid milk department and health beverage department of Yili Industrial from April 2006 to September 2020, and successively held positions such as department manager and nationwide personnel and administration manager.

Mr. Zhang Jianhua graduated from Northeast Forestry University in July 2006 with a bachelor's degree in engineering.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Li Shengli (李勝利), aged 55, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee of our Company. Prof. Li Shengli joined our Group in September 2012 and had since then served as an independent director of Sinofarm Stud Livestock until August 2014.

Prior to joining our Group, Prof. Li Shengli has been, since September 1996, engaged with the College of Animal Science and Technology in China Agricultural University (中國農業大學), working at various times as an assistant professor, a professor, a doctor tutor and a vice-dean of Animal Nutrition and Feed Science Department of College of Animal Science and Technology (動物科學技術學院).

Prof. Li Shengli graduated from Shihezi Agricultural College (石河子農學院) (currently known as Shihezi University (石河子大學)) located in Xinjiang Uyghur Autonomous Region with a bachelor's degree in animal husbandry and veterinary science in July 1987 and China Agricultural University located in Beijing with a doctorate's degree in animal nutrition science in July 1996. Over the years, Prof. Li Shengli has received various awards and accolades acknowledging his accomplishments. For example, he was awarded the Second Prize and the Third Prize of the Beijing Municipal Science and Technology Award (北京市科學技術獎) in 2000 and 2011, respectively. He was also awarded the Second Prize of National Science and Technology Progress Award (國家科學技術進步獎二等獎) in 2012 and 2014, the First Prize of Science and Technology Progress Award awarded by the Ministry of Education of the PRC (教育部科技進步獎) in 2013 and the First Prize of China Agricultural Science and Technology Progress Award (中華農業科技進步一等獎) awarded by the MOA in 2013. Prof. Li Shengli has assumed various positions in many intra-industry associations, such as an executive member of Dairy Association of China (中國奶業協會) since January 2004, the executive member of the Cattle Division of China Animal Agriculture Association (中國畜牧業協會牛業分會) since July 2007, an executive member of China Society of Forestry, Animal Husbandry and Fishery Economics (中國林牧漁業經濟學會) since October 2005, the president of the Cattle Breeding Division of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會養牛學分會) since January 2009, and the vice president of Dairy Association of China since April 2019.

Prof. Li Shengli was an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司), a company listed on China Venture Exchange (stock code: 300106), from July 2009 to November 2018. He has been an independent non-executive director of China Modern Dairy Holdings Ltd., a company listed on the Stock Exchange (stock code: 1117), since October 2010.

Directors and Senior Management

Dr. Zhang Shengli (張勝利), aged 58, was appointed as an independent non-executive Director in July 2019 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also a member of the Remuneration Committee and the Nomination Committee of our Company.

Prior to joining our Group, Dr. Zhang Shengli had been a teacher in the Animal Science and Veterinary Medicine College of Heilongjiang Bayi Agricultural University (黑龍江八一農墾大學) from August 1983 to August 1994. He had also been a promotional researcher and an officer of Beijing Dairy Cattle Center (北京奶牛中心) from July 1997 to October 2010. His major direction of research is molecular genetics and breeding of dairy cows and he has engaged in genetic improvements for dairy cows and breeding technology for many years. Dr. Zhang Shengli has been engaged with the College of Animal Science and Technology in China Agricultural University (中國農業大學) since November 2010 and is currently a professor and a doctor tutor of College of Animal Science and Technology (動物科學技術學院).

Dr. Zhang Shengli graduated from Heilongjiang Bayi Agricultural University located in Heilongjiang Province with a bachelor's degree in animal science in July 1983 and Beijing Agricultural University (北京農業大學) (currently known as China Agricultural University) located in Beijing with a master's degree in genetics and breeding in July 1989 and China Agricultural University with a doctorate's degree in animal genetics and breeding in July 1997. Over the years, Dr. Zhang Shengli has received various awards and accolades acknowledging his accomplishments. For example, he was awarded the First Prize in 2005 and 2015 respectively and the Second Prize in 2010 of the Beijing Municipal Science and Technology Awards (北京市科學技術獎). He was also awarded the Second Prize of National Science and Technology Progress Award (國家科學技術進步獎二等獎) in 2016. Dr. Zhang Shengli has assumed various positions in many intra-industry associations, such as the secretary-general of the Animal Genetics and Breeding Division of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會動物遺傳育種學分會), the member of National Commission for the Livestock and Poultry Genetic Resources (國家畜禽遺傳資源委員會) and the director of the Cattle Committee (牛專業委員會) since August 2013, and the director of the Breeding Committee of Dairy Association of China (中國奶業協會) since January 2015.

Dr. Zhang Juying Jerry (張巨英), aged 60, was appointed as an independent non-executive Director in June 2020 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Audit Committee and a member of the Nomination Committee of our Company.

Dr. Zhang Juying Jerry has been a managing director of China Orient Asset Management (International) Holding Limited since March 2015. He was a senior managing director of CITIC Capital Holdings Limited from June 2009 to December 2014, a managing director in the investment banking division of Deutsche Bank from August 2006 to June 2009, a managing director and the head of investment banking of CITIC Capital Markets Holdings Limited from March 2003 to July 2006, and an executive director in the investment banking department of Goldman Sachs Asia from April 2001 to January 2003. Prior to that, Dr. Zhang Juying Jerry held various positions in the investment banking department of Salomon Smith Barney in Hong Kong and New York from August 1994 to March 2001. He served as an accounting manager for Town & Country Homes from January 1990 to December 1993. He worked in Ernst & Young from 1986 to 1989, principally engaged in auditing. Since May 2011, Dr. Zhang Juying Jerry has also served as an independent director of Phoenix New Media Limited (NYSE: FENG, a company listed in the New York Stock Exchange).

Directors and Senior Management

Dr. Zhang Juying Jerry graduated from Inner Mongolia University in July 1982 with a bachelor's degree in economics; from the Ministry of Finance Graduate School (currently known as Chinese Academy of Fiscal Sciences) in July 1985 with a master's degree in economics; from the University of Chicago in May 1994 with a master's degree in business administration; and from City University of Hong Kong in October 2020 with a doctor's degree in business administration.

SENIOR MANAGEMENT

Ms. He Shan (何珊) (resigned on 18 September 2020), aged 39, was appointed as the chief financial officer of our Company in November 2015 and is primarily responsible for overseeing the overall financial and accounting related matters of our Group. Ms. He Shan joined our Group in January 2010 as the chief accountant responsible for accounting and audit, preparation of financial statements, tax filings and assisting in the preparation of loan facilities. She once worked as the deputy manager of the financial department of Sinofarm Stud Livestock from March 2010 and the manager of the financial department from July 2013 responsible for financial audit, bank financing, financial analysis, budgeting, communication with external accountants and preparation of financial statements. Ms. He Shan graduated from Central University of Finance and Economics (中央財經大學) with a bachelor's degree in finance in July 2004. Ms. He Shan was awarded the certificate of accounting professional by Beijing Finance Bureau (北京市財政局) in June 2008.

Ms. Zhang Xin (張昕) (resigned on 29 January 2021), aged 46, was our company secretary. She joined our Group in June 2017, was appointed as the joint company secretary on 28 July 2017, and was appointed as our company secretary on 27 October 2017. Ms. Zhang Xin is a member of both the Hong Kong Institute of Certified Public Accountants and the Chinese Institute of Certified Public Accountants. Ms. Zhang obtained her Master degree in Business Administration and Bachelor's degree in Economics from Renmin University of China and has over 20 years' experience in accounting, corporate finance and investment.

COMPANY SECRETARY

Ms. Yiu Suk Han (姚淑嫻), was appointed as the company secretary of our Company on 29 January 2021. Ms. Yiu Suk Han is a Manager of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Yiu has extensive experience in the corporate services field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Yiu is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom. Ms. Yiu holds a Bachelor's Degree in Social Sciences from The University of Hong Kong and a Postgraduate Diploma in Corporate Administration from the City University of Hong Kong.

CORPORATE GOVERNANCE REPORT



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance within the Group, and the Board believes that proper corporate governance practices is essential for ensuring the operation and performance of the Group, enhancing corporation value, boosting investors' confidence, and protecting Shareholders' rights and interests. We value employees, code of discipline, corporation policies and regulations and consider them as the basis of our governance practices. We attach great importance to compliance with laws, rules and regulations of Hong Kong and the PRC, and pay special attention to ensure that our employees can work in a healthy and safe environment. The Board is of the view that effective corporate governance makes an important contribution to corporate success and the increase of shareholder value.

The Company adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules and had applied the principles in the CG Code throughout the year ended 31 December 2020.

The Directors consider that, throughout the year ended 31 December 2020, the Company had complied with all code provisions as set out in the CG Code, except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, details of which are set out in the section headed "Chairman and Chief Executive Officer".

DIRECTORS' SECURITIES TRANSACTIONS

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 year ended 31 December 2020.

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

Corporate Governance Report

BOARD OF DIRECTORS

For the year ended 31 December 2020 and up to the date of this annual report, the composition of the Board is set out as follows:

Executive Directors:

Mr. Zhang Jianshe (*Chairman, Chief Executive Officer and Chairman of the Nomination Committee*)

Mr. Zhang Kaizhan (*resigned on 8 February 2021*)

Mr. Pang Xin (*appointed on 8 February 2021*)

Non-executive Directors:

Mr. Liu Dai (*resigned on 8 February 2021*)

Mr. Du Yuchen (*Member of the Remuneration Committee*) (*resigned on 8 February 2021*)

Mr. Li Jian (*resigned on 8 February 2021*)

Ms. Yu Tianhua (*Member of the Audit Committee*) (*resigned on 8 February 2021*)

Mr. Gao Zhanfeng (*Member of the Audit Committee*) (*appointed on 8 February 2021*)

Ms. Liu Yanbin (*appointed on 8 February 2021*)

Mr. Fu Zhenwen (*appointed on 8 February 2021*)

Mr. Zhang Jianhua (*Member of the Remuneration Committee*) (*appointed on 8 February 2021*)

Independent Non-executive Directors:

Prof. Li Shengli (*Chairman of the Remuneration Committee and Member of the Audit Committee*)

Dr. Zhang Shengli (*Member of the Remuneration Committee and the Nomination Committee*)

Mr. Joseph Chow (*Chairman of the Audit Committee and Member of the Nomination Committee*)
(*resigned on 23 June 2020*)

Dr. Zhang Juying Jerry (*Chairman of the Audit Committee and Member of the Nomination Committee*)
(*appointed on 23 June 2020*)

The biographical information of the current Directors is set out in the section headed "Directors and Senior Management" on pages 20 to 25 of this annual report. None of the members of the Board is related to one another.

Corporate Governance Report

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Zhang Jianshe is the Chairman and the Chief Executive Officer of the Company. He is also the founder of the Group. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in Mr. Zhang 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's extensive experience in the industry and significant role in the historical development of the Group, the Board believes that it is favourable to the business prospects of the Group that Mr. Zhang continues to act as both the Chairman and the Chief Executive Officer, and the balance of power and authority is sufficiently maintained by the composition of the Board, comprising the executive Directors, non-executive Directors and independent non-executive Directors.

Independent Non-executive Directors

During the period ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the executive Directors is appointed under a services contract and each of the non-executive Directors (including independent non-executive Directors) is appointed under a letter of appointment for a term of three years, subject to renewal after the expiry of the current term.

Under the articles of association of the Company, at each annual general meeting, one-third or not less than one-third (if their number is not a multiple of three) of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

According to the current corporate governance practices of the Company, any new Directors appointed to fill casual vacancies shall submit themselves for re-election by the Shareholders at the first general meeting after the appointment. Thereafter, they are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

Corporate Governance Report

Responsibilities of the Board

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Members of the Board should strive to achieve good results and long-term sustainable development for the Company, and bear individual and joint responsibilities to the Shareholders.

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

All Directors, including non-executive Directors and independent non-executive Directors, have the skills required by the laws and bring a wide spectrum of valuable business experience and knowledge to the Board, enabling them to diligently perform their responsibilities as Directors.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting system of the Company and providing a balance in the Board by bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company as well as the services and advices from the senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company. In 2020, no director requested to seek independent professional advice.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director in performing his/her responsibilities to the Company.

The Board reserves its decision-making power for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Corporate Governance Report

The Company has received confirmation letters from all Directors confirming that they had given sufficient time and attention to the affairs of the Company during the year ended 31 December 2020. Directors also disclosed to the Company the number and nature of offices they held in public companies or organisations and other significant commitments, as well as the names of relevant public companies and indications of time involvement in them.

Change in Members of the Board

The Company announced the following change in members of the Board.

Mr. Joseph Chow resigned as an independent non-executive Director, chairman of the Audit Committee and a member of the Nomination Committee of the Company on 23 June 2020. On the same day, Dr. Zhang Juying Jerry was appointed as an independent non-executive Director, chairman of the Audit Committee and a member of the Nomination Committee of the Company.

On 8 February 2021, Mr. Zhang Kaizhan resigned as an executive Director of the Company, Mr. Liu Dai resigned as a non-executive Director of the Company, Mr. Du Yuchen resigned as a non-executive Director and a member of the Remuneration Committee of the Company, Mr. Li Jian resigned as a non-executive Director of the Company, and Ms. Yu Tianhua resigned as a non-executive Director and a member of the Audit Committee of the Company. On the same day, Mr. Pang Xin was appointed as an executive Director of the Company, Mr. Gao Zhanfeng was appointed as a non-executive Director and a member of the Audit Committee of the Company, Ms. Liu Yanbin was appointed as a non-executive Director of the Company, Mr. Fu Zhenwen was appointed as a non-executive Director of the Company and Mr. Zhang Jianhua was appointed as a non-executive Director and a member of the Remuneration Committee of the Company.

Corporate Governance Report

Board Diversity Policy

Diversity of the Board is one of the crucial elements of the Company's sustainable development and in maintaining its competitive advantages. The Company has formulated a board diversity policy and is dedicated to ensuring that Board members possess the skills, experience and diversity of perspectives appropriate to the requirements of the Company's operation and management. In identifying suitable candidates, we will consider candidates on their merits and against objective criteria, having due regard to the benefits of diversity on the Board. Selection of candidates will be based on a number of factors, including but not limited to, gender, age, skills, cultural background, knowledge and professional experience. The final decision will be based on the merits of the candidates and the contribution the candidates will bring to the Board.

During the year and as at the date of this annual report, the Board comprises nine Directors, one of which is female. The following table further illustrates the diversity of the Board members as at the date of this annual report:

Name of Director	Age Group				Professional Area		
	30-39	40-49	50-59	60 or above	Operation and management of dairy farms	Animal farming	Finance and investment
Zhang Jianshe				√	√		
Pang Xin		√			√		
Gao Zhanfeng			√				√
Liu Yanbin		√			√		
Fu Zhenwen	√				√		
Zhang Jianhua	√				√		
Li Shengli			√			√	
Zhang Shengli			√			√	
Zhang Juying Jerry				√			√

Corporate Governance Report

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

When a new director was originally appointed, he or she had received the orientation courses and briefings on their duties and responsibilities for corporate governance and compliance with regulatory requirements prepared and provided by our external legal counsel, in order to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. The following table sets out the details of all Directors attending continuous professional development training sessions for the year ended 31 December 2020:

Name of Director	Training type
Zhang Jianshe	A, B
Zhang Kaizhan (<i>resigned on 8 February 2021</i>)	A, B
Liu Dai (<i>resigned on 8 February 2021</i>)	A, B
Du Yuchen (<i>resigned on 8 February 2021</i>)	A, B
Li Jian (<i>resigned on 8 February 2021</i>)	A, B
Yu Tianhua (<i>resigned on 8 February 2021</i>)	A, B
Li Shengli	A, B
Zhang Shengli	A, B
Zhang Juying Jerry (<i>appointed on 23 June 2020</i>)	A, B
Joseph Chow (<i>resigned on 23 June 2020</i>)	A, B

A : attending training sessions, including but not limited to, seminars, briefings, conferences, forums and colloquia

B : reading newspapers, journals and updates relating to the economy, general business, corporate governance and Directors' duties and responsibilities

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company (www.zhongdidairy.hk) and the Hong Kong Exchanges and Clearing Limited ("**HKEX**") (www.hkexnews.hk) and are available to the Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Board of Directors" in this Corporate Governance ("**CG**") Report.

Corporate Governance Report

Audit Committee

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties and a summary of the work of the Audit Committee include:

- reviewing the financial information and reporting process of the Company and reviewing the significant judgments for financial statements;
- reviewing the internal control and risk management systems and the effectiveness of the internal audit function of the Company;
- reviewing and monitoring the audit plan, relationship with and the appointment of external auditor;
- reviewing continuing connected transactions; and
- reviewing the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year of 2020, the Audit Committee held two meetings. The main tasks carried out during the year included (but are not limited to) the following:

- reviewing the accounting standards adopted by the Group, practices and other financial reporting matters;
- reviewing the draft of annual and interim results announcements and draft of annual and interim reports of the Company to ensure the integrity, accuracy and fairness of the Company's financial statements;
- reviewing the results of external audits and discussing any significant findings and audit matters with the external auditors;
- reviewing the internal audit plans and internal audit reports;
- work scope of external auditors and engagement of non-audit services; and
- connected transactions.

The Audit Committee also met with the external auditor twice without the presence of the executive Directors.

Corporate Governance Report

Remuneration Committee

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The Company has adopted model (ii) as set out in the code provision B.1.2(c) of the CG Code, under which the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive directors and senior management.

The primary functions and a summary of the work of the Remuneration Committee include:

- reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and the senior management;
- reviewing and making recommendations to the Board on the remuneration policy and structure for all Directors and the senior management;
- establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; and
- approving the terms of executive Directors' service contracts.

The Remuneration Committee held two meetings this year and a summary of the work carried out in the year is as follows:

- conducting an annual review on the remuneration packages of all Directors and the senior management and making recommendations to the Board; and
- making recommendations to the Board on the remuneration packages of the new independent non-executive Director.

Details of remuneration paid to members of the senior management by band are set out in the section headed "REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT" in the Directors' Report of this annual report.

Nomination Committee

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The main duties and a summary of the work of the Nomination Committee include:

- reviewing the structure, size, composition and diversity (including, but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board;
- formulating and reviewing the nomination policy for directorship, and determining procedures and criteria for directorship nomination;

Corporate Governance Report

- identifying individuals qualified to become Directors, selecting and making recommendations to the Board on the selection of individuals nominated for directorships. Criteria for selecting Directors include, but not limited to, taking into account the contributions the respective nominee can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- making recommendations to the Board on the appointment and succession planning of Directors; and
- assessing the independence of independent non-executive Directors.

In assessing the Board's composition, the Nomination Committee would take into account various aspects and factors as set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience, etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character and integrity, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve the Board's diversity, where appropriate, and ensure that Board members possess the skills, experience and diversity of perspectives applicable to the requirements of the Company's operation and management before making recommendations to the Board. All new appointments of Directors and nomination of retiring Directors proposed for re-election at the annual general meeting are first considered by the Nomination Committee and are then recommended by the Nomination Committee to the Board for decision.

During the year ended 31 December 2020, the Nomination Committee held two meetings, and the work carried out included:

- reviewing the diversity policy of Board members (as defined above);
- making recommendations to the Board on the retirement and re-election of Directors;
- making recommendations to the Board on the appointment of one independent non-executive Director;
- making recommendations to the Board on the appointment and change of members of the Board committees;
- conducting an annual review on the independence of independent non-executive Directors; and
- reviewing the structure, size and composition of the Board.

Corporate Governance Functions

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company's Securities Dealings Code, and the Company's compliance with the CG Code and disclosure in this CG Report.

Corporate Governance Report

ATTENDANCE RECORD OF DIRECTORS

The Board meets regularly and as required from time to time to approve interim and annual results announcements and financial reports, discuss overall strategies and monitor the Company's financial and operating performance. The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2020 is set out in the table below:

Name of Director	Board Attendance in Person/Number of Meetings	Audit Committee Attendance in Person/Number of Meetings	Remuneration Committee Attendance in Person/Number of Meetings	Nomination Committee Attendance in Person/Number of Meetings	Annual General Meeting Attendance in Person/Number of Meetings	Extraordinary General Meeting Attendance in Person/Number of Meetings
Executive Directors						
Mr. Zhang Jianshe	9/9	N/A	N/A	2/2	1/1	2/2
Mr. Zhang Kaizhan (resigned on 8 February 2021)	9/9	N/A	N/A	N/A	1/1	2/2
Non-executive Directors						
Mr. Liu Dai (resigned on 8 February 2021)	9/9	N/A	N/A	N/A	1/1	2/2
Mr. Du Yuchen (resigned on 8 February 2021)	9/9	N/A	2/2	N/A	1/1	2/2
Mr. Li Jian (resigned on 8 February 2021)	9/9	N/A	N/A	N/A	1/1	2/2
Ms. Yu Tianhua (resigned on 8 February 2021)	9/9	2/2	N/A	N/A	1/1	2/2
Independent Non-executive Directors						
Prof. Li Shengli	9/9	2/2	2/2	N/A	1/1	2/2
Dr. Zhang Shengli	9/9	N/A	2/2	2/2	1/1	2/2
Dr. Zhang Juying Jerry (appointed on 23 June 2020)	7/7	1/1	N/A	N/A	N/A	2/2
Mr. Joseph Chow (resigned on 23 June 2020)	2/2	1/1	N/A	2/2	1/1	N/A

Apart from regular Board's meetings, the Chairman of the Board also held a meeting with the independent non-executive Directors without the presence of other Directors in accordance with the revised code provisions of the CG Code effective from 1 January 2019.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is fully responsible for assessing and determining the continued effectiveness of the Company's risk management and internal control system and assumes overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the rights and interests of the Company's Shareholders. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee monitors the Company's financial reporting system, risk management and internal control system to ensure that the management has fulfilled its responsibilities to establish an effective system, reviews and monitors the effectiveness of internal audits and reports to the Board on the audits.

The management executes, maintains and continuously monitors the Company's risk management and internal control system, and provides the Board with a confirmation letter on the effectiveness of the risk management and internal control systems on an annual basis.

All departments conduct regular internal control assessments from the perspectives of strategic planning, investment audits, and financial management to identify and assess the financial and other risks in different areas of the Group, and confirm that they have complied with control policies properly through annual self-evaluation.

The Internal Audit Department is responsible for the internal audits and conducting an independent assessment on whether the risk management and internal control systems are appropriate and effective, as well as independent oversight of the risk management and internal controls of the various divisions and subsidiaries. The Internal Audit Department reported the audit results and the rectification plans to the Audit Committee and the Board twice during the Reporting Period.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2020. Although no material weaknesses in control or significant concerns were identified during the year, the Company will continue to review the risk management and internal control systems on a regular basis to ensure their ongoing effectiveness.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems of the Company, including the financial, operational and listing compliance controls, for the year ended 31 December 2020, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources to ensure that the resources allocated for accounting, internal audit and financial reporting meet the Company's needs and are sufficient.

Corporate Governance Report

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

The Company has established a stringent system to handle and release inside information in accordance with the relevant requirements of the Listing Rules and the Securities and Futures Ordinance and prohibit any unauthorised use or release of confidential or inside information. The Directors and senior management of the Company have adopted all reasonable measures to ensure proper precautionary measures are in place to prevent the Company from violating disclosure requirements.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020 and understand the importance of the integrity of financial information. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 66 to 70 of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2020 amounted to RMB2,500,000 and RMB550,000, respectively.

COMPANY SECRETARY

The company secretary is Ms. Zhang Xin. The company secretary, who is directly responsible to the Board, is in charge for keeping Directors updated on all relevant regulatory changes of which she is aware, including arranging appropriate continuous development plans for Directors. All Directors can reach out to the company secretary and have access to the advices and services of the company secretary on corporate governance and board practices and matters. The company secretary is responsible for ensuring good information flow within the Board, and that Board policies and procedures are completely followed.

During the year ended 31 December 2020, the company secretary had duly complied with the relevant training requirements as set out in Rule 3.29 of the Listing Rules.

Ms. Zhang Xin resigned from the post of company secretary on 29 January 2021. Ms. Yiu Suk Han succeeded Ms. Zhang Xin and took up the post of company secretary. The primary contact person at the Company is the Chairman, Mr. Zhang Jianshe.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels and a Shareholders' Communication Policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To safeguard Shareholders' interests and rights, separate resolutions should be proposed for each substantial issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules (except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands as permitted by the Listing Rules) and poll results will be posted on the websites of the Company and of the HKEX after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Article 12.3 of the articles of association of the Company, general meetings shall be convened on the written requisition of any two or more Shareholders or any one Shareholder which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Company's articles of association or in the Companies Law of the Cayman Islands for putting forward proposals of new resolutions by Shareholders at general meetings. Shareholders who wish to move forward a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. For proposing a person for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: China ZhongDi Dairy Holdings Company Limited
20/F, 238 Des Voeux Road Central
No. 238 Des Voeux Road Central
Hong Kong
PRC

Fax: +852-23418988

Email: ir@zhongdidairy.hk

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing dialogue with Shareholders and, in particular, through annual general meetings and other extraordinary general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

During the Reporting Period, the Company had not made any changes to its articles of association. An up-to-date version of the Company's articles of association is available on the Company's website and HKEX's website.

DIRECTORS' REPORT



Directors' Report

The Board would like to present to the Shareholders the Directors' Report for the Reporting Period.

PRINCIPAL OPERATIONS

The Group mainly operates dairy farming business. Dairy farming business includes the production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc. The details of the principal operations of major subsidiaries of the Company are set out in note 1 to the consolidated financial statements.

GROUP RESULTS

The results of the Group for the Reporting Period and the financial position of the Company and the Group as at 31 December 2020 are set out on pages 71 to 154 of the consolidated financial statements.

ISSUED SHARES

As at 31 December 2020, the Company had an aggregate of 2,606,719,522 shares in issue.

BUSINESS REVIEW

The business review of the Group for the Reporting Period and the discussion on and the analysis of the important factors relating to the performance and results and financial position of the Group are set out in the Chairman's Statement on pages 5 to 7 of this annual report and the Management Discussion and Analysis on pages 8 to 19 of this annual report. The discussion on the future business development of the Group is set out in the section headed "PROSPECTS" in the Chairman's Statement and the section headed "PROSPECTS" in the Management Discussion and Analysis of this annual report. The explanations of the relationship of the Company with its employees, customers, suppliers and parties who have a significant influence on the Group are set out in the section headed "HUMAN RESOURCES" in the Management Discussion and Analysis and the section headed "MAJOR CUSTOMERS AND SUPPLIERS" in the Directors' Report of this annual report, respectively.

As at the date of this annual report, save as disclosed in the section headed "SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD" in this Directors' Report, the Group did not have any disclosable significant events after the Reporting Period.

Directors' Report

MAJOR RISKS AND UNCERTAINTIES

Other than the matters referred to in the Management Discussion and Analysis and Chairman's Statement of this annual report, major risks and uncertainties that the Company faces which are required to be disclosed in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are as follows:

1. *Product Safety and Quality Risk*

Real or perceived incidents of product contamination could materially and adversely affect our reputation, results of operations and financial position, and subject us to regulatory actions and contractual liabilities. During the Reporting Period and up to the date of this annual report, the raw milk sold by us has not been found to have contaminants or reported to be associated with any contamination incidents, and we have not been subject to any product liability claims. However, there can be no assurance that contamination will not happen during the production and transportation of our products.

2. *Disease Risk*

Outbreak of diseases at our dairy farms or in nearby areas could materially and adversely affect our business. We have implemented a strict and comprehensive disease control system to protect the overall health of our employees and herd. We had not experienced any material outbreak of diseases at our dairy farms during the Reporting Period. However, there can be no assurance that such incidents will not happen in the future. Although we have insurance policies to cover us against losses related to cow diseases and may also be entitled to receive certain government compensations in the event of outbreak of diseases among our dairy cows, we cannot guarantee that these will be sufficient to cover all of our losses in the event of an outbreak of disease.

Up to the date of this Director's Report, no employee has yet been found infected during the outbreak of COVID-19 epidemic.

3. *Customer Reliance Risk*

We rely heavily on a limited number of customers for sales of our raw milk and our business, results of operations and financial condition could be materially and adversely affected in the event of breach or early termination of our raw milk purchase and sale agreements. As such, we rely heavily on limited customers for sales of our raw milk. In the future, we will review the content of the relevant agreements from time to time according to the market and the business situation of the Company, and decide the target and quantity of raw milk sales.

4. *Foreign Competition Risk*

Thanks to the volume of milk powder, fresh milk and related product imported into China still continues to grow, the market price of domestic raw milk has been subject to the competitive pressure from that of similar products from abroad. If the competition from foreign dairy brands and foreign milk powder imports continue to intensify, the raw milk price may be subjected to downward pressure, and our business, financial position and results of operations may be materially and adversely impacted.

Directors' Report

5. Feed Price Risk

Our dairy farming operations require a substantial amount of feeds. Our feed costs represented approximately 74.6% of the cost of sales for raw milk before the fair value adjustments of biological assets. Therefore, fluctuations in feed prices or import custom tariffs and disruptions of our feed supply could materially and adversely affect our business and results of operations.

6. Industry Risk

There have been various food safety incidents in recent years in China regarding contaminated dairy products produced by certain Chinese dairy companies, shaking consumers' confidence in the PRC dairy industry. We do not produce infant formula and none of our raw milk has been involved in any food safety incidents during the Reporting Period and up to the date of this annual report. However, negative publicity concerning the food safety of dairy products in China, whether true or not, could materially and adversely affect the PRC dairy farming industry, which in turn could also adversely affect sales of our raw milk to the PRC dairy producers, resulting in a material adverse effect on our business, results of operations and financial position.

7. Other Risks

- 1) During the transition period in which we expand our operating dairy farms, or in the event of any failure in our quality control system, we may not be able to guarantee the production volume and quality of our raw milk, which could materially and adversely affect our business;
- 2) The market prices of raw milk are driven by external supply and demand factors. In the event that the applicable price is lower than our expected level, our business, results of operations and financial position could be materially and adversely affected;
- 3) Our results of operations are subject to fair value adjustments in relation to biological assets and agricultural produce at the point of harvest, which can be volatile and are subject to a number of assumptions;
- 4) Disruptions of operations at our facilities could materially and adversely affect our business;
- 5) Natural disasters, acts of war and other factors beyond control may materially and adversely affect our business, results of operations and financial position;
- 6) We may not have full control over third-party contractors or service providers;
- 7) We may face challenges and incur additional costs if we expand into the downstream dairy products market in the future;
- 8) The potential impacts on the dairy industry and the business of the Company brought by the COVID-19 pandemic; and
- 9) Other risks relating to the industry and conducting business in the PRC.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

We take responsibility for the impact of business operation on the environment. It's our belief that effective environmental management is critical to the success of our business and the achievement of long-term sustainability goals. We conduct business in an industry that is subject to stringent PRC environmental laws and regulations. Before any new dairy farm could be constructed, an environmental impact assessment must be carried out. Upon completion of the construction, the environmental protection authorities will conduct inspections of the environmental facilities of the newly constructed dairy farm. Our dairy farming business produces manure and other environmental waste, is subject to restrictions relating to the prevention and control of pollution. We are required to adopt measures to effectively control and properly dispose of the waste materials strictly in accordance with applicable laws and regulations. During the Reporting Period, we comprehensively advance the improvement of Environmental Management System, strictly complied with and conformed to all material aspects of environmental protection laws and regulations promulgated by the PRC government. Through process optimization and technical renovation, we enhance the efficiency of natural resources, minimize the emission of waste and greenhouse gases so as to promote sustainable development, and we have not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially and adversely affected our production.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impacts on the Group. Our Audit Committee and the Internal Audit and Supervision Department under the Audit Committee were delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed by them. During the Reporting Period, the external legal adviser engaged by us from time to time conducted legal training on standard operation of listing companies for the Directors and management staff of the Company. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

We have enhanced the supervision of our subsidiaries on employees' matters. Our human resources department at our headquarters is responsible for periodically reviewing the employees' registration forms and ensuring the compliance with all laws and regulations with respect to employment. According to provisions of the laws, regulations and relevant policies of Hong Kong and China, the Company has provided and established statutory benefits including but not limited to mandatory provident fund, basic medical insurance, pension insurance, work injury insurance, unemployment insurance, maternity insurance as well as commercial insurance for personal accident for its employees. Employees enjoy leaves such as public holidays, marriage leave, bereavement leave and maternity leave.

The Group has registered its media products, domain names and trademarks in Hong Kong, China and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

To the best knowledge of the Board, for the year ended 31 December 2020, the Group has not been involved in any litigation or arbitration of material importance and there is no legal proceeding or claim of material importance pending or threatened by or against the Group.

Directors' Report

DIVIDEND POLICY

The Company has adopted a dividend policy ("**Dividend Policy**"), pursuant to which the Company may consider to declare and pay dividends to the shareholders of the Company (the "**Shareholders**"), provided that the Company records a profit and that the declaration and payment of dividends do not affect the normal operations of the Group.

The recommendation of the payment of any dividend and the amount of the dividend are subject to the discretion of the Board, and the payment of any dividends of a financial year will be subject to the approval of the Shareholders. In proposing the payment of dividend, the Board shall take into account, among other things: (i) the general financial condition of the Group; (ii) capital and debt level; (iii) future cash requirements and availability for business operations, business strategies and future development needs; (iv) any restrictions on payment of dividends that may be imposed by the Group's lenders; (v) market conditions; (vi) any other factors that the Board deems appropriate. The payment of any dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands, and the articles of association of the Company ("**Articles of Association**").

Based on the funding requirement of the Group's business expansion, the Board did not recommend the payment of any final dividend for the year ended 31 December 2020.

SHARE CAPITAL

As of 31 December 2020, the issued share capital of the Company was US\$26,067.19, divided into 2,606,719,522 shares of US\$0.00001 each. Details of the movements in the share capital of the Company during the Reporting Period are set out in note 25 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Law of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2020, save as disclosed in "Subscription of New Shares under General Mandate" in the annual report, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

Directors' Report

RESERVES

Details of the movements in the reserves of the Company and the Group during the Reporting Period are set out in note 26 to the consolidated financial statements and consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to the Shareholders, comprising retained profits, if any, and share premium, amounted to approximately RMB1,085.1 million (31 December 2019: RMB922.7 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the changes in the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the largest customer and supplier of the Group accounted for approximately 77.6% and approximately 21.4% of the Group's total revenue and total purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for approximately 98.3% and approximately 37.0% of the Group's total revenue and total purchases, respectively.

On 12 August 2020, Inner Mongolia Yili Industrial Group Co., Ltd. ("**Yili Industrial**"), which is the major customer of the Group, had completed the subscription of 432,641,522 subscription shares under general mandate through its wholly-owned subsidiary Hong Kong Jiangang Trade Holding Co., Limited, representing approximately 16.6% of the enlarged share capital of the Company, Yili Industrial became a substantial shareholder of the Company.

Save as disclosed above, none of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the issued shares) had a material interest in our five largest suppliers or customers. For further details, please refer to the section headed "3. Customer Reliance Risk" of this annual report.

DIRECTORS

The members of the Board of the Company during the Reporting Period and up to the date of this annual report were:

Executive Directors

Mr. Zhang Jianshe (Chairman and Chief Executive Officer)

Mr. Zhang Kaizhan (*resigned on 8 February 2021*)

Mr. Pang Xin (*appointed on 8 February 2021*)

Directors' Report

Non-executive Directors

Mr. Liu Dai (*resigned on 8 February 2021*)
Mr. Du Yuchen (*resigned on 8 February 2021*)
Mr. Li Jian (*resigned on 8 February 2021*)
Ms. Yu Tianhua (*resigned on 8 February 2021*)
Mr. Gao Zhanfeng (*appointed on 8 February 2021*)
Ms. Liu Yanbin (*appointed on 8 February 2021*)
Mr. Fu Zhenwen (*appointed on 8 February 2021*)
Mr. Zhang Jianhua (*appointed on 8 February 2021*)

Independent non-executive Directors

Prof. Li Shengli
Dr. Zhang Shengli
Mr. Joseph Chow (*resigned on 23 June 2020*)
Dr. Zhang Juying Jerry (*appointed on 23 June 2020*)

Pursuant to Article 16.18 of the Articles of Association of the Company, at every annual general meeting of the Company, one-third of the Directors (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subjected to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. As such, each of Mr. Zhang Jianshe, an executive Director, Prof. Li Shengli, an independent non-executive Director, and Dr. Zhang Shengli, an independent non-executive Director, shall retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election as Directors thereat.

Pursuant to Article 16.2 of Articles of Association of the Company, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Dr. Zhang Juying Jerry was appointed as the independent non-executive Director on 23 June 2020, Mr. Pang Xin was appointed as the executive Director on 8 February 2021, Mr. Gao Zhanfeng, Ms. Liu Yanbin, Mr. Fu Zhenwen and Mr. Zhang Jianhua were appointed as the non-executive Directors respectively on 8 February 2021. They will retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election as Directors thereat.

Directors' Report

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected and Continuing Connected Transactions" of this Directors' Report and set out in note 29 to the consolidated financial statements, no transaction, arrangement or contract of significance in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during the Reporting Period or at the end of the Reporting Period.

Save as disclosed in the section headed "Connected and Continuing Connected Transactions" of this Directors' Report and set out in note 29 to the consolidated financial statements, during the Reporting Period, no contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling Shareholders or any of its subsidiaries, nor had any contract of significance been entered into for the provision of service by the controlling Shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company other than a contract of service with a Director or any person engaged in the full-time employment of the Company were entered into or existed during the Reporting Period and up to the date of this annual report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report and save for their respective interests in the Group, none of the Directors or the controlling Shareholders was interested in any business which competes or is likely to compete with the business of the Group during the Reporting Period and up to the date of this annual report.

DIRECTORS' INTERESTS IN SUBSCRIPTION OF SHARES AND DEBENTURES

At no time during the Reporting Period was the Company or any of its subsidiaries, the holding company or its fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or convertible securities including debentures of, the Company or any other corporations.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the Directors is subject to the recommendations of the remuneration committee of the Company and the Board's approval. Other remuneration (inclusive of discretionary bonuses, if any) is determined by the Board with reference to, among other things, the performance of the Group and the Directors' abilities and performance.

During the years ended 31 December 2019 and 2020, no remuneration was paid by the Group to any Directors, and the chief executive as an inducement to join or upon joining the Group or as compensation for loss of office. During the years ended 31 December 2019 and 2020, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Directors' Report

The details of the remuneration of the Directors and chief executive of the Company are set out in note 9 to the consolidated financial statements. The remuneration of other senior management members of the Company is within the following scope:

	2020 (Person)	2019 (Person)
RM0.8 million and below	–	1
RM0.8 million to RMB1 million	–	1
RMB1 million to RMB1.5 million	2	1
Total	2	3

SERVICE CONTRACTS OF DIRECTORS

The Company has entered into service contracts or letters of appointment with all Directors for a term of three years. None of the Directors have entered into or proposed to enter into any service contract with members of the Group which cannot be terminated by the employer within one year without paying compensation (excluding statutory compensation).

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association of the Company, each Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Directors' Report

SHARE OPTION SCHEME

The Company adopted the Post-IPO Share Option Scheme (the "**Share Option Scheme**") on 28 October 2015 (effective on 2 December 2015 (the "**Listing Date**")), a type of equity-linked agreement, with a view to enabling the Company to grant share options to selected participants and providing the Company with a flexible means to retain, motivate, incentivise, reward, remunerate, compensate and/or provide benefits to selected participants.

Pursuant to the Share Option Scheme, the Directors may at their discretion invite any party falling within any of the following participant categories to take up share options to subscribe for shares:

- a) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of our Group; and
- b) any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners and service providers of any members of the Group.

In respect of the Share Option Scheme, share options may be granted to any companies wholly-owned by any parties falling within any of the above categories of participants.

The maximum number of shares that may be issued pursuant to the exercise of all share options granted and outstanding under the Share Option Scheme or any other share option schemes adopted by the Company shall not in aggregate exceed 30% of the shares in issue from time to time.

Subject to refreshment, the total number of shares that may be issued pursuant to the exercise of all share options to be granted under the Share Option Scheme and any other share option schemes to which the provisions of Chapter 17 of the Listing Rules are applicable of the Company shall not exceed 10% of the aggregate of the shares in issue on the date of commencement of trading of the shares on the Stock Exchange and any shares that may be allotted and issued by the Company under the exercise of the over-allotment option (the "**Scheme Mandate Limit**"), i.e. 217,407,800 shares, which represented 10% of the shares in issue on the date on which trading of the shares commences on the Stock Exchange and the shares allotted and issued by the Company pursuant to the exercise of the over-allotment option. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option scheme(s) of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Unless approved by the Shareholders, the total number of shares issued and to be issued pursuant to the exercise of share options granted and to be granted to each grantee (including share options exercised and outstanding) under the Share Option Scheme and any other share option schemes of the Company during any 12-month period shall not exceed 1% of the total number of shares in issue of the Company. Share options (including those outstanding, cancelled or lapsed or exercised in accordance with their terms) previously granted under the Share Option Scheme and any other share option schemes (to which the provisions of Chapter 17 of the Listing Rules are applicable) of the Company shall not be included in the updated limit. The Company is required to issue a circular to the Shareholders in respect of the meeting at which Shareholders' approval will be sought. The circular shall contain (among others) information as required by Rule 17.02(2) of the Listing Rules and a disclaimer as required by Rule 17.02(4) of the Listing Rules.

Directors' Report

The offer of the grant of an option shall remain for acceptance by a participant to whom the offer is made for a period of 5 business days from the date on which the letter containing the offer is delivered to that participant, provided that no such offer shall be open for acceptance after the period of ten years commencing from the Listing Date or after the Share Option Scheme has been terminated in accordance with the provisions thereof, whichever is earlier. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee at the time of making an offer, which period shall commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Share Option Scheme. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price per Share under the Share Option Scheme shall be determined by the Directors, but shall not be less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange); and (iii) the nominal value of a Share on the date of grant.

A nominal consideration of HK\$1 is payable upon acceptance of the grant of an option. The Share Option Scheme shall remain in effect for a period of 10 years from the date of its adoption.

For the year ended 31 December 2020, no share options were granted by the Company or remained outstanding under the Share Option Scheme and no relevant expenses were recognised for 2020.

Directors' Report

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

Long Positions ("L") and Short Positions ("S") in the Shares of the Company

Name of Director	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2020
Mr. Zhang Jianshe ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	769,338,000(L)	29.51%
Mr. Zhang Kaizhan ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	769,338,000(L)	29.51%

Notes:

- (1) As at 31 December 2020, Mr. Zhang Jianshe was the sole shareholder of YeGu Investment Company Limited ("YeGu Investment") which directly held 392,088,000 shares and indirectly held, through its shareholding in Green Farmlands Group, 315,790,000 shares. Accordingly, under the SFO, Mr. Zhang Jianshe was deemed to be interested in the 707,878,000 shares held directly and indirectly by YeGu Investment. In addition, as at 31 December 2020, Mr. Zhang Kaizhan, through his holding company (namely SiYuan Investment Company Limited ("SiYuan Investment")), indirectly held 61,460,000 shares.

Mr. Zhang Jianshe and Mr. Zhang Kaizhan are substantial shareholders (as defined in the Listing Rules) of the Company and parties acting in concert under the SFO. Therefore, Mr. Zhang Jianshe and Mr. Zhang Kaizhan jointly held 769,338,000 shares through their respective holding companies. As such, Mr. Zhang Jianshe and Mr. Zhang Kaizhan were each deemed to be interested in 29.51% of the issued share capital of the Company under the SFO as at 31 December 2020.

Directors' Report

- (2) Pursuant to a share subscription agreement (the “**Share Subscription Agreement**”) dated 27 September 2020 entered into by and between Wholesome Harvest Limited (the “**Offeror**”) as issuer and Hongkong Jingang Trade Holding Co., Limited (“**Jingang Trade**”) and Mr. Zhang Jianshe, YeGu Investment and Green Farmlands Group (collectively, “**Zhang Group**”) as subscribers for the subscription of 2,606,719,522 shares (the “**Share Subscription**”), Jingang Trade has conditionally agreed to transfer 432,641,522 shares legally and beneficially held by it to the Offeror, and Zhang Group has conditionally agreed to transfer (i) 392,088,000 shares directly owned by YeGu Investment and (ii) 315,790,000 shares directly owned by Green Farmlands, to the Offeror. Upon completion of the Share Subscription, the Offeror held 1,140,519,522 shares, representing approximately 43.75% of voting rights of the Company calculated based on the issued share capital of the Company as at 31 December 2020. Jingang Trade and YeGu Investment respectively held 1,898,841,522 and 707,878,000 shares of the Offeror, representing approximately 72.84% and 27.16% of the total issued share capital of the Offeror, respectively. For further details, please refer to the section headed “SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD” in this Directors' Report.

Save as disclosed above, as at 31 December 2020, so far as was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (as defined in Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2020, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the shares and underlying shares were as follows:

Long Positions (“L”) and Short Positions (“S”) in the Shares

Name of Substantial Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2020
Li Jingtao ⁽¹⁾	Interest of spouse	769,338,000(L)	29.51%
YeGu Investment	Beneficial owner/Interest of concert parties	769,338,000(L)	29.51%
Zhang Fanghong ⁽²⁾	Interest of spouse	769,338,000(L)	29.51%
SiYuan Investment	Beneficial owner/Interest of concert parties	769,338,000(L)	29.51%
Green Farmlands Group	Beneficial owner/Interest of concert parties	769,338,000(L)	29.51%
Yili Industrial ⁽³⁾	Interest of controlled corporation	2,517,527,522(L)	96.58%

Directors' Report

Name of Substantial Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2020
New Energy Investment GP Ltd ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	12.11%
New Energy Investment Limited Partnership ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	12.11%
VTD705HL Hong Kong Ltd. ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	12.11%
PACIFIC EMINENT LIMITED	Beneficial owner	315,790,000(L)	12.11%
Agriculture Investment Company Limited (" Agriculture Investment ") ⁽⁵⁾	Beneficial owner	172,500,000(L)	6.62%
Shanghai Jingmu Investment Center (" Shanghai Jingmu ") ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
Goldstone Agri-Investment Funds Management Center (Limited Partnership) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
Beijing Agriculture Investment Fund (Limited Partnership) (" Agriculture Investment Fund ") ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
Beinong Xingbang Investment Consulting Co., Ltd. (formerly known as Beijing Jianye Fengde Investment Consulting Co., Ltd.) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
CITIC Capital Holdings Limited ⁽⁶⁾	Interest of controlled corporation	174,100,000(L)	6.68%
Jin Jiejing ⁽⁷⁾	Interest of controlled corporation	147,040,000(L)	5.64%
Bao Ying ⁽⁸⁾	Interest of spouse	147,040,000(L)	5.64%
Marvel One Limited ⁽⁷⁾	Interest of controlled corporation	147,040,000(L)	5.64%
Tai Shing Company Limited ⁽⁷⁾	Beneficial owner	147,040,000(L)	5.64%

Notes: As at 31 December 2020,

- (1) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in the shares in which Mr. Zhang Jianshe is interested under the SFO.
- (2) Ms. Zhang Fanghong is the spouse of Mr. Zhang Kaizhan and is therefore deemed to be interested in the shares in which Mr. Zhang Kaizhan is interested under the SFO.

Directors' Report

- (3) Pursuant to the Share Subscription Agreement, Jingang Trade has conditionally agreed to transfer 432,641,522 shares legally and beneficially held by it to the Offeror, and Zhang Group has conditionally agreed to transfer (i) 392,088,000 shares directly owned by YeGu Investment and (ii) 315,790,000 shares directly owned by Green Farmlands, to the Offeror. Upon completion of the Share Subscription, the Offeror held 1,140,519,522 shares, representing approximately 43.75% of voting rights of the Company calculated based on the issued share capital of the Company as at 31 December 2020. Jingang Trade and YeGu Investment respectively held 1,898,841,522 and 707,878,000 shares of the Offeror, representing approximately 72.84% and 27.16% of the total issued share capital of the Offeror, respectively. For further details, please refer to the section headed "SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD" in this Directors' Report.

As at 31 December 2020, the Offeror was wholly-owned by Jingang Trade, which was in turn wholly-owned by Yili Industrial. Therefore, Yili Industrial was interested in 1,140,519,522 Shares to be held by the Offeror upon the completion of the Share Subscription under the SFO.

- (4) PACIFIC EMINENT LIMITED is wholly owned by VTD705HL Hong Kong Ltd. and VTD705HL Hong Kong Ltd. is wholly owned by New Energy Investment Limited Partnership. New Energy Investment Limited Partnership is wholly owned by New Energy Investment GP Ltd. Each of New Energy Investment Limited Partnership and New Energy Investment GP Ltd. is deemed to be interested in the same number of shares in which PACIFIC EMINENT LIMITED is interested under the SFO.
- (5) Shanghai Jingmu is the sole shareholder of both Agriculture Investment and Jingmu Investment Company Limited and is therefore deemed to be interested in the same number of shares held by each of them (being 277,760,000 shares in total). Agriculture Investment Fund is the limited partner of Shanghai Jingmu holding approximately 99.85% of its registered capital, while Goldstone Agri-Investment Funds Management Center (Limited Partnership) is the general partner of Shanghai Jingmu holding approximately 0.15% of its registered capital. Accordingly, each of Agriculture Investment Fund and Goldstone Agri-Investment Funds Management Center (Limited Partnership) is deemed to be interested in the 277,760,000 shares held by Agriculture Investment and Jingmu Investment Company Limited under the SFO. Furthermore, Beinong Xingbang Investment Consulting Co., Ltd., the general partner of Goldstone Agri-Investment Funds Management Center (Limited Partnership), is also deemed to be interested in the 277,760,000 shares referenced above under the SFO.
- (6) CITIC Capital Holdings Limited held 174,100,000 shares through a number of wholly-owned subsidiaries.
- (7) Tai Shing Company Limited is wholly-owned by Marvel One Limited and Marvel One Limited is wholly-owned by Jin Jiejing. Therefore, Jin Jiejing and Marvel One Limited are interested in the 147,040,000 shares held by Tai Shing Limited under the SFO.
- (8) Bao Ying is the spouse of Jin Jiejing and is therefore deemed to be interested in shares in which Jin Jiejing is interested under the SFO.

As at 31 December 2020, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Report

On 11 January 2021, Jingang Trade transferred 432,641,522 shares held by it to the Offeror; and Mr. Zhang Jianshe transferred his holdings of 392,088,000 shares directly owned by YeGu Investment and 315,790,000 shares directly owned by Green Farmlands Group, to the Offeror. After the completion of the share transfer, the Offeror owns an aggregate of 1,140,519,522 shares, representing approximately 43.75% of the issued share capital of the Company. After the completion of the share transfer, Mr. Zhang Kaizhan hold an aggregate of 61,460,000 shares of the Company, representing approximately 2.36% of the issued share capital of the Company. Mr. Zhang Jianshe and Mr. Zhang Kaizhan are parties acting in concert under the SFO. Pursuant to the SFO, Mr. Zhang Jianshe is deemed to be interested in the shares in which Mr. Zhang Kaizhan is interested.

According to the record of the Notice of Disclosure of Interests filed in under Part XV of the SFO, based on the irrevocable undertakings, Mr. Zhang Kaizhan completed a sale of 61,460,000 shares through SiYuan Investment on 29 January 2021, representing approximately 2.36% of the issued shares. Upon the completion of such sale, Mr. Zhang Kaizhan and Mr. Zhang Jianshe ceased to have an interest in the shares.

As at 8 February 2021, taking into account the valid acceptances in respect of 1,443,788,000 shares, the Offeror, Jingang Trade, Mr. Zhang Jianshe, YeGu Investment, Green Farmlands, Mr. Zhang Kaizhan, SiYuan Investment and respective parties acting in concert with each of them or party as specified and as determined in accordance with the Takeovers Code (collectively, "**Offeror Concert Group**") were interested in an aggregate of 2,584,307,522 shares, representing approximately 99.14% of the issued shares.

Reference should be made to the joint announcements made by the Company and the Offeror dated 27 September 2020, 11 January 2021, 20 January 2021 and 8 February 2021, as well as the composite document issued by the Company and the Offeror dated 18 January 2021 for the details of the Share Subscription and the Offer.

CONTRACT OF SIGNIFICANCE WITH DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Save as the related party transactions set out in Note 29 to the financial statements and as disclosed in the section headed "Connected and Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company, an entity connected with a Director of the Company or a substantial shareholder of the Company had a material interest, whether directly or indirectly, subsisted for the year ended 31 December 2020.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

(I) Property lease agreement with ZhongDi Dairy Group Co., Ltd.

On 21 June 2018 after trading hours, SinoFarm Genetics & Seeds (Group) Co., Ltd. ("**SinoFarm Genetics & Seeds**") entered into a property lease agreement with ZhongDi Dairy Group Co., Ltd. ("**ZhongDi Dairy**"), pursuant to which, SinoFarm Genetics & Seeds' premises will be used as an office for the Group's business operation in Beijing and provide a stable place of business for the Group.

Pursuant to the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Dairy, annual rental for relevant leased premises was RMB2,514,148.47, including management fees, air-conditioning and heat charges, which was payable quarterly and determined with reference to a daily rental of RMB8.10/m².

The term of the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Dairy is three years, commencing from 22 June 2018 and expiring on 21 June 2021 (both days inclusive).

Directors' Report

SinoFarm Genetics & Seeds is beneficially owned by Beijing YeGu Agriculture Technology Development Company Limited ("**YeGu Agriculture**") as to 51% and Beijing Qin Long Da Bio Technology Co., Ltd. ("**Qin Long Da**") as to 49% respectively. YeGu Agriculture is wholly owned by Mr. Zhang Jianshe, Director as well as controlling Shareholder of the Company. Furthermore, Qin Long Da is owned as to 1% by Ms. Chang Na, an independent third party, and 99% by Mr. Li Jingbo, the brother-in-law of Mr. Zhang Jianshe. Accordingly, SinoFarm Genetics & Seeds is a connected person of the Company under Chapter 14A of the Listing Rules. As ZhongDi Dairy is a wholly-owned subsidiary of the Company, accordingly, the transactions under the above property lease agreement constitute continuing connected transactions required to be disclosed under Chapter 14A of the Listing Rules. Mr. Zhang Jianshe is considered to have a material interest in the transactions contemplated under the above property lease agreement.

Please refer to the announcement of the Company on 21 June 2018 for the details of the above transaction.

(II) Property lease agreement with ZhongDi Farm Technology Corporation

On 21 June 2018 after trading hours, SinoFarm Genetics & Seeds entered into a property lease agreement with ZhongDi Farm Technology Corporation ("**ZhongDi Farm**"), pursuant to which, SinoFarm Genetics & Seeds' premises will be used as an office for the Group's business operation in Beijing and provide a stable place of business for the Group.

Pursuant to the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Farm, annual rental for relevant leased premises was RMB4,084,936.92, including management fees, air-conditioning and heat charges, which was payable quarterly and determined with reference to a daily rental of RMB8.10/m².

The term of the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Farm is three years, commencing from 22 June 2018 and expiring on 21 June 2021 (both days inclusive).

As ZhongDi Farm is a wholly-owned subsidiary of the Company and SinoFarm Genetics & Seeds is a connected person of the Company, accordingly, the transactions under the above property lease agreement constitute continuing connected transactions required to be disclosed under Chapter 14A of the Listing Rules. Mr. Zhang Jianshe is considered to have a material interest in the transactions contemplated under the above property lease agreement.

Please refer to the announcement of the Company on 21 June 2018 for the details of the above transaction.

Directors' Report

The total consideration under the above property lease agreements ("**Property Lease Agreements**") entered into between SinoFarm Genetics & Seeds and ZhongDi Dairy and ZhongDi Farm respectively will be paid in cash with internal resources, with the expected maximum rental amounts (including management fees, air-conditioning and heat charges) payable under the Property Lease Agreements for the financial years ending 31 December 2018, 2019, 2020 and 2021 amounting to RMB3,489,379.40, RMB6,599,085.40, RMB6,599,085.40 and RMB3,109,706.00 respectively. For the year ended 31 December 2020, the total annual rental amount by the Group to SinoFarm Genetics & Seeds was RMB6,599,085.40. As the largest Annual Cap payable by the Group to SinoFarm Genetics & Seeds under the Property Lease Agreements for each of the financial years ending 31 December 2018, 2019, 2020 and 2021 is more than HK\$3,000,000 but all the applicable percentage ratios calculated on an annual basis pursuant to Rule 14.07 of the Listing Rules are less than 5%, the entering into of the Property Lease Agreements is subject to the reporting, announcement and annual review requirements but is exempt from the circular (including independent financial advice) and the independent Shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

(III) Continuing Connected Transactions in Relation to Sale and Purchase of Raw Fresh Milk and Factoring Services

Before Yili Industrial became a substantial Shareholder of the Company (thus a connected person of the Company), Yili Industrial and its subsidiaries and associate(s) (the "**Yili Group**") had entered into certain agreements on continuing transactions conducted on a regular and continuing basis with the Group in relation to (i) transactions on sale and purchase of raw fresh milk; and (ii) transactions on factoring services (collectively, the "**Transactions**").

The Directors (including independent non-executive Directors) are of the view that the above agreements in relation to sale and purchase of raw fresh milk and factoring services and most of the continuing transactions conducted thereunder between the Yili Group and the Group are entered into in the ordinary and usual course of business of the Group and conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The continuing transactions between the Yili Group and the Group before Yili Industrial and the transaction parties of such transactions under the Yili Group became connected persons of the Company have subsequently become continuing connected transactions of the Company under the Listing Rules. Pursuant to Rule 14A.60 of the Listing Rules, the Company shall fully comply with all applicable annual review, reporting, disclosure and (if applicable) independent Shareholders' approval requirements under Chapter 14A of the Listing Rules when such agreements are renewed or the terms of which are varied.

Considering that Yili Industrial has become a connected person of the Company, to properly manage the continuing connected transactions between the Yili Group and the Group, on 4 September 2020, the Company and Yili Industrial entered into the Raw Fresh Milk Supply Framework Agreement (as defined below) and the Financial and Factoring Services Framework Agreement (as defined below), with a term from the date of approval at the extraordinary general meeting by the independent Shareholders to 31 December 2022.

For details of the Transactions, please refer to the announcements of the Company dated 4 September 2020 and 24 September 2020 and the circular dated 15 October 2020.

Directors' Report

(IV) Raw fresh milk supply framework agreement with Yili Industrial

On 4 September 2020 (after trading hours), the Company and Yili Industrial entered into a raw fresh milk supply framework agreement (the “**Raw Fresh Milk Supply Framework Agreement**”) in relation to the sale of raw fresh milk by the Group to the Yili Group. The Group has been maintaining a continuous and good business relationship with the Yili Group in the supply of raw fresh milk, maintaining the existing relationship between the sale and purchase of raw fresh milk can further exert the synergy effect between the upstream and downstream of the industrial chain, which can provide a stable sales channel for the Group, smooth the volatility of market sales and revenue.

As at the date of the Raw Fresh Milk Supply Framework Agreement, Yili Industrial is a substantial Shareholder of the Company. Yili Industrial is a connected person of the Company, and the entering into of the Raw Fresh Milk Supply Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The term of the Raw Fresh Milk Supply Framework Agreement is commencing from the date of its consideration and approval at the extraordinary general meeting by the independent Shareholders (i.e. 4 November 2020) to 31 December 2022.

The proposed annual caps for the sale of raw fresh milk by the Group to the Yili Group under the Raw Fresh Milk Supply Framework Agreement for the three years ending 31 December 2020, 2021 and 2022 amounting to RMB573,000,000, RMB2,140,000,000 and RMB2,440,000,000 respectively. For the period from 4 November 2020 to 31 December 2020, the total sale of raw fresh milk by the Group to the Yili Group was RMB242.2 million. In addition, the total sale of fresh raw milk by the Group to the Yili Group from 12 August 2020 to 3 November 2020 conducted under the pre-existing agreement was RMB354.5 million.

Please refer to the announcement of the Company on 4 September 2020 and the circular of the Company on 15 October 2020 for the details of the above transaction.

(V) Materials procurement framework agreement with Inner Mongolia Youran Dairy Co., Ltd.

On 4 September 2020 (after trading hours), the Company and Inner Mongolia Youran Dairy Co., Ltd. (“**Youran Dairy**”) entered into a materials procurement framework agreement (the “**Materials Procurement Framework Agreement**”) in relation to the purchase of materials by the Group from Youran Dairy and its subsidiaries and associate(s) (the “**Youran Dairy Group**”). Through the long-term business relationship established with the Youran Dairy Group, it can ensure the quality of the products provided by the other party and meet business needs. This continuing relationship is expected to bring synergy effect to both parties.

As at the date of the Materials Procurement Framework Agreement, Yili Industrial is a substantial Shareholder of the Company. An aggregate of 40% of equity interest of Youran Dairy are indirectly owned by Yili Industrial. Therefore, Youran Dairy and its subsidiaries are associate(s) of Yili Industrial. Therefore, Youran Dairy is a connected person of the Company, and the entering into of the Materials Procurement Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Directors' Report

The term of the Materials Procurement Framework Agreement is commencing from the date of its consideration and approval at the extraordinary general meeting by the independent Shareholders (i.e. 4 November 2020) to 31 December 2022.

The proposed annual caps for the Group to purchase materials from the Youran Dairy Group under the Materials Procurement Framework Agreement for the three years ending 31 December 2020, 2021 and 2022 amounting to RMB100,000,000, RMB300,000,000 and RMB350,000,000 respectively. For the period from 4 November 2020 to 31 December 2020, the Group's total purchase of materials from the Youran Dairy Group was RMB23.5 million. In addition, the Group's total purchase of materials from the Youran Dairy Group from 12 August 2020 to 3 November 2020 conducted under the pre-existing agreement was RMB27.4 million.

Please refer to the announcement of the Company on 4 September 2020 and the circular of the Company on 15 October 2020 for the details of the above transaction.

(VI) Financial and factoring services framework agreement with Yili Industrial

On 4 September 2020 (after trading hours), the Company and Yili Industrial entered into a financial and factoring services framework agreement (the "**Financial and Factoring Services Framework Agreement**") in relation to the provision of financial and factoring services by the Yili Group to the Group, which will be able to exert the synergy effect of the cooperation between the two parties, helping the Group expand its financing channels, relieve capital pressure, and provide financial support for farm operation and construction of milk source.

As at the date of the Financial and Factoring Services Framework Agreement, Yili Industrial is a substantial Shareholder of the Company. Yili Industrial is a connected person of the Company, and the entering into of the Financial and Factoring Services Framework Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The term of the Financial and Factoring Services Framework Agreement is commencing from the date of its consideration and approval at the extraordinary general meeting by the independent Shareholders (i.e. 4 November 2020) to 31 December 2022.

The proposed maximum daily balance for the provision of financial and factoring services to the Group by the Yili Group under the Financial and Factoring Services Framework Agreement for the three years ended 31 December 2020, 2021 and 2022 amounting to RMB800,000,000, RMB800,000,000 and RMB800,000,000 respectively. For the period from November 4, 2020 to December 31, 2020, the maximum daily balance for the provision of financial and factoring services to the Group by the Yili Group was RMB604.9 million. In addition, the maximum daily balance for the provision of financial and factoring services to the Group by the Yili Group from August 12, 2020 to November 3, 2020 conducted under the pre-existing agreement was RMB505.0 million.

Please refer to the announcement of the Company on 4 September 2020 and the circular of the Company on 15 October 2020 for the details of the above transaction.

Directors' Report

As all the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under each of the above framework agreements ("**Framework Agreements**") exceed 5%, the entering into of each of the Framework Agreements and the transactions contemplated thereunder are therefore subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the Company had complied with the pricing policies and transaction terms disclosed in the relevant announcement in respect of the above continuing connected transactions.

Save for the aforesaid, none of the related party transactions as set out in note 29 to the consolidated financial statements are connected transactions or continuing connected transactions that are required to be disclosed under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

Opinion from the independent non-executive Directors on the continuing connected transactions

Pursuant to Rule 14A.55 of the Listing Rules, Prof. Li Shengli, Dr. Zhang Shengli and Dr. Zhang Juying Jerry, independent non-executive Directors of the Company, have reviewed the above continuing connected transactions and opined that the transactions under the abovementioned Property Lease Agreements and framework agreements were:

- entered into in the ordinary and usual course of the Group's business;
- entered into on normal commercial terms or terms no less favourable to the Group than terms available from/to independent third parties; and
- entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

Report from the auditors on the continuing connected transactions

For the purposes of Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the above continuing connected transactions that are subject to annual review for the year ended 31 December 2020 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing the findings and conclusions in respect of the above continuing connected transactions, in accordance with Rule 14A.56 of Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Directors' Report

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

On 11 January 2021, Jingang Trade transferred 432,641,522 Shares legally and beneficially held by it to the Offeror; and Mr. Zhang Jianshe transferred his holdings of 392,088,000 Shares directly owned by YeGu Investment and 315,790,000 Shares directly owned by Green Farmlands Group, to the Offeror.

Immediately after the completion of the share subscription, the Offeror owns an aggregate of 1,140,519,522 issued Shares of the Company, representing approximately 43.75% of the issued share capital of the Company. 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 Concert Group was 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 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 and the Offeror dated 18 January 2021 for the details of the Share Subscription and the Offer.

As at the date of this annual report, save as disclosed above, and except for the COVID-19 pandemic disclosed in the section captioned as “Prospects” in Management Discussion and Analysis, and note 33 to the consolidated financial statement, there are no significant events after the Reporting Period which are required to be disclosed.

DONATIONS

During the Reporting Period, the Group made charitable and other donations amounting to RMB8,725 (31 December 2019: RMB290,404).

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, during the Reporting Period, the Company has maintained a sufficient public float of not less than 25% of the Company's issued share capital as required under the Listing Rules.

Immediately after the close of the Offer and up to the date of this annual report, 22,412,000 Shares, representing approximately 0.86% of the entire issued share capital of the Company, are held by the public (as defined in the Listing Rules). Accordingly, the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules is not satisfied.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2020 have been audited by Ernst & Young, the auditors of the Company. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

The auditors of the Company have not changed in the past five years.

On behalf of the Board

Zhang Jianshe

Chairman

31 March 2021

Independent Auditor's Report



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To the shareholders of China ZhongDi Dairy Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 154, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

Valuation of biological assets

Biological assets of the Group, which represented dairy cows, amounted to RMB1,752,420,000 as at 31 December 2020 and were measured at fair value less costs to sell that was assessed by an external valuer engaged by the management. Dairy cows include cows held for sale, which is for the purpose of selling and milkable cows and heifers and calves, which are for the purpose of producing raw milk. Management's assessment on the fair value less costs to sell of biological assets is important to our audit since (i) the carrying values of biological assets accounted for approximately 30% of the total assets of the Group; and (ii) significant estimates were involved in the assessment.

The accounting policies, significant estimation and fair value disclosures of biological assets are included in note 2.5 Summary of significant accounting policies, note 3 Significant accounting judgements and estimates and note 16 Biological assets to the consolidated financial statements.

We assessed the objectivity, independence and competence of the external valuer, and benchmarked the parameters used in the valuation model to the external data. We involved our internal valuation specialists to assist in evaluating the valuation technique and the underlying assumptions of the estimated local selling price of 14 months old heifers, local market price of heifers held for sale and discount rates. We also evaluated other key assumptions, such as feed costs per kilogram of raw milk, the daily milk yield at each lactation cycle, and local future market prices for raw milk. In addition, we assessed the adequacy of the disclosures relating to the fair value measurement of biological assets.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Siu Ki Ricky.

Certified Public Accountants
Hong Kong

31 March 2021

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	7	(2,153)	–	(2,153)	(1,006)	–	(1,006)
Finance costs	8	(142,939)	–	(142,939)	(160,748)	–	(160,748)
Share of profit and loss of an associate	17	(87)	–	(87)	118	–	118
PROFIT BEFORE TAX	6	436,148	(203,446)	232,702	237,428	(135,055)	102,373
Income tax expenses	11	–	–	–	–	–	–
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		436,148	(203,446)	232,702	237,428	(135,055)	102,373
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)
		436,148	(203,446)	232,702	237,428	(135,055)	102,373
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:							
– Basic and diluted (RMB cents)	13			10.1			4.8

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB' 000	2019 RMB' 000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,349,538	1,905,714
Prepayments		227,422	71,564
Right-of-use assets	15(a)	450,873	545,638
Pledged deposits		50,766	32,590
Biological assets	16	1,752,420	1,693,560
Investments in an associate	17	10,314	10,401
Total non-current assets		4,841,333	4,259,467
CURRENT ASSETS			
Inventories	18	538,072	465,326
Trade and other receivables	19	216,070	184,100
Pledged bank deposits	20	13,867	23,852
Cash and bank balances	20	251,728	390,765
Total current assets		1,019,737	1,064,043
CURRENT LIABILITIES			
Trade and other payables	21	458,635	783,997
Contract liabilities	22	3,482	6,405
Interest-bearing bank and other borrowings	23	1,362,650	1,146,449
Total current liabilities		1,824,767	1,936,851
NET CURRENT LIABILITIES		(805,030)	(872,808)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,036,303	3,386,659
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	1,324,535	1,087,959
Deferred income	24	33,492	34,364
Total non-current liabilities		1,358,027	1,122,323
Net assets		2,678,276	2,264,336

continued/...

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB' 000	2019 RMB' 000
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	165	135
Share premium and reserves	26	2,623,926	2,206,163
		2,624,091	2,206,298
Non-controlling interests		54,185	58,038
Total equity		2,678,276	2,264,336

Zhang Jianshe

Director

Pang Xin

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent					Total equity RMB' 000	Non- controlling interests RMB' 000	Total equity RMB' 000
	Share capital RMB' 000	Share premium RMB' 000	Capital reserve RMB' 000	Statutory surplus reserve RMB' 000	Retained profits RMB' 000			
	note 25		note 26	note 26				
At 1 January 2019	135	1,019,152*	398,541*	80,915*	603,220*	2,101,963	–	2,101,963
Capital injection by								
a non-controlling interests	–	–	–	–	–	–	60,000	60,000
Profit and total comprehensive income for the year	–	–	–	–	104,335	104,335	(1,962)	102,373
Transfer from retained profits	–	–	–	27,042	(27,042)	–	–	–
At 31 December 2019 and at 1 January 2020	135	1,019,152*	398,541*	107,957*	680,513*	2,206,298	58,038	2,264,336
Profit and total comprehensive income for the year	–	–	–	–	236,555	236,555	(3,853)	232,702
Transfer from retained profits	–	–	–	41,858	(41,858)	–	–	–
Issue of shares	30	182,570	–	–	–	182,600	–	182,600
Share issue expenses	–	(1,362)	–	–	–	(1,362)	–	(1,362)
At 31 December 2020	165	1,200,360*	398,541*	149,815*	875,210*	2,624,091	54,185	2,678,276

* These reserve accounts comprise the consolidated reserves of RMB2,623,926,000 (2019: RMB2,206,163,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB' 000	2019 RMB' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		232,702	102,373
Adjustments for:			
Losses arising from changes in fair value less costs to sell of biological assets		197,325	136,513
Share of profits and losses of associates		87	(118)
Depreciation of items of property, plant and equipment	6	70,043	64,157
Depreciation of right-of-use assets	6	52,883	58,082
Amortisation of government grants for assets	5	(3,272)	(3,132)
Finance costs	8	142,939	160,748
Interest income	5	(4,448)	(7,113)
Losses/(gains) on disposal of items of property, plant and equipment	5	9,063	(2,770)
Foreign exchange differences, net	5	3,447	(4,315)
		700,769	504,425
Increase in inventories		(72,746)	(132,574)
Increase in trade and other receivables		(35,008)	(10,996)
Decrease in the current portion of biological assets		–	780
(Decrease)/increase in trade and other payables and contract liabilities		(314,872)	258,331
Cash generated from operations		278,143	619,966
Interest received		5,624	5,867
Net cash flows from operating activities		283,767	625,833

continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB' 000	2019 RMB' 000
Net cash flows from operating activities		283,767	625,833
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(745,817)	(184,859)
Additions to biological assets		(466,201)	(388,016)
Proceeds from disposal of items of property, plant and equipment		106	16,298
Proceeds from disposal of biological assets		274,129	234,297
Placement of pledged bank deposits		(48,459)	(48,251)
Withdrawals of pledged bank deposits		58,444	32,258
Withdrawals of time deposits with original maturity of more than three months		161,150	–
Receipt of government grants for assets		2,400	10,300
Net cash flows used in investing activities		(764,248)	(327,973)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		182,600	–
Share issue expenses		(1,362)	–
New borrowings raised		1,783,743	886,910
Repayment of borrowings		(1,249,853)	(1,277,527)
Principal portion of lease payments	27(b)	(65,156)	(72,141)
Interest and guarantee fees paid		(122,931)	(123,735)
Withdrawals of deposits pledged for other borrowings		14,400	–
Pledged deposits placed for other borrowings		(35,400)	–
Capital injection by a non-controlling shareholder		–	60,000
Net cash flows from/(used in) financing activities		506,041	(526,493)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		229,615	456,542
Effect of foreign exchange rate changes, net		(3,447)	1,706
CASH AND CASH EQUIVALENTS AT END OF YEAR		251,728	229,615
Represented by cash and bank balances:			
Cash and bank balances as stated in the consolidated statement of financial position		251,728	390,765
Less: Time deposits with original maturity of more than three months		–	(161,150)
		251,728	229,615

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").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Paid-in capital	Percentage of equity attributable to the Company		Principal Activities
			Direct	Indirect	
中地牧業科技集團有限公司 ZhongDi Farm Technology Corporation [#] ("ZhongDi Farm")	Beijing, PRC	RMB 904,709,000	–	100	Import goods and technology
北京中地種畜有限公司 Beijing Sinofarm Stud Livestock Co., Ltd. [#] ("Sinofarm Stud Livestock")	Beijing, PRC	RMB 904,709,000	–	100	Import and sale of cows
賀蘭中地生態牧場有限公司 Helan ZhongDi Farming Co., Ltd. [#] ("Helan ZhongDi")	Ningxia, PRC	RMB 800,000,000	–	100	Dairy farming operation
廊坊中地生態牧場有限公司 Langfang ZhongDi Farming Co., Ltd. [#] ("Langfang ZhongDi")	Hebei, PRC	RMB 400,000,000	–	100	Dairy farming operation
北京中地畜牧科技有限公司 Beijing ZhongDi Livestock Technology Co., Ltd. [#] ("Beijing ZhongDi")	Beijing, PRC	RMB 31,000,000	–	100	Dairy farming operation
內蒙古中地乳業有限公司 Inner Mongolia ZhongDi Dairy Co., Ltd. [#] ("Inner Mongolia ZhongDi")	Inner Mongolia, PRC	RMB 800,000,000	–	100	Dairy farming operation
天鎮中地生態牧場有限公司 Tianzhen ZhongDi Farming Co., Ltd. [#] ("Tianzhen ZhongDi")	Shanxi, PRC	RMB 400,000,000	–	100	Dairy farming operation
天津中地畜牧養殖有限公司 Tianjin ZhongDi Livestock Co., Ltd. [#] ("Tianjin ZhongDi")	Tianjin, PRC	RMB 300,000,000	–	100	Dairy farming operation
沂南中地牧業有限公司 Yinan ZhongDi Farm Co., Ltd. [#] ("Yinan ZhongDi")	Shandong, PRC	RMB 300,000,000	–	80	Dairy farming operation

[#] The English names of these companies represent the best effort made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

Notes to Consolidated Financial Statements (continued)

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Notes:

The type of legal entity registered of the above subsidiaries is limited liability company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.2 BASIS OF PREPARATION (continued)

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).

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.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.3 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.
- (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.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (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.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2¹</i>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contract³</i>
Amendments to IFRS 17	<i>Insurance Contract^{3,5}</i>
Amendments to IAS 1	<i>Classification of liabilities as Current or Non-current³</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
Annual Improvements to IFRSs 2018-2020	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41²</i>

¹ Effective for annual periods beginning on or after 1 January 2021

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

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

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Groups' investments in associates and joint ventures are stated in the consolidated statement of financial position at the Groups' share of net assets under the equity method of accounting, less any impairment losses.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Groups' share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Groups' investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Groups' investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its biological assets and agricultural produce at fair value less costs to sell at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/ a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives and principal annual rates used for this purpose are as follows:

	Useful lives	Residual values
Buildings	20-40 years	5%
Motor vehicles	5-10 years	5%
Plant and machinery	3-15 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Biological assets

Biological assets comprise dairy cows, including cows held for sale, milkable cows, and heifers and calves.

Biological assets are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation costs and excluding finance costs and income taxes. The fair value of biological assets is determined based on its present location and condition and is determined independently by professional valuers.

The feeding and other related costs including the depreciation charge, utility costs and consumables incurred for raising dairy cows held for sale, heifers and calves and milkable cows during dry period are capitalised, until such time as the dairy cows held for sale are sold and heifers and calves and milkable cows begin to produce milk.

Agricultural produce

Agricultural produce represents raw milk produced. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax. A gain or loss arising from agricultural produce at the point of harvest measured at fair value less costs to sell is included in profit or loss for the period which it arises.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products.

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

	Useful lives
Land use rights	1-50 years
Land parcels	1-50 years
Office buildings	1-3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

- (c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the accounting policies set out for "*Revenue recognition*" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets designated at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost or the deemed cost for agriculture produce harvested from biological assets and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less any estimated costs to be incurred to completion and disposal.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognised in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, the Group recognises the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Other grants

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on receipt of the goods by customers.

Rendering of services

Revenue from rendering of services is recognised upon completion of agency services and customer acceptance.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods and services to which the asset relates. Other contract costs are expensed as incurred.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Groups' subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate has been applied to the expenditure on the individual assets.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

Notes to Consolidated Financial Statements (continued)

31 December 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax liability for withholding taxes

As 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding tax of the Group's subsidiaries established in Mainland China. The detailed information is disclosed in note 11.

Estimation uncertainty

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

Notes to Consolidated Financial Statements (continued)

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

Valuation of biological assets

The Group's biological assets are valued at fair value less costs to sell at the end of each reporting period. The determination of the fair value involves the use of assumptions and estimates. Any changes in the estimates may affect the fair value of the Group's biological assets significantly. The independent qualified professional valuer and the management of the Group review the assumptions and estimates periodically to identify any significant change in fair value of the Group's biological assets. The carrying amount of the Group's biological assets as at 31 December 2020 was RMB1,752,420,000 (2019: RMB1,693,560,000). Further details are given in note 16 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Notes to Consolidated Financial Statements (continued)

31 December 2020

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
	1,927,230	1,499,381

Notes to Consolidated Financial Statements (continued)

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (continued)

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	6,405	25,425

(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.

Notes to Consolidated Financial Statements (continued)

31 December 2020

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
		18,553	6,592
Interest income		4,448	7,113
Others		1,123	1,719
		24,124	15,424
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
		(11,927)	8,179

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.

Notes to Consolidated Financial Statements (continued)

31 December 2020

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	705,416	486,353
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	6,121	–
Cost of sales of cows held for sale	37,362	173
Cost related to the trading of alfalfa and others	92	–
	1,843,237	1,435,124
Staff costs (including the directors' emoluments)		
Salaries, bonuses and allowances	194,299	129,179
Contributions to a retirement benefit scheme	3,123	13,158
Total employee benefits	197,422	142,337
Less: Capitalised in biological assets	(51,100)	(32,866)
Employee benefits charged in profit or loss	146,322	109,471
Depreciation and recognition of lease expenses		
Depreciation of items of property, plant and equipment	130,980	122,937
Less: Capitalised in biological assets	(60,937)	(58,780)
Depreciation charged to profit or loss	70,043	64,157
Depreciation of right-of-use assets	52,883	58,082
Less: Capitalised in inventories	(32,216)	(38,399)
Depreciation of right-of-use assets	20,667	19,683
Lease payments not included in the measurement of lease liabilities	462	305
Other items		
Auditors' remuneration	3,050	2,400

Notes to Consolidated Financial Statements (continued)

31 December 2020

7. OTHER EXPENSES

	2020 RMB' 000	2019 RMB' 000
Bank transaction fees	1,550	996
Others	603	10
	2,153	1,006

8. 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	(6,756)	(1,397)
	142,939	160,748

Borrowing costs capitalised during the year arose from the borrowings 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.

Notes to Consolidated Financial Statements (continued)

31 December 2020

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB' 000	2019 RMB' 000
Fees	1,484	1,506
Other emoluments:		
Salaries, allowances and benefits in kind	3,096	3,203
Performance related bonus	1,433	468
Pension scheme contributions	35	83
	6,048	5,260

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB' 000	2019 RMB' 000
Prof. Li Shengli	261	266
Dr. Zan Linsen	–	133
Dr. Zhang Juying Jerry	136	–
Dr. Zhang Shengli	261	133
Mr. Joseph Chow	130	266
	788	798

There were no other emoluments payable to the independent non-executive directors during the year (2019: nil).

Notes to Consolidated Financial Statements (continued)

31 December 2020

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB' 000	Salaries, allowances and benefits in kind RMB' 000	Performance related bonus RMB' 000	Pension scheme contributions RMB' 000	Total remuneration RMB' 000
2020					
Executive directors:					
Mr. Zhang Jianshe	–	1,636	771	16	2,423
Mr. Zhang Kaizhan	–	1,460	662	19	2,141
	–	3,096	1,433	35	4,564
Non-executive directors:					
Mr. Liu Dai	174	–	–	–	174
Mr. Du Yuchen	174	–	–	–	174
Mr. Li Jian	174	–	–	–	174
Ms. Yu Tianhua	174	–	–	–	174
	696	–	–	–	696
	696	3,096	1,433	35	5,260
2019					
Executive directors:					
Mr. Zhang Jianshe	–	1,686	279	16	1,981
Mr. Zhang Kaizhan	–	1,517	189	67	1,773
	–	3,203	468	83	3,754
Non-executive directors:					
Mr. Liu Dai	177	–	–	–	177
Mr. Du Yuchen	177	–	–	–	177
Mr. Li Jian	177	–	–	–	177
Ms. Yu Tianhua	177	–	–	–	177
	708	–	–	–	708
	708	3,203	468	83	4,462

Mr. Zhang Jianshe is also the Chief Executive Officer of the Group and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer during the years presented.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Consolidated Financial Statements (continued)

31 December 2020

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2019: two), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are not a director of the Company are as follows:

	2020 RMB' 000	2019 RMB' 000
Salaries, allowances and benefits in kind	2,280	2,401
Performance related bonus	619	261
Pension scheme contributions	43	111
	2,942	2,773

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,700,000	2	2
	3	3

Notes to Consolidated Financial Statements (continued)

31 December 2020

11. 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	(131,118)	(56)	(81,786)	(80)
Income tax expenses	–	–	–	–

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%.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB987,428,000 at 31 December 2020 (2019: RMB773,784,000).

Notes to Consolidated Financial Statements (continued)

31 December 2020

12. DIVIDEND

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

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

Notes to Consolidated Financial Statements (continued)

31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB' 000	Motor vehicles RMB' 000	Plant and equipment RMB' 000	Construction in progress RMB' 000	Total RMB' 000
31 December 2020					
At 31 December 2019 and at 1 January 2020:					
Cost	1,894,829	36,716	362,043	86,548	2,380,136
Accumulated depreciation	(316,884)	(12,885)	(144,653)	–	(474,422)
Net carrying amount	1,577,945	23,831	217,390	86,548	1,905,714
At 1 January 2020, net of accumulated depreciation	1,577,945	23,831	217,390	86,548	1,905,714
Additions	31,336	3,187	36,554	513,441	584,518
Transfers	352,185	–	5,686	(357,871)	–
Disposals	(8,294)	(422)	(998)	–	(9,714)
Depreciation provided during the year	(91,358)	(1,406)	(38,216)	–	(130,980)
At 31 December 2020, net of accumulated depreciation	1,861,814	25,190	220,416	242,118	2,349,538
At 31 December 2020					
Cost	2,257,303	38,048	440,394	242,118	2,937,863
Accumulated depreciation	(395,489)	(12,858)	(179,978)	–	(588,325)
Net carrying amount	1,861,814	25,190	220,416	242,118	2,349,538

Notes to Consolidated Financial Statements (continued)

31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB' 000	Motor vehicles RMB' 000	Plant and equipment RMB' 000	Construction in progress RMB' 000	Total RMB' 000
31 December 2019					
As at 31 December 2018 and at 1 January 2019:					
Cost	1,809,406	35,804	323,399	7,812	2,176,421
Accumulated depreciation	(240,198)	(11,240)	(110,483)	–	(361,921)
Net carrying amount	1,569,208	24,564	212,916	7,812	1,814,500
At 1 January 2019, net of accumulated depreciation	1,569,208	24,564	212,916	7,812	1,814,500
Additions	5,150	1,547	39,324	180,851	226,872
Transfers	101,385	80	650	(102,115)	–
Disposals	(11,822)	(628)	(271)	–	(12,721)
Depreciation provided during the year	(85,976)	(1,732)	(35,229)	–	(122,937)
At 31 December 2019, net of accumulated depreciation	1,577,945	23,831	217,390	86,548	1,905,714
At 31 December 2019					
Cost	1,894,829	36,716	362,043	86,548	2,380,136
Accumulated depreciation	(316,884)	(12,885)	(144,653)	–	(474,422)
Net carrying amount	1,577,945	23,831	217,390	86,548	1,905,714

As at 31 December 2020, certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB291,447,000 (2019: RMB287,684,000) were pledged to secure interest-bearing bank and other borrowings to the Group (note 23).

Notes to Consolidated Financial Statements (continued)

31 December 2020

15. LEASES

The Group as a lessee

The Group has lease contracts for land parcels and office buildings used in its operations. Lease of land parcels generally have lease terms of 1 to 50 years. Leases of office buildings generally have lease terms between 1 and 3 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land use rights RMB' 000	Land parcels RMB' 000	Office buildings RMB' 000	Total RMB' 000
As at 1 January 2019	98,519	383,927	16,219	498,665
Additions	–	105,351	–	105,351
Depreciation charge	(2,846)	(48,216)	(7,020)	(58,082)
Termination	–	(222)	(74)	(296)
As at 31 December 2019 and 1 January 2020	95,673	440,840	9,125	545,638
Additions	–	2,527	–	2,527
Depreciation charge	(2,780)	(44,153)	(5,950)	(52,883)
Termination	–	(44,409)	–	(44,409)
As at 31 December 2020	92,893	354,805	3,175	450,873

Notes to Consolidated Financial Statements (continued)

31 December 2020

15. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020 RMB' 000	2019 RMB' 000
Carrying amount at 1 January	443,271	377,773
New leases	2,527	105,351
Accretion of interest recognised during the year	26,471	32,362
Payments	(65,156)	(72,141)
Termination	(44,955)	(74)
Carrying amount at 31 December	362,158	443,271
Analysed into:		
Current portion	58,423	67,320
Non-current portion	303,735	375,951
	362,158	443,271

The maturity analysis of lease liabilities is disclosed in note 32 to the financial statements.

Notes to Consolidated Financial Statements (continued)

31 December 2020

15. LEASES (continued)

The Group as a lessee (continued)

(c) *The amounts recognised in profit or loss in relation to leases are as follows:*

	2020 RMB' 000	2019 RMB' 000
Interest on lease liabilities	26,471	32,362
Depreciation of right-of-use assets	20,667	19,683
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	360	274
Expense relating to leases of low-value assets (included in administrative expenses)	102	31
Total amount recognised in profit or loss	47,600	52,350

The Group as a lessor

The Group subleases its land parcels with five land lease contracts in Ulanqab under operating lease arrangements. Rental income recognised by the Group during the year was RMB791,300 (2019: nil).

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 RMB' 000	2019 RMB' 000
Within one year	791	–
After one year but within two years	791	–
After two years but within three years	264	–
	1,846	–

Notes to Consolidated Financial Statements (continued)

31 December 2020

16. 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.

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

Notes to Consolidated Financial Statements (continued)

31 December 2020

16. BIOLOGICAL ASSETS (continued)

A – Nature of activities (continued)

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

- i. Regulatory and environmental risks

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

- ii. Climate, disease and other natural risks

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

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

	2020	2019
	Tonnes	Tonnes
Raw milk	430,561	373,713

Notes to Consolidated Financial Statements (continued)

31 December 2020

16. BIOLOGICAL ASSETS (continued)

C – 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)
At 31 December 2020	448,518	1,303,902	–	1,752,420
Represented by:				
Current portion	–	–	–	–
Non-current portion	448,518	1,303,902	–	1,752,420
Total	448,518	1,303,902	–	1,752,420

Notes to Consolidated Financial Statements (continued)

31 December 2020

16. BIOLOGICAL ASSETS (continued)

C – Value of biological assets (continued)

	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)
At 31 December 2019	440,030	1,253,530	–	1,693,560
Represented by:				
Current portion	–	–	–	–
Non-current portion	440,030	1,253,530	–	1,693,560
Total	440,030	1,253,530	–	1,693,560

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. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in section E of this note.

As at 31 December 2020, the Group pledged certain dairy cows to secure certain bank and other borrowings of the Group (note 23).

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	705,416	486,353

Notes to Consolidated Financial Statements (continued)

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16. BIOLOGICAL ASSETS (continued)

D – Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's biological assets:

Recurring fair value measurement for:	As at 31 December 2020			Total RMB' 000
	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	
Cows held for sale	–	–	–	–
Heifers and calves	–	–	448,518	448,518
Milkable cows	–	–	1,303,902	1,303,902
Total biological assets	–	–	1,752,420	1,752,420

Recurring fair value measurement for:	As at 31 December 2019			Total RMB' 000
	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	
Cows held for sale	–	–	–	–
Heifers and calves	–	–	440,030	440,030
Milkable cows	–	–	1,253,530	1,253,530
Total biological assets	–	–	1,693,560	1,693,560

Notes to Consolidated Financial Statements (continued)

31 December 2020

16. BIOLOGICAL ASSETS (continued)

E – Valuation techniques used in fair value measurements

The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation.

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling price of the heifers of 14 months old was estimated at RMB18,500 per head at 31 December 2020 (2019: RMB18,500 per head).	An increase in the estimated local market selling price would result in an increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves at the age group of less than 14 months old are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months old plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at the age group of older than 14 months old are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period and the margins that would normally be required by a raiser.	Estimated average feeding cost per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old was RMB17,782 at 31 December 2020 (2019: RMB15,442). Average estimated feeding cost per head plus margin that would normally be required by a raiser for heifers older than 14 months old was RMB12,675 at 31 December 2020 (2019: RMB11,764).	An increase in the estimated feeding cost plus the margin that would normally be required by a raiser would result in an increase in the fair value measurement of the heifers and calves older than 14 months old and a decrease in the fair value measurement of the heifers and calves younger than 14 months old, and vice versa.

Notes to Consolidated Financial Statements (continued)

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16. BIOLOGICAL ASSETS (continued)

E – Valuation techniques used in fair value measurements (continued)

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is a method of estimating the economic benefits of such milkable cows over multiple time periods by identifying the cash flows associated with such milkable cows and deducting a periodic charge reflecting a fair return for such milkable cows.	<p>The estimated feed cost per kilogram of raw milk used in the valuation process was RMB2.18 for the year ended 31 December 2020 (2019: RMB2.11), based on the historical average feed costs per kilogram of raw milk after taking inflation into consideration.</p> <p>A milkable cow could have as many as six lactation cycles. The estimated average daily milk yield at each lactation cycle ranged from 30.50kg to 32.10kg for the year ended 31 December 2020 (2019: from 28.20kg to 29.80kg), depending on the number of the lactation cycles and the individual physical condition.</p> <p>The estimated local future market price for raw milk was RMB4,400 per tonne at 31 December 2020 (2019: RMB4,190).</p> <p>The discount rate for estimated future cash flows used was 14.0% at 31 December 2020 (2019: 14.0%).</p>	<p>An increase in the estimated feed cost per kilogram of raw milk would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated daily milk yield per head would result in an increase in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated average selling price of raw milk would result in an increase in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated discount rate would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p>

Notes to Consolidated Financial Statements (continued)

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17. INVESTMENTS IN AN ASSOCIATE

	2020 RMB' 000	2019 RMB' 000
Share of net assets	10,314	10,401

Particular of the associate is as follows:

Name	Registered Capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
北京龍頭農業互助公社股份有限公司 Beijing Longtou Agricultural Mutual Community Co., Ltd.#	RMB30,000,000	Beijing, PRC	33.33%	Investment Management

The English name of the company represent the best effort made by the management of the Company to directly translate the Chinese name as it did not register any official English name.

The Group's shareholdings in the associate is held through a wholly-owned subsidiary of the Company. The financial year of the above associate is coterminous with that of the Group.

18. INVENTORIES

	2020 RMB' 000	2019 RMB' 000
Feed	497,644	436,982
Others	40,428	28,344
	538,072	465,326

Notes to Consolidated Financial Statements (continued)

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19. 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
	172,444	157,118
Other receivables:		
– Advances to suppliers	36,582	16,684
– Others	7,044	10,298
	43,626	26,982
	216,070	184,100

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses on trade receivables. The provision rates are based on ageing groups for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. No impairment has been provided for the Group's trade and other receivables as at 31 December 2020 (31 December 2019: nil).

As at 31 December 2020, the Group had entered into several factoring agreements with certain financial institutions. Since the Group had retained the substantial risks and rewards relating to those factored trade receivables, it continued to recognise the full carrying amounts of trade receivables and accounted for the proceeds as bank and other borrowings as disclosed in note 23. Trade receivables under such factoring agreements amounted to RMB18,028,000 as at 31 December 2020 (31 December 2019: RMB11,451,000).

Notes to Consolidated Financial Statements (continued)

31 December 2020

20. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	2020 RMB' 000	2019 RMB' 000
Cash and cash equivalents	251,728	229,615
Time deposits with original maturity of more than three months	–	161,150
Cash and bank balances	251,728	390,765
Pledged bank deposits	13,867	23,852
	265,595	414,617

Pledged bank deposits of the Group represent deposits pledged for letters of credit and bills payable. The Group's pledged bank deposits carried interest at a prevailing interest rate from 0.02% to 1.75% per annum at 31 December 2020 (2019: 0.30%).

Cash and bank balances of the Group comprise cash, short-term bank deposits with an original maturity of three months or less and time deposits with original maturity of more than three months. The Group's bank balances carried interest at floating rates based on daily bank deposit rates per annum at 31 December 2020 (2019: 0.01% to 2.8%).

Pledged bank deposits and cash and bank balances were denominated in RMB, United States dollars ("USD") and Hong Kong dollars ("HKD") as at 31 December 2020. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pledged bank deposits and cash and bank balances of the Group are denominated in the following currencies:

	2020 Original currency' 000	2020 RMB' 000	2019 Original currency' 000	2019 RMB' 000
RMB	243,339	243,339	228,383	228,383
USD	264	1,729	26,626	185,749
HKD	23,820	20,527	541	485
		265,595		414,617

Notes to Consolidated Financial Statements (continued)

31 December 2020

21. 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 RMB' 000	2019 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
	387,034	705,007
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
	71,601	78,990
	458,635	783,997

22. CONTRACT LIABILITIES

	31 December 2020 RMB' 000	31 December 2019 RMB' 000	1 January 2019 RMB' 000
Short-term advances received from customers:			
Sale of goods	3,482	6,405	25,425

Contract liabilities include short-term advances received to deliver goods. The decrease in contract liabilities in 2020 and 2019 was mainly due to the decrease in short-term advances received from customers in relation to the provision of sale of goods at the end of the year.

Notes to Consolidated Financial Statements (continued)

31 December 2020

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2020		2019	
		Maturity	RMB' 000	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
			1,362,650		1,146,449
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
			1,324,535		1,087,959
			2,687,185		2,234,408
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
			2,687,185		2,234,408
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
			2,687,185		2,234,408

Notes to Consolidated Financial Statements (continued)

31 December 2020

23. 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	2019
	RMB' 000	RMB' 000
RMB	2,687,185	2,234,408

Notes to Consolidated Financial Statements (continued)

31 December 2020

24. DEFERRED INCOME

	2020 RMB' 000	2019 RMB' 000
Balance at beginning of the year:	34,364	27,196
– Additions	2,400	10,300
– Released to income	(3,272)	(3,132)
Balance at end of the year	33,492	34,364

Deferred income arising from government grants of the Group represents the government subsidies obtained in relation to the construction of property, plant and equipment. Government grants are included in the consolidated statement of financial position as deferred income and are credited to profit or loss on a systematic basis over the useful lives of the related assets.

25. SHARE CAPITAL

Shares

	2020 RMB' 000	2019 RMB' 000
Authorised:		
5,000,000,000 ordinary shares of USD0.00001 each	306	306
Issued and fully paid:		
2,606,719,522 (2019: 2,174,078,000) ordinary shares of USD0.00001 each	165	135

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB' 000
At 1 January 2019, 31 December 2019, 1 January 2020	2,174,078,000	135
Share issued	432,641,522	30
At 31 December 2020	2,606,719,522	165

On 31 July 2020, the Company entered into a subscription agreement with Hongkong Jingang Trade Holding Co., Limited (the "Jingang Trade"), a subsidiary wholly-owned by Inner Mongolia Yili Industrial Group Co., Ltd. (the "Yili Industrial"), a listed company on the Shanghai Stock Exchange of the PRC, pursuant to which the Company has conditionally agreed to allot and issue an aggregate of 432,641,522 shares ("Subscription Shares") of the Company at a subscription price of HK\$0.47 per share, representing approximately 16.6% of the enlarged issued share capital of the Company upon the completion of the issue of the Subscription Shares.

Notes to Consolidated Financial Statements (continued)

31 December 2020

25. SHARE CAPITAL (continued)

Shares (continued)

The subscription was completed on 12 August 2020. The net proceeds of the subscription, after deduction of expenses of HK\$1,553,000 (equivalent to RMB1,362,000), were approximately HK\$201,789,000 (equivalent to RMB181,238,000).

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including non-executive directors and independent non-executive directors, employees of the Group, any advisers, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of the Group. The Scheme became effective on 2 December 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the proposed grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of the grant of an option may be accepted within five business days from the date of offer, upon payment of a nominal consideration of HK\$1 of the grant of an option by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a day after the date upon which the offer for the grant of options is made and ends on a date which is not later than ten years from the date of grant of the share options or early termination under the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the date of offer of the share options, which must be a business day; and (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted under the Scheme during the year ended 31 December 2020 (2019: nil).

Notes to Consolidated Financial Statements (continued)

31 December 2020

26. RESERVES

(i) *Movements in components of equity*

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(ii) *Capital reserve*

The balance of share premium represented the aggregate capital reserve arising from the capital injection to Sinofarm Stud Livestock by its shareholders in addition to registered capital prior to 1 January 2014.

(iii) *Statutory surplus reserve*

According to the PRC Company Law and the articles of association of the PRC subsidiaries of the Group, these companies are required to transfer 10% of their respective after-tax profits, calculated in accordance with China Accounting Standards, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of these companies. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase the registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital of these companies.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) *Changes in liabilities arising from financing activities*

	Bank and other borrowings RMB' 000	Lease liabilities RMB' 000
At 1 January 2020	1,791,137	443,271
Changes from financing cash flows	533,890	(65,156)
Termination	–	(44,955)
New leases	–	2,527
Interest expense	–	26,471
At 31 December 2020	2,325,027	362,158

Notes to Consolidated Financial Statements (continued)

31 December 2020

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(a) Changes in liabilities arising from financing activities (continued)

	Bank and other borrowings RMB' 000	Lease liabilities RMB' 000
At 31 December 2018	2,181,755	–
Effect of adoption of IFRS 16	–	377,773
At 1 January 2019	2,181,755	377,773
Changes from financing cash flows	(390,618)	(72,141)
Termination	–	(74)
New leases	–	105,351
Interest expense	–	32,362
At 31 December 2019	1,791,137	443,271

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB' 000	2019 RMB' 000
Within operating activities	462	305
Within financing activities	65,156	72,141
	65,618	72,446

28. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB' 000	2019 RMB' 000
Contracted but not provided for:		
Plant and machinery	137,806	203,092

Notes to Consolidated Financial Statements (continued)

31 December 2020

29. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in this financial information, the Group had rented two offices from SinoFarm Genetics & Seeds (Group) Co., Ltd. ("SinoFarm Genetics & Seeds"). SinoFarm Genetics & Seeds is beneficially owned by Beijing YeGu Agriculture Technology Development Company Limited ("YeGu Agriculture") as to 51% and Beijing Qin Long Da Bio Technology Co., Ltd. ("Qin Long Da") as to 49%, respectively. YeGu Agriculture is wholly owned by Mr. Zhang Jianshe. Qin Long Da is owned as to 1% by Ms. Chang Na, an independent third party, and 99% by Mr. Li Jingbo, the brother-in-law of Mr. Zhang Jianshe. The two office rent contracts were from 22 June 2018 to 21 June 2021, with annual lease payments of RMB2,514,000 and RMB4,085,000, respectively.
- (b) During the year ended 31 December 2020, the Group purchased goods at an amount of RMB83,000 (2019: RMB111,000) from SinoFarm Genetics & Seeds.
- (c) *Guarantees provided by related parties*

	Note	2020 RMB' 000	2019 RMB' 000
Mr. Zhang Jianshe	(i)	1,686,546	1,294,982

Note:

- (i) Within the above bank and other borrowings guaranteed by Mr. Zhang Jianshe, Mrs. Li Jingtao, the spouse of Mr. Zhang Jianshe, also provided guarantees to bank and other borrowings of RMB1,319,313,000 (31 December 2019: RMB1,078,482,000).
- (d) As at 28 December 2020, the Group sold Shandong ZhongDi Feed Co., Ltd. ("Shandong Feed"), a wholly-owned subsidiary, to SinoFarm Genetics & Seeds at nil consideration. Shandong Feed had no business since its establishment with net assets of RMB11,000 as at 28 December 2020.
- (e) *Compensation to key management personnel*

	2020 RMB' 000	2019 RMB' 000
Salaries, bonuses and other benefits	7,236	6,332
Retirement benefit scheme contributions	68	195
	7,304	6,527

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

Notes to Consolidated Financial Statements (continued)

31 December 2020

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets	2020	2019
	RMB' 000	RMB' 000
Financial assets at amortised cost:		
Pledged deposits	50,766	32,590
Trade receivables	172,444	157,118
Financial assets included in other receivables and other assets	3,876	10,298
Pledged bank deposits	13,867	23,852
Cash and bank balances	251,728	390,765
	492,681	614,623
Financial liabilities	2020	2019
	RMB' 000	RMB' 000
Financial liabilities at amortised cost:		
Trade and bills payables	387,034	705,007
Financial liabilities included in other payables and interest payables	33,733	58,910
Interest-bearing bank and other borrowings	2,687,185	2,234,408
	3,107,952	2,998,325

Notes to Consolidated Financial Statements (continued)

31 December 2020

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2020	2019	2020	2019
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Financial liabilities				
Interest-bearing bank and other borrowings (other than lease liabilities)	2,325,027	1,791,137	2,425,498	2,006,751

Management has assessed that the fair values of cash and bank balances, the current portion of pledged bank deposits, trade receivables, trade payables, financial assets included in other receivables and other assets, and financial liabilities included in other payables approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of long term pledged deposits is calculated by discounting the expected future cash flows using the prevailing market interest rate for instruments with similar terms, credit risk and remaining maturities, and therefore it approximates to their fair value.

The fair values of the financial assets and liabilities are determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following method and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group did not have any financial assets or liabilities measured at fair value for the year ended 31 December 2020 (2019: nil).

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

	Fair value measurement using significant unobservable inputs (Level 2)	
	2020	2019
	RMB' 000	RMB' 000
Interest-bearing bank and other borrowings (other than lease liabilities)	2,425,498	2,006,751

Notes to Consolidated Financial Statements (continued)

31 December 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances, pledged bank deposits, long term pledged deposits and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in RMB interest rate, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB' 000	Increase/ (decrease) in equity RMB' 000
2020			
RMB	50	(8,314)	(8,314)
RMB	(50)	8,314	8,314
2019			
RMB	50	(5,399)	(5,399)
RMB	(50)	5,399	5,399

Notes to Consolidated Financial Statements (continued)

31 December 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group undertakes certain purchases of cows from overseas transactions and has bank balances in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge its exposure to currency risk. The management of the Group manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in the USD and HKD exchange rates with all other variables held constant, of the Group's profit after tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit after tax RMB' 000	Increase/ (decrease) in equity RMB' 000
2020			
If RMB strengthens against USD	5	(163)	(163)
If RMB weakens against USD	(5)	163	163
If RMB strengthens against HKD	5	(1,022)	(1,022)
If RMB weakens against HKD	(5)	1,022	1,022
2019			
If RMB strengthens against USD	5	(9,328)	(9,328)
If RMB weakens against USD	(5)	9,328	9,328
If RMB strengthens against HKD	5	(29)	(29)
If RMB weakens against HKD	(5)	29	29

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Notes to Consolidated Financial Statements (continued)

31 December 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-months ECLs		Life-time ECLs		Total RMB' 000
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
Trade receivables	–	–	–	172,444	172,444
Financial assets included in prepayments, other receivables and other assets					
– Normal	3,876	–	–	–	3,876
Pledged deposits					
– Not yet past due	50,766	–	–	–	50,766
Pledged bank deposits					
– Not yet past due	13,867	–	–	–	13,867
Cash and cash equivalents					
– Not yet past due	251,728	–	–	–	251,728
	320,237	–	–	172,444	492,681

Notes to Consolidated Financial Statements (continued)

31 December 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2019

	12-months ECLs		Life-time ECLs		Simplified approach RMB' 000	Total RMB' 000
	Stage 1	Stage 2	Stage 3			
	RMB' 000	RMB' 000	RMB' 000			
Trade receivables	–	–	–	157,118	157,118	
Financial assets included in prepayments, other receivables and other assets						
– Normal	10,298	–	–	–	10,298	
Pledged deposits						
– Not yet past due	32,590	–	–	–	32,590	
Pledged bank deposits						
– Not yet past due	23,852	–	–	–	23,852	
Cash and cash equivalents						
– Not yet past due	390,765	–	–	–	390,765	
	457,505	–	–	157,118	614,623	

As at 31 December 2020, 99.03% (2019: 98.22%) of the Group's trade receivables were from the sales of raw milk. The Group only transacted with a limited number of customers for the sale of raw milk. Therefore, there is concentration of credit risk arising from the Group's trade receivables from raw milk customers. The management of the Group considers that the risk is low because the Group only transacts with creditworthy customers and there is no history of default of these customers.

Notes to Consolidated Financial Statements (continued)

31 December 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings, lease liabilities and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand RMB' 000	Less than 1 year RMB' 000	1 to 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000
2020					
Trade and bills payables and financial liabilities included in other payables	–	420,767	–	–	420,767
Lease liabilities	–	60,490	223,866	261,632	545,988
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	1,220,744	1,204,996	229,081	2,654,821
	–	1,702,001	1,428,862	490,713	3,621,576
2019					
Trade and bills payables and financial liabilities included in other payables	–	763,917	–	–	763,917
Lease liabilities	–	71,198	247,814	518,513	837,525
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	1,070,690	1,047,473	–	2,118,163
	–	1,905,805	1,295,287	518,513	3,719,605

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2020.

Notes to Consolidated Financial Statements (continued)

31 December 2020

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total liabilities divided by the total assets. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios at the end of the reporting periods were as follows:

	2020 RMB' 000	2019 RMB' 000
Total liabilities	3,182,794	3,059,174
Total assets	5,861,070	5,323,510
Gearing ratio	54.3%	57.5%

33. EVENTS AFTER THE REPORTING PERIOD

On 11 January 2021, the Jingang Trade transferred 432,641,522 Shares legally and beneficially held by it to the Wholesome Harvest Limited ("the Offeror"); and Mr. Zhang Jianshe transferred his holdings of 392,088,000 Shares directly owned by YeGu Investment and 315,790,000 Shares directly owned by Green Farmlands Group, to the Offeror.

Upon the completion, the Offeror owns an aggregate of 1,140,519,522 issued Shares of the Company, representing approximately 43.75% of the issued share capital of the Company. 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.

On 8 February 2021, the Offeror had received valid acceptances in respect of 1,443,788,000 Shares, representing approximately 55.39% of the issued Shares 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 was 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 completion with the Cayman Island Companies Act ("the Act") and Rule 2.11 of the Takeover 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 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.

Notes to Consolidated Financial Statements (continued)

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 RMB' 000	2019 RMB' 000
NON-CURRENT ASSETS		
Property, plant and equipment	70	70
Right-of-use assets	143	1,194
Investment in a subsidiary	1,076,527	914,440
Total non-current assets	1,076,740	915,704
CURRENT ASSETS		
Other receivables and other assets	–	242
Cash and bank balances	13,639	12,791
Total current assets	13,639	13,033
CURRENT LIABILITIES		
Other payables	4,354	4,037
Amounts due to subsidiaries	516	608
Lease liabilities	269	1,212
Total current liabilities	5,139	5,857
NET CURRENT ASSETS	8,500	7,176
TOTAL ASSETS LESS CURRENT LIABILITIES	1,085,240	922,880
NON CURRENT LIABILITIES		
Lease liabilities	–	44
Net assets	1,085,240	922,836
EQUITY		
Share capital	165	135
Share premium and reserves (note)	1,085,075	922,701
	1,085,240	922,836

Notes to Consolidated Financial Statements (continued)

31 December 2020

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's share premium and reserves is as follows:

	Share premium RMB' 000	Capital reserve RMB' 000	Accumulated losses RMB' 000	Total RMB' 000
Balance at 1 January 2019	1,019,152	(69)	(82,640)	936,443
Loss and total comprehensive loss for the year	–	–	(13,742)	(13,742)
Balance at 31 December 2019	1,019,152	(69)	(96,382)	922,701
Balance at 1 January 2020	1,019,152	(69)	(96,382)	922,701
Loss and total comprehensive loss for the year	–	–	(18,834)	(18,834)
Issue of shares	182,570	–	–	182,570
Share issue expenses	(1,362)	–	–	(1,362)
Balance at 31 December 2020	1,200,360	(69)	(115,216)	1,085,075

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.