THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Modern Dairy Holdings Ltd.**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the licensed securities dealer, registered institution in securities, bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTERESTS IN FUYUAN;
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE;
(3) APPLICATION FOR WHITEWASH WAIVER;
AND
(4) NOTICE OF EGM

Financial Adviser to the Company

CICC
中金公司

Independent Financial Adviser to
the Listing Rules Independent Board Committee,
the Takeovers Code Independent Board Committee
and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise. A letter from the Board is set out on pages 10 to 42 of this Circular. A letter from the Listing Rules Independent Board Committee is set out on pages 43 to 44 of this circular. A letter from the Takeovers Code Independent Board Committee is set out on pages 45 to 46 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Listing Rules Independent Board Committee, Takeovers Code Independent Board Committee and the Independent Shareholders is set out on pages 47 to 81 of this circular.

A notice convening the EGM of the Company to be held at Jasmine Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Hong Kong on June 2, 2021 (Wednesday) at 9:45 a.m. (or as soon as after the annual general meeting of the Company to be held at the same place on the same date at 8:45 a.m. shall have been concluded or adjourned) is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is also enclosed. If you are not able to attend the EGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited at 17M, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

(1) Compulsory body temperature screening/checks

(2) Submission of health declaration form

(3) Wearing of surgical face mask

(4) No provision of refreshments or distribution of corporate gift

(5) Maintenance of appropriate distancing and spacing

Attendees who do not comply with the precautionary measures (1) to (3) above or is subject to any HKSAR Government prescribed quarantine may be denied entry to the meeting venue of the EGM, at the absolute discretion of the Company as permitted by law.

For the health and safety of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person.

Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish.

May 14, 2021

1. PRECAUTIONARY MEASURES FOR THE EGM

With the outbreak and spreading of the COVID-19 pandemic, to safeguard the health and safety of Shareholders who might be attending the EGM in person, the Company will implement the following precautionary measures at the EGM:

(i) Compulsory body temperature checks will be conducted on every shareholder, proxy or other attendee at the entrance of the meeting venue. Any person with a body temperature above the reference range quoted by the Department of Health from time to time, or is exhibiting flu-like symptoms, or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue and be requested to leave the venue.

(ii) Each attendee will be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

(iii) Each attendee will be required to wear a surgical face mask throughout the EGM and sit at a safe distance from other attendees. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks.

(iv) No refreshment will be served, and there will be no corporate gift.

(v) Appropriate distancing and spacing in line with any guidance from the HKSAR Government will be maintained and as such, the Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding.

To the extent permitted under law, the Company reserves the right to deny entry into the venue of the EGM or require any person to leave the venue of the EGM so as to ensure the health and safety of the attendees at the EGM.

2. OTHERS

In light of the continuing risks posed by the COVID-19 pandemic, the Company strongly encourages Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person, by completing and return the proxy form attached to this document to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited by **Monday, May 31, 2021 at 9:45 a.m.** or not less than 48 hours before the time of any adjournment of the EGM (as the case may be) at the address stated below. If any shareholder chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the Board of the Company, he/she is welcome to send such question or matter in writing to our principal office in Hong Kong or to our email at info@moderndairyir.com.

If any shareholder has any question relating to the EGM, please contact Computershare Hong Kong Investor Services Limited, the Company’s branch share registrar as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen’s Road East, Wan Chai, Hong Kong
Website: www.computershare.com/hk/contact
Tel: 2862 8555
Fax: 2865 0990

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the proposed acquisition of the Target Assets by the Company pursuant to the terms and conditions of the Sale and Purchase Agreement
"Announcement"	the Company's announcement dated March 22, 2021 in respect of, among others, the Acquisition and the Whitewash Waiver
"associate(s)"	has the meaning as defined under the Listing Rules
"Board"	the board of Directors
"BOCI Financial Products"	BOCI Financial Products Limited
"Borrowed Securities"	the 613,877,227 Shares which Mengniu has lent to BOCI Financial Products pursuant to the Securities and Lending Agreement
"Burra Disposal"	the disposal of Burra Interests by Fuyuan in connection with the Reorganization
"Burra Group"	Austin Holding Co., Limited and its subsidiaries
"Burra Interests"	the entire interests held by Fuyuan in Burra Group
"Business Day"	any day (excluding a Saturday or Sunday) on which commercial banks are open for business in the PRC and Hong Kong
"Company"	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
"Completion"	the completion of the sale and purchase of Target Assets pursuant to the terms of the Sale and Purchase Agreement
"Completion Date"	the date on which Completion occurs in accordance with the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Consideration"	the consideration for the sale and purchase of the Target Assets under the Sale and Purchase Agreement

DEFINITIONS

"Consideration Shares"	either (i) if the Acquisition were to proceed pursuant to Settlement Scenario I, a total of 807,096,101 new Shares to be issued at the Issue Price, which will be allotted and issued to Mengniu SPV in accordance with the terms of the Sale and Purchase Agreement; or (ii) if the Acquisition were to proceed pursuant to Settlement Scenario II, a total of 262,195,758 new Shares to be issued to Mengniu SPV in accordance with the terms of the Sale and Purchase Agreement
"Director(s)"	director(s) of the Company
"EB Holder(s)"	holder(s) of the Exchangeable Bonds
"EGM"	the extraordinary general meeting of the Company to be held at Jasmine Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Hong Kong, on June 2, 2021 (Wednesday) at 9:45 a.m. for the Independent Shareholders to consider and, if thought fit, approve the (i) Sale and Purchase Agreement, the Acquisition and the issue of Consideration Shares under the Specific Mandate contemplated thereunder; and (ii) the Whitewash Waiver
"Enlarged Group"	the Group immediately upon completion of the Acquisition
"Exchange Period"	at any time on or after August 4, 2020 and up to the close of business on June 13, 2023
"Exchange Right(s)"	the right(s) of an EB Holder to exchange an Exchangeable Bond for Shares pursuant to terms of the Exchangeable Bonds
"Exchangeable Bonds"	the 1.50% exchangeable bonds due 2023 in the principal amount of US$100,000,000 issued by Mengniu
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Framework Supply Agreement"	the framework supply agreement dated June 16, 2017 which was amended on November 28, 2017 and renewed on December 31, 2019, entered into between Modern Farming and Fuyuan in relation to the supply of feedstuffs by Fuyuan to the Modern Farming and its subsidiaries
"Fushengle"	北京富盛樂企業管理諮詢合夥企業(有限合夥) (Beijing Fushengle Corporate Management Consulting Partnership (Limited Partnership)*), one of the Individual Shareholders

"Future Discovery"	Future Discovery Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Mengniu
"Fuyuan"	內蒙古富源國際實業(集團)有限公司 (Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd.*), a limited liability company established in the PRC in February 2012 and a connected person of the Company as of the Latest Practicable Date
"Governmental Entity"	any supra-national, national, state, municipal or local government (including any sub-division, court, administrative agency, commission or other authority thereof) or private body exercising any regulatory, taxing, importing or quasi-governmental authority (including any stock exchange)
"Group"	the Company and its subsidiaries
"GS"	北京寬街博華投資中心(有限合夥) (Beijing Kuanjie Bohua Investment Center (Limited Partnership)*) and Fortune Investment Holdings
"Haomu"	北京好牧企業管理諮詢合夥企業(有限合夥) (Beijing Haomu Corporate Management Consulting Partnership (Limited Partnership)*), one of the Individual Shareholders
"Hefei Energy"	Modern Energy (Hefei) Co., Ltd.* (現代能源(合肥)有限公司), a company incorporated in the PRC and a subsidiary of Jiangyin Dairy Energy
"HK MidCo"	a holding company to be established in Hong Kong which will directly hold the corresponding equity interests in Fuyuan held by Inner Mongolia Mengniu as of the date of the Sale and Purchase Agreement
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong), being the independent financial adviser to advise the Listing Rules Independent Board Committee, the Takeovers Code Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement, the Acquisition and issue of Consideration Shares under the Specific Mandate contemplated thereunder and the Whitewash Waiver
"Independent Shareholder(s)"	Shareholders other than (i) the Mengniu Concert Group, (ii) BOCI Financial Products (to the extent that it continues to hold the voting rights of the Borrowed Securities under the Securities and Lending Agreement), (iii) Jinmu, (iv) Ms. GAO Lina, (v) Mr. SUN Yugang, (vi) those who have a material interest in, are interested in or involved in, the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares contemplated thereunder and the Whitewash Waiver, and (vii) any associates of those mentioned in (i) to (vi)
"Independent Valuer" or "JLL"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a qualified independent valuer in Hong Kong
"Individual Shareholders"	collectively, Youmuyuan, Fushengle, Haomu, Youzhimu and Meileyuan
"Inner Mongolia Mengniu"	Inner Mongolia Mengniu Dairy (Group) Co., Ltd.* (內蒙古蒙牛乳業(集團)股份有限公司), a company established in the PRC with limited liabilities, a 99.99% owned subsidiary of Mengniu as of the Latest Practicable Date
"Issue Price"	means HK$2.24 per Consideration Share
"Jiangsu Agriculture"	Jiangsu Agriculture Environment Energy Technology Co., Ltd.* (江蘇農環能源科技有限公司), a company incorporated under the laws of the PRC
"Jiangyin Dairy Energy"	Jiangyin Dairy Energy Environment Technology Co., Ltd.* (江陰牧能環境科技有限公司), a company incorporated under the laws of the PRC
"Jinmu"	Jinmu Holdings Co., Ltd., a controlled corporation of Ms. GAO Lina and a Shareholder

"Last Trading Day"	March 22, 2021, being the last trading day of the Shares immediately prior to the publication of the Announcement
"Latest Practicable Date"	May 11, 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Listing Rules Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors except for Mr. WOLHARDT Julian Juul
"Long Stop Date"	means December 31, 2021 or such other date as may be agreed between the Parties
"Managers"	BOCI Asia Limited and Guotai Junan Securities (Hong Kong) Limited
"Meileyuan"	北京美樂源企業管理諮詢合夥企業(有限合夥) (Beijing Meileyuan Corporate Management Consulting Partnership (Limited Partnership)*), one of the Individual Shareholders
"Mengniu"	China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司*), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319), a substantial shareholder and a connected person of the Company
"Mengniu Concert Group"	Mengniu, Future Discovery and Inner Mongolia Mengniu
"Mengniu SPV"	the holding vehicle designated by Mengniu which shall become the legal and beneficial owners of the relevant Sale Shares after completion of the Reorganization
"Milk Supply Agreement"	the milk supply agreement dated February 27, 2014 entered into between Fuyuan and Inner Mongolia Mengniu pursuant to which Inner Mongolia Mengniu agreed to purchase fresh milk from Fuyuan and its subsidiaries

“Modern Farming”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.*), a sino-foreign investment enterprise established in the PRC and an indirect non-wholly owned subsidiary of the Company
“New Hope”	New Hope Dairy Co., Ltd., a limited liability company incorporated under the laws of the PRC and listed on the Shenzhen Stock Exchange (stock code: 002946)
“Offshore HoldCo”	an investment holding company to be established under the laws of Cayman Islands or the laws of the British Virgin Islands which will hold, via its wholly-owned subsidiary, HK MidCo, the corresponding equity interests in Fuyuan held by Inner Mongolia Mengniu
“Parties”	parties to the Sale and Purchase Agreement
“Placing”	the placing of 650,000,000 new Shares at the price of HK$2.40 per Share pursuant to the Placing Agreement
“Placing Agreement”	the placing agreement dated January 20, 2021 entered into between the Company and the placing agents, namely, China International Capital Corporation Hong Kong Securities Limited and CMB International Capital Limited
“Potential MGO Obligation”	the mandatory general offer obligation under Rule 26.1(d) triggered by the allotment and issue of Consideration Shares pursuant to Settlement Scenario I in the event (i) Mengniu Concert Group’s interest in the Company decreases to 50% or below (but not less than 30%) at any time during the Relevant Period; and (ii) the issue of the Consideration Shares has the effect of increasing the Mengniu Concert Group’s holding of voting rights in the Company by more than 2% from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period
“PRC” or “China”	the People’s Republic of China and for the purpose of this circular, does not include Hong Kong, Macao Special Administrative Region and Taiwan
“Relevant Period”	the period of 12 months immediately preceding the Completion Date and including the Completion Date

"Reorganization"	a series of reorganizations, arrangements, actions and transactions to be undergone by the relevant Sellers and Fuyuan pursuant to the Sale and Purchase Agreement for the purpose of the Acquisition, the key steps of which are set out under the section headed "Pre-Completion Reorganization" in the "Letter from the Board" of this circular
"Sale and Purchase Agreement"	the Sale and Purchase Agreement dated March 22, 2021 entered into by the Company, the Sellers and Fuyuan in relation the Acquisition
"Sale Interests"	equity interests in Fuyuan which GS, Shining, the Individual Shareholders and Inner Mongolia Mengniu (as applicable) shall sell and the Company shall purchase pursuant to the terms and conditions of the Sale and Purchase Agreement
"Sale Shares"	the entire issued shares of Offshore HoldCo which Inner Mongolia Mengniu shall sell (through Mengniu SPV) and the Company shall purchase pursuant to the terms and conditions of the Sale and Purchase Agreement
"Securities and Lending Agreement"	the securities and lending agreement dated June 17, 2020 entered into between Mengniu and BOCI Financial Products
"Sellers"	collectively, Inner Mongolia Mengniu, GS, Shining and the Individual Shareholders
"Settlement Scenario I"	the settlement mechanism as set out under the section headed "Consideration and Settlement Scenario – Settlement Scenario I" in the "Letter from the Board" of this circular
"Settlement Scenario II"	the settlement mechanism as set out under the section headed "Consideration and Settlement Scenario – Settlement Scenario II" in the "Letter from the Board" of this circular
"SFC"	The Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shining"	北京尚心華滋投資中心(有限合夥) (Beijing Shangxin Huazi Investment Center (Limited Partnership)*) and Harvest Dairy Limited

"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders for the allotment and issuance of the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the subscription agreement dated June 17, 2020 entered into among Mengniu and the Managers in relation to the issue of the Exchangeable Bonds
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers
"Takeovers Code Independent Board Committee"	the independent committee of the Board comprising all the non-executive Directors (except for Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun and Mr. WOLHARDT Julian Juul) to advise and make recommendation as to voting to the Independent Shareholders in respect of the Acquisition and the Whitewash Waiver
"Target Assets"	the Sale Shares and the Sale Interests which together will constitute the entire equity interests (direct and indirect) in Fuyuan
"Target Audited Accounts"	the audited consolidated financial statements relating to the Target Group for the three years ended December 31, 2020 prepared under International Financial Reporting Standards, a copy of which is enclosed in Appendix II of this circular
"Target Group"	Fuyuan and its subsidiaries (excluding Burra Group)
"Treasurer"	the Treasurer of the Commonwealth of Australia
"Trustee"	Dairy Fortune (PTC) Limited, a private trust company incorporated under the laws of the British Virgin Islands
"U.S."	the United States of America
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the U.S.

"Whitewash Waiver"	the whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of any obligation of Mengniu Concert Group to make a mandatory general offer to the Shareholders in respect of the Shares not already owned or agreed to be acquired by them as a result of the issue of Consideration Shares pursuant to Settlement Scenario I under the Sale and Purchase Agreement
"Wuhe Energy"	Modern Energy (Wuhe) Co., Ltd.* (現代能源(五河)有限公司), a company incorporated in the PRC and a subsidiary of Jiangyin Dairy Energy
"Youmuyuan"	北京優牧源企業管理諮詢合夥企業(有限合夥) (Beijing Youmuyuan Corporate Management Consulting Partnership (Limited Partnership)*), one of the Individual Shareholders
"Youzhimu"	北京優之牧投資中心(有限合夥) (Beijing Youzhimu Investment Center (Limited Partnership)*), one of the Individual Shareholders
"%"	per cent.

* *for identification purpose only*

China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1117)

Executive Directors:
Ms. GAO Lina
(Vice Chairman & Chief Executive Officer)
Mr. SUN Yugang *(Executive Vice President)*

Non-executive Directors:
Mr. LU Minfang *(Chairman of the Board)*
Mr. ZHANG Ping
Mr. ZHAO Jiejun
Ms. GAN Lu

Independent Non-executive Directors:
Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. WOLHARDT Julian Juul

Registered Office:
Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong:
Room A, 32nd Floor, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

May 14, 2021

To the Shareholders

Dear Sir and Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTERESTS IN FUYUAN; (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; (3) APPLICATION FOR WHITEWASH WAIVER; AND (4) NOTICE OF EGM

1. INTRODUCTION

Reference is made to the announcement of the Company dated March 22, 2021 in relation to, among others, the Sale and Purchase Agreement, the Acquisition, the Specific Mandate and the Whitewash Waiver. On March 22, 2021, the Company entered into the Sale and Purchase Agreement with the Sellers and Fuyuan, pursuant to which the Sellers agreed to sell, and the Company agreed to purchase, the Target Assets as a total consideration of RMB3,480,000,000, which shall be satisfied by a combination of cash and Consideration Shares in accordance with either of the settlement scenarios as set out below.

The purpose of this circular is to provide you with, among other things: (i) further details of the Sale and Purchase Agreement, the Acquisition, the issue of the Consideration Shares under the Specific Mandate and the Whitewash Waiver; (ii) the recommendation and opinion of the Listing Rules Independent Board Committee to the Independent Shareholders after taking into consideration of the advice of the Independent Financial Adviser in relation to the terms of the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares under the Specific Mandate; (iii) the recommendation and opinion of the Takeovers Code Independent Board Committee to the Independent Shareholders after taking into consideration of the advice of the Independent Financial Adviser in relation to the terms of the Acquisition and the Whitewash Waiver; (iv) the letter of advice from the Independent Financial Adviser to the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders in relation to the matters set out in (i) above; (v) the financial information of the Group and the Target Group; (vi) the valuation report on the 100% equity value of Fuyuan; and (vii) a notice of the EGM.

2. THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are as follows:

Date:	March 22, 2021
Parties:	(i) The Company;
	(ii) The Sellers; and
	(iii) Fuyuan

Subject Matter

Upon and subject to the terms and conditions of the Sale and Purchase Agreement, at Completion, the Sellers shall sell, and the Company shall purchase, the Target Assets free from all encumbrances and together with all rights attached or accruing to them on the Completion Date.

The Target Assets constitute the entire equity interests (both direct and indirect) in Fuyuan.

Consideration and Settlement Scenarios

The total Consideration for the Acquisition is RMB3,480,000,000, which shall be satisfied in accordance with either of the settlement scenarios as set out below. The Parties will determine the applicable settlement scenario on the Completion Date.

Under each of the settlement scenarios, (i) the Company expects that no more than 60% of the cash portion of the Consideration will be funded by external financing and the remaining cash portion will be funded by internal resources of the Group (including, among others, part of the proceeds received from the Placing). As of the Latest Practicable Date, the Company is in the process of negotiating with relevant banks on the terms of the financing and no detailed terms have yet been finalized or agreed; and (ii) the Consideration Shares shall be issued as fully paid and shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issuance of the Consideration Shares, including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the Completion Date.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will be allotted and issued under the Specific Mandate and subject to approval by the Independent Shareholders at the EGM. The Specific Mandate shall be valid for a period starting from the date on which it is considered and approved by the Independent Shareholders at the EGM and up to and including the Long Stop Date (i.e. December 31, 2021). In the event that the Completion and the issue of the Consideration Shares do not take place within the aforesaid validity period, the Company will re-comply with the independent shareholders' approval requirement to obtain the Specific Mandate for the issuance of the Consideration Shares. Further, if the Company, after taking into consideration of the then surrounding circumstances, considers that there is a material change to the terms of the Sale and Purchase Agreement and the Acquisition, it will re-comply with the relevant Listing Rules requirements as and when required, including obtaining independent shareholders' approval for the Acquisition.

The allotment and issue of the Consideration Shares will not result in a change of control of the Company.

Having taken into account the following factors, the Board is of the view that the settlement of the portion of the Consideration payable to Inner Mongolia Mengniu by way of issuance of the Consideration Shares is fair and reasonable and in the interest of the Company and its Shareholders as a whole:

(i) the cash resources available to the Group for acquisition activities and the need for steady cash flow for the continuous and sustainable development of the business of the Group;

(ii) the additional financing cost involved for obtaining external financing and the potential impact on the Group's ability to satisfy the financial conditions (such as gearing ratio) under its existing facilities if the portion of the Consideration payable to Inner Mongolia Mengniu were to be satisfied by cash; and

(iii) the increase in Mengniu's stake in the Company may further strengthen the Group's synergies with Mengniu in terms of (a) sales: the increase of Mengniu's stake in the Company will help to strengthen the strategic partnership between Mengniu and the Company and to secure the volume of raw milk purchased by Mengniu from the Group, (b) costs: the increase of Mengniu's stake in the Company demonstrates Mengniu's endorsement of the Company's development prospects, which will help to enhance market confidence and the Company's bargaining power with third party feed suppliers, thereby assisting the Group in controlling its costs, and (c) resources utilization: it is expected that Mengniu will be more active in sharing and exchanging experience with the Company in aspects such as personnel training, information empowerment and smart farm management.

The Company considered the alternative option of cash settlement but given the potential extra burden on the Group's operational cash flow, the additional financing costs, and the commercial interest and intention of Mengniu to increase its stake in the Company, the Company and Inner Mongolia Mengniu agreed that settlement by way of issuance of the Consideration Shares was the preferred option.

Settlement Scenario I

If (i) the Mengniu Concert Group's interest in the Company continues to exceed 50% at all times during the Relevant Period and the issue of the Consideration Shares would not trigger a mandatory general offer obligation of Mengniu under Rule 26.1(d) of the Takeovers Code, or (ii) the Mengniu Concert Group's interest in the Company decreases to 50% or below (but not less than 30%) at any time during the Relevant Period and the Whitewash Waiver is approved by at least 75% of the votes cast by Independent Shareholders at the EGM and granted by the Executive, the Consideration shall consist of:

(i) the sum of RMB1,971,329,480 payable in cash by the Company to each of GS, Shining and the Individual Shareholders in proportion to their respective interest in Fuyuan and as set out in the table below:

Sellers	**Percentage of interest in Fuyuan**	**Value of Consideration payable in cash** *(RMB)*
GS	27.64%	961,777,456
Shining	4.88%	169,725,434
Individual Shareholders	24.13%	839,826,590
Total:	**56.65%**	**1,971,329,480**

50% of the respective considerations payable to GS, Shining and the Individual Shareholders will be paid into an escrow account to be opened in the name of the Company upon fulfilment of all the conditions precedents (unless waived) set out in the Sale and Purchase Agreement. Such amount will be released, together with the remaining 50% which will be paid directly to the bank accounts of these Sellers, upon completion of certain regulatory procedures in the PRC, including the change of business registration records of Fuyuan with the relevant Administrations for Industry and Commerce to reflect the transfer of interest in Fuyuan to the Company and the obtaining of necessary approvals and authorizations to remit the payment offshore; and

(ii) the sum of RMB1,508,670,520 (equivalent to approximately HK$1,807,895,265 calculated using the exchange rate of HK$1.00 to RMB0.83449), which amount is in proportion to Inner Mongolia Mengniu's 43.35% interest in Fuyuan, shall be satisfied by the allotment and issue of 807,096,101 Consideration Shares by the Company to Mengniu SPV at the Issue Price of HK$2.24 per Share on Completion.

Settlement Scenario II

If the Mengniu Concert Group's interest in the Company decreases to 50% or below (but not less than 30%) at any time during the Relevant Period and the issue of the Consideration Shares pursuant to Settlement Scenario I has the effect of increasing the Mengniu Concert Group's holding of voting rights in the Company by more than 2% from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period, and the Whitewash Waiver is not approved by at least 75% of the votes cast by Independent Shareholders at the EGM or otherwise not granted by the Executive, the Consideration shall consist of:

(i) the sum of RMB2,989,888,587 payable in cash by the Company to each of GS, Shining, Individual Shareholders and Inner Mongolia Mengniu in proportions as set out in the table below:

Sellers	**Percentage of interest in Fuyuan**	**Value of Consideration payable in cash** *(RMB)*
GS	27.64%	961,777,456
Shining	4.88%	169,725,434
Individual Shareholders	24.13%	839,826,590
Inner Mongolia Mengniu	29.27%	1,018,559,107
Total:	**85.92%**	**2,989,888,587**

With respect to GS, Shining and the Individual Shareholders, the payment arrangements are the same as those set out in sub-paragraph (i) under Settlement Scenario I; with respect to Inner Mongolia Mengniu, 50% of the consideration payable will be paid into an onshore bank account designated by Inner Mongolia Mengniu on the Completion Date, and the remaining 50% will be paid to the designated bank account within 3 Business Days upon completion of the change of business registration records of Fuyuan with the relevant Administrations for Industry and Commerce in the PRC to reflect the transfer of Inner Mongolia Mengniu's interest in Fuyuan to the Company; and

(ii) the sum of RMB490,111,413 (equivalent to approximately HK$587,318,498 calculated using the exchange rate of HK$1.00 to RMB0.83449), which amount is in proportion to Inner Mongolia Mengniu's remaining 14.08% interest in Fuyuan, shall be satisfied by the allotment and issue of 262,195,758 Consideration Shares by the Company to Mengniu SPV at the Issue Price of HK$2.24 per Consideration Share on Completion.

As of the Latest Practicable Date, the Company had 7,108,565,947 Shares in issue. Assuming that there is no change in the issued share capital of the Company prior to Completion:

(i) the total of 807,096,101 Consideration Shares to be issued pursuant to Settlement Scenario I represent (i) approximately 11.35% of the existing issued share capital of the Company as of the Latest Practicable Date; and (ii) approximately 10.20% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; or

(ii) the total of 262,195,758 Consideration Shares to be issued pursuant to Settlement Scenario II represent (i) approximately 3.69% of the existing issued share capital of the Company as of the Latest Practicable Date; and (ii) approximately 3.56% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares.

Basis of the Consideration

The total Consideration of RMB3,480,000,000 was determined after arm's length negotiations among the Company and the Sellers with reference to (i) the fair value of the Target Group as of December 31, 2020 pursuant to a valuation conducted by the Independent Valuer adopting the market approach, taking into account the prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the assets of Fuyuan relative to the market comparable; (ii) the significance of the Target Group to the future development of the Company; and (iii) the development prospects of the Target Group. The valuation report, based on the updated financial position of Fuyuan as of December 31, 2020, is set out in Appendix V of this circular.

The Independent Valuer has also confirmed that there was no material change in the assumptions, bases and methods of valuation adopted in the valuation report during the period from December 31, 2020 to February 28, 2021, and there was no material change in the appraised value of Fuyuan as of February 28, 2021 as compared to that set out in the valuation report.

In relation to the valuation methods adopted for the valuation of the Target Group, the Independent Valuer was of the view that the cost approach was inappropriate as it does not directly incorporate information about the economic benefits contributed by the Target Group; and that the income approach would also be impracticable as it requires detailed operational information and long-term financial projection of the Target Group but such information was not available. The market approach, on the other hand, considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. After considering the simplicity, clarity, efficiency and objectivity (as publicly available information is used) of the market approach, the Independent Valuer had concluded, and the Company agreed, that the market approach should be adopted.

The key parameters used in the valuation of the Target Group are price-to-earnings, price-to-book, and price-to-sales multiples, which are calculated by using financial statements of the comparable companies. The three parameters address three different dimensions: price-to-earnings represents Fuyuan's profitability, price-to-book represents Fuyuan's net equity, and price-to-sales reflects Fuyuan's sales performance, all of which reflect the market's perspective on valuation. The Board, after having considered the advice from the Independent Valuer, is of the view that, since Fuyuan has positive earnings and stable revenue, and its main assets are biological assets, these three parameters are appropriate for determining the valuation of the Target Group with regard to the Target Group's business.

The selection of comparable companies is based on the industry peers of the Company, which operate in dairy farming industry with average monthly share trading volumes higher than RMB20 million and have reasonably sufficient listing period of more than five years.

Detailed market multiples adopted in the valuation are set out below:

Company Name	**Stock Code**	**P/E**	**P/B**	**P/S**
YuanShengTai Dairy Farm Ltd.	1431	9.52	0.67	2.00
China ZhongDi Dairy Holdings Company Limited	1492	13.04	0.89	1.24
China Shengmu Organic Milk Ltd.	1432	16.63	1.76	1.56
China Modern Dairy Holdings Ltd.	1117	22.57	1.38	1.71
Adopted Multiples		**15.44**	**1.18**	**1.63**

Note: (1) Adopted multiples are calculated as mean multiples of comparable companies.

(2) The companies set out above represent the exhaustive list of comparable companies selected for valuation.

The Board, having considered that (i) the selected comparable companies are all listed companies engaged in the same business of dairy farming; (ii) the price-to-earnings, price-to-book, and price-to-sales multiples are commonly used in the valuation in dairy farming industry; and (iii) the Independent Valuer has adopted the mean multiples of these comparable companies, is of the view that the assumptions adopted in the valuation are fair and reasonable.

The Board is of the view that the Independent Valuer is competent in conducting the valuation of the Target Group in light of its experience in providing valuation services to several other listed companies in the dairy industry, including but not limited to, China Shengmu Organic Milk Limited (listed on the Stock Exchange with stock code 1432) and China ZhongDi Dairy Holdings Company Limited (listed on the Stock Exchange with stock code 1492). In addition, the Independent Valuer has confirmed in writing to the Company in respect of its independence in connection with the current engagement.

Based on the result of the valuation conducted by the Independent Valuer and the management's assessment of the business, operation and financial conditions of Fuyuan during the due diligence process, taking into account factors including, in particular, the number of dairy cows (approximately 60,000) owned by Fuyuan, the milk yields per milkable cow, the comprehensive profitability per dairy cow, the regional strategic advantage of cross-provincial distribution of Fuyuan's dairy farms, the recent comparable transactions in the industry, and the historical financial performance of the Target Group, the Board is of the view that the Consideration is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The Issue Price of HK$2.24 per Consideration Share represents:

(i) a discount of approximately 2.16% to the volume weighted average price of HK$2.29 per Share on the Last Trading Day;

(ii) a discount of approximately 2.67% to the volume weighted average price of HK$2.30 per Share for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 0.03% to the volume weighted average price of approximately HK$2.241 per Share for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 24.44% over the closing price of HK$1.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 50.19% over the net asset value attributable to the Shareholders of approximately HK$1.49 per Share, calculated based on the Group's audited net asset of RMB8,038,444,000 as of December 31, 2020 and 6,458,565,947 Shares in issue as of December 31, 2020, using the exchange rate of HK$1.00 to RMB0.83449.

The Issue Price was determined after arm's length negotiations between the Sellers and the Company with reference to the prevailing market prices of the Shares and recent market conditions.

From January 21, 2021 to March 22, 2021 (being the Last Trading Day), price of the Shares fluctuated in a range of HK$2.10 to HK$2.96 per Share. The Issue Price mainly referred to the volume weighted average price of the last ten consecutive trading days up to and including the Last Trading Day, which was approximately HK$2.241 per Share. Further, reference was also made to recent comparable cases involving issue of consideration shares for acquisition purpose which indicated that the mean discount of issue price over average closing price per share on the last ten consecutive trading days prior to or on the Last Trading Day was about 5.58% and the median discount was about 5.75%. The comparable cases were selected from results of searches conducted on the website of the Stock Exchange on cases involving issue of consideration shares for acquisition purpose by companies listed on the Main Board of the Stock Exchange (excluding cases involving (a) issues of A shares; (b) issues involving share exchange privatization and share buy-back offer; and (c) issues that had been terminated), which were announced since July 1, 2020 and up to the Last Trading Day.

Details of the exhaustive list of comparable companies selected based on the aforementioned criteria are set out in the table below.

Date of announcement	**Company name**	**Stock code**	**Premium/(discount) of issue price over/(to) average closing share price for the last ten trading days^** *% (approximately)*
July 14, 2020	Man Sang International Limited	938	-10.63%
July 24, 2020	Boill Healthcare Holdings Limited	1246	-16.67%
July 28, 2020	Link-Asia International MedTech Group Limited	1143	9.22%
July 29, 2020	China Ever Grand Financial Leasing Group Co., Ltd.	379	-14.76%
July 31, 2020	E-House (China) Enterprise Holdings Limited	2048	-6.79%
August 24, 2020	Sansheng Holdings (Group) Co. Ltd.	2183	-1.13%
August 28, 2020	C-MER Eye Care Holdings Limited	3309	-0.00%
September 4, 2020	Hao Tian International Construction Investment Group Limited	1341	-21.14%
September 21, 2020	Viva Biotech Holdings	1873	2.40%
September 23, 2020	Termbray Industries International (Holdings) Limited	93	-5.86%
October 20, 2020	Golden Faith Group Holdings Limited	2863	-11.82%
October 22, 2020	Vongroup Limited	318	-17.43%
October 26, 2020	Hengten Networks Group Limited	136	-8.81%
November 9, 2020	7Road Holdings Limited	797	-0.37%
November 12, 2020	China Hanking Holdings Limited	3788	-0.62%
November 13, 2020	Forgame Holdings Limited	484	-10.90%
November 27, 2020	Elife Holdings Limited	223	39.28%

Date of announcement	Company name	Stock code	Premium/(discount) of issue price over/(to) average closing share price for the last ten trading days^ *% (approximately)*
December 9, 2020	Suoxinda Holdings Limited	3680	-17.30%
December 14, 2020	China Fordoo Holdings Limited	2399	-15.12%
December 14, 2020	Union Medical Healthcare Limited	2138	-0.26%
December 24, 2020	Yeahka Limited	9923	4.33%
December 27, 2020	Maxnerva Technology Services Limited	1037	0.81%
December 28, 2020	CA Cultural Technology Group Limited	1566	2.92%
January 13, 2021	Jiayuan International Group Limited	2768	6.90%
January 18, 2021	State Energy Group International Assets Holdings Limited	918	-8.19%
February 10, 2021	C-MER Eye Care Holdings Limited	3309	-5.63%
February 11, 2021	Pan Asia Data Holdings Inc.	1561	-51.09%
March 9, 2021	Vestate Group Holdings Limited	1386	1.80%
	Mean (simple average)		**-5.58%**
	Median		**-5.75%**

The Board is of the view that the Issue Price of HK$2.24 per Consideration Share is fair and reasonable and in the interest of the Company and its Shareholders as a whole for the following reasons: (i) the discounts represented by the Issue Price of HK$2.24 per Consideration Share to the closing prices of Shares for different periods up to and including the Last Trading Day were below the corresponding mean and median discounts of the comparable share issues recently; (ii) the Consideration for the Acquisition represents a discount of approximately 14.91% to the appraised value of RMB4,089,653,000 of 100% equity interest of the Target Group; and (iii) the Acquisition is expected to benefit the long-term development of the Company, strengthen the Company's positioning in dairy farming industry, optimize value chain and enhance operation efficiency of the Company as further explained in the section headed "Reasons for and Benefits of the Acquisition".

Pre-Completion Reorganization

As of the date of the Sale and Purchase Agreement, the Sellers are the legal and beneficial owners of all the equity interests in Fuyuan. Prior to Completion, the relevant Sellers, Fuyuan and its subsidiaries will effect a series of Reorganization, the key steps of which include:

(i) the disposal of Burra Interests by Fuyuan to a wholly-owned subsidiary of Mengniu at the consideration of approximately RMB320,000,000. Burra Group is an Australian dairy ingredient processor principally engaged in the business of processing milk powders and nutritional powders;

(ii) the distribution of proceeds from the Burra Disposal by Fuyuan to the Sellers (in the form of dividend) in proportion to their respective interests in Fuyuan; and

(iii) the establishment of the Offshore HoldCo and the HK MidCo by Mengniu to hold the Sale Shares.

The Reorganization shall be completed on or before November 30, 2021 or such later date as may be agreed by the Parties.

Conditions Precedent to Completion

For each Seller, the Company's obligation to complete the purchase is subject to the fulfilment (or waiver, as applicable) of the below conditions precedent by such Seller on or before the Long Stop Date:

(i) applicable to Inner Mongolia Mengniu only, a deed of adherence having been executed by the relevant Parties and the Mengniu SPV in connection with the Reorganization;

(ii) the board of directors of Fuyuan having approved the execution of and performance of its obligations under the Sale and Purchase Agreement;

(iii) the Treasurer (or his agent) having given a notice in writing to the effect that there are no objections under the FIRB Act to the Burra Disposal either unconditionally or subject to conditions which are acceptable to Mengniu (or its nominee) (acting reasonably); or the "decision period" under the FIRB Act for an application submitted by Mengniu (or its nominee) in respect of the Burra Disposal having expired such that the Treasurer is precluded from making certain orders under the FIRB Act; or the Burra Disposal not being a "significant action", "notifiable action" or a "notifiable national security action" under the FIRB Act;

(iv) no proceeding shall have been initiated seeking an injunction having the effect of making the transactions contemplated hereby illegal or otherwise prohibiting the consummation of the transactions contemplated hereby;

(v) since the date of the Sale and Purchase Agreement, no Governmental Entity of competent jurisdiction (including the PRC, Australia, the US and Hong Kong) shall have enacted, issued or promulgated any law that has the effect of making the consummation of the transactions contemplated hereby illegal or which has the effect of prohibiting or otherwise preventing the consummation of any transactions contemplated hereby;

(vi) since September 30, 2020, there having been no material adverse effect on the Fuyuan and its subsidiaries taken as a whole;

(vii) the Reorganization having been completed, and there having delivered or made available to the Company a certificate duly executed by a director or authorized person of each of Inner Mongolia Mengniu and Fuyuan certifying that the Reorganization has been duly completed;

(viii) such Seller (and its affiliates, as applicable) having performed and complied with, in all material respects, all obligations required to be performed and complied with on or before Completion; and

(ix) the Seller's warranties with respect to such Seller being true, accurate and not misleading, in each case, as of the date of the Sale and Purchase Agreement and as of the Completion Date, except for those warranties that address matters only as of a particular date, which Seller's warranties will have been true and complete as of such particular date.

Conditions except for those set out in paragraphs (iii) to (v) above may be waived in whole or in part by the Company by written notice to the relevant Seller.

As of the Latest Practicable Date, the condition set out in paragraph (ii) above has been satisfied and the Company is not aware of any event which would cause any other conditions as set out above not capable of being fulfilled. The Company has no intention to waive any of the conditions as of the Latest Practicable Date.

The obligation of a Seller to complete the sale of its portion of the Target Assets with the Company is subject to the fulfilment (or waiver, as applicable) of the below conditions precedent by the Company on or before the Long Stop Date:

(i) applicable to Inner Mongolia Mengniu only, the Listing Committee having granted the listing of, and permission to deal in, the Consideration Shares (and such grant not having been revoked or withdrawn), either unconditionally or subject to such conditions as required by the Listing Committee;

(ii) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate for the issue of the Consideration Shares) at the EGM in accordance with the requirements under the Listing Rules;

(iii) the Company having obtained unconditional antitrust clearances and approvals from the PRC State Administration for Market Regulation in respect of the Acquisition;

(iv) no proceeding shall have been initiated seeking an injunction having the effect of making the transactions contemplated under the Sale and Purchase Agreement illegal or otherwise prohibiting the consummation of the transactions contemplated hereby;

(v) since the date of the Sale and Purchase Agreement, no Governmental Entity of competent jurisdiction (including the PRC, Australia, the US and Hong Kong) shall have enacted, issued or promulgated any law that has the effect of making the consummation of the transactions contemplated under the Sale and Purchase Agreement illegal or which has the effect of prohibiting or otherwise preventing the consummation of any transactions contemplated hereby;

(vi) since the date of the Sale and Purchase Agreement, there having been no material adverse effect on the Group taken as a whole;

(vii) the Company (and its affiliates, as applicable) having performed and complied with, in all material respects, all obligations required to be performed and complied with on or before Completion under the Sale and Purchase Agreement; and

(viii) the Company's warranties being true, accurate and not misleading, in each case, as of the date of the Sale and Purchase Agreement and as of the Completion Date, except for those Company's warranties that address matters only as of a particular date, which Company's Warranties will have been true and complete as of such particular date.

Conditions except for those set out in paragraphs (i) to (v) above may be waived in whole or in part by the relevant Seller by written notice to the Company.

As of the Latest Practicable Date, none of the conditions as set out above has been fulfilled and the Company is not aware of any event which would cause any other conditions as set out above not capable of being fulfilled. The relevant Seller has not indicated any intention to waive any of the conditions as of the Latest Practicable Date.

Completion

Completion shall take place on the fifth (5th) Business Day following the fulfillment or waiver (where permitted) of all of the conditions above, or such other date as the Parties may agree. As of the Latest Practicable Date, the Parties are working to fulfill the conditions and have yet been able to estimate when the specific Completion Date will be.

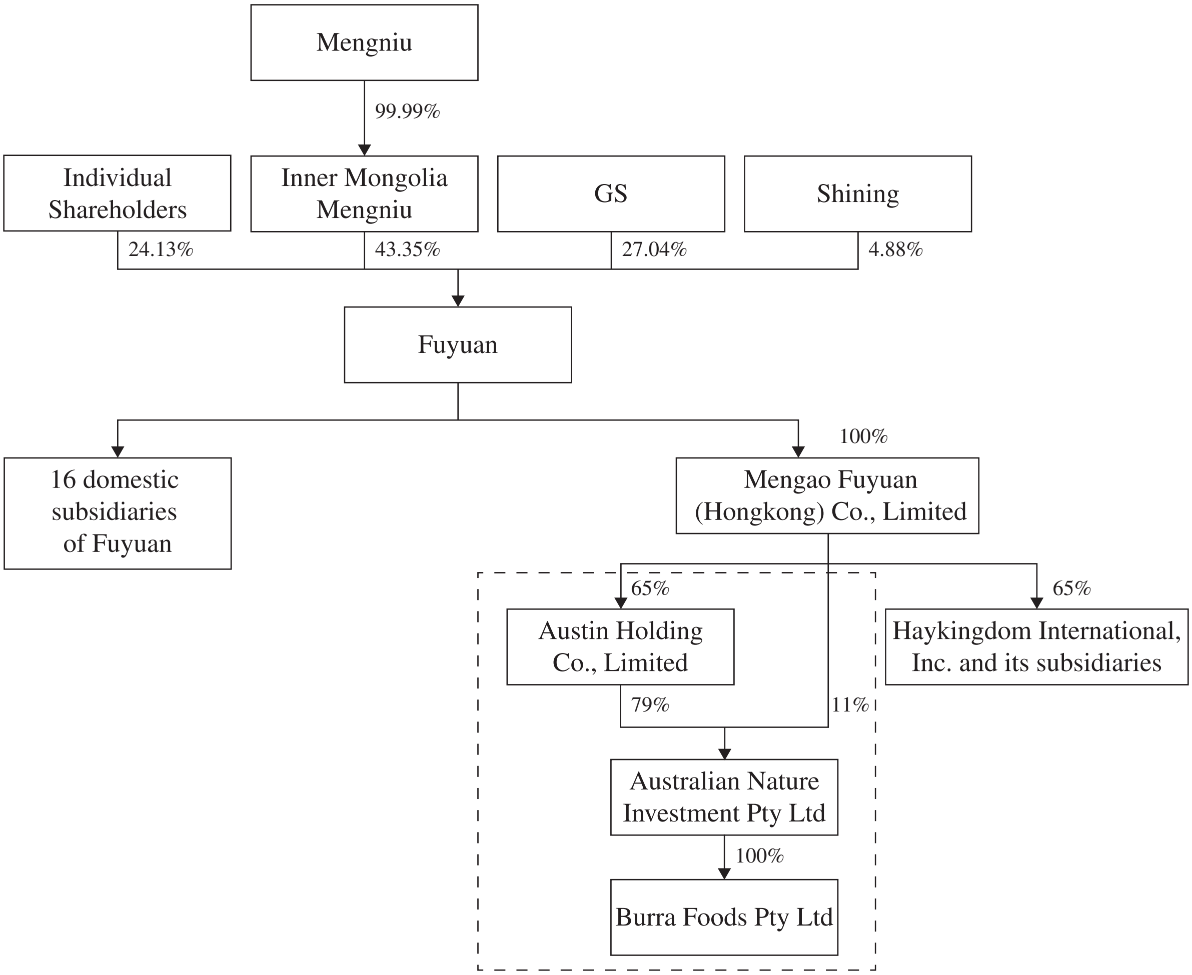
The Company shall not be obliged to complete the purchase of any Target Assets unless the purchase by it of the Sale Shares from Mengniu SPV and the Sale Interests from each of GS, Shining and Inner Mongolia Mengniu (as applicable) are completed simultaneously.

Upon Completion, Fuyuan will become a non-wholly owned subsidiary of the Company. The financial results of the Target Group will be consolidated into the financial statements of the Group.

Effect on shareholding and group structure of Fuyuan

The following diagrams illustrate the shareholding and group structure of Fuyuan (1) as of the Latest Practicable Date; and (2) immediately after Completion under Settlement Scenario I and Settlement Scenario II, respectively, assuming Completion having taken place simultaneously with all of the Sellers:

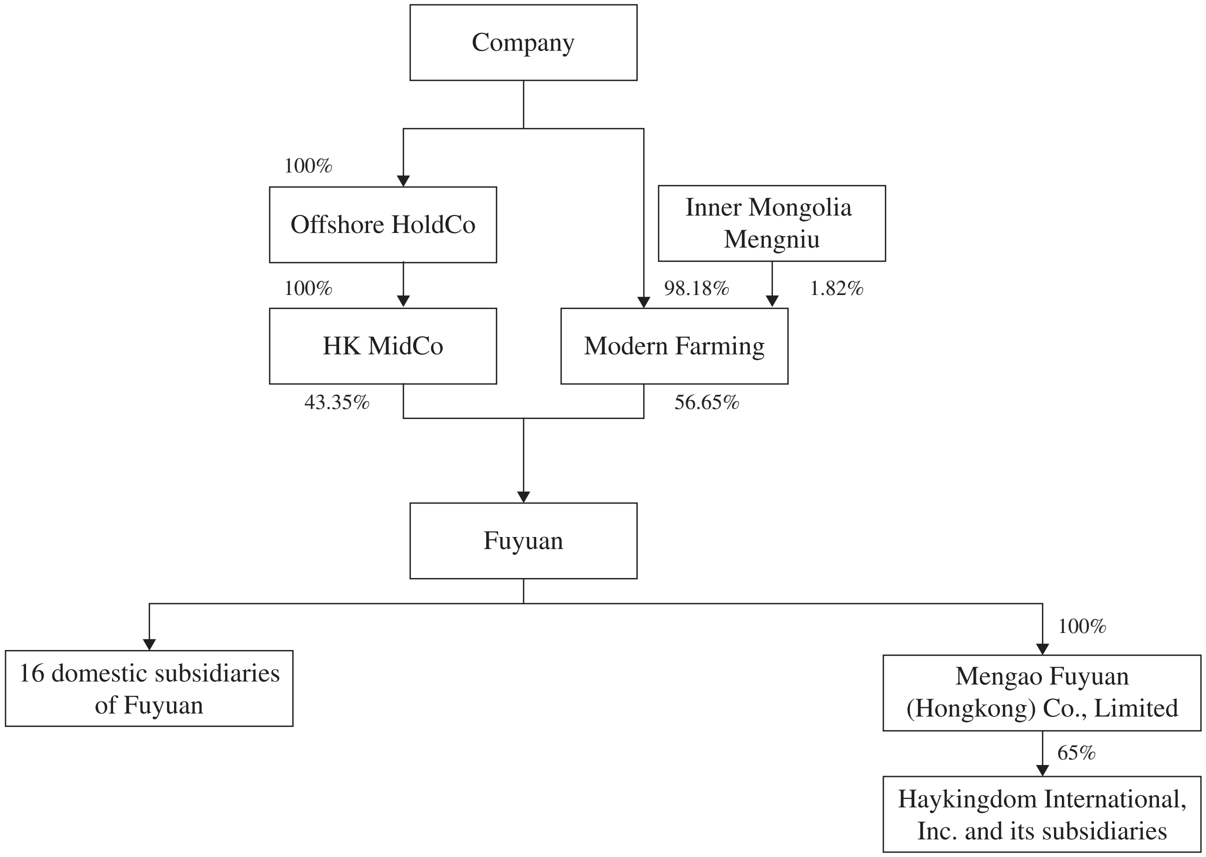
(1) As of the Latest Practicable Date



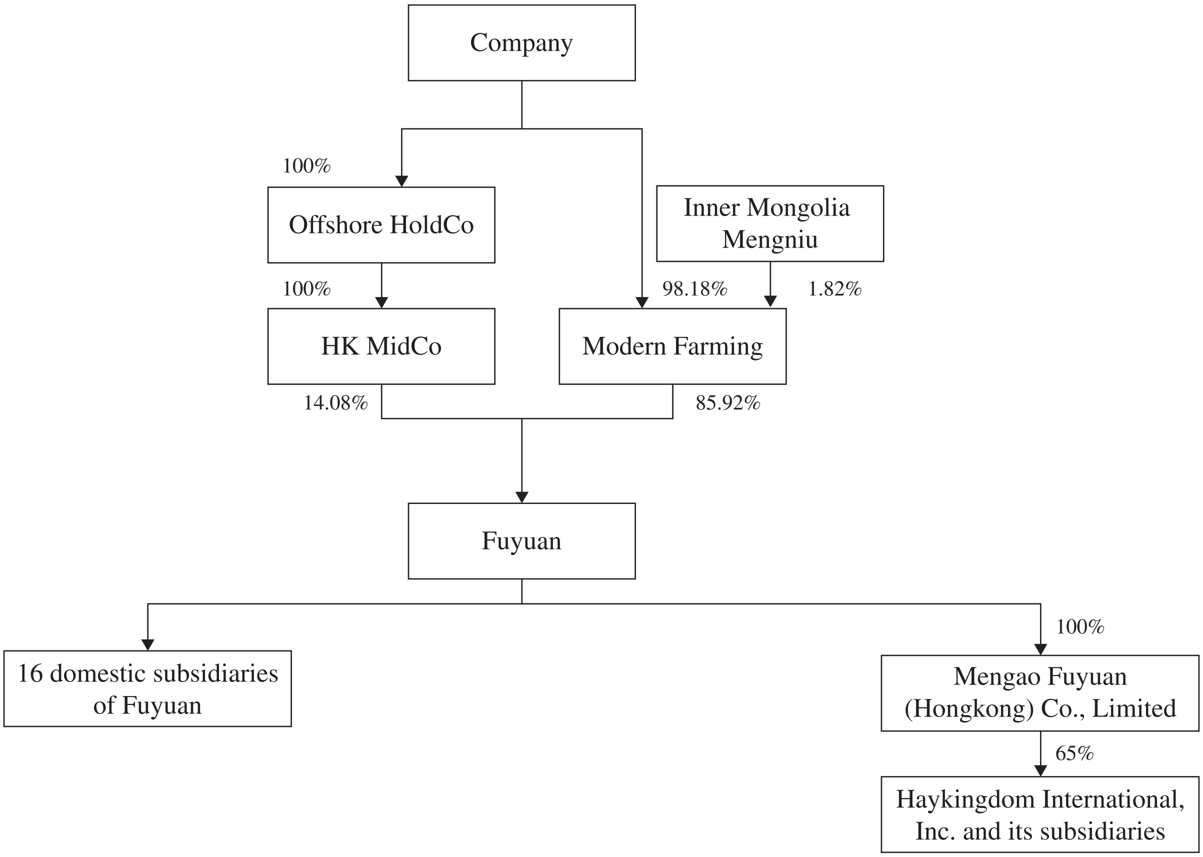
Note: ⬚ *Burra Group to be disposed of in accordance with the Reorganization*

(2) Immediately after Completion under Settlement Scenario I and Settlement Scenario II, respectively assuming Completion having taken place simultaneously with all of the Sellers

Settlement Scenario I



Settlement Scenario II



3. REASONS FOR AND BENEFITS OF THE ACQUISITION

The development of the dairy farming industry is supported by the Chinese government

Since 2016, the Chinese government has been giving support to the development of the dairy farming industry. In 2017, the State Council issued the "Opinions on Promoting the Structural Reform of Agricultural Supply and Accelerating the Development of Agricultural and Rural Development" (《關於深入推進農業供給側結構性改革加快發展農業農村發展新動能的若干意見》), which propounded to "develop highly efficient dairy farming industry", and "implement revitalization of dairy industry". In 2018, the General Office of the State Council issued the "Opinions on Promoting the Revitalization of Dairy Industry and Ensuring the Quality and Safety of Dairy Products" (《關於推進奶業振興保障乳品質量安全的意見》), which proposed that "the proportion of large-scale breeding with more than 100 dairy cows will exceed 65% by 2020". Pursuant to the "Certain Opinions on Persisting the Priority Development of Agriculture and Rural Areas and Doing Good Job in 'Agriculture, Rural Areas and Farmers' from the Central Committee of the Communist Party and the State Council" (《中共中央國務院關於堅持農業農村優先發展做好「三農」工作的若干意見》) released in February 2019, it was further put forward that "the infrastructure of high-quality milk source should be strengthened and upgraded to small and medium-sized dairy farms". In 2020, the "Opinions on Doing Good Job in 'Agriculture, Rural Areas and Farmers' to Realize a Well-Off Society" from the Central Committee of the Communist Party and the State Council (《中共中央國務院關於抓好"三農"領域重點工作確保如期實現全面小康的意見》) also proposed to "support the dairy industry and production of poultry, cattle and sheep".

Against the backdrop of an array of national policies which support the development of revitalization of domestic dairy industry, the Acquisition aligns to the relevant policies propounded by the Chinese government. After the Acquisition, approximately 60,000 dairy cows owned by Fuyuan will be consolidated into the Group. This will help upgrade and increase the scale of upstream dairy farming business of the Group. Meanwhile, applying the Group's integrated production model with SGS certification and digitalized farm management system to the acquired 15 dairy farms of Fuyuan will further guarantee the quality of raw milk.

Strengthening the Group's positioning in dairy farming industry

The Group is the leading dairy farming company and raw milk producer in China in terms of herd size and is committed to concentrating its resources on upstream dairy farming business and providing high-quality raw milk. One of the focuses of the Group's operation strategy is to increase the herd size, thereby increasing the yields and attaining a steady growth in output.

Fuyuan currently operates a total of 15 dairy farms with approximately 60,000 dairy cows in China. Following the Acquisition, the number of dairy cows owned by the Group will be increased to approximately 307,000, which could further strengthen its position in the dairy farming industry in China and enhance the Group's competitiveness in terms of quality and pricing of the raw milk. In line with the trend and development of the dairy market, the Acquisition enables the Group to integrate the upstream and downstream business, thereby building a full chain of raw milk production which will be favourable for the Group's long-term development.

Details of the 15 dairy farms operated by Fuyuan are set out below:

No.	**Dairy Farms**	**Actual Herd Size (Heads)***
1	Suqian Farm (宿遷牧場)	10,249
2	Hengshui Farm Phase I (衡水一期)	8,941
3	Hengshui Farm Phase II (衡水二期)	8,953
4	Shandong Farm (山東牧場)	5,714
5	Meishan Farm (眉山牧場)	896
6	Saihan Farm (賽罕牧場)	4,221
7	Tuoxian Farm (托縣牧場)	4,597
8	Helin Farm Phase I (和林一期牧場)	5,481
9	Daliang Farm (大樑牧場)	1,256
10	Shebiya Farm (舍必崖牧場)	1,243
11	Maqungou Farm (馬群溝牧場)	1,004
12	Wulan Farm (烏蘭牧場)	2,401
13	Saibei Farm (塞北牧場)	3,243
14	Wuzhong Farm (吳忠牧場)	2,075
15	Fanghua Farm (芳華牧場)	701
	Total	**60,975**

* *as of December 31, 2020, including milkable cows, heifers and calves*

After the Acquisition, Fuyuan will be a non-wholly owned subsidiary of the Group. The Group will implement its comprehensive digitalized farm management system on these 15 dairy farms of Fuyuan. Such management system involves, for example, adopting scientific breeding and precise formula, establishing efficient information collection system and improving system integration of cows from individual, breeding, feeding, health to milk-producing module. This can help optimize the herd structure in each dairy farm and increase the unit production for each milk cow. Meanwhile, as Fuyuan is also engaged in the business of supplying feedstuffs, the Acquisition would enable the Group to integrate the upstream feedstuff supplying business with its own raw milk production business and effectively supervise and control the quality of feedstuffs which is essential to the quality of raw milk.

As of the Latest Practicable Date, the Company has no intention to make any further capital commitment in Fuyuan after Completion.

Optimizing value chain and enhancing operation efficiency

The Acquisition is a unique opportunity for the Group to build on and strengthen its operation through expansion into and accessing the feeds supply industry. Fuyuan started supplying feedstuffs to the Group in 2017 under the Framework Supply Agreement which was renewed in December 2019. Stable feed supply and steady growth in feed size is essential to the Group's production of high quality raw milk. Subsequent to the Acquisition, the feed prices could be reduced, hence lowering the operating costs of the Group.

Meanwhile, the Group, with a strong position in the upstream dairy farming business, could improve the management of the farms and optimize the resources that are currently operated by Fuyuan. By acquiring more farms and expanding the geographical scope of supply in the PRC, the Acquisition also renders the logistics for delivery of raw milk more efficient and provides the Group with greater flexibility in allocating dairy farm resources to cater the needs for raw milk of the downstream customers.

4. INFORMATION ON THE TARGET GROUP

Fuyuan is a limited liability company established in the PRC in February 2012. Fuyuan and its subsidiaries are principally engaged in forage cultivation, dairy farming and feed processing and sales in the PRC. As of the Latest Practicable Date, Fuyuan is owned as to approximately 43.35%, 27.64%, 4.88% and 24.13%, by Inner Mongolia Mengniu, GS, Shining and the Individual Shareholders, respectively.

The original investment cost for the 43.35% equity interest in Fuyuan by Inner Mongolia Mengniu is RMB600,000,000.

According to the Target Audited Account, the total asset value and the net asset value of the Target Group as of December 31, 2020 were approximately RMB4,621,714,000 and RMB1,612,518,000 respectively.

The net profits/loss before and after taxation of the Target Group for the years ended December 31, 2019 and 2020 are as follows:

	Year ended December 31	
	2019	**2020**
	RMB	*RMB*
	(in thousands)	*(in thousands)*
	(Audited)	(Audited)
Profit before tax	145,853	444,342
Profit after tax	142,561	442,057

For the year ended December 31, 2019, the Target Group recorded profit from continuing operations of approximately RMB142.6 million, representing an increase of approximately 127.6% comparing to the profit of RMB62.7 million for the year 2018. The increase in profit was mainly contributed by (i) the increase of raw milk sales price; and (ii) the increase of milk yield per milkable cow.

For the year ended December 31, 2020, the Target Group recorded profit from continuing operations of approximately RMB442.1 million, representing an increase of approximately 210.1% as compared to the profit recorded for the year 2019. The increase in profit was mainly contributed by (i) the increase of raw milk sales price; (ii) the increase of milk yield per milkable cow; (iii) the decrease of feed procurement cost; and (iv) the one-off exemption for social security insurance contribution granted by the PRC government authorities due to COVID-19.

5. INFORMATION ON THE PARTIES

The Company

The Company is an investment holding company with limited liability, which, along with its subsidiaries, is principally engaged in dairy farming operations, production and sale of raw milk, and development of liquid milk products. The Group operates 26 dairy farms in the PRC with over 247,000 dairy cows and an annual milk yield of approximately 1.49 million tons.

Mengniu

Mengniu is a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319). Mengniu is principally engaged in manufacturing and distributing quality dairy products in China.

As of the Latest Practicable Date, there is no ultimate controlling shareholder of Mengniu who is entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of Mengniu.

The board of directors of Mengniu comprises Mr. LU Minfang, Jeffrey and Mr. MENG Fanjie as executive directors, Mr. CHEN Lang, Mr. NIU Gensheng and Mr. STEVENS Simon Dominic as non-executive directors, Mr. JIAO Shuge (alias JIAO Zhen), Mr. WOLHARDT Julian Juul, Mr. ZHANG Xiaoya and Mr. YAU Ka Chi as independent non-executive directors.

The Sellers

(i) Inner Mongolia Mengniu

Inner Mongolia Mengniu, a company incorporated in the PRC and a 99.99% owned subsidiary of Mengniu, which is principally engaged in the business of manufacture and sale of dairy products.

(ii) GS

Fortune Investment Holdings is a company incorporated under the laws of Mauritius, whose principal business is investment holding. It is owned by funds and entities that are managed by affiliates of The Goldman Sachs Group, Inc.

北京寬街博華投資中心(有限合夥) (Beijing Kuanjie Bohua Investment Center (Limited Partnership)*) is a limited partnership established under the laws of the PRC, whose principal business is investment holding. Its general partner is an affiliate of The Goldman Sachs Group, Inc.

As of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of Fortune Investment Holdings or 北京寬街博華投資中心(有限合夥) (Beijing Kuanjie Bohua Investment Center (Limited Partnership)*) are Shareholders.

(iii) Shining

北京尚心華滋投資中心(有限合夥) (Beijing Shangxin Huazi Investment Center (Limited Partnership)*) is a limited liability partnership established in the PRC, whose principal activity is investment holding. Its general partner is 北京尚心華滋投資管理諮詢中心(有限合夥) (Beijing Shangxin Huazi Investment Management Consulting Center (Limited Partnership)*).

Harvest Dairy Limited is a company incorporated in British Virgin Islands and is 100% owned by Shining Capital Holdings II L.P. Shining Capital Holdings II L.P. is a limited liability partnership established in Cayman Islands, whose principal activity is investment holding. Its general partner is Shining Capital Management Limited.

As of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of 北京尚心華滋投資中心(有限合夥) (Beijing Shangxin Huazi Investment Center (Limited Partnership)*) or Harvest Dairy Limited are Shareholders.

(iv) Individual Shareholders

Youmuyuan is a limited liability partnership established in the PRC and principally engaged in corporate management consultancy. The ultimate beneficial owners of Youmuyuan are 28 individuals.

Fushengle is a limited liability partnership established in the PRC and principally engaged in corporate management consultancy. The ultimate beneficial owners of Fushengle are 10 individuals.

Haomu is a limited liability partnership established in the PRC and principally engaged in corporate management consultancy. The ultimate beneficial owners of Haomu are 22 individuals.

Youzhimu is a limited liability partnership established in the PRC and principally engaged in investment management. The ultimate beneficial owners of Youzhimu are 17 individuals.

Meileyuan is a limited liability partnership established in the PRC and principally engaged in corporate management consultancy. The ultimate beneficial owners of Meileyuan are 20 individuals.

As of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Individual Shareholders are Shareholders.

6. FINANCIAL EFFECTS OF THE ACQUISITION

Immediately upon Completion, Fuyuan will become a non-wholly owned subsidiary of the Company and the financial results of the Target Group will be fully consolidated into the consolidated financial statements of the Group.

Assets and liabilities

Based on the unaudited pro forma financial information (including adjustments taking into account the intention of the Company to satisfy part of the cash portion of the Consideration by internal resources such as proceeds received from the Placing) set out in Appendix IV to this circular: (i) under Settlement Scenario I, the total assets of the Group as of December 31, 2020 would increase from approximately RMB15,568,211,000 to approximately RMB20,114,682,000 (after adjustment: RMB20,903,214,000), and its total liabilities as of December 31, 2020 would increase from approximately RMB7,529,767,000 to approximately RMB10,817,353,000; and (ii) under Settlement Scenario II, the total assets of the Group as of December 31, 2020 would increase from approximately RMB15,568,211,000 to approximately RMB19,872,845,000 (after adjustment: RMB21,068,800,000), and its total liabilities as of December 31, 2020 would increase from approximately RMB7,529,767,000 to approximately RMB11,428,490,000.

Earnings

According to the Target Audited Accounts, the Target Group recorded audited profit after tax of approximately RMB442,057,000 for the year ended December 31, 2020. The Directors consider that the Acquisition would enhance the Group's business performance and its earning prospect by consolidating the profit of the Target Group to the Group's financials.

7. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Acquisition contemplated under the Sale and Purchase Agreement exceed 25% but all applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement, shareholders' approval and circular requirements under Chapter 14 of the Listing Rules.

In addition, as of the Latest Practicable Date, Fuyuan is indirectly owned as to 43.35% by Mengniu, a substantial shareholder and connected person of the Company. One of the Sellers, Inner Mongolia Mengniu, is a subsidiary of Mengniu. Therefore, both Fuyuan and Inner Mongolia Mengniu are associates of Mengniu and connected persons of the Company. Accordingly, the Acquisition contemplated under the Sale and Purchase Agreement (including the issue of the Consideration Shares) also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Sellers (except for Inner Mongolia Mengniu) and their respective ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

8. CONTINUING CONNECTED TRANSACTIONS

Existing Continuing Connected Transactions with Fuyuan

The transactions under the Framework Supply Agreement will no longer constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules as Fuyuan will cease to be a connected person of the Company upon Completion.

For details of the Framework Supply Agreement, please refer to the announcement of the Company dated December 31, 2019.

Continuing Connected Transaction after the Completion

Fuyuan has entered into a Milk Supply Agreement with Inner Mongolia Mengniu on February 27, 2014, pursuant to which Inner Mongolia Mengniu agreed to purchase fresh milk from Fuyuan and its subsidiaries till February 28, 2034.

Upon Completion, Fuyuan will become a non-wholly owned subsidiary of the Company, and therefore the transactions under the Milk Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company will make further announcement in compliance with Rule 14A.60 of the Listing Rules as and when required.

9. IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

The Exchangeable Bonds

On June 17, 2020, Mengniu entered into the Subscription Agreement with the Managers in connection with the issue of Exchangeable Bonds in the aggregate principal amount of US$100,000,000 by Mengniu which are exchangeable into the Shares by the EB Holders during the Exchange Period. The Exchangeable Bonds are exchangeable into 613,877,227 Shares, representing 8.64% of the Shares in issue. As of the Latest Practicable Date, the EB Holders have exercised their Exchange Rights to exchange for 71,823,631 Shares, representing 1.01% of the Shares in issue, pursuant to the Exchangeable Bonds. Accordingly, the remaining 542,053,596 Shares, representing an aggregate of 7.63% interest in the Company, remains the subject of the Exchangeable Bonds.

The exchange price for the Exchangeable Bonds is HK$1.2625. The closing market price per Share as quoted on the Stock Exchange on the Latest Practicable Date was HK$1.80, representing a premium of approximately 42.57% over the exchange price and thus the Exchangeable Bonds were in-the-money as of the Latest Practicable Date.

As part of the Exchangeable Bonds arrangements, Mengniu entered into the Securities and Lending Agreement with BOCI Financial Products pursuant to which Mengniu agrees to lend to BOCI Financial Products up to 613,877,227 Shares, being the Shares underlying the Exchangeable Bonds. Pursuant to the Securities and Lending Agreement, BOCI Financial Products is entitled to exercise and/or arrange for the voting rights of the Borrowed Securities. For the purposes of the Takeovers Code, Mengniu is presumed to be interested in the Borrowed Securities save for any Shares which BOCI Financial Products has on-lent or transferred to the EB Holders pursuant to the Exchangeable Bonds.

As of the Latest Practicable Date, the Mengniu Concert Group are the registered shareholders of an aggregate of 3,653,945,781 Shares representing an aggregate of 51.40% interest in the Company, of which 542,053,596 Shares representing an aggregate of 7.63% interest in the Company are the subject of the Exchangeable Bonds. In the extreme situation where EB Holders exercise their Exchange Rights to exchange all of the Exchangeable Bonds into the Shares, Mengniu Concert Group's interest in the Shares will decrease to 43.78% (assuming no change in the issued share capital of the Company). Accordingly, if during the Relevant Period, Mengniu Concert Group's interest falls to or below 50% as a result of the exercise of Exchange Rights by the EB Holders, and the subscription of the Consideration Shares pursuant to the Settlement Scenario I has the effect of increasing the Mengniu Concert Group's holding of voting rights in the Company by more than 2% from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period, such action would trigger the mandatory general offer obligation under Rule 26.1(d) of the Takeovers Code.

An application has been made to the Executive for its ruling and consent under paragraph 3(b) of Schedule VI of the Takeovers Code for the exercise of the Exchange Rights by the EB Holders pursuant to the Exchangeable Bonds and the Executive has indicated that it is minded to grant such consent.

Whitewash Waiver

In view of the Potential MGO Obligation, Mengniu has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, notwithstanding the Potential MGO Obligation may not have realized at the Latest Practicable Date. The Executive has indicated that it will grant the Whitewash Waiver which will be subject to, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders at the EGM and (ii) the approval of the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares under the Specific Mandate by more than 50% of the votes cast by the Independent Shareholders at the EGM.

The Mengniu Concert Group, BOCI Financial Products, Jinmu, Ms. GAO Lina and Mr. SUN Yugang will abstain from voting in respect of the resolutions to approve (i) the Sale and Purchase Agreement, the Acquisition and the issue of Consideration Shares contemplated thereunder and (ii) the Whitewash Waiver at the EGM.

In the event that the Mengniu Concert Group's interest in the Company continues to exceed 50% at all times during the Relevant Period and the issue of the Consideration Shares under Settlement Scenario I would not trigger a mandatory general offer obligation of Mengniu under Rule 26.1(d) of the Takeovers Code, the Whitewash Waiver shall not be required and the Acquisition, if approved by more than 50% of the votes cast by the Independent Shareholders at the EGM, will proceed based on Settlement Scenario I.

Mengniu has no intention and does not reserve the right to make a general offer to the Shareholders as a result of the Acquisition. Given this, an offer period will not commence. In the event that the Whitewash Waiver is required for the issue of the Consideration Shares to Mengniu SPV under Settlement Scenario I but it is not granted by the Executive or not approved by at least 75% of the votes cast by the Independent Shareholders, the Acquisition, if approved by more than 50% of the votes cast by the Independent Shareholders at the EGM, will proceed based on Settlement Scenario II.

For illustrative purposes, under Settlement Scenario II, in the situation where EB Holders exercise their Exchange Rights to exchange all of the Exchangeable Bonds into the Shares, the Mengniu Concert Group will in aggregate hold 3,374,087,943 Shares, representing approximately 45.78% of the enlarged fully paid up issued share capital of the Company upon Completion (assuming there is no other change in the issued share capital of the Company save for the allotment and issue of the Consideration Shares pursuant to the Acquisition), representing a 2.00% increase in voting rights from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period, in which case Mengniu Concert Group would not be required to make a mandatory general offer for all the securities of the Company (other than those already owned or agreed to be acquired by Mengniu Concert Group) pursuant to Rule 26.1 of the Takeovers Code.

10. EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is a summary of the shareholding structure of the Company as of the Latest Practicable Date and immediately after the allotment and issuance of the Consideration Shares at Completion, in each case:

(i) assuming (A) none of the EB Holders have exchanged any Exchangeable Bonds into Shares subsequent to the Latest Practicable Date and (B) no other change in the issued share capital of the Company prior to Completion, in which case only Settlement Scenario I is applicable

	As at the Latest Practicable Date		**Immediately after the allotment and issuance of the Consideration Shares at Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Shareholders				
Mengniu Concert Group(1)	3,653,945,781	51.40	4,461,041,882	56.36
GGG Holdings Limited(3)	635,345,763	8.94	635,345,763	8.03
Jinmu(4)	221,581,733	3.12	221,581,733	2.80
Ms. GAO Lina(5)	39,752,089	0.56	39,752,089	0.50
Mr. SUN Yugang(5)	765,694	0.01	765,694	0.01
Dairy Fortune (PTC) Limited(6)	32,646,179	0.46	32,646,179	0.41
Public shareholders	2,524,528,708	35.51	2,524,528,708	31.89
Total	7,108,565,947	100.00	7,915,662,048	100.00

(ii) assuming (A) the EB Holders have exchanged all the Exchangeable Bonds into Shares as at the Latest Practicable Date, (B) no other change in the issued share capital of the Company prior to Completion, and (C) the Whitewash Waiver has been obtained, in which case Settlement Scenario I is applicable

	As at the Latest Practicable Date		**Immediately after the allotment and issuance of the Consideration Shares at Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Shareholders				
Mengniu Concert Group(1)	3,111,892,185	43.78	3,918,988,286	49.51
GGG Holdings Limited(2)	635,345,763	8.94	635,345,763	8.03
Jinmu(3)	221,581,733	3.12	221,581,733	2.80
Ms. GAO Lina(4)	39,752,089	0.56	39,752,089	0.50
Mr. SUN Yugang(4)	765,694	0.01	765,694	0.01
Dairy Fortune (PTC) Limited(6)	32,646,179	0.46	32,646,179	0.41
Public shareholders				
– EB Holder(s)	542,053,596	7.63	542,053,596	6.85
– Other public shareholders	2,524,528,708	35.51	2,524,528,708	31.89
Total	7,108,565,947	100.00	7,915,662,048	100.00

(iii) assuming (A) the EB Holders have exchanged all the Exchangeable Bonds into Shares as at the Latest Practicable Date, (B) no other change in the issued share capital of the Company prior to Completion, and (C) the Whitewash Waiver has not been obtained, in which case Settlement Scenario II is applicable

	As at the Latest Practicable Date		**Immediately after the allotment and issuance of the Consideration Shares at Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Shareholders				
Mengniu Concert Group(2)	3,111,892,185	43.78	3,374,087,943	45.78
GGG Holdings Limited(3)	635,345,763	8.94	635,345,763	8.62
Jinmu(4)	221,581,733	3.12	221,581,733	3.01
Ms. GAO Lina(5)	39,752,089	0.56	39,752,089	0.54
Mr. SUN Yugang(5)	765,694	0.01	765,694	0.01
Dairy Fortune (PTC) Limited(6)	32,646,179	0.46	32,646,179	0.44
Public shareholders				
– EB Holder(s)	542,053,596	7.63	542,053,596	7.35
– Other public shareholders	2,524,528,708	35.51	2,524,528,708	34.25
Total	7,108,565,947	100.00	7,370,761,705	100.00

Notes:

1. Among which 704,025,773 Shares are directly held by Mengniu, 2,407,866,412 Shares are directly held by Future Discovery and 542,053,596 Shares are subject to the Securities and Lending Agreement and are presumed to be held by Mengniu for the purposes of note 21 to Rule 26.1 of the Takeovers Code.

2. Among which 704,025,773 Shares are directly held by Mengniu, while the 2,407,866,412 Shares are directly held by Future Discovery.

3. GGG Holdings Limited is a wholly-owned subsidiary of New Hope Dairy Co., Ltd. whose ultimate beneficial owner is Ms. LIU Chang who is independent of the Company and Mengniu and not acting in concert with the Mengniu Concert Group.

4. Ms. GAO Lina holds approximately 49.12% of the interests in Jinmu. Hence, the 221,581,733 Shares owned by Jinmu are not held by the public.

5. Both Ms. GAO Lina and Mr. SUN Yugang are executive directors of the Company.

6. Dairy Fortune (PTC) Limited is the trustee of the Company's share award scheme adopted on March 26, 2018.

11. INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As of the Latest Practicable Date, the Company does not believe that the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares contemplated thereunder would give rise to any concerns in relation to the compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if any of the Acquisition and the issue of the Consideration Shares does not comply with other applicable rules and regulations.

As of the Latest Practicable Date, none of the members of the Mengniu Concert Group:

(i) has acquired or entered into any agreement or arrangement to acquire any voting rights in the Company within the six months prior to the date of the announcement except as contemplated under the Sale and Purchase Agreement;

(ii) is interested in any issued Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as of the Latest Practicable Date otherwise than as disclosed in the section headed "Effects on Shareholding Structure of the Company" in this circular;

(iii) has received any irrevocable commitment from any Shareholder in relation to voting in favour of or against the resolutions in respect of the Acquisition, the transactions contemplated thereunder or the Whitewash Waiver at the EGM;

(iv) has entered into any outstanding derivative in respect of the securities of the Company;

(v) save for the conditionally agreed issuance of the Consideration Shares under the Sale and Purchase Agreement, has made any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the Shares, which might be material to the Acquisition, the transactions contemplated thereunder or the Whitewash Waiver;

(vi) save for up to 613,877,227 Shares which Mengniu has lent to BOCI Financial Products pursuant to the Securities and Lending Agreement, has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(vii) save for the conditions precedent to the Sale and Purchase Agreement, has made any agreement or arrangement to which any members of the Mengniu Concert Group is a party which related to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition, any transactions contemplated thereunder or the Whitewash Waiver;

(viii) has entered into any agreement, arrangement or understanding pursuant to which the Consideration Shares to be issued to Mengniu SPV under the Sale and Purchase Agreement would be transferred, charged or pledged to any other persons.

Further, as of the Latest Practicable Date:

(i) there was no understanding, arrangement or agreement which constitutes a special deal (as defined under Rule 25 of the Takeovers Code) between the Company on the one hand, and any member of the Mengniu Concert Group and any parties acting in concert with it on the other hand; and

(ii) there was no understanding, arrangement or agreement which constitutes a special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder, and (ii) (a) any member of the Mengniu Concert Group and any parties acting in concert with it or (b) the Company, its subsidiaries or associated companies.

If the Whitewash Waiver is required for the issue of the Consideration Shares to Mengniu SPV under Settlement Scenario I and approved by at least 75% of the votes cast by the Independent Shareholders, upon Completion under Settlement Scenario I, in the event that no more than 503,210,857 Shares are exchanged by the EB Holders under the Exchangeable Bonds subsequent to the Latest Practicable Date and assuming there is no change in the issued share capital of the Company, the maximum potential holding of voting rights of Mengniu Concert Group (including the Shares presumed to be held by Mengniu for the purposes of note 21 to Rule 26.1 of the Takeovers Code) resulting from the Acquisition will exceed 50% of the voting rights of the Company, in which case Mengniu Concert Group may further increase their holding of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

12. INTENTION OF MENGNIU

Upon Completion, Mengniu Concert Group will continue to be the single largest shareholder and the controlling shareholder (as defined under the Listing Rules).

Mengniu Concert Group considers and confirms that:

(i) it is intended that the Group will continue with its existing business following Completion;

(ii) there is no intention to introduce any major changes to the existing business of the Group or any human capital restructuring plan for the Group or any immediate plan for the redeployment of fixed assets of the Group (other than in its ordinary and usual course of business); and

(iii) they share the view of the Directors as disclosed in the paragraph headed "Reasons for and Benefits of the Acquisition" above, in which it is mentioned that the Acquisition is in the interests of the Group.

The Directors consider that the intentions of Mengniu Concert Group in respect of the Group and its employees will maintain the continuity of the business of the Group and are therefore in the interests of the Company and the Shareholders as a whole.

13. TAKEOVERS CODE INDEPENDENT BOARD COMMITTEE, LISTING RULES INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Rule 2.8 of the Takeovers Code, a Takeovers Code Independent Board Committee, comprising of all the non-executive Directors (except for (a) Mr. LU Minfang who is a non-executive director of the Company and an executive director of Mengniu; (b) Mr. ZHANG Ping who is a non-executive director of the Company and a vice president and the chief financial officer of Mengniu; (c) Mr. ZHAO Jiejun who is a non-executive director of the Company and a vice president and the head of milk sourcing and supply chain business unit of Mengniu and (d) Mr. WOLHARDT Julian Juul, who is an independent non-executive director of both Mengniu and the Company), namely, Ms. GAN Lu, Mr. LI Shengli and Mr. LEE Kong Wai, Conway, has been established to advise the Independent Shareholders on the Acquisition and the Whitewash Waiver.

Pursuant to the Listing Rules, a Listing Rules Independent Board Committee, comprising of all the independent non-executive Directors (except for Mr. WOLHARDT Julian Juul who is also an independent non-executive director of Mengniu), namely, Mr. LI Shengli and Mr. LEE Kong Wai, Conway, has been established to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement, the Acquisition, and the issue of Consideration Shares contemplated thereunder.

With the approval of the Takeovers Code Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code, Somerley Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Takeovers Code Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition and the Whitewash Waiver, and as to voting by the Independent Shareholders.

Pursuant to Rule 14A.44 of the Listing Rules, the Company has appointed Somerley Capital Limited as the Listing Rules Independent Financial Adviser to advise the Listing Rules Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Sale and Purchase Agreement, the Acquisition, and the issue of Consideration Shares contemplated thereunder, and as to voting by the Independent Shareholders.

14. DISCLOSURE OF DIRECTORS' INTERESTS

Mr. LU Minfang is an executive director and chief executive officer of Mengniu. Mr. WOLHARDT Julian Juul is an independent non-executive director of Mengniu. Mr. ZHANG Ping is a chief financial officer of Mengniu. Mr. ZHAO Jiejun is the vice president of Mengniu and the general manager of the milk sources department of Mengniu. Accordingly, each of Mr. LU Minfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. ZHAO Jiejun is considered to have a material interest in the Sale and Purchase Agreement and therefore has abstained from voting on the relevant board resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

15. EGM

Set out on pages EGM-1 to EGM-4 of this circular is the notice convening the EGM to be held at Jasmine Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Hong Kong on June 2, 2021 (Wednesday) at 9:45 a.m. (or as soon as after the annual general meeting of the Company to be held at the same place on the same date at 8:45 a.m. shall have been concluded or adjourned) at which ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve, among others, (i) the Sale and Purchase Agreement, the Acquisition and the issue of Consideration Shares contemplated thereunder, and (ii) the Whitewash Waiver.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, other than the Mengniu Concert Group, BOCI Financial Products, Jinmu, the Trustee, Ms. GAO Lina and Mr. SUN Yugang, no other Shareholders will be required to abstain from voting on the resolutions for approving (i) the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares contemplated thereunder or (ii) the Whitewash Waiver at the EGM.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as of the Latest Practicable Date, the Mengniu Concert Group, BOCI Financial Products, Jinmu, the Trustee, Ms. GAO Lina and Mr. SUN Yugang collectively control or are entitled to exercise control over 3,948,691,476 Shares, representing 55.55% of the voting rights in the Company. Apart from the Exchangeable Bonds arrangement between Mengniu and BOCI Financial Products pursuant to which BOCI Financial Products is entitled to exercise and/or arrange for the voting rights of the Borrowed Securities, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any such Shareholder; and (ii) no obligation or entitlement of any such Shareholder as of the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis. BOCI Financial Products, to the extent that it continues to hold the voting rights of any of the Borrowed Securities under the Securities and Lending Agreement, will abstain from voting on the relevant resolutions at the EGM.

A proxy form for use at the EGM is enclosed herein. If you are not able to attend the EGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and deliver the same to the branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such case, the form of proxy previously submitted shall be deemed to be revoked.

An announcement of the poll results of the EGM will be published by the Company in accordance with the requirements under the Listing Rules and the Takeovers Code.

16. RECOMMENDATIONS

Your attention is drawn to: (i) the letter from the Listing Rules Independent Board Committee set out on pages 43 to 44 of this circular which contains its recommendation to the Independent Shareholders; (ii) the letter from the Takeovers Code Independent Board Committee set out on pages 45 to 46 of this circular which contains its recommendation to the Independent Shareholders; and (iii) the letter from the Independent Financial Adviser set out on pages 47 to 81 of this circular which contains its opinions and recommendation to the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders.

The Directors (including members of the Takeovers Code Independent Board Committee and the Listing Rules Independent Board Committee, whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser, but excluding Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun and Mr. WOLHARDT Julian Juul who were considered to have material interest in the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares contemplated thereunder and the Whitewash Waiver and had abstained from voting on the relevant resolutions of the Board) are of the view that the Acquisition is conducted in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement are on normal commercial terms, and that the terms of the Sale and Purchase Agreement and the Acquisition contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate) and the Whitewash Wavier are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The members of the Takeovers Code Independent Board Committee and the Listing Rules Independent Board Committee also recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve (i) the Sale and Purchase Agreement and the Acquisition contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate) and (ii) the Whitewash Waiver.

17. GENERAL

As completion of the transactions contemplated under the Sale and Purchase Agreement is subject to the fulfillment of certain conditions precedent, the Acquisition may or may not proceed to Completion. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

18. FURTHER INFORMATION

Your attention is also drawn to the general information set out in Appendix VII to this circular.

Yours faithfully,
For and on behalf of the Board
China Modern Dairy Holdings Ltd.

Ms. GAO LINA
Vice Chairman and Chief Executive Officer

MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1117)

May 14, 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTERESTS IN FUYUAN;
(2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE;
(3) APPLICATION FOR WHITEWASH WAIVER;
AND
(4) NOTICE OF EGM

We refer to the circular of the Company dated May 14, 2021 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as members of the Listing Rules Independent Board Committee to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement, the Acquisition, and the issue of the Consideration Shares pursuant to the Specific Mandate contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. We wish to draw your attention to the letter of advice issued by Somerley Capital Limited which is set out on pages 47 to 81 of the Circular.

Having considered the terms of the Sale and Purchase Agreement, and taken into account the advice of the Independent Financial Adviser, we are of the view that the Acquisition is conducted in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares under the Specific Mandate contemplated thereunder are on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. We therefore recommend that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares under the Specific Mandate contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For an on behalf of the Listing Rules Independent Board Committee

Mr. LI Shengli **Mr. LEE Kong Wai, Conway**
Independent non-executive Directors

MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1117)

May 14, 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTERESTS IN FUYUAN; (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; (3) APPLICATION FOR WHITEWASH WAIVER; AND (4) NOTICE OF EGM

We refer to the circular of the Company dated May 14, 2021 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as members of the Takeovers Code Independent Board Committee to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement, the Acquisition, and the issue of the Consideration Shares pursuant to the Specific Mandate contemplated thereunder, and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. We wish to draw your attention to the letter of advice issued by Somerley Capital Limited which is set out on pages 47 to 81 of the Circular.

Having considered the terms of the Acquisition and the Whitewash Waiver, and taken into account the advice of the Independent Financial Adviser, we are of the view that the Acquisition is conducted in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares under the Specific Mandate contemplated thereunder and the Whitewash Waiver are on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. We therefore recommend that the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Sale and Purchase Agreement the Acquisition and the issue of the Consideration Shares under the Specific Mandate contemplated thereunder and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For an on behalf of the Takeovers Code Independent Board Committee

Ms. GAN Lu
Non-executive Director

Mr. LI Shengli **Mr. LEE Kong Wai, Conway**
Independent non-executive Directors

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor, China Building
29 Queen's Road Central
Hong Kong

May 14, 2021

To: *the Takeovers Code Independent Board Committee,*
the Listing Rules Independent Board Committee, and
the Independent Shareholders

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTERESTS IN FUYUAN; (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; AND (3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders in connection with the terms of the Sale and Purchase Agreement, the Acquisition, the issue of the Consideration Shares under the Specific Mandate and the Whitewash Waiver. Details of the aforesaid are set out in the circular of the Company to the Shareholders dated May 14, 2021 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On March 22, 2021, the Company entered into the Sale and Purchase Agreement with the Sellers and Fuyuan, pursuant to which the Sellers agreed to sell, and the Company agreed to purchase, the Target Assets. The total Consideration for the sale of the Target Assets is RMB3,480,000,000, which shall be satisfied by a combination of cash and Consideration Shares in accordance with the settlement scenarios as set out in the "Letter from the Board" contained in the Circular.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Acquisition contemplated under the Sale and Purchase Agreement exceed 25% but all applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement, shareholders' approval and circular requirements under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, Fuyuan is indirectly owned as to approximately 43.35% by Mengniu, and the Mengniu Concert Group are substantial shareholders and connected persons of the Company holding approximately 51.40% of the issued share capital of the

Company. Inner Mongolia Mengniu, one of the Sellers, is a subsidiary of Mengniu and therefore a connected person of the Company. Fuyuan is an associate of Mengniu and therefore also a connected person of the Company. Accordingly, the Acquisition contemplated under the Sale and Purchase Agreement (including the issuance of the Consideration Shares) also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As of the Latest Practicable Date, the Mengniu Concert Group are the registered shareholders of an aggregate of 3,653,945,781 Shares representing an aggregate of 51.40% interest in the Company, of which 542,053,596 Shares representing an aggregate of 7.63% interest in the Company are the subject of the Exchangeable Bonds. In the extreme situation where EB Holders exercise their Exchange Rights to exchange all of the Exchangeable Bonds into the Shares, Mengniu Concert Group's interest in the Shares will decrease to 43.78% (assuming no change in the issued share capital of the Company). Accordingly, if during the Relevant Period, Mengniu Concert Group's interest falls to or below 50% as a result of the exercise of Exchange Rights by the EB Holders, and the subscription of the Consideration Shares pursuant to the Settlement Scenario I has the effect of increasing the Mengniu Concert Group's holding of voting rights in the Company by more than 2% from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period, such action would trigger the mandatory general offer obligation under Rule 26.1(d) of the Takeovers Code. In view of the Potential MGO Obligation, Mengniu has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, notwithstanding the Potential MGO Obligation may not have realised at the Latest Practicable Date. The Executive has indicated that it will grant the Whitewash Waiver which will be subject to, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders at the EGM; and (ii) the approval of the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares under the Specific Mandate by more than 50% of the votes cast by the Independent Shareholders at the EGM.

Pursuant to Rule 2.8 of the Takeovers Code, the Takeovers Code Independent Board Committee, comprising all the non-executive Directors (except for (a) Mr. LU Minfang who is a non-executive director of the Company and an executive director of Mengniu; (b) Mr. ZHANG Ping who is a non-executive director of the Company and a vice president and the chief financial officer of Mengniu; (c) Mr. ZHAO Jiejun who is a non-executive director of the Company and a vice president and the head of milk sourcing and supply chain business unit of Mengniu; and (d) Mr. WOLHARDT Julian Juul, who is an independent non-executive director of both Mengniu and the Company), namely, Ms. GAN Lu, Mr. LI Shengli and Mr. LEE Kong Wai, Conway, has been established to advise the Independent Shareholders on the Acquisition and the Whitewash Waiver. Pursuant to the Listing Rules, the Listing Rules Independent Board Committee, comprising all the independent non-executive Directors (except for Mr. WOLHARDT Julian Juul who is also an independent non-executive director of Mengniu), namely, Mr. LI Shengli and Mr. LEE Kong Wai, Conway, has been established to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement, the Acquisition, and the issue of Consideration Shares contemplated thereunder. We, Somerley Capital Limited, have been appointed to advise (a) the Takeovers Code Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition and the Whitewash Waiver, and as to voting; and (b) the Listing Rules Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Sale and Purchase Agreement, the Acquisition and the issue of Consideration Shares contemplated thereunder, and as to voting.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of Yashili International Holdings Ltd (stock code: 1230) (“**Yashili**”), which is owned as to 51.04% indirectly by Mengniu as at the Latest Practicable Date, in relation to the continuing connected transactions as detailed in Yashili’s circulars dated December 12, 2019 and December 4, 2020. The past engagements were limited to providing independent advisory services to the independent board committee and independent shareholders of Yashili pursuant to the Listing Rules. Under the past engagements, Somerley Capital Limited received normal professional fees from Yashili. Notwithstanding the past engagements, as at the Latest Practicable Date, there have been no other arrangements, relationships or interests existing between (a) Somerley Capital Limited and (b) the Group and the Sellers whereby we had received or will receive any fees or benefits that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders in respect of the Acquisition, issue of Consideration Shares and Whitewash Waiver as detailed in the Circular.

We are not associated with the Company, the Sellers or their respective substantial shareholders (if applicable) or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Acquisition, issue of Consideration Shares and the Whitewash Waiver. Apart from normal professional fees paid or payable to us in connection with this appointment, and save for our past appointments disclosed above, no arrangement exists whereby we will receive any fees or benefits from the Company, the Sellers or their respective substantial shareholders (if applicable) or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Sale and Purchase Agreement; (ii) the annual reports of the Company for the year ended December 31, 2019 and December 31, 2020 (the “**2020 Annual Report**”); (iii) the annual results announcement of the Company for the year ended December 31, 2020 (the “**2020 Annual Results Announcement**”); (iv) the interim report of the Company for the six months ended June 30, 2020 (the “**2020 Interim Report**”); (v) the valuation report on the 100% equity value of Fuyuan (the “**Valuation Report**”); (vi) the financial information of the Target Group as set out in the Circular; and (vii) the material change statement as set out in Appendix I to the Circular. We have relied on the information and facts supplied by the Company and the opinions expressed by the executive Directors and the management of the Company, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Circular were true at the time they were made and at the Latest Practicable Date. Independent Shareholders will be informed as soon as possible if we become aware of any material change to such representations, up to the date of the EGM. We have sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Sellers, or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations, we have taken into account the principal factors and reasons set out below:

1. Information on and prospects of the Group

(a) Information on the Group

The Company is an investment holding company with limited liability, which, along with its subsidiaries, is principally engaged in dairy farming operations, production and sale of raw milk, and development of liquid milk products. The Group focuses on the upstream dairy farming business, operates 26 dairy farms in the PRC with over 247,000 dairy cows and an annual milk yield of approximately 1.49 million tons. As set out in the 2020 Annual Report, the Group is currently the leading dairy farming operator and fresh raw milk producer in the PRC.

Benefiting from the increase in sales volume and average selling price of raw milk in 2019, the Group recorded revenue of approximately RMB5,514.2 million for the year ended December 31, 2019, representing a year-on-year increase of approximately 11.2%. Profit attributable to owners of the Company amounted to approximately RMB341.3 million for the year ended December 31, 2019, comparing to a loss of approximately RMB496.1 million in 2018. Basic and diluted earnings per Share of the Company were approximately RMB5.54 cents and RMB5.52 cents respectively in 2019.

For the year ended December 31, 2020, the Group's total revenue increased by approximately 9.2% year-on-year to approximately RMB6,020.2 million. The increase was mainly due to the increase in sales volume and average selling price of raw milk. Profit attributable to owners of the Company amounted to approximately RMB770.0 million in 2020, grew by approximately 125.6% year-on-year. The Group recorded gains on disposal of subsidiaries amounted to approximately RMB72.3 million in 2020. Basic and diluted earnings per Share were approximately RMB12.07 cents and RMB12.04 cents respectively in 2020.

The Group had total assets of approximately RMB15,568.2 million as at December 31, 2020, in which biological assets (dairy cows held to produce raw milk) and property, plant and equipment accounted for approximately 45.6% and 21.3% of the total respectively. Total liabilities of the Group amounted to approximately RMB7,529.8 million as at December 31, 2020 and approximately 74.9% of the Group's total liabilities were bank borrowings (i.e. total interest-bearing debts of the Group of approximately RMB5,642.3 million). As at December 31, 2020, the net asset value attributable to the Shareholders was approximately RMB1.24 per Share (equivalent to approximately HK$1.49 per Share using the exchange rate of HK$1.00 to RMB0.83449), the Group's debt-to-asset ratio and net gearing ratio (calculated on the basis of the amount of total borrowings less cash, bank balances and pledged bank deposits as a percentage of the total equity) was approximately 48% and 54%, respectively.

Pursuant to the Company's announcement dated January 27, 2021, an aggregate of 650,000,000 Shares have been successfully placed to independent third parties at the price of HK$2.40 per Share. The net proceeds from the Placing amount to approximately HK$1,552 million. The Company intends to apply the net proceeds from the Placing on infrastructure development and herd expansion, potential mergers and acquisitions and general working capital.

As at the Latest Practicable Date, the Mengniu Concert Group held an aggregate of 51.40% interest in the Company.

(b) Prospects of the Group

In the PRC, the small-sized and medium-sized dairy farms have been phasing out the market and the herd size has been shrinking since 2015 due to strict environmental regulations. As stated in the Company's 2020 Annual Report, with the withdrawal of such small-sized and medium-sized dairy farms from the PRC market, raw milk will be mainly provided by dairy farms with scale in the future. Given the industry entry barriers of large-scaled dairy farming are high, the Company, being one of the leading dairy farming operators, could benefit from the industry cycle. Although the herd size has bottomed out since 2019, the production capacity generated from the growth of herd in 2020 will not be released until a few years later. It is expected that the shortage of raw milk in the PRC will continue and drive an increase in milk prices.

On the demand side, increase of residents' income in the PRC is beneficial to the overall consumption market. As stated in the Company's 2020 Annual Report, China recorded a 2.3% gross domestic product growth year-on-year in 2020, and residents' income growth basically kept pace with the economic growth. The per-capita income of urban and rural residents in China has doubled comparing to 2010. Furthermore, with the active advocacy of authoritative medical professionals and the issuance of a document by the National Health Commission encouraging people to improve their immunity by drinking milk, not only has the awareness of milk consumption been raised, but new opportunities have been brought to the dairy farming industry.

The Company stated in its 2020 Annual Report that it has embarked on a "five-year leading plan" to focus on increasing the herd size and production in an attempt to further strengthen the Group's overall competitiveness. In five years, the Company will strive to double both herd and milk yield through organic growth and external acquisition, being further increase the number of cows to more than 500,000 by 2025 with annual fresh milk yield of 3.6 million tons.

2. Information on the Target Group

(i) Principal activities of the Target Group

Fuyuan is a limited liability company established in the PRC in February 2012 with its headquarter in Hohhot, Inner Mongolia of the PRC. Fuyuan and its subsidiaries are principally engaged in forage cultivation, dairy farming, feed processing and sales in the PRC. Fuyuan currently operates a total of 15 dairy farms in the PRC with approximately 60,000 dairy cows. Further details on the dairy farms operated by Fuyuan are set out in the section headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" contained in the Circular. For year 2020, total milk production of Fuyuan was approximately 393,000 tons.

(ii) Shareholding structure of the Target Group

As at Latest Practicable Date, Fuyuan is owned as to approximately 43.35%, 27.64%, 4.88% and 24.13% by Inner Mongolia Mengniu, GS, Shining and the Individual Shareholders, respectively. Further details with respect to the Sellers are set out in the section headed "Information on the Parties" in the "Letter from the Board" contained in the Circular.

As of the date of the Sale and Purchase Agreement, the Sellers are the legal and beneficial owners of all the equity interests in Fuyuan. Prior to Completion, the relevant Sellers, Fuyuan and its subsidiaries will effect a series of Reorganisation, the key steps of which include:

(i) the disposal of Burra Interests by Fuyuan to a wholly-owned subsidiary of Mengniu at the consideration of approximately RMB320,000,000. Burra Group is an Australian dairy ingredient processor principally engaged in the business of processing milk powders and nutritional powders;

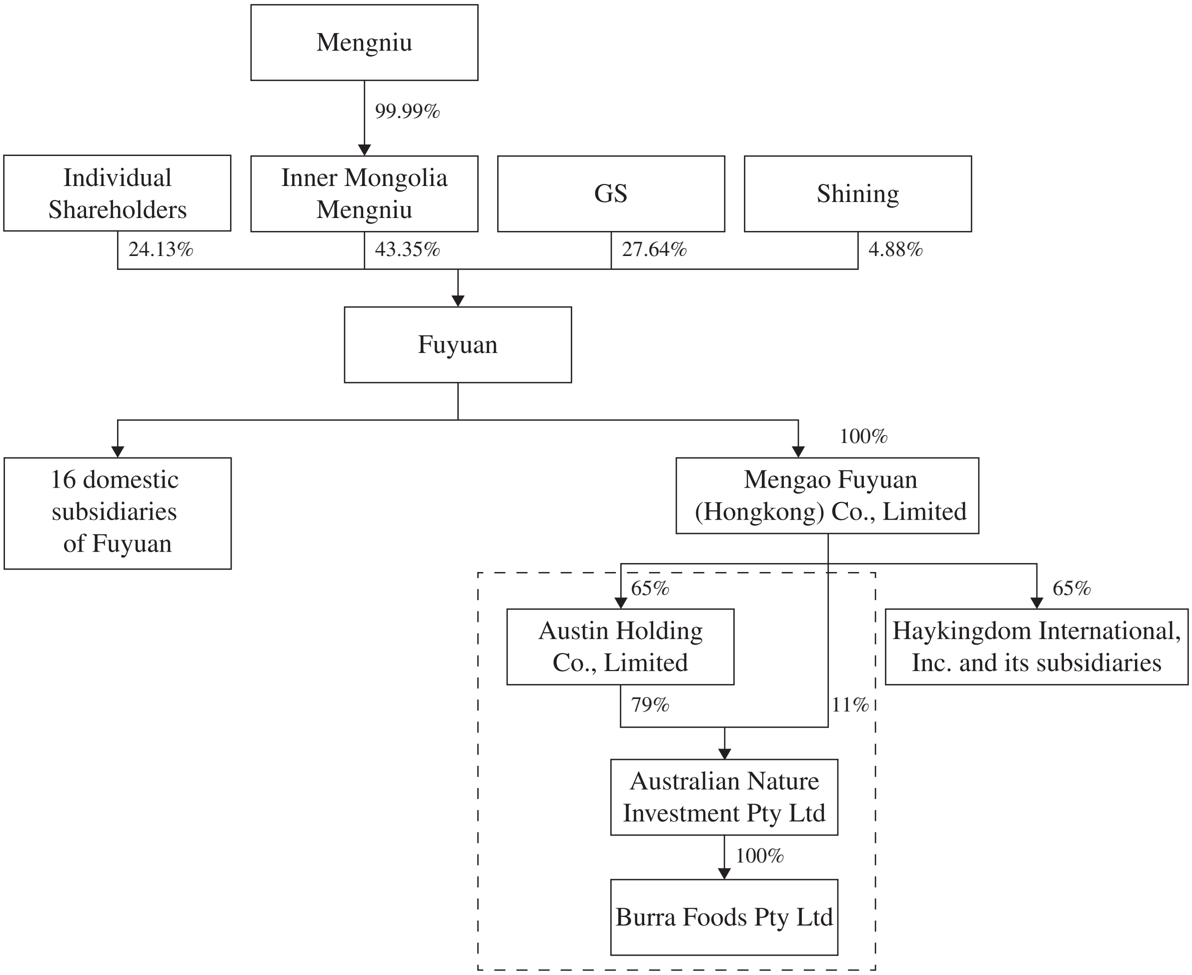
(ii) the distribution of proceeds from the Burra Disposal by Fuyuan to the Sellers (in the form of dividend) in proportion to their respective interests in Fuyuan; and

(iii) the establishment of the Offshore HoldCo and the HK MidCo by Mengniu to hold the Sale Shares.

The Reorganisation shall be completed on or before November 30, 2021 or such later date as may be agreed by the Parties.

The following diagrams illustrate the shareholding and group structure of Fuyuan: (1) as of the Latest Practicable Date; (2) immediately after Completion under Settlement Scenario I and Settlement Scenario II, respectively, assuming Completion having taken place simultaneously with all of the Sellers:

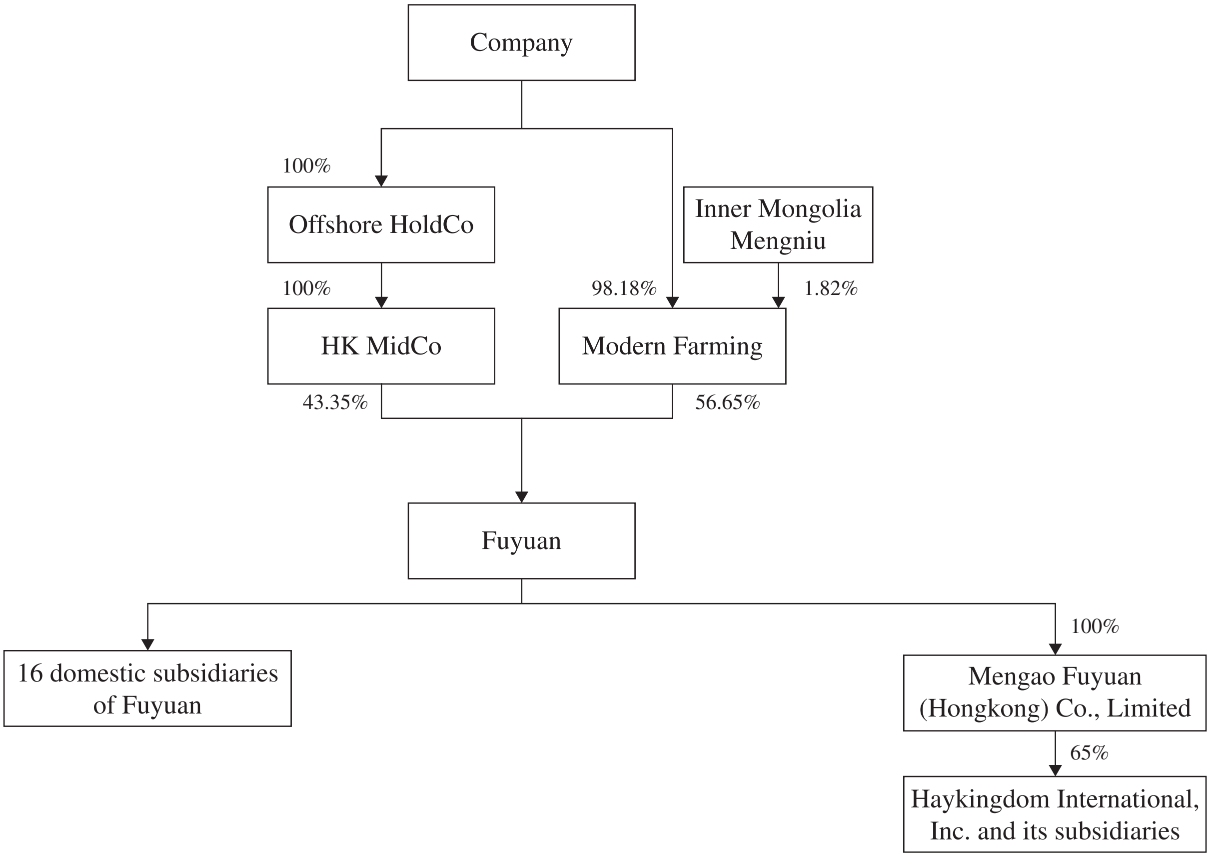
(1) As of the Latest Practicable Date



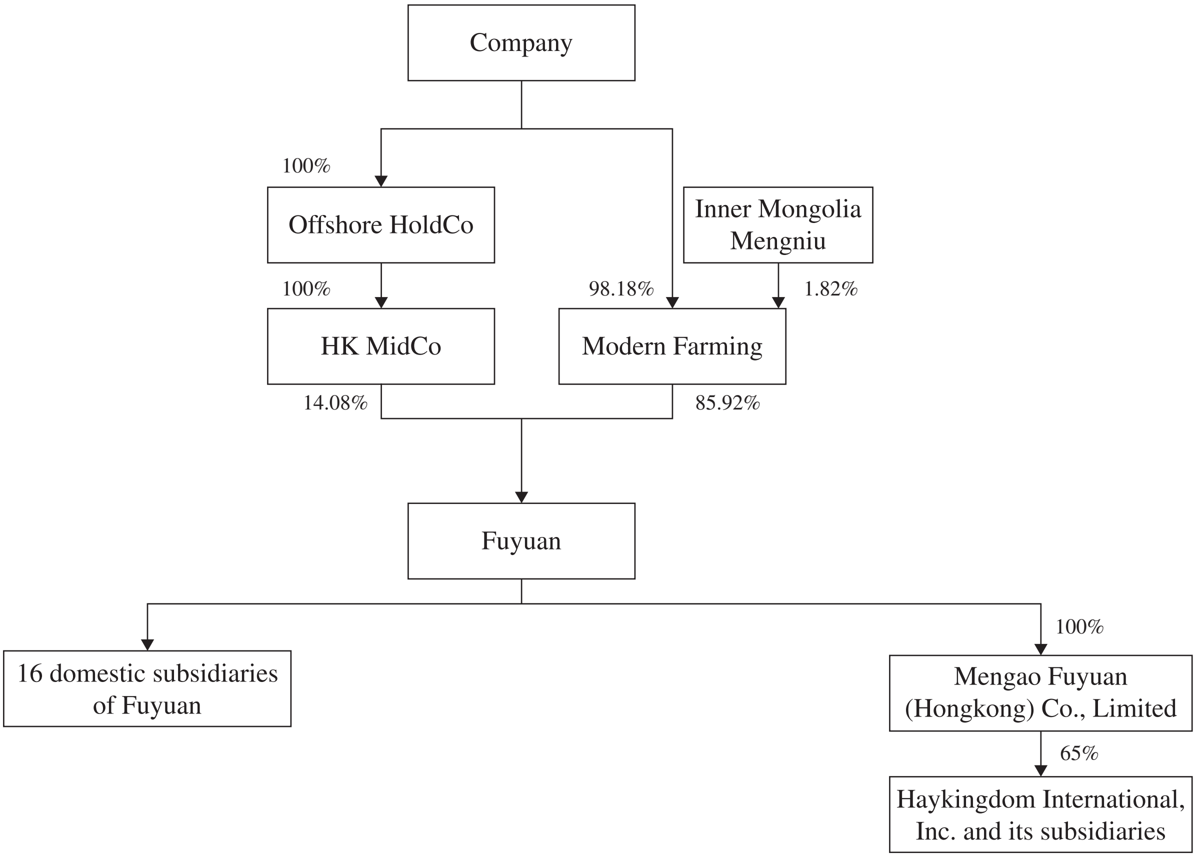
Note: ⬚ *Burra Group to be disposed of in accordance with the Reorganisation*

(2) Immediately after Completion under Settlement Scenario I and Settlement Scenario II, respectively, assuming Completion having taken place simultaneously with all of the Sellers

Settlement Scenario I



Settlement Scenario II



(iii) Financial information of the Target Group

The audited financial statements of the Target Group prepared in accordance with the International Financial Reporting Standards for the three years ended December 31, 2018, 2019 and 2020 are set out in Appendix II to the Circular, and a summary of which is set out below:

(a) Financial performance

The following is a summary of the financial results of the Target Group for the three years ended December 31, 2018, 2019 and 2020 as extracted from the financial information of the Target Group set out in Appendix II to the Circular. Details on the management discussion and analysis on the Target Group are set out in Appendix III to the Circular.

	For the year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Revenue	**1,694,339**	**2,061,302**	**2,180,150**
– Sales of raw milk	1,194,243	1,363,156	1,517,531
– Sales of dairy products	13,951	45,685	61,142
– Sales of grasses	486,145	652,461	601,477
Profit for the year from continuing operations	**62,650**	**142,561**	**442,057**

(i) Revenue

For the year ended December 31, 2019, the Target Group recorded revenue of approximately RMB2,061.3 million, representing an increase of approximately 21.7% comparing to 2018. The increase in revenue was mainly contributed by (1) sales volume growth of raw milk; (2) the growth of raw milk price; and (3) sales growth of grasses.

For the year ended December 31, 2020, the Target Group recorded revenue of approximately RMB2,180.2 million, representing an increase of approximately 5.8% as compared to 2019. The increase in revenue was mainly contributed by (1) sales volume growth of raw milk; and (2) the growth of raw milk price.

(ii) Profit from continuing operations

In 2019, the profit from continuing operations was approximately RMB142.6 million, representing a year-on-year increase of approximately 127.6% comparing to the profit of approximately RMB62.7 million for the year 2018. The improvement of results was mainly due to (1) the increase of raw milk sales price; and (2) the increase of milk yield per milkable cow.

For the year ended December 31, 2020, the Target Group recorded profit from continuing operations of approximately RMB442.1 million, representing an increase of approximately 210.1% comparing to 2019. The improvement of results was due to, among other things, (1) the increase of raw milk sales price; (2) the increase of milk yield per milkable cow; (3) the decrease of feed procurement cost; and (4) the one-off exemption for social security insurance contribution granted by the PRC government authorities due to COVID-19.

(b) Financial position

Set out below is a summary of the financial position of the Target Group as at December 31, 2018, 2019 and 2020 as extracted from the financial information of the Target Group set out in Appendix II to the Circular.

	As at December 31,		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000 (excluding assets/liabilities of a disposal group classified as held for sale)*
	(Audited)	(Audited)	(Audited)
Total assets	5,702,950	6,209,273	4,621,714
Total liabilities	3,560,761	3,774,501	3,009,196
Net asset value	2,142,189	2,434,772	1,612,518

As at December 31, 2020, the Target Group recorded total assets (excluding assets of a disposal group classified as held for sale) of approximately RMB4,621.7 million, which mainly consisted of (a) biological assets of approximately RMB1,572.1 million; (b) property, plant and equipment of approximately RMB1,040.3 million; and (c) inventories of approximately RMB543.4 million. Total liabilities (excluding liabilities of a disposal group classified as held for sale) of the Target Group amounted to approximately RMB3,009.2 million as at December 31, 2020. Major liabilities of the Target Group as at December 31, 2020 include (a) interest-bearing bank and other borrowings of approximately RMB1,657.5 million; (b) trade and bills payables of approximately RMB435.8 million; (c) other financial liabilities of approximately RMB390.1 million; and (d) lease liabilities of approximately RMB256.0 million. As at December 31, 2020, net asset value of the Target Group (excluding assets/liabilities of a disposal group classified as held for sale) was approximately RMB1,612.6 million.

3. Reasons for and benefits of the Acquisition

As set out in the Company's 2020 Interim Report and the section headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" contained in the Circular, in recent years the Chinese government supported and fostered the development and optimisation of local dairy industry by introducing a number of policies to strengthen dairy industry support. With the withdrawal of small and medium sized dairy farms from the market, large-scale farms have become a main source of production for current commodity raw milk in the PRC. As set out in the 2020 Annual Report, the Group is currently the leading dairy farming operator and fresh raw milk producer in the PRC. The industry entry barriers of large-scale farming are high, and the Group could benefit from the advantages of scale and being an industry leader.

Further, as set out in the 2020 Interim Report, due to the Pandemic outbreak, the concept of healthy consumption is gradually becoming more prominent among the general public. Against the backdrop of strengthened healthy mindsets of consumers, optimisation of the dairy industry landscape and current short supply of raw milk, the Group is committed to concentrating its resources on upstream dairy farming business and providing high-quality raw milk. One of the focuses of the Group's operation strategy is to increase the size of the herd, maintain a reasonable herd portfolio, increase yields and achieve steady growth output. For the year ended December 31, 2020, the Group's external average selling price of raw milk stood at RMB4.13/kg, representing a year-on-year growth of approximately 2.2%. With the uplift of milk yield and the number of milkable cows, the total annual milk production hit 1.49 million tons, representing year-on-year growth of approximately 7.2%.

Fuyuan and its subsidiaries are principally engaged in forage cultivation, dairy farming and feed processing and sales in the PRC. As set out in this letter above, Fuyuan's profit from continuing operations was approximately RMB142.6 million in 2019, representing a year-on-year increase of approximately 127.6%. Fuyuan recorded profit from continuing operations of approximately RMB442.1 million in 2020, representing an increase of approximately 210.1% comparing to 2019. Fuyuan currently operates a total of 15 dairy farms with approximately 60,000 dairy cows in China. For year 2020, total milk production of Fuyuan was approximately 393,000 tons. Following the Acquisition, the number of dairy cows owned by the Group will be increased to approximately 307,000. Accordingly, the Board considers that the Acquisition is conducted in the ordinary and usual course of business of the Group, and allows the Group to further strengthen its leading position in the dairy farming industry in China and enhance the Group's competitiveness in terms of quality and pricing of the raw milk. By acquiring more dairy farms and expanding geographical scope of supply in the PRC, the Acquisition also enables the Group to achieve more efficient logistics for delivery of raw milk and greater flexibility to cater the needs for raw milk of the Group's downstream customers. The Acquisition allows the Group to integrate the upstream and downstream business, thereby building a full chain of raw milk production which will be favourable to the Group's long-term development.

After the Acquisition, it is expected that the Group will implement its comprehensive digitalised farm management system on these 15 farms of Fuyuan including adopting scientific breeding and precise formula, establishing efficient information collection system and improving system integration of cows from individual, breeding, feeding, health to milk-producing module, among other measures. It is expected that these measures can help optimise the herd structure in each dairy farm and increase the unit production for each milk cow. Meanwhile, as Fuyuan is also engaged in the business of supplying feedstuffs, the Acquisition would enable the Group to integrate the upstream feedstuff supplying business with its own raw milk production business and effectively supervise and control the quality of feedstuffs which is essential to the quality of raw milk. Stable feed supply and steady growth in feed size is essential to the Group's production of high-quality raw milk. The Acquisition provides an opportunity for the Group to build on and strengthen its operation through expansion into and accessing the feeds supply industry. Fuyuan started supplying feedstuffs to the Group in 2017 under the Framework Supply Agreement which was renewed in December 2019. Subsequent to the Acquisition, synergies can be achieved which in turn is expected to lower the operating costs and benefit the financial performance of the Group.

Taking into account the above, the executive Directors consider, and we concur, that the Acquisition is conducted in the ordinary and usual course of business of the Group, in line with the Group's development strategy, and is expected to benefit the long-term development of the Group through enhancing its financial performance and further strengthening the Group's scale of operations and market position in the dairy industry.

4. Principal terms of the Sale and Purchase Agreement

On March 22, 2021, the Company entered into the Sale and Purchase Agreement with the Sellers and Fuyuan, pursuant to which the Sellers agreed to sell, and the Company agreed to purchase, the Target Assets.

Principal terms of the Sale and Purchase Agreement are summarised below. Further details of the terms of the Sale and Purchase Agreement are set out in the section headed "The Sale and Purchase Agreement" in the "Letter from the Board" contained in the Circular.

(i) Subject matter

Upon and subject to the terms and conditions of the Sale and Purchase Agreement, at Completion, the Sellers shall sell, and the Company shall purchase, the Target Assets free from all encumbrances and together with all rights attached or accruing to them at the Completion Date. The Target Assets constitute the entire equity interests (both direct and indirect) in Fuyuan.

(ii) Consideration and Settlement Scenarios

The total Consideration for the Acquisition is RMB3,480,000,000, which was determined after arm's length negotiations among the Company and the Sellers with reference to (i) the fair value of the Target Group as of December 31, 2020, pursuant to a valuation conducted by the Independent Valuer adopting the market approach; (ii) the significance of the Target Group to the future development of the Company; and (iii) the development prospects of the Target Group. The Consideration shall be satisfied in accordance with either of the settlement scenarios as set out below. The Parties will determine the applicable settlement scenario on the Completion Date.

Settlement Scenario I

If (i) the Mengniu Concert Group's interest in the Company continues to exceed 50% at all times during the Relevant Period and the issue of the Consideration Shares would not trigger a mandatory general offer obligation of Mengniu under Rule 26.1(d) of the Takeovers Code; or (ii) the Mengniu Concert Group's interest in the Company decreases to 50% or below (but not less than 30%) at any time during the Relevant Period and the Whitewash Waiver is approved by at least 75% of the votes cast by the Independent Shareholders at the EGM and granted by the Executive, the Consideration shall consist of:

(i) the sum of RMB1,971,329,480 payable in cash by the Company to each of GS, Shining and the Individual Shareholders in proportions to their respective interest in Fuyuan and as set out in the table below:

Sellers	**Percentage of interest in Fuyuan**	**Value of Consideration payable in cash** *(RMB)*
GS	27.64%	961,777,456
Shining	4.88%	169,725,434
Individual Shareholders	24.13%	839,826,590
Total	**56.65%**	**1,971,329,480**

50% of the respective considerations payable to GS, Shining and the Individual Shareholders will be paid into an escrow account to be opened in the name of the Company upon fulfilment of all the conditions precedents (unless waived) set out in the Sale and Purchase Agreement. Such amount will be released, together with the remaining 50% which will be paid directly to the bank accounts of these Sellers, upon completion of certain regulatory procedures in the PRC, including the change of business registration records of Fuyuan with the relevant Administrations for Industry and Commerce to reflect the transfer of interest in Fuyuan to the Company and the obtaining of necessary approvals and authorisations to remit the payment offshore; and

(ii) the sum of RMB1,508,670,520 (equivalent to approximately HK$1,807,895,265 calculated using the exchange rate of HK$1.00 to RMB0.83449), which amount is in proportion to Inner Mongolia Mengniu's 43.35% interest in Fuyuan, shall be satisfied by the allotment and issue of 807,096,101 Consideration Shares by the Company to Mengniu SPV at the Issue Price of HK$2.24 per Share on Completion.

Settlement Scenario II

If the Mengniu Concert Group's interest in the Company decreases to 50% or below (but not less than 30%) at any time during the Relevant Period and the issue of the Consideration Shares pursuant to Settlement Scenario I has the effect of increasing the Mengniu Concert Group's holding of voting rights in the Company by more than 2% from the lowest collective percentage holding of the Mengniu Concert Group in the Company during the Relevant Period, and the Whitewash Waiver is not approved by at least 75% of the votes cast by the Independent Shareholders at the EGM or otherwise not granted by the Executive, the Consideration shall consist of:

(i) the sum of RMB2,989,888,587 payable in cash by the Company to each of GS, Shining, the Individual Shareholders and Inner Mongolia Mengniu in proportions as set out in the table below:

Sellers	**Percentage of interest in Fuyuan**	**Value of Consideration payable in cash** *(RMB)*
GS	27.64%	961,777,456
Shining	4.88%	169,725,434
Individual Shareholders	24.13%	839,826,590
Inner Mongolia Mengniu	29.27%	1,018,559,107
Total	**85.92%**	**2,989,888,587**

With respect to GS, Shining and the Individual Shareholders, the payment arrangements are the same as those set out in sub-paragraph (i) under Settlement Scenario I; with respect to Inner Mongolia Mengniu, 50% of the consideration payable will be paid into an onshore bank account designated by Inner Mongolia Mengniu on the Completion Date, and the remaining 50% will be paid to the designated bank account within 3 Business Days upon completion of the change of business registration records of Fuyuan with the relevant Administrations for Industry and Commerce in the PRC to reflect the transfer of Inner Mongolia Mengniu's interest in Fuyuan to the Company; and

(ii) the sum of RMB490,111,413 (equivalent to approximately HK$587,318,498 calculated using the exchange rate of HK$1.00 to RMB0.83449), which amount is in proportion to Inner Mongolia Mengniu's remaining 14.08% interest in Fuyuan, shall be satisfied by the allotment and issue of 262,195,758 Consideration Shares by the Company to Mengniu SPV at the Issue Price of HK$2.24 per Consideration Share on Completion.

As at the Latest Practicable Date, the Company had 7,108,565,947 Shares in issue. Assuming that there is no change in the issued share capital of the Company prior to Completion:

(i) the total of 807,096,101 Consideration Shares to be issued pursuant to Settlement Scenario I represent (a) approximately 11.35% of the existing issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 10.20% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares; and

(ii) the total of 262,195,758 Consideration Shares to be issued pursuant to Settlement Scenario II represent (a) approximately 3.69% of the existing issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 3.56% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares.

Under each of the settlement scenarios, (i) the Company expects that no more than 60% of the cash portion of the Consideration will be funded by external financing and the remaining cash portion will be funded by internal resources of the Group. As of the Latest Practicable Date, the Company is in the process of negotiating with relevant banks on the terms of the financing and no detailed terms have yet been finalised or agreed; and (ii) the Consideration Shares shall be issued as fully paid and shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issuance of the Consideration Shares, including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the Completion Date.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will be allotted and issued under the Specific Mandate and subject to approval by the Independent Shareholders at the EGM.

Further details and analysis on the terms of the issue of Consideration Shares are set out in this letter below.

(iii) Conditions precedent to Completion

Completion is subject to the fulfilment (or waiver, as applicable) of the conditions precedent in accordance with the terms of the Sale and Purchase Agreement on or before the Long Stop Date, which include, among others, (i) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate for the issuance of the Consideration Shares) at the EGM in accordance with the requirements under the Listing Rules; (ii) applicable to Inner Mongolia Mengniu only, the Listing Committee having granted the listing of, and permission to deal in, the Consideration Shares (and such grant not having been revoked or withdrawn), either unconditionally or subject to such conditions as required by the Listing Committee; and (iii) various regulatory approvals.

Further details of the conditions precedent are set out in the sub-section headed "Conditions Precedent to Completion" in the "Letter from the Board" contained in the Circular. As at the Latest Practicable Date, conditions (ii) to be fulfilled by each seller as set out in the abovementioned sub-section in the "Letter from the Board" contained in the Circular have been satisfied and the Company is not aware of any event which would cause any other conditions as set out in the same sub-section not capable of being fulfilled. The Company and the relevant Seller has no intention and had not indicated any intention to waive any of the conditions as of the Latest Practicable Date.

(iv) Completion

Completion shall take place on the fifth (5th) Business Day following the fulfillment or waiver (where permitted) of all of the conditions set out in the abovementioned sub-section, or such other date as the Parties may agree. As of the Latest Practicable Date, the Parties are working to fulfill the conditions and have yet been able to estimate when the specific Completion Date will be. The Company shall not be obliged to complete the purchase of any Target Assets unless the purchase by it of the Sale Shares from Mengniu SPV and the Sale Interests from each of GS, Shining and Inner Mongolia Mengniu (as applicable) are completed simultaneously.

5. Evaluation of the Consideration of the Acquisition

(i) Scope of work and qualifications of the Independent Valuer

The Company engaged the Independent Valuer to prepare a valuation report in respect of the fair value of 100% equity interest of Fuyuan as of December 31, 2020 (the "**Valuation**"). As set out in the Valuation Report contained in Appendix V of the Circular, the appraised value of 100% equity interest of Fuyuan is RMB4,089,653,000 as of December 31, 2020. In reviewing the Valuation Report, we have complied with the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules and Rule 11.1(b) of the Takeovers Code. Our letter in relation to the Valuation Report under Rule 11.1(b) of the Takeovers Code is set out in Appendix VI to the Circular. We have enquired with the Independent Valuer as to their independence and were given to understand that the Independent Valuer is an independent third party of the Group, the Sellers and their respective connected persons. The Independent Valuer also confirmed to us that they were not aware of any relationship or interest between themselves and the Group or any other parties that would reasonably be considered to affect their independence to act as the independent valuer of the Company. We have also reviewed the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussed the same with the Independent Valuer. We noted that the person signing the Valuation Report, an executive director of the Independent Valuer, has more than 10 years of experience in providing valuation services (including but not limited to company equity valuation and biological asset valuation) to listed companies of different industries in the PRC, Hong Kong, Singapore and the United States. Based on the review work conducted by us, we are satisfied that the Independent Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently. Furthermore, we also reviewed the Independent Valuer's terms of engagement stated in the engagement letter entered into between the Company and the

Independent Valuer and noted that the scope of work was appropriate for the Independent Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the Valuation Report.

(ii) Valuation methodologies

As set out in the Valuation Report and based on our discussions with the Independent Valuer, market approach is adopted in deriving the fair value of 100% equity interest of Fuyuan as of December 31, 2020. We have discussed with the Independent Valuer on their valuation methodologies and understand that there are three generally accepted approaches to appraise the fair value of 100% equity interest of Fuyuan, namely cost approach, income approach and market approach. In this valuation, the Independent Valuer adopted the market approach as this approach considers the recent prices of similar targets and introduces objectivity as publicly available inputs are used. As advised by the Independent Valuer, the cost approach is considered inappropriate for valuing the fair value of 100% equity interest of Fuyuan as it does not directly incorporate information about the economic benefits generated by Fuyuan, and the income approach is also considered inappropriate for this valuation as this approach requires detailed operational information and long-term financial projection of Fuyuan, and no sufficient data is available for accurate estimation.

As advised by the Independent Valuer, the fair value of 100% equity interest of Fuyuan is arrived at with reference to comparable companies (the "**Comparable Companies**"). As set out in the Valuation Report, the Comparable Companies are listed on the Stock Exchange and the selection of Comparable Companies is based on the industry peers of the Company, which operate in dairy farming industry with average monthly trading volume higher than RMB20 million and have reasonably sufficient listing period of more than five years. Considering (i) Fuyuan and its subsidiaries are principally engaged in dairy farming industry; (ii) companies listed on the Stock Exchange that are engaged in dairy farming provide the best available public information for assessing the fair value of Fuyuan; (iii) as advised by the Independent Valuer, comparable transaction analysis was not feasible due to a lack of recent similar transactions in the market; (iv) as set out in the Valuation Report and as advised by the Independent Valuer, in assessing the fair value of Fuyuan, the Comparable Companies are comparable to Fuyuan notwithstanding their listing status as the effects of control premium (around 20%) and discount for lack of marketability (20.6%) considered in the Valuation are offsetting, further details are set out in the section headed "Additional consideration" of the Valuation Report contained in Appendix V to the Circular; and (v) we understand from the Independent Valuer that the methodologies adopted by them in the valuation of fair value of Fuyuan are commonly used (including identifying comparable companies of a private company) and are consistent with industry practice, we consider that the selection criteria adopted by the Independent Valuer in identifying the Comparable Companies are appropriate. Given there already exists a sufficient number of Comparable Companies for analysis, we are of the view that the Comparable Companies provide objective benchmarks for valuing the fair value of 100% equity interest of Fuyuan and the market approach was appropriate for this Valuation.

Under the market approach, the Independent Valuer applied mean multiples of price-to-earnings ("**P/E**"), price-to-book ("**P/B**") and price-to-sales ("**P/S**") of the Comparable Companies for the valuation of 100% equity interest of Fuyuan. We are advised by the Independent Valuer that these multiples are adopted because they are commonly used multiples for valuing businesses, and are relevant in this case considering Fuyuan's profit-making and non-asset-light nature. The appraised value of 100% equity interest of Fuyuan is derived from (i) applying the mean of the abovementioned multiples of the Comparable Companies as set out in the Valuation Report, to the net income (for P/E)/revenue (for P/S) of Fuyuan for the year ended December 31, 2020, and the book value of Fuyuan as at December 31, 2020 (for P/B); and (ii) taking the average of the three values derived in (i) above. As advised by the Independent Valuer, the three market multiples, namely P/E, P/S, and P/B, are representing Fuyuan's profitability, sales performance, and net equity, respectively. Since Fuyuan has positive earnings, stable revenue, and its main assets are biological assets, the Independent Valuer considers that it is appropriate to consider all the three parameters, which are equally important, and that they should have equal weighting in the valuation. The lists of Comparable Companies and their respective P/E, P/B and P/S multiples as of December 31, 2020 adopted in the Valuation Report contained in Appendix V to the Circular are set out in the table below.

Company Name	**Bloomberg Ticker**	**P/E**	**P/B**	**P/S**
YuanShengTai Dairy Farm Ltd	1431 HK EQUITY	9.52	0.67	2.00
China ZhongDi Dairy Holdings Co Ltd	1492 HK EQUITY	13.04	0.89	1.24
China Shengmu Organic Milk Ltd	1432 HK EQUITY	16.63	1.76	1.56
China Modern Dairy Holdings Ltd	1117 HK EQUITY	22.57	1.38	1.71
Adopted Multiples *(Note)*		**15.44**	**1.18**	**1.63**

Note: Adopted multiples are calculated as mean multiples of comparable companies.

We reviewed the calculations mentioned above and searched on Bloomberg to verify the multiples adopted by the Independent Valuer in its calculations and noted that the multiples used are consistent with those we identified on Bloomberg.

We have also reviewed and discussed with the Independent Valuer the key basis and assumptions adopted for the valuation. Assumptions made by the Independent Valuer are set out in the Valuation Report contained in Appendix V to the Circular. We discussed with the Independent Valuer and noted that such assumptions are commonly adopted in business valuation. During our discussions with the Independent Valuer, we did not identify any major factors which cause us to doubt the reasonableness of such assumptions adopted in the Valuation Report.

Having taken into account the above, we concur with the Independent Valuer that the market approach is commonly used and is the appropriate method for deriving the appraised value of 100% equity interest of Fuyuan. On this basis and taking into account that the Consideration of the Acquisition of RMB3,480 million represents a discount of approximately 14.9% to the appraised value of 100% equity interest of Fuyuan of approximately RMB4,089.7 million, we consider the Consideration for the Acquisition is fair and reasonable.

6. Issue price of the Consideration Shares

(i) Comparison of the Issue Price to market prices

As set out in the sub-section headed "Basis of the Consideration" in the "Letter from the Board" contained in the Circular, the Issue Price of HK$2.24 per Consideration Share was determined after arm's length negotiations between the Sellers and the Company with reference to the prevailing market prices of the Shares and recent market conditions. The Issue Price represents:

(i) a discount of approximately 2.16% to the volume weighted average price of approximately HK$2.29 per Share on the Last Trading Day;

(ii) a discount of approximately 2.67% to the volume weighted average price of approximately HK$2.30 per Share for the last five consecutive trading days up to and including the Last Trading Day;

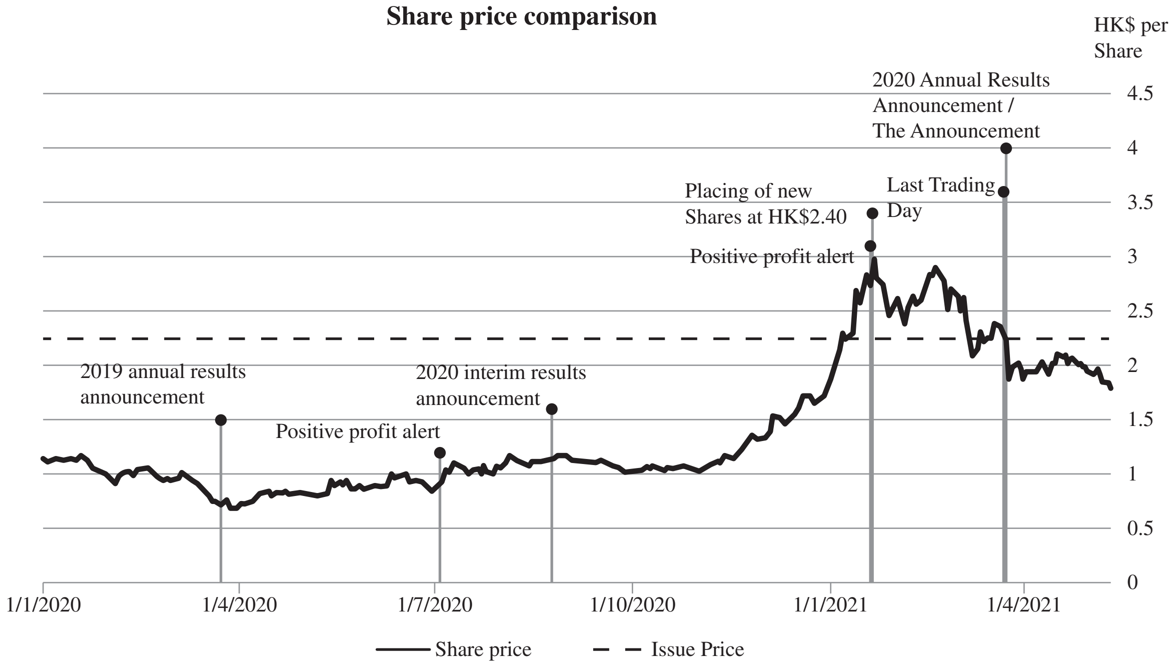
(iii) a discount of approximately 0.03% to the volume weighted average price of approximately HK$2.241 per Share for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 24.44% over the closing price of HK$1.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 50.19% over the net asset value attributable to the Shareholders of approximately HK$1.49 per Share, calculated based on the Group's audited net asset of RMB8,038,444,000 as of December 31, 2020 and 6,458,565,947 Shares in issue as of December 31, 2020, using the exchange rate of HK$1.00 to RMB0.83449.

(ii) Historical Share price performance

The chart below illustrates the daily closing price per Share for the period from January 1, 2020 up to and including the Latest Practicable Date (the "**Review Period**").



As illustrated in the chart above, the Share price trended downward since the beginning of 2020. Share price dropped from HK$1.12 per Share on January 2, 2020 to HK$0.72 per Share on March 23, 2020. On March 23, 2020 (after trading hours), the 2019 annual results announcement was published by the Company. The Share price increased by approximately 2.8% on the following trading day and closed at HK$0.74 per Share. Since then and until July 3, 2020, the Share price showed a general uptrend and closed at HK$0.91 on July 3, 2020. On July 5, 2020 (after trading hours), the Company published a positive profit alert. Share price jumped by approximately 14.3% and closed at HK$1.04 on the following trading day. Since then and until August 24, 2020, the Share price continued to show a general uptrend and closed at HK$1.14 on August 24, 2020. On August 24, 2020 (after trading hours), the 2020 interim results announcement was published by the Company. The Share price closed slightly lower at HK$1.13 on August 25, 2020. From August 26, 2020 to November 17, 2020, Share price hovered between HK$1.02 and HK$1.18 per Share. Share price trended upward since November 18, 2020 and closed at HK$2.84 on January 18, 2021. On January 19, 2021 (before trading hours), the Company published a positive profit alert. Share price closed at HK$2.73 on the same day. On January 20, 2021 (before trading hours), an announcement in relation to, among others, placing of new Shares to independent third parties at HK$2.40 per share was published by the Company. Share price went up by approximately 5.9% and closed at HK$2.89 on the same day. From January 21, 2021 to March 22, 2021 (the Last Trading Day), Share price closed in a range of HK$2.10 to HK$2.96 per Share. The Announcement dated March 22, 2021 was published on March 23, 2021 (before trading hours). The Share price decreased by approximately 3.9% and closed at HK$2.22 on March 23, 2021. The Company published the 2020 Annual Results Announcement on March 23, 2021 (after trading hours). On March 24, 2021, the Share price closed at HK$1.88 per Share, representing a decrease of approximately 15.3% to the closing price on March 23, 2021. From March 25, 2021 to May 10, 2021, Share price closed in a range of HK$1.85 to HK$2.12 per Share. The Share price closed at HK$1.80 as at the Latest Practicable Date. The Issue Price of HK$2.24 represent a premium of approximately 24.4% over the closing Share price on the Latest Practicable Date.

(iii) Comparable issues of consideration shares

To further assess the fairness and reasonableness of the Issue Price, we have searched the website of the Stock Exchange under the headline category of "consideration issue" to identify issue of consideration shares for acquisition purposes (excluding (a) issues of A shares; (b) issues involving share exchange privatisation and share buy-back offer; and (c) issues that have been terminated) by companies listed on the Main Board of the Stock Exchange (the "**Comparable Share Issues**"), which were announced since the second half of 2020 and up to the date immediately prior to the Latest Practicable Date. We consider that this length of period allows a sufficient number of Comparable Share Issues to be identified for an analysis on the issue prices of consideration shares for acquisition purposes under recent market sentiment. The Comparable Share Issues set out below represent an exhaustive list of issue of consideration shares based on the aforementioned criteria.

It should be noted that, while the Comparable Share Issues are for acquisitions, the subject companies involved in the Comparable Share Issues have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. The circumstances surrounding such issues may also be different from those relating to the Company. Notwithstanding the above, the table below demonstrates the pricing of issues of consideration shares for acquisition purposes under recent market sentiment and provides a reference for assessing the fairness and reasonableness of the Issue Price.

			Premium/(discount) of issue price over/(to)		
Date of announcement	**Company name**	**Stock code**	**closing share price as at the last trading day^**	**average closing share price for the last five trading days^**	**average closing share price for the last ten trading days^**
			% *(approximately)*	% *(approximately)*	% *(approximately)*
July 14, 2020	Man Sang International Limited	938	(9.76%)	(9.09%)	(10.63%)
July 24, 2020	Boill Healthcare Holdings Limited	1246	(10.26%)	(14.63%)	(16.67%)
July 28, 2020	Link-Asia International Co. Ltd. (currently known as Link-Asia International MedTech Group Limited)	1143	(10.82%)	5.87%	9.22%
July 29, 2020	China Ever Grand Financial Leasing Group Co., Ltd.	379	(11.43%)	(15.07%)	(14.76%)
July 31, 2020	E-House (China) Enterprise Holdings Limited	2048	(15.57%)	(10.12%)	(6.79%)
August 24, 2020	Sansheng Holdings (Group) Co. Ltd.	2183	1.59%	0.34%	(1.13%)

Date of announcement	Company name	Stock code	Premium/(discount) of issue price over/(to) closing share price as at the last trading day^ % *(approximately)*	average closing share price for the last five trading days^ % *(approximately)*	average closing share price for the last ten trading days^ % *(approximately)*
August 28, 2020	C-MER Eye Care Holdings Limited	3309	0.08%	0.15%	0.00%
September 4, 2020	Hao Tian International Construction Investment Group Limited	1341	(21.88%)	(22.60%)	(21.14%)
September 21, 2020	Viva Biotech Holdings	1873	(7.68%)	(0.48%)	2.40%
September 23, 2020	Termbray Industries International (Holdings) Limited	93	(6.77%)	(6.17%)	(5.86%)
October 20, 2020	Golden Faith Group Holdings Limited	2863	(14.55%)	(13.92%)	(11.82%)
October 22, 2020	Vongroup Limited	318	(15.09%)	(15.41%)	(17.43%)
October 26, 2020	Hengten Networks Group Limited	136	(9.09%)	(9.64%)	(8.81%)
November 9, 2020	7Road Holdings Limited	797	(0.37%)	0.00%	(0.37%)
November 12, 2020	China Hanking Holdings Limited	3788	2.56%	(0.62%)	(0.62%)
November 13, 2020	Forgame Holdings Limited	484	0.00%	(10.32%)	(10.90%)
November 27, 2020	Elife Holdings Limited	223	29.87%	36.99%	39.28%
December 9, 2020	Suoxinda Holdings Limited	3680	(19.13%)	(19.97%)	(17.30%)
December 14, 2020	China Fordoo Holdings Limited	2399	(19.70%)	(18.81%)	(15.12%)
December 14, 2020	Union Medical Healthcare Limited	2138	(10.33%)	(1.58%)	0.26%
December 24, 2020	Yeahka Limited	9923	0.00%	3.59%	4.33%
December 27, 2020	Maxnerva Technology Services Limited	1037	4.17%	(0.40%)	0.81%
December 28, 2020	CA Cultural Technology Group Limited	1566	4.60%	3.82%	2.92%
January 13, 2021	Jiayuan International Group Limited	2768	5.10%	6.45%	6.90%
January 18, 2021	State Energy Group International Assets Holdings Limited	918	4.38%	0.00%	(8.19%)
February 10, 2021	C-MER Eye Care Holdings Limited	3309	3.94%	(5.92%)	(5.63%)

			Premium/(discount) of issue price over/(to)		
Date of announcement	**Company name**	**Stock code**	**closing share price as at the last trading day^**	**average closing share price for the last five trading days^**	**average closing share price for the last ten trading days^**
			% *(approximately)*	% *(approximately)*	% *(approximately)*
February 11, 2021	Pan Asia Data Holdings Inc.	1561	(53.45%)	(51.44%)	(51.09%)
March 9, 2021	Vestate Group Holdings Limited	1386	0.00%	0.39%	1.80%
March 24, 2021	Xiaomi Corporation	1810	1.88%	(1.93%)	1.33%
April 6, 2021	Forgame Holdings Limited	484	0.00%	0.52%	(0.52%)
April 7, 2021	Huayi Tencent Entertainment Company Limited	419	(2.04%)	0.00%	4.44%
April 7, 2021	GOME Retail Holdings Limited	493	39.74%	45.52%	43.44%
April 26, 2021	Hao Tian International Construction Investment Group Limited	1341	(12.00%)	(12.47%)	(13.04%)
April 28, 2021	Mobvista Inc.	1860	(2.83%)	0.31%	4.90%
April 30, 2021	Hong Kong Education (Int'l) Investments Limited	1082	(13.19%)	(9.02%)	(9.81%)
May 4, 2021	Eternity Investment Limited	764	2.04%	0.81%	3.73%
	Mean (simple average)		(4.61%)	(4.02%)	(3.39%)
	Median		(2.43%)	(1.10%)	(0.87%)
	Maximum		39.74%	45.52%	43.44%
	Minimum		(53.45%)	(51.44%)	(51.09%)
	The Issue Price				
	– calculated based on volume weighted average price*		(2.16%)	(2.67%)	(0.03%)
	– calculated based on averaged share price**		(3.03%)	(3.37%)	(1.28%)

Source: website of the Stock Exchange

^ Being the last trading day(s) as disclosed in each of the respective announcement

* As extracted from the "Letter from the Board" of the Circular

** Closing Share prices were quoted from the website of the Stock Exchange

As set out in the table above, the discounts represented by the Issue Price of HK$2.24 per Consideration Share to the closing Share prices for different periods up to and including the Last Trading Day were below the corresponding mean discounts of the Comparable Share Issues. Considering the above and that (i) the Consideration of the Acquisition represents a discount of approximately 14.9% to the appraised value of 100% equity interest of Fuyuan; and (ii) the Acquisition is expected to benefit the long-term development of the Group (as further discussed in the section headed "Reasons for and benefits of the Acquisition" of this letter above), we consider the Issue Price to be fair and reasonable.

7. Financial effects on the Group and dilution effects

Immediately upon Completion, Fuyuan will become a non-wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix IV to the Circular.

(i) Earnings

As set out in the Company's 2020 Annual Report, the Group recorded profit attributable to owners of the Company of approximately RMB770.0 million. As set out in the financial information of the Target Group in Appendix II to the Circular, the Target Group recorded profit from continuing operations of approximately RMB142.6 million (representing a year-on-year increase of approximately 127.6%) for 2019; and for the year ended December 31, 2020, the Target Group recorded profit from continuing operations of approximately RMB442.1 million, representing an increase of approximately 210.1% comparing to 2019.

Following Completion, the Target Group will become a subsidiary of the Company and its financial results, including but not limited to the revenue, costs and profit of the Target Group will be consolidated into the financial statements of the Company. As discussed in the section headed "Reasons for and benefits of the Acquisition" of this letter above, among others, the Acquisition allows the Group to further strengthen its leading position in the dairy farming industry in China and enhance the Group's competitiveness in terms of quality and pricing of the raw milk. Also, through synergetic integration, the Company is expected to lower the operating costs and benefit the financial performance of the Group. Considering the above, the executive Directors are of the view that the Acquisition would have a positive impact on the Group's financial performance in the long run.

(ii) Assets and liabilities

The Group had total assets, total liabilities and net assets of approximately RMB15,568.2 million, RMB7,529.8 million and RMB8,038.4 million respectively as at December 31, 2020. As set out in Appendix IV to the Circular, adjustments taking into account the intention of the Company to satisfy part of the cash portion of the Consideration by internal resources such as proceeds received from the Placing are included. Further details of the adjustments are set out in Note 9 to the "Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group" of both settlement scenarios contained in Appendix IV to the Circular. The financial effects on the Group's total assets, total liabilities and net assets under both settlement scenarios are as follows:

Settlement Scenario I

Had the Acquisition been completed on December 31, 2020, the Enlarged Group would have total assets and liabilities of approximately RMB20,114.7 million (after adjustment: approximately RMB20,903.2 million) and approximately RMB10,817.4 million (after adjustment: approximately RMB10,817.4 million) respectively, resulting in an overall increase in the consolidated net assets to approximately RMB9,297.3 million (after adjustment: approximately RMB10,085.9 million).

Settlement Scenario II

Had the Acquisition been completed on December 31, 2020, the Enlarged Group would have total assets and liabilities of approximately RMB19,872.8 million (after adjustment: approximately RMB21,068.8 million) and approximately RMB11,428.5 million (after adjustment: approximately RMB11,428.5 million) respectively, resulting in an overall increase in the consolidated net assets to approximately RMB8,444.4 million (after adjustment: approximately RMB9,640.3 million).

(iii) Liquidity, gearing and working capital

As set out in the unaudited pro forma financial information of the Enlarged Group contained in Appendix IV to the Circular, the financial effects on the Group's gearing and current ratio under both settlement scenarios are as follows:

Settlement Scenario I

The Group had a total of cash, bank balances and pledged bank deposits of approximately RMB1,301.6 million as at December 31, 2020. The cash, bank balances and pledged bank deposits of the Enlarged Group would be approximately RMB678.3 million (after adjustment: approximately RMB1,466.9 million) had the Acquisition been completed on December 31, 2020. Immediately upon Completion, the net gearing ratio (calculated on the basis of the amount of total bank borrowings less cash, bank balances and pledged bank deposits as a percentage of the total equity) would increase from approximately 54% to 79% (after adjustment: approximately 65%). The current ratio (current assets divided by current liabilities) of the Enlarged Group had the Acquisition been completed on December 31, 2020 would be approximately 0.50 (after adjustment: approximately 0.61).

Settlement Scenario II

The cash, bank balances and pledged bank deposits of the Enlarged Group would be approximately RMB270.9 million (after adjustment: approximately RMB1,466.9 million) had the Acquisition been completed on December 31, 2020. Immediately upon Completion, the net gearing ratio (calculated on the basis of the amount of total bank borrowings less cash, bank balances and pledged bank deposits as a percentage of the total equity) would increase from approximately 54% to 99% (after adjustment: approximately 74%). The current ratio (current assets divided by current liabilities) of the Enlarged Group had the Acquisition been completed on December 31, 2020 would be approximately 0.43 (after adjustment: approximately 0.61).

As set out in the section headed "Working capital" of Appendix I to the Circular, the Directors are of the view that, after taking into account of the Enlarged Group's presently available financial resources including internally generated cash flows, credit facilities and cash on hand, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least twelve (12) months from the date of publication of the Circular.

Further details of the unaudited pro forma financial information of the Enlarged Group are set out in Appendix IV to the Circular.

(iv) Dilution effects

The following charts set out the summary shareholding structure of the Company as of the Latest Practicable Date and immediately after the allotment and issuance of the Consideration Shares at Completion, in each case (details on accompanying notes to the tables are set out in the section headed "Effects on shareholding structure of the Company" in the "Letter from the Board" of the Circular):

(i) assuming (A) none of the EB Holders have exchanged any Exchangeable Bonds into Shares subsequent to the Latest Practicable Date; and (B) no other change in the issued share capital of the Company prior to Completion, in which case only Settlement Scenario I is applicable

	As at the Latest Practicable Date		**Immediately after the allotment and issuance of the Consideration Shares at Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Shareholders				
Mengniu Concert Group	3,653,945,781	51.40	4,461,041,882	56.36
GGG Holdings Limited	635,345,763	8.94	635,345,763	8.03
Jinmu	221,581,733	3.12	221,581,733	2.80
Ms. GAO Lina	39,752,089	0.56	39,752,089	0.50
Mr. SUN Yugang	765,694	0.01	765,694	0.01
Dairy Fortune (PTC) Limited	32,646,179	0.46	32,646,179	0.41
Public shareholders	2,524,528,708	35.51	2,524,528,708	31.89
Total	7,108,565,947	100.00	7,915,662,048	100.00

(ii) assuming (A) the EB Holders have exchanged all the Exchangeable Bonds into Shares as at the Latest Practicable Date; (B) no other change in the issued share capital of the Company prior to Completion; and (C) the Whitewash Waiver has been obtained, in which case Settlement Scenario I is applicable

	As at the Latest Practicable Date		**Immediately after the allotment and issuance of the Consideration Shares at Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Shareholders				
Mengniu Concert Group	3,111,892,185	43.78	3,918,988,286	49.51
GGG Holdings Limited	635,345,763	8.94	635,345,763	8.03
Jinmu	221,581,733	3.12	221,581,733	2.80
Ms. GAO Lina	39,752,089	0.56	39,752,089	0.50
Mr. SUN Yugang	765,694	0.01	765,694	0.01
Dairy Fortune (PTC) Limited	32,646,179	0.46	32,646,179	0.41
Public shareholders				
– EB Holder(s)	542,053,596	7.63	542,053,596	6.85
– Other public shareholders	2,524,528,708	35.51	2,524,528,708	31.89
Total	7,108,565,947	100.00	7,915,662,048	100.00

(iii) assuming (A) the EB Holders have exchanged all the Exchangeable Bonds into Shares as at the Latest Practicable Date; (B) no other change in the issued share capital of the Company prior to Completion; and (C) the Whitewash Waiver has not been obtained, in which case Settlement Scenario II is applicable

	As at the Latest Practicable Date		**Immediately after the allotment and issuance of the Consideration Shares at Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Shareholders				
Mengniu Concert Group	3,111,892,185	43.78	3,374,087,943	45.78
GGG Holdings Limited	635,345,763	8.94	635,345,763	8.62
Jinmu	221,581,733	3.12	221,581,733	3.01
Ms. GAO Lina	39,752,089	0.56	39,752,089	0.54
Mr. SUN Yugang	765,694	0.01	765,694	0.01
Dairy Fortune (PTC) Limited	32,646,179	0.46	32,646,179	0.44
Public shareholders				
– EB Holder(s)	542,053,596	7.63	542,053,596	7.35
– Other public shareholders	2,524,528,708	35.51	2,524,528,708	34.25
Total	7,108,565,947	100.00	7,370,761,705	100.00

As shown in the tables above, immediately after the allotment and issuance of the Consideration Shares at Completion, the shareholdings of public shareholders (excluding EB Holder(s)) will be diluted from 35.51% to 31.89% under Settlement Scenario I. Under Settlement Scenario II, the shareholdings of other public shareholders (excluding EB Holder(s)) will be diluted from 35.51% to 34.25% immediately after the allotment and issuance of the Consideration Shares. The dilution effects for public Shareholders of a maximum of 3.62 percentage points are considered acceptable in view of the expected benefits of the Acquisition as set out in this letter above.

We have discussed with the executive Directors regarding other alternative settlement methods of the Consideration. Having taken into account (i) the cash resources available to the Group for acquisition activities and the need for steady cash flow for the continuous and sustainable development of the business of the Group; (ii) the additional financing cost involved for obtaining external financing and the potential impact on the Group's ability to satisfy the financial conditions (such as gearing ratio) under its existing facilities if the portion of the Consideration payable to Inner Mongolia Mengniu were to be satisfied by cash; (iii) the increase in Mengniu's stake in the Company may further strengthen the Group's synergies with Mengniu in terms of sales (via the strengthening of the strategic partnership between Mengniu and the Company and the securing of the volume of raw milk purchased by Mengniu from the Group), cost control (via the enhancement of market confidence and the Company's bargaining power with third party feed suppliers) and resources utilisation (by Mengniu sharing and exchanging experience in aspects such as personnel training, information empowerment and smart farm management), and (iv) the dilution effects for public Shareholders are considered acceptable as discussed above, we concur with the Board's view that the settlement of the portion of the Consideration payable to Inner Mongolia Mengniu by way of issuance of the Consideration Shares is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

8. The Whitewash Waiver

(i) Background to the Whitewash Waiver

As of the Latest Practicable Date, the Mengniu Concert Group are the registered shareholders of an aggregate of 3,653,945,781 Shares representing an aggregate of 51.40% interest in the Company, of which 542,053,596 Shares representing an aggregate of 7.63% interest in the Company are the subject of the Exchangeable Bonds. Further details regarding the Exchangeable Bonds are set out in the section headed "Implications under the Takeovers Code and application for Whitewash Waiver" in the "Letter from the Board" contained in the Circular.

In the extreme situation where EB Holders exercise their Exchange Rights to exchange all of the Exchangeable Bonds into the Shares, Mengniu Concert Group's interest in the Shares will decrease to 43.78% (assuming no change in the issued share capital of the Company). Accordingly, if, during the Relevant Period, Mengniu Concert Group's interest falls to or below 50% as a result of the exercise of Exchange Rights by the EB Holders, and the subscription of the Consideration Shares pursuant to the Settlement Scenario I has the effect of increasing the Mengniu Concert Group's holding of voting rights in the Company by more than 2% from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period, such action would trigger the mandatory general offer obligation under Rule 26.1(d) of the Takeovers Code.

In view of the Potential MGO Obligation, Mengniu has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, notwithstanding the Potential MGO Obligation may not have realised at the Latest Practicable Date. The Executive has indicated that it will grant the Whitewash Waiver which will be subject to, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders at the EGM; and (ii) the approval of the Sale and Purchase Agreement, the Acquisition and the issue of the Consideration Shares under the Specific Mandate by more than 50% of the votes cast by the Independent Shareholders at the EGM.

In the event that the Mengniu Concert Group's interest in the Company continues to exceed 50% at all times during the Relevant Period and the issue of the Consideration Shares under Settlement Scenario I would not trigger a mandatory general offer obligation of Mengniu under Rule 26.1(d) of the Takeovers Code, the Whitewash Waiver shall not be required and the Acquisition, if approved by more than 50% of the votes cast by the Independent Shareholders at the EGM, will proceed based on Settlement Scenario I.

Mengniu has no intention and does not reserve the right to make a general offer to the Shareholders as a result of the Acquisition. Given this, an offer period will not commence. In the event that the Whitewash Waiver is required for the issue of the Consideration Shares to Mengniu SPV under Settlement Scenario I but it is not granted by the Executive or not approved by at least 75% of the votes cast by the Independent Shareholders, the Acquisition, if approved by more than 50% of the votes cast by the Independent Shareholders at the EGM, will proceed based on Settlement Scenario II.

For illustrative purposes, under Settlement Scenario II, in the situation where EB Holders exercise their Exchange Rights to exchange all of the Exchangeable Bonds into the Shares, the Mengniu Concert Group will in aggregate hold 3,374,087,943 Shares, representing approximately 45.78% of the enlarged fully paid up issued share capital of the Company upon Completion (assuming there is no other change in the issued share capital of the Company save for the allotment and issue of the Consideration Shares pursuant to the Acquisition), representing a 2.00% increase in voting rights from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period, in which case Mengniu Concert Group would not be required to make a mandatory general offer for all the securities of the Company (other than those already owned or agreed to be acquired by Mengniu Concert Group) pursuant to Rule 26.1 of the Takeovers Code.

(ii) Our view

Under Settlement Scenario I, the Consideration shall consist of (i) the sum of RMB1,971,329,480 payable in cash by the Company and (ii) the sum of RMB1,508,670,520 to be satisfied by the allotment and issue of 807,096,101 Consideration Shares by the Company to Mengniu SPV at the Issue Price on Completion. Whereas under Settlement Scenario II, the Consideration shall consist of (i) the sum of RMB2,989,888,587 payable in cash by the Company and (ii) the sum of RMB490,111,413 (which amount is in proportion to Inner Monogolia Mengniu's remaining 14.08% interest in Fuyuan) to be satisfied by the allotment and issue of 262,195,758 Consideration Shares by the Company to Mengniu SPV at the Issue Price on Completion. As set out in the paragraph headed "Dilution effects" of this letter above, the dilution effects on public shareholders under Settlement Scenario I and Settlement Scenario II will be approximately 3.62 and 1.26 percentage points respectively. Under each of the settlement scenarios, (i) the Company expects that no more than 60% of the cash portion of the Consideration will be funded by external financing and the remaining cash portion will be funded by internal resources of the Group. As set out in the section headed "Financial effects on the Group and dilution effects" of this letter above, based on the unaudited pro forma financial information of the Enlarged Group contained in Appendix IV to the Circular, had the Acquisition been completed on December 31, 2020, the net gearing ratio of the Enlarged Group under Settlement Scenario I would be lower than that under Settlement Scenario II (both before and after adjustment as mentioned in the same section of this letter above). Notwithstanding the lower dilution effects on other public shareholders under Settlement Scenario II compared to Settlement Scenario I, the payment structure under Settlement Scenario I alleviates the Group's total cash required for settlement of the Consideration and would result in a comparatively lower gearing ratio of the Enlarged Group as discussed above.

Having taken into account the above, as well as (i) the reasons for and benefits to be derived by the Group from the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition" of this letter; (ii) the consideration of the Acquisition and the Issue Price is considered to be fair and reasonable as discussed in the sections headed "Evaluation of the Consideration of the Acquisition" and "Issue Price of the Consideration Shares" of this letter; and (iii) the dilution effects on shareholdings on public Shareholders as set out in the section headed "Financial effects on the Group and dilution effects" above is considered acceptable, we are of the view that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned, and the Whitewash Waiver is in the interests of the Company and its Shareholders as a whole.

DISCUSSION

In respect of the Acquisition and issue of the Consideration Shares

(i) Reasons for and benefits of the Acquisition

The Group is proposing to acquire the entire issued share capital of Fuyuan. Fuyuan and its subsidiaries are principally engaged in forage cultivation, dairy farming, feed processing and sales in the PRC. Fuyuan currently operates a total of 15 dairy farms with approximately 60,000 dairy cows in China. Fuyuan recorded profit from continuing operations of approximately RMB142.6 million in 2019, representing a year-on-year increase of approximately 127.6%; and profit from continuing operations of approximately RMB442.1 million in 2020, representing an increase of approximately 210.1% comparing to 2019.

The Group is currently the leading dairy farming operator and fresh raw milk producer in the PRC in terms of its herd size. The industry entry barriers of large-scale farming are high, and the Group could benefit from the advantages of scale and being an industry leader. The Acquisition allows the Group to further strengthen its leading position in the dairy farming industry in China and enhance the Group’s competitiveness in terms of quality and pricing of the raw milk. By acquiring more dairy farms and expanding geographical scope of supply in the PRC, the Acquisition also enables the Group to achieve more efficient logistics for delivery of raw milk and greater flexibility to cater the needs for raw milk of the Group’s downstream customers. The Acquisition allows the Group to integrate the upstream and downstream business, thereby building a full chain of raw milk production which will be favourable to the Group’s long-term development. We concur with the executive Directors that the Acquisition is in line with the Group’s development strategy, and is expected to benefit the long-term development of the Group through enhancing its financial performance and further strengthening the Group’s scale of operations and market position in the dairy industry.

(ii) Evaluation of the Consideration of the Acquisition

The Consideration for the Acquisition was determined with reference to various factors, including the fair value of 100% equity interest of Fuyuan as appraised by the Independent Valuer, using a market approach. We have discussed with the Independent Valuer its work including the valuation methodologies and the assumptions adopted in the Valuation and are satisfied that they provide a reasonable basis for the valuation of 100% equity interest of Fuyuan, and that the methodologies adopted by the Independent Valuer are appropriate. The Consideration of the Acquisition of RMB3,480 million represents a discount of approximately 14.9% to the appraised value of 100% equity interest of Fuyuan of approximately RMB4,089.7 million as of December 31, 2020. On this basis, we consider that the Consideration for the Acquisition is fair and reasonable. The Consideration shall be satisfied in accordance with either of the settlement scenarios as set out in the “Letter from the Board” contained in the Circular, which consists of cash and the issue of Consideration Shares by the Company to Mengniu SPV.

(iii) Evaluation of the Issue Price

As set out in the sub-section headed "Comparable issues of consideration shares" of this letter above, the discounts represented by the Issue Price of HK$2.24 per Consideration Share to the closing Share prices for different periods up to and including the Last Trading Day were below the corresponding mean discounts of the Comparable Share Issues. Considering the above and that (i) the Consideration of the Acquisition represents a discount of approximately 14.9% to the appraised value of 100% equity interest of Fuyuan; and (ii) the Acquisition is expected to benefit the long-term development of the Group (as further discussed in the section headed "Reasons for and benefits of the Acquisition" of this letter above), we consider the Issue Price to be fair and reasonable.

(iv) Financial effects on the Group and dilution effects

Immediately upon Completion, Fuyuan will become a non-wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group. The executive Directors consider that the Acquisition would have a positive impact on the Group's financial performance in the long run. As set out in the unaudited pro forma financial information of the Enlarged Group contained in Appendix IV to the Circular, had the Acquisition been completed on December 31, 2020, consolidated net assets of the Enlarged Group would be increased under both settlement scenarios. The payment structure under Settlement Scenario I would lead to a comparatively lower net gearing level of the Enlarged Group as compared to Settlement Scenario II, and alleviates the Group's total cash required for settlement of the Consideration.

As set out in the section headed "Financial effects on the Group and dilution effects" of this letter above, the dilution effects on other public Shareholders of a maximum of 3.62 percentage points is considered acceptable in view of the expected benefits of the Acquisition as set out in this letter. We concur with the Board's view that the settlement of the portion of the Consideration payable to Inner Mongolia Mengniu by way of issuance of the Consideration Shares is fair and reasonable and in the interest of the Company and its Shareholders as a whole taking into account the dilution impact to the public Shareholders and other factors as set out in the section mentioned above.

In respect of the Whitewash Waiver

As set out in the section headed "Implications under the Takeovers Code and application for Whitewash Waiver" in the "Letter from the Board" contained in the Circular, in view of the Potential MGO Obligation, Mengniu has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, notwithstanding the Potential MGO Obligation may not have realised at the Latest Practicable Date. Subject to the circumstances as described in the abovementioned section, the Acquisition will proceed under either Settlement Scenario I or Settlement Scenario II pursuant to the Sale and Purchase Agreement. The approval by the Independent Shareholders of the Whitewash Wavier/the granting of the Whitewash Waiver by the Executive are not conditions to completion of the Acquisition.

Considering the factors as set out in the section headed "The Whitewash Waiver" of this letter above, we are of the view that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned, and the Whitewash Waiver is in the interests of the Company and its Shareholders as a whole.

OPINION AND RECOMMENDATIONS

Having taken into account the principal factors and reasons which are summarised in the section headed "Discussion" above, we consider that (1) the Acquisition is conducted in the ordinary and usual course of business of the Group; (2) the terms of the Sale and Purchase Agreement, the Acquisition and the issue of Consideration Shares under the Specific Mandate are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; and (4) the Acquisition, the issue of Consideration Shares under the Specific Mandate and the Whitewash Waiver are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Accordingly, we advise the Takeovers Code Independent Board Committee and Listing Rules Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to approve the Sale and Purchase Agreement, the Acquisition, the issue of Consideration Shares under the Specific Mandate contemplated thereunder and the Whitewash Waiver at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over ten years' experience in the corporate finance industry.

FINANCIAL SUMMARY OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended December 31, 2018, 2019 and 2020 are respectively disclosed in pages 109 to 276 of the annual report of the Company for the year ended December 31, 2018, pages 112 to 264 of the annual report of the Company for the year ended December 31, 2019, and pages 104 to 256 of the annual report of the Company for the year ended December 31, 2020, all of which have been published on the website of the Company (http://www.moderndairyir.com/) and the website of the Stock Exchange (www.hkexnews.hk):

- Annual report of the Company for the year ended December 31, 2018:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426547.pdf

- Annual report of the Company for the year ended December 31, 2019:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042300476.pdf

- Annual report of the Company for the year ended December 31, 2020:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042700535.pdf

The following is a summary of the consolidated financial information of the Group for each of the years ended December 31, 2018, 2019 and 2020 which were extracted from the Company's 2018, 2019 and 2020 annual reports, respectively.

	For the year ended December 31		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Revenue	4,956,811	5,514,210	6,020,247
(Loss)/profit before tax	(505,660)	350,413	784,404
Income tax expense	(513)	(556)	(639)
(Loss)/profit for the year attributable to:			
Owners of the Company	(496,088)	341,270	770,010
Non-controlling interests	(10,085)	8,587	13,755
	(506,173)	349,857	783,765
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company	(507,404)	342,695	771,110
Non-controlling interests	(10,295)	8,613	13,776
	(517,699)	351,308	784,886
(Loss)/earnings per share (RMB)			
Basic	(8.15) cents	5.54 cents	12.07 cents
Diluted	(8.15) cents	5.52 cents	12.04 cents

No dividend was paid or proposed for Shareholders during the years ended December 31, 2018, 2019 and 2020. On March 23, 2021, a final dividend in respect of the year ended December 31, 2020 of RMB2 cents per ordinary share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

The consolidated financial statements of the Company for the years ended December 31, 2018, 2019 and 2020 were audited by Deloitte Touche Tohmatsu. There was no modified opinion, emphasis of matter or material uncertainty related to going respect of each of the years ended December 31, 2018, 2019 and 2020.

INDEBTEDNESS STATEMENT

At the close of business on March 31, 2021, being the Latest Practicable Date for the purpose of preparing this indebtedness statement prior to the publication of this circular, the total indebtedness of the Enlarged Group was as follows:

Borrowings

The borrowings of the Group and the Target Group as of March 31, 2021 were as follows:

	The Group as of March 31, 2021 *RMB'000*	**The Target Group as of March 31, 2021** *RMB'000*	**The Enlarged Group as of March 31, 2021** *RMB'000*
Bank borrowings			
– Secured and unguaranteed	581,935	309,213	891,148
– Unsecured and unguaranteed	4,452,561	1,415,395	5,867,956
Other borrowings			
– Unsecured and unguaranteed	–	94,243	94,243
Long term payables			
– Unsecured and unguaranteed	–	12,658	12,658
	5,034,496	1,831,509	6,866,005

The Group had bank borrowings of RMB582 million which were secured by the pledge over certain dairy cows and bank deposits of the Group. The Target Group had bank borrowings of RMB309 million which were secured by pledged deposits, receivables, inventories, buildings and equipments of the Target Group.

Lease Liabilities

The lease liabilities of the Group and the Target Group as of March 31, 2021 were as follows:

	The Group as of March 31, 2021 *RMB'000*	**The Target Group as of March 31, 2021** *RMB'000*	**The Enlarged Group as of March 31, 2021** *RMB'000*
– Unsecured and unguaranteed	209,074	254,309	463,383

Authorised or created but unissued debt securities

As of March 31, 2021, the Group had created but unissued debt securities of RMB2,200 million which were unguaranteed and unsecured.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into RMB at the approximate rates of exchange prevailing as of March 31, 2021.

Save as aforesaid and apart from the intra-group liabilities and normal trade payables, the Enlarged Group did not have, at the close of business on March 31, 2021, any other outstanding borrowings, mortgages, charges, debentures, loan capital or overdraft, debt securities or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

To the best knowledge of the Directors, having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Enlarged Group since March 31, 2021.

WORKING CAPITAL

The Directors are of the view that, after taking into account of the Enlarged Group's presently available financial resources including internally generated cash flows, credit facilities and cash on hand, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least twelve (12) months from the date of publication of this circular.

MATERIAL CHANGE

The Directors confirm that, save for the following matters, there has been no other material change in the financial or trading position or outlook of the Group since December 31, 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

(i) the entering into of the Sale and Purchase Agreement, the Acquisition and issue of Consideration Shares under the Specific Mandate contemplated thereunder, and the Whitewash Waiver as set out in this circular;

(ii) as disclosed in the Company's announcement dated January 20, 2021, the placing of 650,000,000 new Shares under general mandate, which represents approximately 10.06% of the total number of shares issued as at the announcement date and approximately 9.14% of the enlarged total number of Shares upon the completion of the placing (assuming there will be no change to the total number of shares in issue from the announcement date up to the closing date, other than the placing), further details of which are set out in the abovementioned announcement; and

(iii) as disclosed in the Company's announcement dated April 8, 2021, the acquisition of 100% equity interests in Zhongyuan Muye Company Limited* (中元牧業有限公司), which had an ecological farm and more than 17,000 dairy cows as at the announcement date, at a consideration of no more than RMB815,246,680, further details of which are set out in the abovementioned announcement.

The directors of Fuyuan confirm that, save for the disposal of the Burra Interests by Fuyuan to a wholly-owned subsidiary of Mengniu at the consideration of approximately RMB320,000,000 as part of the Reorganization as set out in this circular, there has been no other material change in the financial or trading position or outlook of the Target Group since December 31, 2020, being the date to which the latest published audited consolidated financial statements of the Target Group were made up, up to and including the Latest Practicable Date.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since December 31, 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As disclosed in the announcement of annual results and the annual report of the Group for the year ended December 31, 2020, currently, raw milk market is still short in supply and it is expected that the shortage of raw milk will continue, driving an increase in milk prices. With the withdrawal of small- and medium-sized dairy farms from the market, the cyclicality of the dairy farming industry has weakened, and raw milk will be mainly provided by scaled dairy farms in the future. The industry entry barriers of large-scaled dairy farming are high, and the Company could benefit from the industry cycle and take the advantages of being an industry leader.

With the active advocacy of authoritative medical professionals and the encouragement from National Health Commission of China encouraging people to improve their immunity by drinking milk, not only has the awareness of milk consumption been raised, but new opportunities have been brought to companies and the industry.

In 2021, the Group has embarked on a “five-year leading plan” which focuses on increasing herd size and production through organic growth and external acquisition, aiming to further strengthen the Group’s overall competitiveness. Upon completion of the Acquisition, the Group's herd size is expected to exceed 307,000 heads, and the annual milk production is expected to reach 2 million tons. The Group’s geographical scope of supply will also be expanded through the Acquisition, thus enabling the Group to be more effective in arranging logistics for delivery of raw milk and allocating production resources to cater the needs of downstream customers.

In addition, by implementing the Group’s digitalized farm management system on the 15 farms operated by Fuyuan and through integrating the feeds supply business of Fuyuan, the Group is expected to increase efficiency and lower cost in its operations.

The Group will continue to adhere to high standards, stick to the principles, focus on implementation, pay attention to details, improve efficiency, and put the “high standard modernization” pasture plan into practice, striving to achieve smart, green, branded and integrated dairy farming business.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF INNER MONGOLIA FUYUAN INTERNATIONAL INDUSTRIAL (GROUP) CO. LTD. AND CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED

Introduction

We report on the historical financial information of Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages II-3 to II-70, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2018, 2019 and 2020, and the consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-3 to II-70 forms an integral part of this report, which has been prepared for inclusion in the circular of China Modern Dairy Holdings Ltd. (the "**CMD**") dated 14 May 2021 (the "**Circular**") in connection with the major and connected transaction in relation to the acquisition of entire equity interest in the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2018, 2019 and 2020 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

14 May 2021

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
CONTINUING OPERATIONS				
Revenue	*5*	1,694,339	2,061,302	2,180,150
Cost of sales before biological fair value adjustments	*6*	(1,145,935)	(1,410,157)	(1,457,669)
Raw milk fair value adjustments included in cost of sales	*6*	(835,484)	(954,062)	(971,551)
Gain/(loss) arising from changes in fair value less costs to sell of dairy cows	*6*	(161,507)	(154,853)	2,420
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	*6*	835,484	954,062	971,551
Other income	*5*	18,274	12,461	18,617
Impairment losses on financial assets, net		(6,635)	(6,056)	4,521
Other gains and losses	*5*	(18,778)	(11,605)	54,488
Selling and distribution expenses		(85,067)	(93,864)	(109,918)
Administrative expenses		(141,265)	(144,701)	(159,723)
Other expenses		(2,992)	(8,085)	(9,135)
Share of profit of associates		1,652	1,459	2,983
Finance costs	*7*	(89,551)	(100,048)	(82,392)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		62,535	145,853	444,342
Income tax expense	*8*	115	(3,292)	(2,285)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		62,650	142,561	442,057
DISCONTINUED OPERATION				
Profit/(loss) for the year from a discontinued operation	*9*	27,108	24,008	(658,506)
PROFIT/(LOSS) FOR THE YEAR		89,758	166,569	(216,449)
Attributable to:				
Owners of the parent		74,281	152,565	100,417
Non-controlling interests		15,477	14,004	(316,866)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR	89,758	166,569	(216,449)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations	(66,672)	19,853	16,792
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	(66,672)	19,853	16,792
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	(66,672)	19,853	16,792
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	23,086	186,422	(199,657)
Attributable to:			
Owners of the parent	40,915	164,247	107,227
Non-controlling interests	(17,829)	22,175	(306,884)
	23,086	186,422	(199,657)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*13*	1,501,186	1,462,008	1,040,293
Right-of-use assets	*14*	307,889	281,440	251,940
Goodwill	*15*	1,086,728	1,098,618	119,253
Other intangible assets	*16*	6,850	41,592	2,786
Investments in an associate	*17*	16,142	14,922	17,905
Deferred tax assets		7,049	7,593	–
Biological assets-non current	*18*	1,401,664	1,415,984	1,564,982
Total non-current assets		4,327,508	4,322,157	2,997,159
CURRENT ASSETS				
Inventories	*19*	784,218	810,976	543,409
Biological assets-current	*18*	4,397	4,362	7,118
Trade and bills receivables	*20*	222,630	474,512	238,374
Prepayments, other receivables and other assets	*21*	94,009	84,233	67,864
Pledged deposits	*22*	55,867	100,763	17,645
Cash and cash equivalents	*22*	214,321	412,270	750,145
		1,375,442	1,887,116	1,624,555
Assets of a disposal group classified as held for sale	*9*	–	–	1,522,926
Total current assets		1,375,442	1,887,116	3,147,481
CURRENT LIABILITIES				
Trade and bills payables	*23*	621,716	648,350	435,843
Other payables and accruals	*24*	293,944	328,686	228,168
Tax payable		21	124	486
Interest-bearing bank and other borrowings	*25*	1,458,341	1,660,969	1,031,634
Lease liabilities	*14*	32,565	37,132	25,013
Other financial liabilities-current	*26*	–	211,628	390,069
		2,406,587	2,886,889	2,111,213
Liabilities directly associated with the assets classified as held for sale	*9*	–	–	808,956
Total current liabilities		2,406,587	2,886,889	2,920,169
NET CURRENT ASSETS/(LIABILITIES)		(1,031,145)	(999,773)	227,312
TOTAL ASSETS LESS CURRENT LIABILITIES		3,296,363	3,322,384	3,224,471
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	*25*	133,393	215,242	625,852
Long term payables	*27*	117,860	116,813	6,883
Lease liabilities	*14*	269,736	242,795	231,012
Deferred income	*28*	13,585	18,754	20,003
Deferred tax liabilities		14,512	14,250	14,233
Other financial liabilities	*26*	605,088	279,758	–
Total non-current liabilities		1,154,174	887,612	897,983

		As at 31 December		
	Notes	**2018** *RMB'000*	**2019** *RMB'000*	**2020** *RMB'000*
Net assets		2,142,189	2,434,772	2,326,488
EQUITY				
Equity attributable to the parent				
Share capital	*29*	1,522,400	1,522,400	1,522,400
Reserves	*31*	583,714	874,451	768,242
		2,106,114	2,396,851	2,290,642
Non-controlling interests		36,075	37,921	35,846
Total equity		2,142,189	2,434,772	2,326,488

Zhang Ping
Director

Ding Sheng
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent						
	Share capital *RMB'000* *(note 29)*	Reserve *RMB'000* *(note 31)*	Exchange fluctuation reserve *RMB'000* *(note 31)*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2018	1,560,460	280,116	10,783	408,643	2,260,002	31,187	2,291,189
Profit for the year	–	–	–	74,281	74,281	15,477	89,758
Other comprehensive income for the year:							
Exchange differences related to foreign operations	–	–	(33,366)	–	(33,366)	(33,306)	(66,672)
Total comprehensive income/(loss) for the year	–	–	(33,366)	74,281	40,915	(17,829)	23,086
Equity-settled share option arrangements	–	(32,239)	–	–	(32,239)	–	(32,239)
Transfer from reserve	(38,060)	38,060	–	–	–	–	–
Derecognition of puttable non-controlling interests	–	(162,564)	–	–	(162,564)	27,203	(135,361)
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	(4,486)	(4,486)
At 31 December 2018 and at 1 January 2019	1,522,400	123,373	(22,583)	482,924	2,106,114	36,075	2,142,189
Profit for the year	–	–	–	152,565	152,565	14,004	166,569
Other comprehensive income for the year:							
Exchange differences related to foreign operations	–	–	11,709	–	11,709	8,144	19,853
Total comprehensive income for the year	–	–	11,709	152,565	164,274	22,148	186,422
Derecognition of puttable non-controlling interests	–	126,463	–	–	126,463	(12,761)	113,702
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	(7,541)	(7,541)
At 31 December 2019 and at 1 January 2020	1,522,400	249,836	(10,874)	635,489	2,396,851	37,921	2,434,772
Profit/(loss) for the year	–	–	–	100,417	100,417	(316,866)	(216,449)
Other comprehensive income for the year:							
Exchange differences related to foreign operations	–	–	6,810	–	6,810	9,982	16,792
Total comprehensive income/(loss) for the year	–	–	6,810	100,417	107,227	(306,884)	(199,657)
Derecognition of puttable non-controlling interests	–	(213,436)	–	–	(213,436)	314,752	101,316
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	(9,943)	(9,943)
At 31 December 2020	1,522,400	36,400	(4,064)	735,906	2,290,642	35,846	2,326,488

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
	Notes	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax				
From continuing operations		62,535	145,853	444,342
From a discontinued operation	*9*	38,764	30,952	(650,471)
Adjustments for:				
Finance costs		106,026	116,840	92,867
Interests income		–	(4,119)	(5,049)
Share of profits and losses of an associate		(1,652)	(1,459)	(2,983)
Gain on disposal of an associate		–	(440)	–
Provision/reversal of impairment loss, net		6,635	6,056	(4,521)
Depreciation of property, plant and equipment		105,739	108,407	87,308
Amortisation of intangible assets		2,296	2,406	11,773
Depreciation of right-of-use assets		7,531	7,556	7,345
Release of deferred income		(13,636)	(5,489)	(11,856)
Share-based payment expenses		(32,239)	–	–
Gain/(loss) on disposal of property, plant and equipment		134	(9)	(6)
Foreign exchange differences, net		14,472	12,837	(54,774)
Impairment of goodwill and a disposal group		–	–	680,744
Change in fair value of biological assets		161,507	154,853	(2,420)
		458,112	574,244	592,299
Increase in inventories		(89,779)	(30,644)	(106,649)
Decrease/(Increase) in trade receivables, other receivables and prepayments		56,750	(243,131)	70,827
Decrease in trade payables, other payables and accruals		54,291	(14,313)	58,000
Net cash flows from in operating activities		479,374	286,156	614,477

	Year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of an associate	–	3,120	–
Interest received	–	4,119	5,049
Proceeds from disposal of biological assets	135,862	166,091	188,347
Withdraw of time deposits with original maturity of more than three months	82,015	30,000	42,359
Purchases of property, plant and equipment, and intangible assets	(139,712)	(175,253)	(248,683)
Purchases of time deposits with original maturity of more than three months	(30,000)	(31,030)	–
Purchases of biological assets	(317,697)	(289,497)	(306,455)
Net cash flows used in investing activities	(269,532)	(292,450)	(319,383)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other borrowings	971,205	2,042,952	2,710,226
Repayment of bank and other borrowings	(1,091,621)	(1,698,217)	(2,573,576)
Interest paid	(74,992)	(109,857)	(98,503)
Payment of lease liabilities	(34,670)	(36,535)	(32,237)
Net cash flows from/(used in) financing activities	(230,078)	198,343	5,910
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(20,236)	192,049	301,004
Cash and cash equivalents at beginning of year	230,170	214,321	412,270
Effect of foreign exchange rate changes, net	4,387	5,900	36,871
CASH AND CASH EQUIVALENTS AT END OF YEAR	214,321	412,270	750,145

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Inner Mongolia Autonomous Region, PRC on 17 February 2012. The registered office address of the Company is Shengle Modern Service Industry Park, Hohhot, Inner Mongolia.

The Company is an investment holding company. During the Relevant Periods, the subsidiaries of the Company were principally engaged in dairy farming, grass processing, as well as dairy products processing and distribution.

As at the end of the Relevant Period, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong). Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
富源牧業宿遷有限公司 Fuyuan Farming (Suqian) Co., Ltd *(note (a))*	PRC/Mainland China 29 July 2011	RMB110,000,000	100	–	Production and distribution of raw milk
富源牧業衡水有限責任公司 Fuyuan Farming Hengshui Co., Ltd *(note (a))*	PRC/Mainland China 2 June 2011	RMB199,837,000	100	–	Production and distribution of raw milk
Burra Food Pty Ltd *(note (b))*	Australia 31 August 2016	AUD22,278,002	–	51.35%	Dairy products processing
Haykingdom International, INC *(note (c))*	USA 31 July 2016	USD13,850,000	–	65%	Grass processing

* The English names of the companies registered in China represent the best efforts made by management of the Company to translate the Chinese names of the companies as they do not have official English names.

Notes:

(a) The financial statements for the years ended 31 December 2018, 2019 and 2020 were audited by Xuzhou Zhongyida Accounting Firm, certified public accountants registered in the People's Republic of China ("**PRC**").

(b) The financial statements for the years ended 31 December 2018, 2019 and 2020 were audited by Ernst & Young, certified public accountants registered in the Australia.

(c) The financial statements for the years ended 31 December 2018, 2019 and 2020 were audited by Campbell Taylor Washburn, certified public accountants registered in the USA.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the Relevant Period 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 PREPARATION

The historical financial information has 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. All IFRSs effective for the accounting period commencing from 1 January 2020, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the relevant period.

The Historical Financial Information has been prepared under the historical cost convention, except for biological assets which have been measured at fair value less cost to sell. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.3. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Historical Financial Information includes the financial information of the Company and its subsidiaries (collectively referred to as the "**Group**") for the Relevant Periods. 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 information of the subsidiaries are prepared for the same Relevant Periods 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 or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Going concern

As at 31 December 2020, excluding the assets and liabilities associated with the disposal group classified as held for sale, the Group had net current liabilities of approximately RMB415,834,000. The Group's cash flow forecasts and projections, taking into account of reasonably possible changes in trading performance, and the unutilised banking facility show that the Group has adequate resources to meet in full its financial obligations as they fall due and continue as a going concern in the following 12 months. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non- current*[3, 5]
Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendments to IFRS Standard	*Annual Improvements to IFRS Standards 2018-2020*[2]

[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 IAS 1, IFRIC-Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

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-Int 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-Int 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, IFRS 7, IFRS 4 and IFRS 16 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.

Amendments to IFRS 10 and IAS 28 address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The amendments must be applied prospectively. Early application is permitted and must be disclosed. The amendments are not expected to have any significant impact on the Group's financial statements.

The amendments to IAS 1 clarify the meaning of a right to defer settlement and that a right to defer must exist at the end of the reporting period. The amendments also clarify that the classification is unaffected by the likelihood that an entity will exercise its deferral right and only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022 and must be applied retrospectively. 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.

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.

2.3 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 Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's 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 consolidated 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 Group's 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 Group's 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.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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.

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.

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 31 December. 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.

Fair value measurement

The Group measures its financial derivatives at fair value at the end of each of the Relevant Periods. 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 Historical Financial Information 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 Historical Financial Information 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 of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), 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 the statement of 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 of the Relevant Periods 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.

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;

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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and other comprehensive income 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 useful lives and residual values used for this purpose are as follows:

	Useful lives	**Residual values**
Freehold land	not depreciated	not depreciated
Buildings	20 years	3%
Machinery and equipment	10 years	3%
Office and other equipment	5 years	3%
Motor vehicles	5 years	3%

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 the statement of 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 property, plant and equipment 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.

Biological assets

Biological assets mainly comprise dairy cows and beef cattle. Dairy cows include milkable cows, heifers and calves which are raised by the Group for the purposes of producing raw milk. Beef cattle are raised by the Group for sale.

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 costs and other related costs including the depreciation charge, utility costs and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

Client relationship

Client relationship is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

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.

(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:

Categories	**Estimated useful lives**
Leasehold land	8 to 50 years
Motor vehicles	1.5 to 5 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 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.

(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 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 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 asset to the lessee, are accounted for as finance leases.

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 of not adjusting the effect of a significant financing component, 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 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.

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 the statement of profit or loss when the asset is derecognised, modified or impaired.

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

For debt investments 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 the statement of profit or loss.

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

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments 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 the statement of 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 investments designated at fair value through other comprehensive income are not subject to impairment assessment.

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 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 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 the statement of 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.

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 risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all 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 the Group's 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).

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.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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 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 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.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

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, amounts due to related parties, lease liabilities, convertible redeemable preferred shares, a convertible loan and loans and 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 as 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.

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 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, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and comprises all cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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 the statement of 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 Relevant Periods, 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 each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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 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, 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 Relevant Periods.

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, 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 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.

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 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 products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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).

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 for grants is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the Historical Financial Information.

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 of the Relevant Periods 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.

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.

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.

Dividends

Dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed dividends are disclosed in the notes to the Historical Financial Information.

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 Renminbi ("**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 the statement of 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 the statement of 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.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

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 the statement of 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.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, 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:

Classification as a disposal group held for sale

As at 31 December 2020, Austin Holding Co., Ltd. and its subsidiaries (the "**Austin Group**") which are engaging in dairy products processing in Australia was presented as a discontinued operation in the consolidated financial statements of the Group. Details are given in note 9 to the financial statements.

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. Intangible assets not yet available for intended use are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell. The fair value of biological assets is determined based on either the market-determined prices as at each year end adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of biological assets; or the present value of expected net cash flows from the biological assets discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the biological assets significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of biological assets. Further details are given in note 18 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) Dairy farming- breeding dairy cows to produce and distribute raw milk;

(b) Grass processing- producing and distributing grass and other animal-husbandry products; and

(c) Dairy products- processing and distributing processed dairy products.

The operation of the Austin Group, which constituted a majority of the dairy product processing segment, was discontinued in 2020. The segment information reported does not include any amounts for the Austin Group, which was described in details in note 9 to the consolidated financial statements.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that gain/loss arising from changes in fair value less costs to sell of dairy cows and finance costs is excluded from this measurement as management believes that such adjusted information is most relevant in evaluating the results of the dairy farming segment as compared to the results of other entities that operate within the dairy farming industry.

Intersegment sales and transfers are transacted with reference to the selling prices internally agreed between the dairy farming segment and grass processing segment.

Year ended 31 December 2018	**Dairy farming** *RMB'000*	**Grass processing** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue				
Sales to external customers	1,194,243	486,145	13,951	1,694,339
Intersegment sales	–	146,078	–	146,078
	1,194,243	632,223	13,951	1,840,417
Reconciliation:				
Elimination of intersegment sales				(146,078)
Revenue from continuing operations				1,694,339

Year ended 31 December 2018	Dairy farming *RMB'000*	Grass processing *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment results	372,473	7,965	(15,718)	363,720
Reconciliation:				
Elimination of intersegment results				(1,785)
Loss arising from changes in fair value less costs to sell of dairy cows				(161,507)
Corporate and other unallocated expenses				(63,509)
Finance costs (other than interest on lease liabilities)				(75,384)
Profit before tax from continuing operations				62,535
Segment assets	3,124,176	433,525	13,750	3,571,471
Reconciliation:				
Elimination of intersegment receivables				(72,435)
Corporate and other unallocated assets				281,015
Assets related to a discontinued operation				1,922,899
Total assets				5,702,950
Segment liabilities	1,778,076	317,447	7,538	2,103,061
Reconciliation:				
Elimination of intersegment payables				(72,435)
Corporate and other unallocated liabilities				946,647
Liabilities related to a discontinued operation				583,488
Total liabilities				3,560,761
Other segment information				
Share of profits in associates	–	125	1,527	1,652
Impairment losses recognised in the statement of profit or loss, net	5,800	835	–	6,635
Depreciation and amortisation	112,751	9,900	4,393	127,044
Investments in associates	–	5,593	10,549	16,142
Capital expenditure*	402,661	15,806	54	418,521

Year ended 31 December 2019	**Dairy farming** *RMB'000*	**Grass processing** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue				
Sales to external customers	1,363,156	652,461	45,685	2,061,302
Intersegment sales	–	199,036	–	199,036
	1,363,156	851,497	45,685	2,260,338
Reconciliation:				
Elimination of intersegment sales				(199,036)
Revenue from continuing operations				2,061,302
Segment results	449,125	13,492	7,878	470,495
Reconciliation:				
Elimination of intersegment results				(1,597)
Loss arising from changes in fair value less costs to sell of dairy cows				(154,853)
Corporate and other unallocated expenses				(81,967)
Finance costs (other than interest on lease liabilities)				(86,225)
Profit before tax from continuing operations				145,863
Segment assets	3,650,434	532,962	29,503	4,212,899
Reconciliation:				
Elimination of intersegment receivables				(44,858)
Corporate and other unallocated assets				30,060
Assets related to a discontinued operation				2,011,172
Total assets				6,209,273
Segment liabilities	1,877,412	418,973	12,042	2,308,427
Reconciliation:				
Elimination of intersegment payables				(44,858)
Corporate and other unallocated liabilities				857,980
Liabilities related to a discontinued operation				652,952
Total liabilities				3,774,501

Year ended 31 December 2019	**Dairy farming** *RMB'000*	**Grass processing** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Other segment information				
Share of profits in associates	–	87	1,372	1,459
Impairment losses recognised in the statement of profit or loss, net	208	2,073	3,775	6,056
Depreciation and amortisation	118,098	10,026	1,550	129,674
Investments in associates	–	–	14,922	14,922
Capital expenditure*	431,466	17,357	779	449,602

Year ended 31 December 2020	**Dairy farming** *RMB'000*	**Grass processing** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue				
Sales to external customers	1,517,531	601,477	61,142	2,180,150
Intersegment sales	–	290,159	–	290,159
	1,517,531	891,636	61,142	2,470,309
Reconciliation:				
Elimination of intersegment sales				(290,159)
Revenue from continuing operations				2,180,150
Segment results	524,720	8,428	3,225	536,373
Reconciliation:				
Elimination of intersegment results				(54)
Loss arising from changes in fair value less costs to sell of dairy cows				2,420
Corporate and other unallocated expenses				(25,330)
Finance costs (other than interest on lease liabilities)				(69,067)
Profit before tax from continuing operations				444,342
Segment assets	4,015,866	608,335	38,458	4,662,659
Reconciliation:				
Elimination of intersegment receivables				(116,640)
Corporate and other unallocated assets				75,695
Assets related to a discontinued operation				1,522,926
Total assets				6,144,640

Year ended 31 December 2020	Dairy farming	Grass processing	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment liabilities	2,087,034	484,362	34,271	2,605,667
Reconciliation:				
Elimination of intersegment payables				(116,640)
Corporate and other unallocated liabilities				520,166
Liabilities related to a discontinued operation				808,956
Total liabilities				3,818,149
Other segment information				
Share of profits in an associate	–	–	2,983	2,983
Impairment losses recognised in the statement of profit or loss, net	(20)	486	(4,987)	(4,521)
Depreciation and amortisation	95,145	12,852	1,239	109,236
Investments in an associate	–	–	17,905	17,905
Capital expenditure*	484,130	8,142	916	493,188

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets.

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Mainland China	1,344,416	1,596,678	1,694,981
Other countries	349,923	464,624	485,169
	1,694,339	2,061,302	2,180,150

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December 2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Mainland China	2,836,749	2,797,281	2,866,749
Other countries	72,241	96,233	130,410
	2,908,990	2,893,514	2,997,159

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

Revenue from continuing operations of approximately RMB1,194,243,000, RMB1,363,156,000 and RMB1,517,531,000 for the years ended 31 December 2018, 2019 and 2020 was derived from sales by the Dairy farming segment to a single customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains from continuing operations is as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers			
Type of goods			
Sales of raw milk	1,194,243	1,363,156	1,517,531
Sales of dairy products	13,951	45,685	61,142
Sales of grasses	486,145	652,461	601,477
	1,694,339	2,061,302	2,180,150
Geographical market			
Mainland China	1,344,416	1,596,678	1,694,981
Other countries	349,923	464,624	485,169
	1,694,339	2,061,302	2,180,150
Timing of revenue recognition			
At a point in time	1,694,339	2,061,302	2,180,150

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30-90 days from delivery.

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Other income/(costs)			
Government grants*	13,629	5,489	11,856
Bank interest income	2,025	6,972	5,986
Others	2,620	–	775
	18,274	12,461	18,617
Other gains/(losses)			
Net foreign exchange differences	(14,792)	(9,920)	54,774
Others	(3,986)	(1,685)	(286)
	(18,778)	(11,605)	54,488

* Government grants have been received from the PRC local government authorities to support the subsidiaries' dairy farming business. There are no unfulfilled conditions related to these government grants.

6. PROFIT FOR THE YEAR

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

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Cost of inventories sold	1,145,935	1,410,157	1,457,669
Depreciation of right-of-use assets	6,184	6,040	6,012
Depreciation of property, plant and equipment	105,739	108,407	87,308
Amortisation of intangible assets	2,296	2,406	11,773
Lease payments not included in the measurement of lease liabilities	2,901	3,046	2,667
Auditor's remuneration	4,804	3,918	1,863
Loss/(gain) arising from changes in fair value less costs to sell of biological assets	161,507	154,853	(2,420)
Impairment losses on financial and contract assets, net	6,635	6,056	(4,521)
Foreign exchange difference, net	14,472	12,837	(54,774)
Loss on disposal of property, plant and equipment	2,476	2,363	845
Employee benefit expenses:			
Wages and salaries	251,377	215,734	211,135
Equity-settled share option expense	(32,239)	–	–
Pension scheme contributions (defined contribution scheme)	25,220	21,985	22,880
	244,358	237,719	234,015

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans and other loans	74,388	85,427	68,473
Interest on long term payables	996	798	594
Interest on lease liabilities	14,167	13,823	13,325
	89,551	100,048	82,392

8. INCOME TAX EXPENSE

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Current – PRC	943	848	757
Current – United States of America	(2,235)	1,662	1,555
Deferred	1,177	782	(27)
Total tax charge/(credit) for the year from continuing operations	(115)	3,292	2,285
Total tax charge for the year from a discontinued operation *(note 9)*	11,656	6,944	8,035
	11,541	10,236	10,320

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

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax from continuing operations	62,535	145,853	444,342
Profit/(loss) before tax from a discontinued operation	38,764	30,952	(650,471)
Total	101,299	176,805	(206,129)
Tax at the statutory tax rate	25,325	44,459	(51,532)
Effect of tax rate differences in other jurisdictions	8,754	4,680	(4,961)
Effect of tax exemption	(23,043)	(38,738)	(101,946)
Expenses not deductible for tax	825	372	168,759
Effect of tax losses not recognised	(320)	(537)	–
Income tax expense	11,541	10,236	10,320
Effective rate of continuing operations (%)	(0.18)	2.26	0.51
Effective rate of a discontinued operation (%)	30.07	22.44	(0.96)

9. DISCONTINUED OPERATION

During year ended 31 December 2020, the Company initiated a plan to sell a 65% equity interest in the Austin Group, engaging in dairy product processing in Australia (the "**Discontinued Business**"), to China Mengniu Dairy Co., Ltd.. As at 31 December 2020, the final negotiations for the distribution were in progress and the Discontinued Business was presented as a discontinued operation in the consolidated financial statements. Accordingly, the consolidated statement of comprehensive income for the years ended 31 December 2018, 2019 and 2020 have been represented to present such business as a discontinued operation, the consolidated balance sheet as of 31 December 2020 has been presented to reflect the related assets/liabilities as assets/liabilities of a disposal group classified as held for sale. With the Austin Group being classified as a discontinued operation, the dairy product processing business is not included in the note for operating segment information.

On 22 March 2021, Mengao Fuyuan (Hong Kong) Co, Limited ("**Mengao Fuyuan**"), a subsidiary of the Company, and Easy Reach Investment Co., Ltd. ("**Easy Reach**"), a subsidiary of China Mengniu Dairy Company Limited, entered into an agreement, based on which, Easy Reach agrees to buy the 65% ordinary shares of the Austin Holding Co., Limited owned by Mengao Fuyuan.

The results of the Austin Group for the years are presented below:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	1,516,144	1,619,238	1,987,578
Expenses	(1,460,905)	(1,571,492)	(1,946,830)
Finance costs	(16,475)	(16,794)	(10,475)
Impairment of goodwill	–	–	(680,744)
Profit/(loss) before tax from the discontinued operation	38,764	30,952	(650,471)
Income tax expense *(note 8)*	(11,656)	(6,944)	(8,035)
Profit/(loss) for the year from the discontinued operation	27,108	24,008	(658,506)

The major classes of assets and liabilities of the Austin Group classified as held for sale as at 31 December 2020 are as follows:

	As at 31 December 2020
	RMB'000
Assets	
Property, plant and equipment *(note 13)*	381,199
Right-of-use assets *(note 14(a))*	6,563
Goodwill	328,861
Other intangible assets *(note 16)*	52,353
Deferred tax assets	11,353
Inventories	412,221
Trade and bills receivables	237,161
Prepayments, other receivables and other assets	25,164
Long term prepayments	9,060
Cash and cash equivalents	58,991
Assets classified as held for sale	1,522,926
Liabilities	
Trade and bills payables	167,811
Other payables and accruals	157,086
Interest-bearing bank and other borrowings	368,698
Lease liabilities *(note 14(b))*	6,066
Tax payable	–
Long term payables	89,991
Deferred tax liabilities	19,304
Liabilities directly associated with the assets classified as held for sale	808,956
Net assets directly associated with the disposal group	713,970

The net cash flows incurred by the Austin Group are as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities	65,438	19,136	1,709
Investing activities	(38,888)	(51,194)	(34,682)
Financing activities	(23,581)	7,715	64,311
Net cash (outflows)/inflows	(2,969)	(24,343)	31,338

In accordance with IFRS 5, net assets held for sale with a carrying amount of RMB1,033,343 were written down to their fair value less cost to sell of RMB713,970,000, resulting a loss of RMB319,373,000, which was applied to reduce the carrying amount of goodwill within the disposal group.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The aggregate amount of remuneration of the directors and chief executives for the Relevant Periods is set out below:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Other emoluments:			
Salaries, allowances and benefits in kind	5,459	5,403	7,166
Pension scheme contributions	55	50	48
	5,514	5,453	7,214

	Salaries, bonuses, allowances and benefits in kind	**Pension scheme contributions**	**Total remuneration**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2018			
Executive director:			
Mr. DING Sheng	5,459	55	5,514
Non-executive directors:			
Mr. WENG Xiangwei	–	–	–
Mr. LU Minfang	–	–	–
Mr. ZHANG Ping	–	–	–
Ms. XU Mingyin	–	–	–
	5,459	55	5,514
Year ended 31 December 2019			
Executive director:			
Mr. DING Sheng	5,403	50	5,453
Non-executive directors:			
Mr. WENG Xiangwei	–	–	–
Mr. LU Minfang	–	–	–
Mr. ZHANG Ping	–	–	–
Ms. XU Mingyin	–	–	–
	5,403	50	5,453

	Salaries, bonuses, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2020			
Executive director:			
Mr. DING Sheng	7,166	48	7,214
Non-executive directors:			
Mr. WENG Xiangwei	–	–	–
Mr. LU Minfang	–	–	–
Mr. ZHANG Ping	–	–	–
Ms. XU Mingyin	–	–	–
	7,166	48	7,214

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods included one, one and one directors, details of whose remuneration are set out in note 10 to the Historical Financial Information. Details of the remuneration of the remaining four, four and four highest paid employees during the Relevant Period, respectively, who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December		
	2018 *RMB'000*	**2019** *RMB'000*	**2020** *RMB'000*
Salaries, bonus, allowances and benefits in kind	2,369	2,429	2,737
Pension scheme contributions	32	28	30
	2,401	2,457	2,767

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

	Year ended 31 December		
	2018	**2019**	**2020**
Nil to HK$1,000,000	4	4	4

12. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company for the Relevant Periods, nor has any dividend been proposed since the end of the reporting period.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	**Plant and Buildings**	**Machinery and equipment**	**Office and other equipment**	**Motor vehicles**	**Construction in progress**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2018	53,657	1,051,801	903,873	52,873	4,105	24,139	2,090,448
Additions	–	3,606	10,064	1,861	24	95,413	110,968
Transfers	–	16,140	21,954	265	218	(38,577)	–
Disposals	–	–	(5,592)	(4,441)	–	–	(10,033)
Exchange realignment	265	(4,190)	(25,577)	(2,191)	(67)	(826)	(32,586)
At 31 December 2018	53,922	1,067,357	904,722	48,367	4,280	80,149	2,158,797
Additions	–	2,143	15,969	7,995	27	75,335	101,469
Transfers	–	48,834	68,762	1,068	507	(119,171)	–
Disposals	–	(38,357)	(2,836)	(4,943)	(5)	–	(46,141)
Exchange realignment	795	2,244	12,266	163	19	661	16,148
At 31 December 2019	54,717	1,082,221	998,883	52,650	4,828	36,974	2,230,273
Additions	–	2,670	43,455	5,046	1,062	54,550	106,783
Transfers	–	28,580	22,972	208	–	(51,760)	–
Disposals	–	(7,933)	(4,754)	(2,099)	(294)	–	(15,080)
Reclassification to a discontinued operation *(note 9)*	(23,312)	(91,907)	(585,049)	(15,227)	(2,728)	(23,156)	(741,379)
Exchange realignment	(2,071)	(5,173)	(6,312)	(229)	(25)	(283)	(14,093)
At 31 December 2020	29,334	1,008,458	469,195	40,349	2,843	16,325	1,566,504
Accumulated depreciation and impairment							
At 1 January 2018	–	(176,819)	(334,129)	(25,102)	(2,477)	–	(538,527)
Additions	–	(54,850)	(74,493)	(8,677)	(475)	–	(138,495)
Disposals	–	–	3,609	424	–	–	4,033
Exchange realignment	–	1,016	13,171	1,153	38	–	15,378
At 31 December 2018	–	(230,653)	(391,842)	(32,202)	(2,914)	–	(657,611)
Additions	–	(72,969)	(61,344)	(5,370)	(630)	–	(140,313)
Disposals	–	28,980	2,585	2,345	5	–	33,915
Exchange realignment	–	(779)	(3,367)	(100)	(10)	–	(4,256)
At 31 December 2019	–	(275,421)	(453,968)	(35,327)	(3,549)	–	(768,265)
Additions	–	(53,748)	(57,350)	(6,939)	(472)	–	(118,509)
Disposals	–	5,417	4,028	1,934	294	–	11,673
Reclassification to a discontinued operation *(note 9)*	–	23,904	323,947	10,399	1,930	–	360,180
Exchange realignment	–	(4,689)	(6,080)	(473)	(48)	–	(11,290)
At 31 December 2020	–	(304,537)	(189,423)	(30,406)	(1,845)	–	(526,211)
Net carrying amount							
At 31 December 2018	53,922	836,704	512,880	16,165	1,366	80,149	1,501,186
At 31 December 2019	54,717	806,800	544,915	17,323	1,279	36,974	1,462,008
At 31 December 2020	29,334	703,921	279,772	9,943	998	16,325	1,040,293

Certain of the Group's buildings and equipment, with a net carrying amount of approximately RMB166,081,000, RMB122,396,000 and RMB107,419,000 as of 31 December 2018, 2019 and 2020, respectively, were pledged to secure general banking facilities granted to the Group (note 25).

14. LEASES

The Group as a lessee

The Group has lease contracts for land and plant and machinery used in its operations with lease periods of 5-20 years. 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 are as follows:

	Leasehold land *RMB'000*	**Plant and machinery** *RMB'000*	**Total** *RMB'000*
At 1 January 2018	320,710	13,320	334,030
Depreciation charge	(23,289)	(2,931)	(26,220)
Exchange realignment	–	79	79
At 31 December 2018	297,421	10,468	307,889
At 1 January 2019	297,421	10,468	307,889
Depreciation charge	(23,734)	(2,826)	(26,560)
Exchange realignment	–	111	111
At 31 December 2019	273,687	7,753	281,440
At 1 January 2020	273,687	7,753	281,440
Additions	4,280	813	5,093
Depreciation charge	(26,027)	(2,195)	(28,222)
Exchange realignment	–	192	192
Reclassification to a discontinued operation *(note 9)*	–	(6,563)	(6,563)
At 31 December 2020	251,940	–	251,940

(b) ***Lease liabilities***

The carrying amount of lease liabilities and the movements during the year are as follows:

		As at 31 December	
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of the year	322,441	302,301	279,927
New leases	–	–	813
Accretion of interest recognised during the year	14,167	13,823	13,325
Payments	(34,670)	(36,535)	(32,237)
Exchange realignment	363	338	263
Reclassification to a discontinued operation *(note 9)*	–	–	(6,066)
Carrying amount at end of the year	302,301	279,927	256,025
Analysed into:			
Current portion	32,565	37,132	25,013
Non-current portion	269,736	242,795	231,012

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

		As at 31 December	
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest on lease liabilities	14,167	13,823	13,325
Depreciation charge of right-of-use assets	26,220	26,560	28,222
Expense relating to short-term leases and low-value assets	2,901	3,046	2,667
Total amount recognised in profit or loss	43,288	43,429	44,214

(d) The total cash outflow for leases is disclosed in note 33(c) to the consolidated financial statements.

15. GOODWILL

		As at 31 December	
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January and 31 December	1,140,426	1,086,728	1,098,618
Impairment during the year	–	–	(680,744)
Reclassification to a discontinued operation	–	–	(328,861)
Exchange realignment	(53,698)	11,890	30,240
Carrying values	1,086,728	1,098,618	119,253

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Dairy farming cash-generating unit;
- Dairy products processing cash-generating unit; and
- Grass processing cash-generating unit.

Dairy farming cash-generating unit

The recoverable amount of the Dairy farming cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14.2%, 14.2% and 14.2% for the years ended 31 December 2018, 2019 and 2020. The growth rate used to extrapolate the cash flows of the dairy farming products unit beyond the five-year period is 3.0%, 3.0%, and 3.0% for the years ended 31 December 2018, 2019 and 2020.

Dairy products processing cash-generating unit

The recoverable amount of the Dairy products processing cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.0%, 8.0% and 8% for the years ended 31 December 2018, 2019 and 2020. The growth rate used to extrapolate the cash flows of the dairy products unit beyond the five-year period is 3.0%, 3.0% and 3.0% for the years ended 31 December 2018, 2019 and 2020.

Grass processing cash-generating unit

The recoverable amount of the grass processing cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11.0%, 11.0% and 11.0% for the years ended 31 December 2018, 2019 and 2020. The growth rate used to extrapolate the cash flows of the grass processing products unit beyond the five-year period is 2.0%, 2.0% and 2.0% for the years ended 31 December 2018, 2019 and 2020.

The carrying amount of goodwill including that of the discontinued operation before impairment allocated to each of the cash-generating units is as follows:

	Dairy farming	**Grass processing**	**Dairy products processing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018	76,356	42,897	967,475	1,086,728
Year ended 31 December 2019	76,356	42,897	979,365	1,098,618
Year ended 31 December 2020	76,356	42,897	1,009,606	1,128,859

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2018, 2019 and 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year.

The values assigned to the key assumptions on market development of dairy farming products, dairy products and grass processing products industries, discount rates and raw materials price inflation are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Computer software *RMB'000*	Client Relationship *RMB'000*	Total *RMB'000*
At 31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	2,909	5,326	8,235
Additions	677	–	677
Amortisation provided during the year	(466)	(1,830)	(2,296)
Exchange realignment	–	234	234
At 31 December 2018	3,120	3,730	6,850
At 31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	3,120	3,730	6,850
Additions	36,867	–	36,867
Amortisation provided during the year	(511)	(1,895)	(2,406)
Exchange realignment	220	61	281
At 31 December 2019	39,696	1,896	41,592
At 31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	39,696	1,896	41,592
Additions	24,203	–	24,203
Amortisation provided during the year	(9,939)	(1,834)	(11,773)
Transfer to a discontinued operation *(note 9)*	(52,353)	–	(52,353)
Exchange realignment	1,179	(62)	1,117
At 31 December 2020	2,786	–	2,786
At 31 December 2018			
Cost	5,052	8,236	13,288
Accumulated amortisation	(1,932)	(4,506)	(6,438)
Net carrying amount	3,120	3,730	6,850
At 31 December 2019			
Cost	42,139	8,372	50,511
Accumulated amortisation	(2,443)	(6,476)	(8,919)
Net carrying amount	39,696	1,896	41,592
At 31 December 2020			
Cost	5,238	7,830	13,068
Accumulated amortisation	(2,452)	(7,830)	(10,282)
Net carrying amount	2,786	–	2,786

17. INVESTMENTS IN ASSOCIATES

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	16,142	14,922	17,905

The Group's trade receivable and payable balances with the associates are disclosed in note 35 to the financial statements.

The following table illustrates the aggregate financial information of the Group's associates:

	As at 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Share of the associates' profit for the year	1,652	1,459	2,983
Share of the associates' total comprehensive income	1,652	1,459	2,983
Dividend paid	–	–	–
Aggregate carrying amount of the Group's investment in associates	16,142	14,922	17,905

18. BIOLOGICAL ASSETS

(A) Nature of activities

The biological assets of the Group comprise primarily dairy cows held to produce raw milk.

The quantity of biological assets owned by the Group at the year end is shown below. The Group's biological assets include heifers and calves, milkable cows and beef cattle. Heifers and calves are dairy cows that have not had their first calves. Beef cattle are raised for sale.

	As at 31 December		
	2018	2019	2020
	Head	*Head*	*Head*
Milkable cows	33,739	34,256	34,139
Heifers and calves	27,290	26,109	26,836
Beef cattle	314	17	312
Total	61,343	60,382	61,287

In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately 9 months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before a dry period of approximately 60-90 days. The female calves will be bred for six months and then transferred to heifers. Beef cattle will be bred for three to six months and then sold for profits.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risks disclosed in note 38, the Group is exposed to the following operational risks:

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding. The Group has established environmental policies and procedures which aimed at complying with local environmental and other laws. Management performs regular reviews to identify environmental risks 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 which aimed at monitoring and mitigating those risks, including regular inspections, disease control, surveys and insurance.

The Group is exposed to fair value risks arising from changes in the price of the dairy products. The directors of the Company are of the view that there are no available derivatives or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

(B) Value of biological assets

The values of the Group's biological assets at the year end were as follows:

		Biological Assets – non-current		**Biological Assets – current**	
	Milkable cows	**Heifers and Calves**	**Beef Cattle**	**Grass**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018					
At 1 January 2018	890,669	451,083	252	1,270	1,343,274
Increase due to raising and cultivating (feeding costs and others)	–	350,173	40,984	23,708	414,865
Transfer	308,999	(308,999)	–	–	–
Decrease due to sales	(105,545)	(23,758)	(40,033)	–	(169,336)
Decrease upon harvest	–	–	–	(21,235)	(21,235)
Gain/(loss) arising from changes in fair value less costs to sell	(126,023)	(34,935)	(549)	–	(161,507)
At 31 December 2018	968,100	433,564	654	3,743	1,406,061

		Biological Assets – non-current		Biological Assets – current	
	Milkable cows	Heifers and Calves	Beef Cattle	Grass	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019					
At 1 January 2019	968,100	433,564	654	3,743	1,406,061
Increase due to raising and cultivating (feeding costs and others)	–	328,160	21,874	35,593	385,627
Transfer	309,659	(309,659)	–	–	
Decrease due to sales	(131,297)	(24,020)	(26,118)	–	(181,435)
Decrease upon harvest	–	–	–	(35,054)	(35,054)
Gain/(loss) arising from changes in fair value less costs to sell	(127,541)	(30,982)	3,670	–	(154,853)
At 31 December 2019	1,018,921	397,063	80	4,282	1,420,346
At 31 December 2020					
At 1 January 2020	1,018,921	397,063	80	4,282	1,420,346
Increase due to raising and cultivating (feeding costs and others)	–	324,272	63,749	35,930	423,951
Transfer	299,745	(299,745)	–	–	–
Decrease due to sales	(154,051)	(21,682)	(65,056)	–	(240,789)
Decrease upon harvest	–	–	–	(33,828)	(33,828)
Gain/(loss) arising from changes in fair value less costs to sell	(25,408)	25,867	1,961	–	2,420
At 31 December 2020	1,139,207	425,775	734	6,384	1,572,100

The Group's biological assets were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), a firm of independent professional qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the valuation of biological assets.

(C) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

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

Level 2 – based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 – based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
As at 31 December 2018	–	–	1,406,061	1,406,061
As at 31 December 2019	–	–	1,420,346	1,420,346
As at 31 December 2020	–	–	1,572,100	1,572,100

(D) Description of valuation techniques used and key inputs to valuation on biological assets

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 approach**	**Key unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurements**
Calves and heifers	The fair value of the heifers purchased within 6 months prior to each reporting date is determined with adjustment by adding the feeding costs from the purchase date to the reporting date. For the calves and the rest of the heifers, the fair value of 14-month-old heifers is determined by referring to the market price of the actively traded market. The fair values of the heifers over 14 months of age are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers under 14 months of age and the fair values of the calves are determined by subtracting the breeding costs required to raise the heifers or calves from the respective specific ages to 14 months old and the margins that would be required by a raiser.	Average market price of the heifers of 14 months of age: RMB18,000 to RMB19,000 for the Relevant Periods.	The estimated fair value increases when the market price increases.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year end will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or completion of all lactation periods, the estimated overall culling rate ranges from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rate increases.
	The calving interval (including the dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days). This 400-day period is one lactation cycle in this valuation exercise.	A milkable cow could have as many as six to seven lactation periods. The estimated average raw milk production volume per head for the lactation period ranged from 9.5 tonnes to 11.2 tonnes for the Relevant Periods depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		The estimated feed costs per kilogram of raw milk for the Relevant Periods ranged from RMB1.68 to RMB1.88.	The estimated fair value decreases when the estimated feed costs per kilogram of raw milk increase.
		The estimated future local market prices for raw milk per tonne for the Relevant Periods ranged from RMB3,677 to RMB3,835 per tonne.	The estimated fair value increases when the estimated future local market price for raw milk increases.

(E) Quantity of the agricultural produce produced by the Group's biological assets

	Year ended 31 December		
	2018	**2019**	**2020**
	Tonne	*Tonne*	*Tonne*
Volume of raw milk sold	318,864	355,456	387,706

(F) Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Raw milk	835,484	954,062	971,551

19. INVENTORIES

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Finished goods	455,306	440,642	226,171
Materials	298,874	338,872	294,452
Others	32,824	31,462	22,786
Impairment	(2,786)	–	–
	784,218	810,976	543,409

For the years ended 31 December 2018, 2019 and 2020, the Group's inventories with a carrying amount of RMB154,934,000, RMB139,678,000 and RMB178,412,000 respectively were pledged as security for the Group's bank loans, as further detailed in note 25 to the financial statements.

20. TRADE AND BILLS RECEIVABLES

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
– within 90 days based on invoice date	209,682	451,561	229,914
– after 90 days based on invoice date	13,396	24,361	4,284
	223,078	475,922	234,198
Impairment	(1,248)	(3,510)	(3,599)
	221,830	472,412	230,599
Bills receivables	800	2,100	7,775
	222,630	474,512	238,374

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	470	1,248	3,510
Impairment losses	1,060	2,475	413
Amount written off as uncollectible	(282)	(213)	(324)
At end of year	1,248	3,510	3,599

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit losses separately. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Current	**Past Due 7 to 12 months**	**Total**
Expected credit loss rate	**0%**	**12%**	**1%**
Gross carrying amount *(RMB'000)*	213,088	9,990	223,078
Expected credit losses *(RMB'000)*	–	1,248	1,248

As at 31 December 2019

	Current	**Past Due 1 to 2 years**	**Total**
Expected credit loss rate	**0%**	**86%**	**1%**
Gross carrying amount *(RMB'000)*	471,818	4,104	475,922
Expected credit losses *(RMB'000)*	–	3,510	3,510

As at 31 December 2020

	Current	**Past Due 1 to 2 years**	**Total**
Expected credit loss rate	**0%**	**84%**	**2%**
Gross carrying amount *(RMB'000)*	229,914	4,284	234,198
Expected credit losses *(RMB'000)*	–	3,599	3,599

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Deposits and other receivables	15,685	15,666	5,893
Prepayments	29,278	28,469	49,141
Others	49,046	40,098	12,830
	94,009	84,233	67,864

Deposits and other receivables mainly represent receivables from sales of biological assets. After applying IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. ECLs are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	270,188	513,033	767,790
Less: Pledged deposits	(55,867)	(100,763)	(17,645)
Cash and cash equivalents	214,321	412,270	750,145

The Group's above cash and bank balances were denominated in the following currencies as follows:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
United States dollars	2,560	11,912	12,962
Australian dollars	50,463	26,970	105,692
RMB	217,165	474,151	649,136
	270,188	513,033	767,790

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 utilised to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. Time deposits are made for varying periods depending on the cash requirements of the Group and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables			
Within 90 days based on invoice date	584,328	627,714	409,823
Over 90 days based on invoice date	37,388	20,636	26,020
	621,716	648,350	435,843

The trade payables are non-interest-bearing and are normally settled within 90-day terms.

24. OTHER PAYABLES AND ACCRUALS

		As at 31 December		
		2018	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income		1,875	2,291	3,237
Non-income tax payable		1,313	5,961	2,652
Accrued staff costs		82,848	87,130	83,965
Contract liabilities		39,358	49,662	5,082
Other payables	*(a)*	84,921	111,179	75,902
Accruals		35,738	40,281	45,629
Others		47,891	32,182	11,701
		293,944	328,686	228,168

(a) Other payables are non-interest-bearing and have an average term of three months.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Unsecured bank loans	456,219	754,431	756,825
Secured bank loans *(note a)*	999,393	906,398	260,399
Other borrowings *(note c)*	2,729	140	14,410
	1,458,341	1,660,969	1,031,634
Non-current			
Unsecured bank loans	86,218	73,541	495,816
Secured bank loans *(note a)*	32,765	47,841	50,083
Other borrowings *(note c)*	14,410	93,860	79,953
	133,393	215,242	625,852
Analysed into:			
Bank loans repayable:			
Within one year	1,455,612	1,660,829	1,017,224
Between one to two years	–	–	–
Over two years	118,983	121,382	545,899
	1,574,595	1,782,211	1,563,123
Other borrowings repayable:			
Within one year	2,729	140	14,410
Between one to two years	–	14,410	–
Over two years	14,410	79,450	79,953
	17,139	94,000	94,363
Analysed into:			
Fixed-rate borrowings	823,902	1,698,577	1,545,661
Variable-rate borrowings	767,832	177,634	111,825
	1,591,734	1,876,211	1,657,486
Fixed-rate borrowings	2.20%-10%	2.17%-10%	3.35%-8%
Variable-rate borrowings	LIBOR+1.75%– LIBOR+4.35%	LIBOR+1.75% /LIBOR+0.32%	LIBOR+1.75% /LIBOR+2.6%

Interest rate of variable-rate borrowings are determined based on the London Interbank Offered Rate ("**LIBOR**").

Notes:

(a) These bank loans are secured by the Group's assets with carrying amounts listed below:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Buildings and equipment	166,081	122,396	107,419
Inventories	154,934	139,678	178,412
Time deposits	30,000	31,030	11,813
Biological assets	–	1,001,801	–
	351,015	1,294,905	297,644

(b) The Group's interest-bearing bank and other borrowings are denominated in the following currencies:

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
United States dollars	796,163	238,738	659,568
Australian dollars	221,924	261,310	–
RMB	573,647	1,376,163	997,918
	1,591,734	1,876,211	1,657,486

(c) The Group's other borrowings are unsecured government loans received from Agricultural Development Office of Wuqiang County, with interest rates at 8.00%-10.00%, 6.00%-10.00% and 6.00%-8.00% for the years ended 31 December 2018, 2019 and 2020, respectively.

26. OTHER FINANCIAL LIABILITIES

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Present value of redemption amount for potential acquisition of puttable non-controlling interests	605,088	491,386	390,069

Under the equity joint venture contract entered into between the Group, Fortune Fund L.P. ("**Fortune Fund**") and Augite Capital Limited ("**CGAIF SPV**") dated 16 August 2016, an option was granted to Fortune Fund and CGAIF SPV to terminate the equity joint venture contract and sell the entire equity interests in Austing Holding Co,. Limited (the "**Austin**") to the Group only if a liquidity event has not occurred. As at 31 December 2018, 2019 and 2020, the Group derecognised a non-controlling interest of RMB369,271,000, RMB376,537,000 and RMB197,356,000, respectively, and recognised a present value of the amount payable upon exercise of the option of RMB344,492,000, RMB279,758,000 and RMB198,691,000, respectively, as a financial liability and accounted for the difference in equity.

Under the equity joint venture contract entered into between Page Girl Pty Ltd ("**Page Girl**"), Itochu Corporation and the Company, dated 8 August 2016, an option was granted to Page Girl and Itochu Corporation to terminate the equity joint venture contract and sell the entire equity interests in the Australian Nature Investment Pty Ltd to the Group only if a liquidity event has not occurred. On 10 August 2020, the Company and Page Girl entered into a share sale agreement, based on which, the Company agrees to buy the 11% ordinary shares of Australian Nature Investment Pty Ltd. owned by Page Girl, with the purchase price of AUD23,883,000, equivalent to RMB119,805,000. As at 31 December 2018, 2019 and 2020, the Group derecognised a non-controlling interest of RMB279,342,000, RMB284,838,000 and RMB149,294,000, respectively, and recognised a present value of the amount payable upon exercise of the option of RMB260,596,000, RMB211,628,000 and RMB191,378,000, respectively, as a financial liability and accounted for the difference in equity.

27. LONG TERM PAYABLES

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Contract amounts of long term payments			
Within 1 year	50,572	33,759	12,083
1 to 2 years	18,553	21,922	6,041
2 to 5 years	66,103	87,533	1,007
Over 5 years	49,657	26,287	–
	184,885	169,501	19,131
Future finance charges	(19,134)	(20,506)	(547)
Present value of long term payables	165,751	148,995	18,584
Portion classified as current liabilities included in other payables	(47,891)	(32,182)	(11,701)
Non current portion	117,860	116,813	6,883

28. DEFERRED INCOME

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income	15,460	21,045	23,240
Less: Amounts due within one year	(1,875)	(2,291)	(3,237)
Over one year	13,585	18,754	20,003

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

29. SHARE CAPITAL

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Issued and fully paid:	1,522,400	1,522,400	1,522,400

30. SHARE AWARD SCHEME

The Company operates a share award 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 employees of the Group. The Scheme became effective on 25 July 2015 and, unless otherwise cancelled or amended, will remain in force for 4 years from that date.

The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share award or the expiry date of the Scheme, if earlier.

In 2018, the share award outstanding under the Scheme lapsed due to the failure of vesting condition. At the date of approval of these financial statements, no new or amended share award were granted.

The following share award were outstanding under the Scheme during the year:

	Number of share award
At 1 January 2018	34,600,000
Lapsed during the year	(34,600,000)
At 31 December 2018	–

The fair value of share award granted was estimated as at the date of grant using a discounted cash flow model, taking into account the terms and conditions upon which the options were granted. The following table lists the key assumptions that the model used.

	As at 31 December 2015
Discount rate (%)	10.38
Lack of marketability discount (%)	36.67
Risk-free interest rate (%)	4.14

The Group recognised a reversal of share-based payment expenses of RMB32,239,000 for the year ended 31 December 2018 due to the lapse of share award scheme.

31. RESERVES

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

32. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	Year ended 31 December		
Haykingdom International, INC (“Haykingdom”)	**2018**	**2019**	**2020**
Percentage of equity interest held by non-controlling interests	35%	35%	35%
Profit for the year allocated to non-controlling interests	1,705	1,372	3,905

The following tables illustrate the summarised financial information of Haykingdom. The amounts disclosed are before any inter-company eliminations:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	430,962	530,694	575,625
Profit for the year	4,872	3,920	11,158
Total comprehensive income for the year	4,872	3,920	11,158
Current assets	209,046	252,457	265,309
Non-current assets	72,241	96,233	46,822
Current liabilities	(188,929)	(233,046)	(219,679)
Net cash flows from/(used in) operating activities	(44,051)	(8,913)	6,069
Net cash flows used in investing activities	(15,802)	(17,355)	(8,080)
Net cash flows from financing activities	56,028	23,721	2,012
Net increase in cash and cash equivalents	(3,825)	(2,546)	–

33. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the Relevant Period, the Group had non-cash additions to right-of-use assets and lease liabilities of nil, nil and RMB813,000, respectively.

(b) Changes in liabilities arising from financing activities

	Bank and other loans *RMB'000*	Lease liabilities *RMB'000*
At 1 January 2018	1,657,482	322,441
Changes from financing activities	(120,416)	(34,670)
Interest expense	–	14,167
Exchange realignment	54,668	363
At 31 December 2018	1,591,734	302,301
At 31 December 2018 and 1 January 2019	1,591,734	302,301
Changes from financing activities	344,735	(36,535)
Interest expense	–	13,823
Exchange realignment	(60,258)	338
At 31 December 2019	1,876,211	279,927
At 31 December 2019 and 1 January 2020	1,876,211	279,927
Changes from financing activities	136,650	(32,237)
New lease	–	813
Interest expense	–	13,325
Exchange realignment	13,323	263
Reclassification to a discontinued operation *(note 9)*	(368,698)	(6,066)
At 31 December 2020	1,657,486	256,025

(c) Total cash outflow for leases

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

	Year ended 31 December		
	2018 *RMB'000*	**2019** *RMB'000*	**2020** *RMB'000*
Within operating activities	(1,590)	(2,651)	(8,031)
Within financing activities	(34,670)	(36,535)	(32,237)
	(36,260)	(39,186)	(40,268)

34. CAPITAL COMMITMENTS

	Year ended 31 December		
	2018 *RMB'000*	**2019** *RMB'000*	**2020** *RMB'000*
Capital expenditure contracted but not provided for, in respect of acquisition of property, plant and equipment	89,823	26,390	16,950

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Year ended 31 December		
	Note	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
Affiliates of substantial shareholders:				
Sales of products	*(i)*	1,194,243	1,363,156	1,517,531
Associates:				
Purchases of equipment and service	*(i)*	4,316	4,167	8,360
Purchases of raw materials	*(i)*	7,079	6,630	27,991

(i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

(b) **Outstanding balances with related parties**

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivables:			
Affiliates of substantial shareholders	57,360	128,045	149,517
Other receivables:			
Affiliates of substantial shareholders	6,050	5,050	–
Prepayments:			
Affiliates of substantial shareholders	538	–	–
Trade and bills payables:			
Associates	3,834	3,029	1,858
Affiliates of substantial shareholders	68	55	–
	3,902	3,084	1,858
Other payables and accruals:			
Affiliates of substantial shareholders	39	8,342	56
Long term payables:			
Affiliates of substantial shareholders	17,990	12,542	6,882
Other payables and accruals			
Affiliates of substantial shareholders	5,243	11,489	11,701

(c) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	15,965	16,078	17,227
Post-employment benefits	220	177	185
	16,185	16,255	17,412

Further details of directors' and the chief executive's emoluments are included in note 10 to the Historical Financial Information.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

31 December 2018

Financial assets	**Amortised cost**
	RMB'000
Trade and bills receivables	222,630
Financial assets included in prepayments, other receivables and other assets	64,731
Pledged deposits	55,867
Cash and cash equivalents	214,321
	557,549

Financial liabilities	**Amortised cost**
	RMB'000
Trade and bills payables	621,716
Financial liabilities included in other payables and accruals	84,921
Interest-bearing bank and other borrowings	1,591,734
Lease liabilities	302,301
Long term payables	117,860
Other financial liabilities	605,088
	3,323,620

31 December 2019

Financial assets	**Amortised cost**
	RMB'000
Trade and bills receivables	474,512
Financial assets included in prepayments, other receivables and other assets	55,764
Pledged deposits	100,763
Cash and cash equivalents	412,270
	1,043,309

Financial liabilities	**Amortised cost**
	RMB'000
Trade and bills payables	648,350
Financial liabilities included in other payables and accruals	111,179
Interest-bearing bank and other borrowings	1,876,211
Lease liabilities	279,927
Long term payables	116,813
Other financial liabilities	491,386
	3,523,866

31 December 2020

Financial assets	**Amortised cost**
	RMB'000
Trade and bills receivables	238,374
Financial assets included in prepayments, other receivables and other assets	18,723
Pledged deposits	17,645
Cash and cash equivalents	750,145
	1,024,887

Financial liabilities	**Amortised cost**
	RMB'000
Trade payables and other payables	435,843
Financial liabilities included in other payables and accruals	75,902
Interest-bearing bank and other borrowings	1,657,486
Lease liabilities	256,025
Long term payables	6,883
Other financial liabilities	390,069
	2,822,208

37. 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 As at 31 December			**Fair values As at 31 December**		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities						
Interest-bearing bank and other borrowings	1,591,734	1,876,211	1,657,486	1,616,655	1,900,572	1,673,167

Management has assessed that the fair values of cash and cash equivalents, the current portion of interest-bearing bank and other borrowings, trade payables, amounts due from/to related parties, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included 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 methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion 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 changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of each of the Relevant Periods were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

Fair value measurement using significant observable inputs (Level 2)

		As at 31 December	
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	1,616,655	1,900,572	1,673,167

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, trade receivables, prepayments, other receivables and other assets, trade payables, other payables and accruals, 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 foreign currency risk, credit risk and liquidity risk. The Board and senior management meet periodically to analyse and formulate measures to manage the Group's exposure to these risks.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The Company and its subsidiaries mainly transacted in respective foreign currency. Management considers the Group's exposure to foreign currency risk is not significant.

Credit risk

The carrying amounts of cash and bank balances, financial assets measured at amortized cost, trade receivables, other receivables and other financial assets represent the Group's maximum exposure equal to credit risk in relation to the financial assets.

The Group expects that there is no significant credit risk associated with cash and bank balances, financial assets measured at amortized cost since they are substantially held in reputable banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

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 order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable periodically and the management also has monitoring procedures to ensure the follow-up action is taken to recover overdue receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group also expects that there is no significant credit risk associated with other receivables and other financial assets since counterparties to these financial assets have no history of default.

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 2018

	12-month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables					
– Normal*	64,731	–	–	–	64,731
Pledged deposits					
– Not yet past due	55,867	–	–	–	55,867
Trade and bills receivables	–	–	–	223,878	223,878
Cash and cash equivalents					
– Not yet past due	214,321	–	–	–	214,321
	334,919	–	–	223,878	558,797

As at 31 December 2019

	12-month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables					
– Normal*	55,764	–	–	–	55,764
Pledged deposits					
– Not yet past due	100,763	–	–	–	100,763
Trade and bills receivables	–	–	–	478,022	478,022
Cash and cash equivalents					
– Not yet past due	412,270	–	–	–	412,270
	568,797	–	–	478,022	1,046,819

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables					
– Normal*	18,723	–	–	–	18,723
Pledged deposits					
– Not yet past due	17,645	–	–	–	17,645
Trade and bills receivables	–	–	–	241,973	241,973
Cash and cash equivalents					
– Not yet past due	750,145	–	–	–	750,145
	786,513	–	–	241,973	1,028,486

* The credit quality of amounts due from related parties and the financial assets included in prepayments, other receivables and other assets are considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets are considered to be "doubtful".

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

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

	As at 31 December 2018			
	On demand	Within 1 year	Above 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and other payables	706,637	–	–	706,637
Interest-bearing bank and other borrowings	–	1,516,675	138,729	1,655,404
Long term payables	–	50,572	134,313	184,885
Lease liabilities	–	33,868	280,525	314,393
	706,637	1,601,115	553,567	2,861,319

	As at 31 December 2019			
	On demand	Within 1 year	Above 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and other payables	759,529	–	–	759,529
Interest-bearing bank and other borrowings	–	1,727,408	223,852	1,951,260
Long term payables	–	33,759	135,742	169,501
Lease liabilities	–	38,617	252,507	291,124
	759,529	1,799,784	612,101	3,171,414

	As at 31 December 2020			
	On demand	Within 1 year	Above 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and other payables	511,745	–	–	511,745
Interest-bearing bank and other borrowings	–	1,072,899	650,886	1,723,785
Long term payables	–	12,083	7,048	19,131
Lease liabilities	–	26,014	240,252	266,266
	511,745	1,110,996	898,186	2,520,927

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 adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes interest-bearing bank and other borrowings. Total capital is the equity as shown in the consolidated statement of financial position. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios as at the end of the reporting periods were as follows:

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	1,591,734	1,876,211	1,657,486
Total equity	2,142,189	2,434,772	2,326,488
Gearing ratio	74.30%	77.06%	71.24%

39. EVENTS AFTER THE RELEVANT PERIODS

Save as disclosed elsewhere in this financial statements, the Group did not have events after the relevant periods to be disclosed.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	13,760	9,430	8,217
Other intangible assets	674	1,331	1,251
Investments in subsidiaries	859,411	1,722,960	1,376,765
Investments in an associate	10,549	14,922	17,905
Total non-current assets	884,394	1,748,643	1,404,138
CURRENT ASSETS			
Inventories	–	33	12
Due from subsidiaries	880,033	756,737	802,298
Prepayments, other receivables and other assets	7,481	2,239	31,408
Pledged deposits	55,867	79,693	11,004
Cash and cash equivalents	103,640	179,827	455,110
Total current assets	1,047,021	1,018,529	1,299,832
CURRENT LIABILITIES			
Due to subsidiaries	51,684	352,871	1,437,942
Trade and bills payables	81,338	64,979	6,443
Other payables and accruals	53,943	49,550	60,353
Interest-bearing bank and other borrowings	398,593	1,062,096	505,831
Total current liabilities	585,558	1,529,496	2,010,569
Net current assets/(liabilities)	461,463	(510,967)	(710,737)
Total assets less current liabilities	1,345,857	1,237,676	693,401
Net assets	1,345,857	1,237,676	693,401
EQUITY			
Equity attributable to the parent			
Share capital	1,522,400	1,522,400	1,522,400
Reserves	(176,543)	(284,724)	(828,999)
Total equity	1,345,857	1,237,676	693,401

Zhang Ping
Director

Ding Sheng
Director

Note:

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

Year ended 31 December 2018

	Year ended 31 December 2018			
	Share capital	**Reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2018	1,560,460	72,581	(163,016)	1,470,025
Total comprehensive loss for the year	–	–	(91,929)	(91,929)
Equity-settled share option arrangements	–	(32,239)	–	(32,239)
Capital reduction	(38,060)	38,060	–	–
At 31 December 2018 and 1 January 2019	1,522,400	78,402	(254,945)	1,345,857
Total comprehensive loss for the year	–	–	(108,181)	(108,181)
At 31 December 2019 and 1 January 2020	1,522,400	78,402	(363,126)	1,237,676
Total comprehensive loss for the year	–	–	(544,275)	(544,275)
At 31 December 2020	1,522,400	78,402	(907,401)	693,401

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2020.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 May 2021

Set out below is the management discussion and analysis of the Target Group for the 3 years ended December 31, 2018, 2019 and 2020 based on the Accountant's Reports of the Target Group as set out in Appendix II to this circular.

BUSINESS OVERVIEW

The Target Group is principally engaged in forage cultivation, dairy farming, feed processing and sales. The Target Group focuses on the upstream dairy farming business, operates 15 dairy farms in the PRC with approximately 60,000 dairy cows as of December 31, 2020.

FINANCIAL OVERVIEW

Revenue

For the year ended December 31, 2019, the Target Group recorded revenue of approximately RMB2,061.3 million, representing an increase of approximately 21.7% comparing to 2018. The increase in revenue was mainly contributed by (1) sales volume growth of raw milk; (2) the growth of raw milk price; (3) sales growth of grasses.

For the year ended December 31, 2020, the Target Group recorded revenue of approximately RMB2,180.2 million, representing an increase of approximately 5.8% as compared to 2019. The increase in revenue was mainly contributed by (1) sales volume growth of raw milk; (2) the growth of raw milk price.

Cost of sales before biological fair value adjustments

For the year ended December 31, 2019, the Target Group recorded total cost of sales before biological fair value adjustments of approximately RMB1,410.2 million, representing an increase of approximately 23.1% comparing to 2018. The increase was mainly contributed by (1) the increase of feed procurement price; (2) the sales volume growth of raw milk.

For the year ended December 31, 2020, the Target Group recorded total cost of sales before biological fair value adjustments of approximately RMB1,457.7 million, representing a slight increase of approximately 3.4% comparing to 2019.

Other income and gains, net

For the year ended December 31, 2019, the Target Group recorded net other income and gains of approximately RMB-5.2 million, increasing from RMB-7.1 million for year ended December 31, 2018. The increase was mainly contributed by the less negative foreign exchange differences.

For the year ended December 31, 2020, the Target Group recorded net other income and gains of approximately RMB77.6 million, increasing from RMB-5.2 million for the year ended December 31, 2019. The increase was mainly contributed by (1) favorable change in foreign exchange difference; and (2) more government grants.

Selling and distribution expenses

For the year ended December 31, 2019, the Target Group recorded selling and distribution expense of approximately RMB93.9 million, representing an increase of approximately 10.3% comparing to 2018. The increase in selling and distribution expense was mainly contributed by (1) the increase of sales volume of raw milk; (2) the increase of grasses sales.

For the year ended December 31, 2020, the Target Group's selling and distribution expense was approximately RMB109.9 million, representing an increase of approximately 17.1% as compared to 2019. The increase in selling and distribution expense was mainly contributed by (1) the increase of transportation cost of southern dairy farms; (2) the increase of transportation cost due to the sales volume growth of grasses.

Administrative expenses

For the year ended December 31, 2019, the Target Group recorded administrative expense of approximately RMB144.7 million, representing a slight increase of approximately 2.4% comparing to 2018.

For the year ended December 31, 2020, the Target Group's administrative expense for the period was approximately RMB159.7 million, representing an increase of approximately 10.4% as compared to 2019. The increase in administrative expense was mainly contributed by the growth of staff cost.

Finance costs

For the year ended December 31, 2019, the Target Group recorded finance costs of approximately RMB100.0 million, representing an increase of approximately 11.7% comparing to 2018. The increase in finance costs was mainly contributed by the increase of bank loans balance.

For the year ended December 31, 2020, the Target Group recorded finance costs of approximately RMB82.4 million, representing a decrease of approximately 17.6% as compared to 2019. The decrease in finance costs was mainly contributed by the decrease of interest rate of bank loans.

Share of profit of an associate

The Target Group recorded share of profit of an associate of approximately RMB1.7 million, RMB1.5 million and RMB3.0 million for the three years ended December 31, 2018, 2019 and 2020, respectively.

Other expenses

The Target Group recorded other expense of approximately RMB3.0 million, RMB8.1 million and RMB9.1 million for the three years ended December 31, 2018, 2019 and 2020, respectively.

Profit from continuing operations

For the year ended December 31, 2019, the Target Group recorded profit from continuing operations of approximately RMB142.6 million, representing an increase of approximately 127.6% comparing to 2018. The increase in profit was mainly contributed by (1) the increase of raw milk sales price; (2) the increase of milk yield per head.

For the year ended December 31, 2020, the Target Group's profit from continuing operations for the period was approximately RMB442.1 million, representing an increase of approximately 210.1% as compared to 2019. The increase in profit was mainly contributed by (1) the increase of raw milk sales price; (2) the increase of milk yield per head; (3) the decrease of feed procurement cost; (4) the one-off exemption for social security insurance contribution granted by the PRC government authorities due to COVID-19.

Liquidity and financial resources

As of December 31, 2018, 2019 and 2020, cash and cash equivalents of the Target Group amounted to RMB214.3 million, RMB412.3 million and RMB750.1 million, respectively. The Target Group mainly financed its operation by cash flows from operation and bank borrowings.

As of December 31, 2018, 2019 and 2020, the current ratios[1] of the Target Group were approximately 0.57 times, 0.65 times and 0.77 times, respectively.

Borrowings and Gearing ratio

The Target Group plans its funding based on the conditions of its operations, gearing ratio and available bank credit. The objective of Target Group's funding policy is to maintain a balance between continuity of funding and flexibility through the use of loans and bank borrowings.

As of December 31, 2018, 2019 and 2020, the total bank borrowings of the Target Group were approximately RMB1,591.7 million, RMB1,876.2 million, and RMB1,657.5 million, respectively.

As of December 31, 2018, 2019 and 2020, the total lease liabilities of the Target Group were approximately RMB302.3 million, RMB279.9 million, and RMB256.0 million, respectively.

As of December 31, 2018, 2019 and 2020, the gearing ratios[2] of the Target Group were approximately 88.4%, 88.6% and 118.7%, respectively.

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[1] Current ratio = (total current assets – assets of a disposed group classified as held for sale)/(total current liabilities – liabilities directly associated with the assets classified as held for sale)

[2] Gearing ratio = (bank borrowings + lease liabilities)/(total equity – assets of a disposed group classified as held for sale + liabilities directly associated with the assets classified as held for sale)

Borrowings at fixed and variable interest rate for each of the years ended December 31, 2018, 2019 and 2020 are set out in the table below.

	Year ended December 31, 2018 *RMB'000*	**Year ended December 31, 2019** *RMB'000*	**Year ended December 31, 2020** *RMB'000*
Fixed-rate borrowings	823,902	1,698,577	1,545,661
Variable-rate borrowings	767,832	177,634	111,825
Total	**1,591,734**	**1,876,211**	**1,657,486**
Fixed rate	2.20%–10%	2.17%–10%	3.35%–8%
Variable rate	LIBOR+1.75% –LIBOR+4.35%	LIBOR+1.75%/ LIBOR+0.32%	LIBOR+1.75%/ LIBOR+ 2.6%

Pledge of assets

The pledged assets of the Target Group as of December 31, 2018, 2019 and 2020 were disclosed in the Note 13 and Note 19 to the accountant's report of the Target Group as set out in Appendix II to this circular.

Commitments

As of December 31, 2018, 2019 and 2020, the capital commitments of the Target Group were approximately RMB89.8 million, RMB26.4 million, and RMB17.0 million, respectively.

Contingent liabilities

The Target Group had no material contingent liabilities as of December 31, 2018, 2019 and 2020.

Significant investments held, material acquisitions or disposals of subsidiaries, associates and affiliated companies, and plans for material investments or capital assets

Investments in subsidiaries of the Target Group as of December 31, 2018, 2019 and 2020 were disclosed in the accountant's report of the Target Group as set out in Appendix II to this circular.

As part of the reorganization, Fuyuan plans to dispose 65% equity interest in the Austin Holding Co., Limited, and 11% equity interest in Australian Nature Investment Pty Ltd. to Mengniu.

Saved as disclosed above, the Target Group did not have any material acquisition or disposal.

The Target Group did not have any future plans for material investments or capital assets.

Treasury policy

The Target Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the three years ended December 31, 2018, 2019 and 2020.

Foreign Exchange exposure

Fuyuan and its subsidiaries conducted business in mainland China, the United States, and Australia and tried to limit its exposure in foreign currency risk by minimizing its net foreign currency position.

Employee numbers and remuneration policy

As of December 31, 2018, 2019 and 2020, the Target Group had 1,540, 1,626 and 1,677 employees, respectively. The total employee cost of the Target Group for the three years ended December 31, 2018, 2019 and 2020 were RMB244.4 million, RMB237.7 million and RMB234.0 million, respectively.

In order to attract and retain high quality staff and to enable smooth operation, the Target Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

This unaudited pro forma consolidated statements of assets and liabilities (the "**Unaudited Pro Forma Financial Information**") has been prepared for the purpose of providing shareholders of the Company with information about the impact of the proposed Acquisition by illustrating how the Acquisition might have affected the financial position of the Group as at 31 December 2020, had the Acquisition taken place on 31 December 2020.

The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group, as enlarged by the Acquisition, that would have been attained had the Acquisition been completed on 31 December 2020. Neither does the Unaudited Pro Forma Financial Information purport to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules and based on (i) the audited consolidated statement of financial position of the Group as at 31 December 2020, which has been extracted from the published annual report of the Group for the year ended 31 December 2020 and (ii) the audited consolidated statement of financial position of the Fuyuan Group as at 31 December 2020, which has been extracted from the accountants' report of the Fuyuan Group as set out in Appendix II to this circular, after making unaudited pro forma adjustments that are (i) directly attributable and (ii) factually supportable, as if the Acquisition had been completed at 31 December 2020.

This Unaudited Pro Forma Financial Information has been prepared in a manner consistent with both the format and accounting policies adopted by the Group in the audited financial statements for the year ended 31 December 2020.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular. The Unaudited Pro Forma Financial Information does not take into account any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group.

The total consideration for the acquisition of entire equity interests in Fuyuan shall be satisfied in accordance with either of the settlement scenarios as set out below.

Settlement Scenario I:

The consideration shall consist of (i) the sum of RMB1,971,329,480 payable in cash by the Company to each of GS, Shining and the Individual Shareholders in proportions to their respective interest in Fuyuan as set out in page 13 to this circular; and (ii) allotment and issue of 807,096,101 shares by the Company to Mengniu SPV.

Settlement Scenario II:

The consideration shall consist of (i) the sum of RMB2,989,888,587 payable in cash by the Company to each of GS, Shining, Individual Shareholders and Inner Mongolia Mengniu in proportions to their respective interest in Fuyuan as set out in page 14 to this circular; and (ii) allotment and issue of 262,195,758 shares by the Company to Mengniu SPV.

* All capitalised terms herein have the same meaning as those defined in the circular, unless otherwise indicated.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP – Settlement Scenario I

	Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Listing Rules										
	The Group as at 31 December 2020	Fuyuan Group as at 31 December 2020	Pro forma adjustments						Unaudited pro forma of the Enlarged Group as at 31 December 2020	Pro forma adjustments as if the Placing would have been completed as at 31 December 2020	Adjusted unaudited pro forma of the Enlarged Group as at 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	note 1	*note 2*	*note 3*	*note 4*	*note 5*	*note 6*	*note 7*	*note 8*		*note 9*	
ASSETS											
NON-CURRENT ASSETS											
Property, plant and equipment	3,317,719	1,040,293	–	(35)	–	–	–	74,294	4,432,271	–	4,432,271
Right-of-use assets	303,849	251,940	–	–	–	–	–	26,485	582,274	–	582,274
Goodwill	1,322,457	119,253	–	–	–	–	–	1,224,180	2,665,890	–	2,665,890
Interests in associates	289,860	17,905	–	–	–	–	–	–	307,765	–	307,765
Equity instruments at fair value through other comprehensive income	5,080	–	–	–	–	–	–	–	5,080	–	5,080
Biological assets	7,101,243	1,564,982	–	–	–	–	–	–	8,666,225	–	8,666,225
Pledged bank deposits	122,706	–	–	–	–	–	–	–	122,706	–	122,706
Bank balances	20,637	–	–	–	–	–	–	–	20,637	–	20,637
Other intangible assets	–	2,786	–	–	–	–	–	–	2,786	–	2,786
	12,483,551	2,997,159	–	(35)	–	–	–	1,324,959	16,805,634	–	16,805,634
CURRENT ASSETS											
Inventories	1,158,643	543,409	–	(1)	–	–	(188)	7,029	1,708,892	–	1,708,892
Biological assets	–	7,118	–	–	–	–	–	–	7,118	–	7,118
Trade and other receivables, advanced payments and other assets	706,659	306,238	–	(14,210)	–	–	(1,791)	–	996,896	–	996,896
Other financial assets	50,000	–	–	–	–	–	–	–	50,000	–	50,000
Derivative financial instruments	11,145	–	–	–	–	–	–	–	11,145	–	11,145
Pledged bank deposits	34,503	17,645	–	–	–	–	–	–	52,148	–	52,148
Bank balances and cash	1,123,710	750,145	(119,805)	11,035	(489,368)	(4,336)	–	(788,532)	482,849	788,532	1,271,381
	3,084,660	1,624,555	(119,805)	(3,176)	(489,368)	(4,336)	(1,979)	(781,503)	3,309,048	788,532	4,097,580
Assets of a disposal group classified as held for sale	–	1,522,926	(1,522,926)	–	–	–	–	–	–	–	–
	3,084,660	3,147,481	(1,642,731)	(3,176)	(489,368)	(4,336)	(1,979)	(781,503)	3,309,048	788,532	4,097,580
TOTAL ASSETS	**15,568,211**	**6,144,640**	**(1,642,731)**	**(3,211)**	**(489,368)**	**(4,336)**	**(1,979)**	**543,456**	**20,114,682**	**788,532**	**20,903,214**

	Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Listing Rules										
	The Group as at 31 December 2020	**Fuyuan Group as at 31 December 2020**	**Pro forma adjustments**						**Unaudited pro forma of the Enlarged Group as at 31 December 2020**	**Pro forma adjustments as if the Placing would have been completed as at 31 December 2020**	**Adjusted unaudited pro forma of the Enlarged Group as at 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	note 1	*note 2*	*note 3*	*note 4*	*note 5*	*note 6*	*note 7*	*note 8*		*note 9*	
LIABILITIES											
NON-CURRENT LIABILITIES											
Bank and other borrowings	2,171,012	625,852	–	–	(489,368)	–	–	1,182,797	3,490,293	–	3,490,293
Lease liabilities	196,042	231,012	–	–	–	–	–	–	427,054	–	427,054
Derivative financial instruments	24,000	–	–	–	–	–	–	–	24,000	–	24,000
Deferred income	172,862	20,003	–	–	–	–	–	(20,003)	172,862	–	172,862
Deferred tax liability	–	14,233	–	–	–	–	–	–	14,233	–	14,233
Long term payables	–	6,883	–	–	–	–	–	–	6,883	–	6,883
	2,563,916	897,983	–	–	(489,368)	–	–	1,162,794	4,135,325	–	4,135,325
CURRENT LIABILITIES											
Trade and other payables	1,410,786	658,929	–	(3,176)	–	–	(1,791)	–	2,064,748	–	2,064,748
Tax payable	364	486	–	–	–	–	–	–	850	–	850
Bank and other borrowings	3,471,314	1,031,634	–	–	–	–	–	–	4,502,948	–	4,502,948
Lease liabilities	23,851	25,013	–	–	–	–	–	–	48,864	–	48,864
Derivative financial instruments	59,338	–	–	–	–	–	–	–	59,338	–	59,338
Contract liabilities	198	5,082	–	–	–	–	–	–	5,280	–	5,280
Other financial liabilities	–	390,069	(390,069)	–	–	–	–	–	–	–	–
	4,965,851	2,111,213	(390,069)	(3,176)	–	–	(1,791)	–	6,682,028	–	6,682,028
Liabilities directly associated with the assets classified as held for sale	–	808,956	(808,956)	–	–	–	–	–	–	–	–
	4,965,851	2,920,169	(1,199,025)	(3,176)	–	–	(1,791)	–	6,682,028	–	6,682,028
TOTAL LIABILITIES	**7,529,767**	**3,818,152**	**(1,199,025)**	**(3,176)**	**(489,368)**	**–**	**(1,791)**	**1,162,794**	**10,817,353**	**–**	**10,817,353**
NET ASSETS	**8,038,444**	**2,326,488**	**(443,706)**	**(35)**	**–**	**(4,336)**	**(188)**	**(619,338)**	**9,297,329**	**788,532**	**10,085,861**

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP – Settlement Scenario II

	Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Listing Rules										
	The Group as at 31 December 2020	Fuyuan Group as at 31 December 2020	Pro forma adjustments						Unaudited pro forma of the Enlarged Group as at 31 December 2020	Pro forma adjustments as if the Placing would have been completed as at 31 December 2020	Adjusted unaudited pro forma of the Enlarged Group as at 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	note 1	*note 2*	*note 3*	*note 4*	*note 5*	*note 6*	*note 7*	*note 8*		*note 9*	
ASSETS											
NON-CURRENT ASSETS											
Property, plant and equipment	3,317,719	1,040,293	–	(35)	–	–	–	74,294	4,432,271	–	4,432,271
Right-of-use assets	303,849	251,940	–	–	–	–	–	26,485	582,274	–	582,274
Goodwill	1,322,457	119,253	–	–	–	–	–	1,389,766	2,831,476	–	2,831,476
Interests in associates	289,860	17,905	–	–	–	–	–	–	307,765	–	307,765
Equity instruments at fair value through other comprehensive income	5,080	–	–	–	–	–	–	–	5,080	–	5,080
Biological assets	7,101,243	1,564,982	–	–	–	–	–	–	8,666,225	–	8,666,225
Pledged bank deposits	122,706	–	–	–	–	–	–	–	122,706	–	122,706
Bank balances	20,637	–	–	–	–	–	–	–	20,637	–	20,637
Other intangible assets	–	2,786	–	–	–	–	–	–	2,786	–	2,786
	12,483,551	2,997,159	–	(35)	–	–	–	1,490,545	16,971,220	–	16,971,220
CURRENT ASSETS											
Inventories	1,158,643	543,409	–	(1)	–	–	(188)	7,029	1,708,892	–	1,708,892
Biological assets	–	7,118	–	–	–	–	–	–	7,118	–	7,118
Trade and other receivables, advanced payments and other assets	706,659	306,238	–	(14,210)	–	–	(1,791)	–	996,896	–	996,896
Other financial assets	50,000	–	–	–	–	–	–	–	50,000	–	50,000
Derivative financial instruments	11,145	–	–	–	–	–	–	–	11,145	–	11,145
Pledged bank deposits	34,503	17,645	–	–	–	–	–	–	52,148	–	52,148
Bank balances and cash	1,123,710	750,145	(119,805)	11,035	(489,368)	(4,336)	–	(1,195,955)	75,426	1,195,955	1,271,381
	3,084,660	1,624,555	(119,805)	(3,176)	(489,368)	(4,336)	(1,979)	(1,188,926)	2,901,625	1,195,955	4,097,580
Assets of a disposal group classified as held for sale	–	1,522,926	(1,522,926)	–	–	–	–	–	–	–	–
	3,084,660	3,147,481	(1,642,731)	(3,176)	(489,368)	(4,336)	(1,979)	(1,188,926)	2,901,625	1,195,955	4,097,580
TOTAL ASSETS	**15,568,211**	**6,144,640**	**(1,642,731)**	**(3,211)**	**(489,368)**	**(4,336)**	**(1,979)**	**301,619**	**19,872,845**	**1,195,955**	**21,068,800**

Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Listing Rules

	The Group as at 31 December 2020	**Fuyuan Group as at 31 December 2020**	**Pro forma adjustments**						**Unaudited pro forma of the Enlarged Group as at 31 December 2020**	**Pro forma adjustments as if the Placing would have been completed as at 31 December 2020**	**Adjusted unaudited pro forma of the Enlarged Group as at 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	note 1	*note 2*	*note 3*	*note 4*	*note 5*	*note 6*	*note 7*	*note 8*		*note 9*	
LIABILITIES											
NON-CURRENT LIABILITIES											
Bank and other borrowings	2,171,012	625,852	–	–	(489,368)	–	–	1,793,934	4,101,430	–	4,101,430
Lease liabilities	196,042	231,012	–	–	–	–	–	–	427,054	–	427,054
Derivative financial instruments	24,000	–	–	–	–	–	–	–	24,000	–	24,000
Deferred income	172,862	20,003	–	–	–	–	–	(20,003)	172,862	–	172,862
Deferred tax liability	–	14,233	–	–	–	–	–	–	14,233	–	14,233
Long term payables	–	6,883	–	–	–	–	–	–	6,883	–	6,883
	2,563,916	897,983	–	–	(489,368)	–	–	1,773,931	4,746,462	–	4,746,462
CURRENT LIABILITIES											
Trade and other payables	1,410,786	658,929	–	(3,176)	–	–	(1,791)	–	2,064,748	–	2,064,748
Tax payable	364	486	–	–	–	–	–	–	850	–	850
Bank and other borrowings	3,471,314	1,031,634	–	–	–	–	–	–	4,502,948	–	4,502,948
Lease liabilities	23,851	25,013	–	–	–	–	–	–	48,864	–	48,864
Derivative financial instruments	59,338	–	–	–	–	–	–	–	59,338	–	59,338
Contract liabilities	198	5,082	–	–	–	–	–	–	5,280	–	5,280
Other financial liabilities	–	390,069	(390,069)	–	–	–	–	–	–	–	–
	4,965,851	2,111,213	(390,069)	(3,176)	–	–	(1,791)	–	6,682,028	–	6,682,028
Liabilities directly associated with the assets classified as held for sale	–	808,956	(808,956)	–	–	–	–	–	–	–	–
	4,965,851	2,920,169	(1,199,025)	(3,176)	–	–	(1,791)	–	6,682,028	–	6,682,028
TOTAL LIABILITIES	**7,529,767**	**3,818,152**	**(1,199,025)**	**(3,176)**	**(489,368)**	**-**	**(1,791)**	**1,773,931**	**11,428,490**	**-**	**11,428,490**
NET ASSETS	**8,038,444**	**2,326,488**	**(443,706)**	**(35)**	**-**	**(4,336)**	**(188)**	**(1,472,312)**	**8,444,355**	**1,195,955**	**9,640,310**

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as set out in the published annual report of the Group for the year ended 31 December 2020.

2. The information of the consolidated statement of financial position of Fuyuan Group as at 31 December 2020 is extracted from the accountants' report on the historical financial information of the Fuyuan Group as set out in Appendix II to this circular. Certain line items of Fuyuan Group have been combined and contract liabilities included in other payables and accruals have been presented in a separate line item to conform with the Group's presentation.

3. The adjustment reflects (i) purchase of 11% equity interests in Australian Nature Investment Pty Ltd. from a minority shareholder by Fuyuan with the purchase consideration of Australian Dollar 23,883,000 (equivalent to RMB119,805,000, which was calculated based on the exchange rate as of 31 December 2020 and may be different from the actual RMB amounts as settlement) as a precedent condition of the Burra Disposal; (ii) the Burra Disposal and the distribution of proceeds from the Burra Disposal by Fuyuan to the Sellers (in the form of dividend) in proportion to their respective interests in Fuyuan to satisfy the Pre-Completion Reorganization set out in pages 19 to 20 to this circular; and (iii) the termination of the redemption obligations of Fuyuan or its subsidiaries to the remaining shareholders of Austin Holding Co., Limited and Australian Nature Investment Pty Ltd. according to the Sale and Purchase Agreement as part of the Reorganization precedent to the Acquisition. For the purpose of the pro forma financial information of the Enlarged Group, it is assumed that all transactions above had been completed on 31 December 2020.

4. The adjustment reflects the deregistration of Beijing Liang Yuan Technology Co., Ltd. as part of the Reorganization precedent to the Acquisition according to the Sale and Purchase Agreement (the "**Deregistration**"). For the purpose of the pro forma financial information of the Enlarged Group, it is assumed that the Deregistration had been completed on 31 December 2020.

5. Certain terms and covenants of the Target Group's bank borrowings require that the Target Group shall obtain prior written consents from the lenders before there is reorganisation or changes to shareholding or equity capital, otherwise the lenders shall have the rights to demand immediate repayment of the relevant bank borrowings. The management of the Target Group commenced negotiations with the relevant lenders for waiver to comply with such terms and covenants. Certain lenders have agreed in principal to waive their rights to demand immediate repayment. As to other lenders, the management of the Target Group have determined to early repay the loan prior to the completion of the Acquisition.

6. The adjustment is made to reflect the estimated transaction expenses such as legal and professional fees of approximately RMB4,336,000, incurred directly attributable to the Acquisition which are to be settled by cash, other than those expenses which had been recognised in profit or loss before 31 December 2020 by the Group and Fuyuan Group.

7. The adjustments represent the elimination of intercompany transactions and balances in relation to the Group's purchase of feed stuffs from Fuyuan Group as at 31 December 2020.

8. For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the pro forma fair values of the identifiable assets and liabilities of the Target Group as at 31 December 2020 were assumed to be the same as their carrying amounts, except for the fair value adjustments of certain property, plant and equipment, right-of-use assets, inventories and deferred income, the details are disclosed as follow:

For Settlement Scenario I

	RMB'000
Considerations *(note i)*	3,234,738
Net assets of the Fuyuan Group as at 31 December 2020	2,326,488
Less: Burra Disposal (note 3 above)	(443,706)
Less: Deregistration (note 4 above)	(35)
Carrying amount of identifiable net assets acquired	1,882,747
Unaudited pro forma adjustments on right-of-use assets other than leasehold lands *(note iii)*	26,035
Unaudited pro forma fair value adjustments *(note iv)*	
– property, plant and equipment	74,294
– leasehold lands	450
– inventories	7,029
– deferred income	20,003
Fair value of identifiable net assets acquired	2,010,558
Pro forma goodwill arising from the proposed Acquisition	1,224,180

For Settlement Scenario II

	RMB'000
Considerations *(note ii)*	3,400,324
Net assets of the Fuyuan Group as at 31 December 2020	2,326,488
Less: Burra Disposal (note 3 above)	(443,706)
Less: Deregistration (note 4 above)	(35)
Carrying amount of identifiable net assets acquired	1,882,747
Unaudited pro forma adjustments on right-of-use assets other than leasehold lands *(note iii)*	26,035
Unaudited pro forma fair value adjustments *(note iv)*	
– property, plant and equipment	74,294
– leasehold lands	450
– inventories	7,029
– deferred income	20,003
Fair value of identifiable net assets acquired	2,010,558
Pro forma goodwill arising from the proposed Acquisition	1,389,766

Notes:

i. As disclosed in the circular, the total consideration will be satisfied by cash of approximately RMB1,971,329,000 and the allotment and issue of 807,096,101 shares of the Company valued at HK$1,501,199,000 (equivalent to RMB1,263,409,000). For the purpose of the pro forma financial information of the Enlarged Group, the estimated fair value of the shares was calculated based on the market price of the Company as at 31 December 2020 and translated into RMB at the exchange rate as of 31 December 2020. The fair value of the shares to be issued is subject to the share price of the Company and exchange rate on the actual completion date of the Acquisition, which may be substantially different from the estimated amounts applied in the preparation of this unaudited pro forma financial information. The Directors intend to finance 60% of the cash consideration in the amount of RMB1,182,797,000 by non-current borrowing.

ii. As disclosed in the circular, the total consideration will be satisfied by cash of approximately RMB2,989,889,000 and the allotment and issue of 262,195,758 shares of the Company valued at HK$487,684,000 (equivalent to RMB410,435,000). For the purpose of the pro forma financial information of the Enlarged Group, the estimated fair value of the shares was calculated based on the market price of the Company as at 31 December 2020 and translated into RMB at the exchange rate as of 31 December 2020. The fair value of the shares to be issued is subject to the share price of the Company and exchange rate on the actual completion date of the Acquisition, which may be substantially different from the estimated amounts applied in the preparation of this unaudited pro forma financial information. The Directors intend to finance 60% of the cash consideration in the amount of RMB1,793,934,000 by non-current borrowing.

iii. Lease liabilities are recognised and measured at the present value of the remaining lease payments as if the acquired leases were new leases at the acquisition date, and no adjustment is required in this regard. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

iv. The pro forma fair value adjustments are based on the valuation report issued by Jones Lang LaSalle at 31 December 2020. Jones Lang LaSalle is an independent firm of qualified professional valuers which is not connected to the Group.

The fair value of properties (buildings and structures) are based on cost approach. Due to the nature of the buildings and structures of the properties and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued by cost approach with reference to its depreciated replacement cost. Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the current cost of replacement of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In the valuation it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

The fair value of machinery and equipment are based on cost approach. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economical), taking into consideration past and present maintenance policy and rebuilding history.

For the interest of time and efficiency, the property, plant and equipment located in the United States of America with carrying amount of approximately US$19,987,000 (equivalent to RMB130,410,000) were not adjusted to fair values.

The fair value of certain leasehold lands are based on income approach or direct comparison approach. Income approach is adopted by taking into account the rental income of a land derived from its existing leases and/or achievable in the existing market, which have been capitalized to determine the fair value at an appropriate capitalization rate. Direct comparison approach is adopted assuming sale of the leasehold lands in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. Appropriate adjustments and analysis are considered due to the differences in location, size and other characters between the comparable leasehold lands and the subject.

The fair value of inventories was developed through the application of the comparative sales method, a method under market approach. The comparative sales method utilizes the actual or expected selling prices of finished goods to customers in the ordinary course of business as the base amount that must be adjusted for factors that are generally relevant in determining the fair value of inventory including: (i) the cost that would be expected to be incurred in the disposition; and (ii) a profit commensurate with the amount of investment in the assets and the degree of risk.

The pro forma fair values of the identifiable assets and liabilities and goodwill, if any, in relation to the Acquisition are subject to change upon the actual completion of purchase price allocation on the completion date of the Acquisition, which may be substantially different from their estimated amounts applied in the preparation of this unaudited pro forma financial information.

9. The Directors intend to settle the cash consideration of RMB788,532,000 for Settlement Scenario I or RMB1,195,955,000 for Settlement Scenario II by the proceeds from the Placing which was completed on 27 January 2021 and announced on the same day.

C. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China Modern Dairy Holdings Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Modern Dairy Holdings Ltd. (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2020 and related notes as set out on pages IV-3 to IV-10 of the circular issued by the Company dated 14 May 2021 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-2 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the major and connected transaction in relation to the acquisition of entire equity interests in Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd. on the Group's financial position as at 31 December 2020 as if the transaction had taken place at 31 December 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2020, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 14 May 2021

14 May 2021

The Board of Directors
China Modern Dairy Holdings Ltd.
Economic and Technological Development Zone
Maanshan City
Anhui Province

Dear Sirs,

In accordance with your instructions, we have undertaken a valuation exercise to determine an independent opinion on the fair value of 100 percent equity value of "Inner Mongolia Fuyuan International Industrial Co., Ltd. excluding Austin Group" ("**Fuyuan**" or the "**Company**") as at 31 December 2020 (the "**Valuation Date**"). The report which follows is dated 14 May 2021 (the "**Report Date**").

The purpose of this valuation is to express an independent opinion on the fair value of 100 percent equity interest in Inner Mongolia Fuyuan International Industrial Co., Ltd excluding Austin Group as at the Valuation Date for circular reference.

Our valuation was carried out on a fair value basis. Fair value is defined as "*the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date*".

As part of our analysis, we have been furnished with information prepared by the Company regarding the subject business. We have relied to a considerable extent on such information in arriving at our opinion of value.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Company. We have also considered various risks and uncertainties that have potential impact on the businesses. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigation and analysis outlined in the report which follows, we are of the opinion that the fair value of 100 percent equity value in the Company as at the Valuation Date is reasonably stated as below:

Valuation Date	**Fair Value of 100% Equity Value** *(RMB'000)*
31 December 2020	4,089,653

We have reviewed the financial information of Fuyuan as of 31 December 2020 and market multiples as at 28 February 2021. We confirm that there was no material change in the assumptions, bases and methods of valuation adopted in the Valuation Report during the period from 31 December 2020 to 28 February 2021. Accordingly, there was no material change in the appraisal value of Fuyuan as at 28 February 2021 as compared to that set out in the Valuation Report.

The following pages outline the factors considered, methodology and assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions contained therein.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan
Executive Director

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INTRODUCTION

This report has been prepared in accordance with instructions from China Modern Dairy Holdings Ltd. to express an independent opinion of the fair value of 100 percent equity interest in "Inner Mongolia Fuyuan International Industrial Co., Ltd. excluding Austin Group" ("**Fuyuan**" or the "**Company**") as at 31 December 2020 (the "**Valuation Date**"). The report which follows is dated 14 May 2021 (the "**Report Date**").

PURPOSE OF VALUATION

Our valuation is normally classified as,

- Internal Reference (for internal usage by the management of the company);
- Accounting Reference (for auditors to consider the accounting implications);
- Circular Reference (for disclosure in the circular to general public).

The purpose of this valuation is for Circular Reference.

BASIS OF VALUE

Our valuation was carried out on a fair value basis. Fair value is defined as "*the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date*".

We have conducted our valuation in accordance with IFRS 13 – Fair Value Measurement and taken into account the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

BACKGROUND

Company Background

Inner Mongolia Fuyuan International Industrial Co., Ltd. was established in February 2012, which is a comprehensive agricultural and animal husbandry enterprise, headquartered in Hohhot, Inner Mongolia, China. The Company is comprised of dairy farming, breeding, feed R&D and production, forage cultivation, acquisition & sales, agricultural science and technology training.

SOURCES OF INFORMATION

This report was compiled after consideration of all relevant information obtained from the Company and other public sources. Documents received include, but were not limited to:

- Accountants' report;
- Corporate structure of the company;
- Company Introduction; and
- Company business registration number and related information.

Other sources of information included:

- We have held discussions with the management of the Company regarding the operational and the condition of the Company. We believe that the information provided is reliable.

METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely, market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market.

Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject asset.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Selection of Valuation Approach and Methodology

To select the most appropriate approach, we have considered the purpose of the Valuation and the resulting basis of value as well as the availability and reliability of information provided to us to perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Company. In our opinion, the cost approach is inappropriate for valuing the Company, as it does not directly incorporate information about the economic benefits contributed by the Company. The income approach is inappropriate as this approach require detailed operational information and long-term financial projection of the Company but such information is not available to us.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

In this report, the 100% equity value of the Company was developed through the guideline public company method. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple. We have therefore relied solely on the market approach based on the latest financial year Accountant's Report in determining our opinion of value. We applied P/E, P/B, and P/S multiples, which are calculated by using comparable companies' financial statements, to determine the fair value of the company.

ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value.

The following assumptions in determining the fair value of the equity value have been made:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Company.
- The operational and contractual terms stipulated in the relevant contracts and agreements that the Company had entered into (such as supplier contract, sales contract and labour contract) will be honored.

- The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge.

Market Multiples

In determining the price multiple, a list of comparable companies was identified. The selection criteria are as follows.

- Companies are searchable in Bloomberg;
- The selection of comparable companies is based on the industry peer of the Company, which is in dairy farming industry with average monthly trading volume higher than RMB20 millions and has a reasonably sufficient listing period of more than five years;
- Companies are publicly listed in the stock exchanges of Hong Kong; and
- Sufficient and applicable data, including the P/E, P/B and P/S Ratios as at the Valuation Date, of the companies are available.

As sourced from Bloomberg, the market multiples of the comparable companies as of 31 December 2020 satisfying the above criteria are listed exhaustively in below table:

Bloomberg Ticker	**Company Name**	**P/E**	**P/B**	**P/S**
1431 HK EQUITY	YuanShengTai Dairy Farm Ltd	9.52	0.67	2.00
1492 HK EQUITY	China ZhongDi Dairy Holdings Co Ltd	13.04	0.89	1.24
1432 HK EQUITY	China Shengmu Organic Milk Ltd	16.63	1.76	1.56
1117 HK EQUITY	China Modern Dairy Holdings Ltd	22.57	1.38	1.71
Adopted Multiples		15.44	1.18	1.63

Note: Adopted multiples are calculated as mean multiples of comparable companies.

Financial Data from the Company

Financial Year 2020 Net Income *(RMB'000)*	Financial Year 2020 Book Value *(RMB'000)*	Financial Year 2020 Revenue *(RMB'000)*
442,057	1,612,518	2,180,150

* *All data used refers to the accountants' report. The earnings presented above are the Company's profits from continuing operations, which excludes the profits of the Austin Group*

ADDITIONAL CONSIDERATION

- **Discount for Lack of Marketability ("DLOM")**

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

- **Control Premium**

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest a business enterprise that reflects the power of a control. Both factors recognize that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to what economic benefits, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

We have made reference to the article "Stout Restricted Stock Study Companion Guide 2020 Edition". The article shows the overall average DLOM for all 759 transactions in the study (as of June 2020) is 20.6%. We have also made reference to the Control Premium Study 3Q20 published by Business Valuation Resources, LLC, which is a leading information provider publishing global merger and acquisition information, for an estimation of the control premium. The study has examined over one hundred transactions in which 50.01 percent or more of a company was acquired and the control premium observed was around 20%. Therefore, we concluded these two impacts are offset and there would be no adjustment for lack of marketability and control premium in this valuation.

- **Potential tax liability**

As confirmed with the management of China Modern Dairy Holdings Ltd., they have no intention to sell the 100% equity interest in Fuyuan in the next 12 months after the Valuation Date, therefore the likelihood of the potential tax liability crystallising would be minimal.

The valuation report has therefore excluded potential tax liability which might arise if the Company were to be sold at the Valuation Date. The potential tax liability included but not limited to profit tax, capital gain tax and any other taxes prevailing at the Valuation Date.

VALUATION COMMENTS

As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, project documentation and other pertinent data concerning the project as has been made available to us. Such information has been provided by the Company. We have assumed the accuracy of, and have relied on such information. We have relied to a considerable extent on such information provided in arriving at our opinion of value.

We confirm that we have made relevant searches and enquiries and obtained such further information as is considered necessary for the purposes of this study.

In arriving at our assessed value, we have only considered the core business of the Company. We have not made provision for other non-operating cash flow items such as interest income, exchange rate gain/loss, etc. in the valuation model.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

RISK FACTORS

- **Economic considerations**

The PRC economy has experienced significant growth in the past decade, but such growth has been uneven geographically and rose among different sectors of the economy. There is no assurance that the expected economic growth will be realized and future social and economic changes in the PRC will be favorable to the Company. The competition in the industry may have adverse effect on the operating performance of the Company and hence affect the value of the business.

- **Changes in political, economic and regulatory environment in the PRC**

The Company is subject to various laws and regulations governing its operations in the PRC. Future political and legal changes in the PRC might have either favorable or unfavorable impacts on the Company.

OPINION OF VALUE

Based on the results of our investigation and analysis outlined in the report which follows, we are of the opinion that the fair value of 100 percent equity value in the as at the Valuation Date is reasonably stated as below (please refer to page V-15 for details of the calculation):

Valuation Date	**Fair Value of 100% Equity Value** *(RMB'000)*
31 December 2020	4,089,653

We have reviewed the financial information of Fuyuan as of 31 December 2020 and market multiples as at February 28, 2021. we confirm that there was no material change in the assumptions, bases and methods of valuation adopted in the Valuation Report during the period from 31 December 2020 to 28 February 2021. Accordingly, there was no material change in the appraisal value of Fuyuan as at 28 February 2021 as compared to that set out in the Valuation Report.

LIMITING CONDITIONS

This report is issued subject to our Limiting Conditions as attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan
Executive Director

EXHIBIT A – LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the Company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the Company/engagement parties.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the Board of the Company/engagement parties have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/engagement parties because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised on the historical financial information. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

17. The management or staff of the Company/engagement parties and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and JLL in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the Company/engagement parties and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

EXHIBIT B – VALUERS' PROFESSIONAL DECLARATION

The following valuers certify, to the best of their knowledge and belief, that:

- Information has been obtained from sources that are believed to be reliable. All facts which have a bearing on the value concluded have been considered by the valuers and no important facts have been intentionally disregarded.

- The reported analyses, opinions, and conclusions are subject to the assumptions as stated in the report and based on the valuers' personal, unbiased professional analyses, opinions, and conclusions. The valuation exercise is also bounded by the limiting conditions.

- The reported analyses, opinions, and conclusions are independent and objective.

- The valuers have no present or prospective interest in the asset that is the subject of this report, and have no personal interest or bias with respect to the parties involved.

- The valuers' compensation is not contingent upon the amount of the value estimate, the attainment of a stipulated result, the occurrence of a subsequent event, or the reporting of a predetermined value or direction in value that favours the cause of the client.

- The analyses, opinions, and conclusions were developed, and this report has been prepared, in accordance with the International Valuation Standards published by the International Valuation Standards Council.

- The under mentioned persons provided professional assistance in the compilation of this report:

Simon M. K. Chan
Executive Director

Michael Q. Ding
Senior Director

Jenna J.L. Wu
Senior Analyst

EXHIBIT C – MARKET APPROACH

Valuation Date	**12/31/2020**

Comparable Company	**Ticker**	**P/E**	**P/B**	**P/S**
YuanShengTai Dairy Farm Ltd	1431 HK EQUITY	9.52	0.67	2.00
China ZhongDi Dairy Holdings Co Ltd	1492 HK EQUITY	13.04	0.89	1.24
China Shengmu Organic Milk Ltd	1432 HK EQUITY	16.63	1.76	1.56
China Modern Dairy Holdings Ltd	1117 HK EQUITY	22.57	1.38	1.71

Source: Bloomberg

Multiples	**P/E**	**P/B**	**P/S**
MAX	22.57	1.76	2.00
MEAN	15.44	1.18	1.63
MEDIAN	14.83	1.14	1.64
MIN	9.52	0.67	1.24

Mean multiples of P/E, P/B, and P/S of comparable companies are adopted to determine 100% equity value.

Financial Figures	P/E Financial Year 2020 Net Income *RMB'000*	P/B Financial Year 2020 Book Value *RMB'000*	P/S Financial Year 2020 Revenue *RMB'000*
	442,057	1,612,518	2,180,150
Multiples (MEAN)	15.44	1.18	1.63
Target Company 100% equity value	6,825,194	1,895,354	3,548,412
Average Target Company 100% equity value			**4,089,653**

Note: (1) Each of the Target Company 100% equity value is derived from the relevant financial figures of the Target Company multiplied by the mean P/E, P/B and P/S multiples, respectively. The average Target Company 100% equity value is the average number of the Target Company 100% equity value calculated by P/E, P/B and P/S multiples, respectively.

(2) While the multiples adopted in the valuation are original data, the Valuation Report only discloses to two decimal places. The original data of 15.4396 (for P/E), 1.1754 (for P/B) and 1.6276 (for P/S) are used to calculate the fair value.

EXHIBIT D – COMPARABLE COMPANIES

Comparable Companies	Ticker	Description
YuanShengTai Dairy Farm Ltd	1431 HK EQUITY	YuanShengTai Dairy Farm Limited operates dairy farms. The Company produces raw milk through the breeding, feed management and living conditions of its dairy cow herds.
China ZhongDi Dairy Holdings Co Ltd	1492 HK EQUITY	China ZhongDi Dairy Holdings Co., Limited is a dairy farming company. The Company raises and breeds dairy cows, produces and sells raw milk, and imports and sells dairy cows.
China Shengmu Organic Milk Ltd	1432 HK EQUITY	China Shengmu Organic Milk Limited produces organic dairy products. The Company offers raw milk, organic liquid milk, non-organic raw milk, and other related products. China Shengmu Organic Milk operates throughout China.
China Modern Dairy Holdings Ltd	1117 HK EQUITY	China Modern Dairy Holdings Ltd. is an modernised agricultural company. The Company operates dairy farms and produces raw milk in China. China Modern Dairy Holdings Ltd focuses on large-scale modernised free-stall dairy farming.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen’s Road Central Hong Kong

May 14, 2021

The Board of Directors
China Modern Dairy Holdings Ltd.
Room A, 32nd Floor, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

We refer to the valuation report (the “**Valuation Report**”) prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Independent Valuer**”) as set out in Appendix V of this circular (the “**Circular**”), of which this letter forms part. We are required to report on the Valuation Report in relation to the valuation of 100% equity interest of Fuyuan as at December 31, 2020 (the “**Valuation**”) under Rule 11.1(b) of the Takeovers Code. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We have relied on the information and facts supplied, and the opinion expressed by the Company and the Independent Valuer, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied to us.

Pursuant to the Corporate Finance Adviser Code of Conduct, we have reviewed the Valuation Report and the supporting documents relating to the Valuation and discussed with the Independent Valuer regarding the Valuation, including, in particular, the valuation approach, as well as key bases and assumptions adopted in the Valuation. With regard to the qualifications and experience of the Independent Valuer, based on the review work conducted by us, which includes reviewing the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussing the same with the Independent Valuer, we are satisfied that the Independent Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently.

On the basis of the foregoing, we concur with the Independent Valuer that the valuation approach, the bases and assumptions adopted in the Valuation and the Valuation itself have been made/prepared by the Independent Valuer with due care, consideration and objectivity, and on a reasonable basis. We are also satisfied that the Independent Valuer possesses the qualifications and experience to compile the Valuation Report.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular (other than information relating to the Mengniu Concert Group) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Mengniu Concert Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Mengniu Concert Group) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of Mengniu (namely, Mr. LU Minfang, Jeffrey and Mr. MENG Fanjie as executive directors, Mr. CHEN Lang, Mr. NIU Gensheng and Mr. STEVENS Simon Dominic as non-executive directors, Mr. JIAO Shuge (alias JIAO Zhen), Mr. WOLHARDT Julian Juul, Mr. ZHANG Xiaoya and Mr. YAU Ka Chi as independent non-executive directors) jointly and severally accept full responsibility for the accuracy of the information contained in this circular relating to the Mengniu Concert Group and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

The table below shows the closing price per Share as quoted by the Stock Exchange (i) on the last day on which trading took place in each of the six calendar months during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date; (ii) the Last Trading Day; and (iii) as of the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
September 30, 2020	1.03
October 30, 2020	1.03
November 30, 2020	1.32
December 31, 2020	1.86
January 29, 2021	2.50
February 26, 2021	2.70
March 22, 2021 (being the Last Trading Day)	2.31
March 31, 2021	1.86
April 30, 2021	1.96
May 11, 2021 (being the Latest Practicable Date)	1.80

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date were HK$1.06 on September 22, 2020 and HK$2.96 on January 21, 2021, respectively.

3. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company (a) as of the Latest Practicable Date; and (b) immediately after the issue and allotment of the Consideration Shares (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Consideration Shares) will be as follows:

(a) Shares

(i) As of the Latest Practicable Date

		HK$
Authorised share capital:		
10,000,000,000	Shares of HK$0.10 each	1,000,000,000.0
Issued and fully paid:		
7,108,565,947	Shares of HK$0.10 each	710,856,594.7

(ii) Immediately after the issue and allotment of the Consideration Shares under Settlement Scenario I

		HK$
Authorised share capital:		
10,000,000,000	Shares of HK$0.10 each	1,000,000,000.0
Issued and fully paid:		
7,108,565,947	Shares as of the Latest Practicable Date	710,856,594.7
807,096,101	Consideration Shares to be issued	80,709,610.1
7,915,662,048		791,566,204.8

(iii) Immediately after the issue and allotment of the Consideration Shares under Settlement Scenario II

		HK$
Authorised share capital:		
10,000,000,000	Shares of HK$0.10 each	1,000,000,000.0
Issued and fully paid:		
7,108,565,947	Shares as of the Latest Practicable Date	710,856,594.7
262,195,758	Consideration Shares to be issued	26,219,575.8
7,370,761,705		737,076,170.5

All the issued Shares rank *pari passu* with each other in all respects including the rights in respect of capital, dividends and voting.

All the Shares in issue and the Consideration Shares to be issued will (when allotted and fully paid or credited as fully paid) rank *pari passu* in all respects with each other as regards dividends, voting rights and return of capital. The holders of the Consideration Shares will be entitled to receive all future dividends and distributions which are declared, made or paid, the record date for which falls on or after the date of allotment and issue of the Consideration Shares.

Since December 31, 2020 (being the end of the last financial year of the Company) and up to and including the Latest Practicable Date, save for the 650,000,000 new Shares issued on January 27, 2021 at the price of HK$2.40 per Share pursuant to a placing agreement dated January 20, 2021, no new Shares had been issued by the Company.

(b) Options, warrants, and convertible securities

As of the Latest Practicable Date, the Company did not have any outstanding options, derivatives, warrants or securities which were convertible or exchangeable into Shares.

4. DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as of the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are (a) 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); (b) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange; or (d) required to be disclosed under the Takeovers Code.

Name of Director	**Nature of Interest**	**Number of Shares and underlying Shares**	**Approximate percentage of shareholding interest(4)**
Ms. GAO Lina(1)	Interest in controlled corporation	221,581,733(1)	3.12%
	Beneficial owner	41,252,089(2)	0.58%
Mr. SUN Yugang	Beneficial owner	1,665,694(3)	0.02%

(1) As Ms. GAO Lina holds approximately 49.12% of interests in Jinmu Holdings Co., Ltd., she is deemed to be interested in the 221,581,733 Shares held by Jinmu Holdings Co., Ltd. under the SFO.

(2) This represents legal and beneficial interest of 39,752,089 Shares in the Company, and 1,500,000 Shares granted under the Share Award Scheme II of the Company which have yet to be vested as of the Latest Practicable Date.

(3) These represent legal and beneficial interest of 765,694 Shares in the Company, and 900,000 Shares granted under the Share Award Scheme II of the Company which have yet to be vested as of the Latest Practicable Date.

(4) Based on 7,108,565,947 Shares in issue as of the Latest Practicable Date.

Except for Ms. GAO Lina and Mr. SUN Yugang who will abstain from voting at the EGM on the resolutions approving the Acquisition and the Whitewash Waiver with respect to their own beneficial shareholdings, no other Director has any beneficial shareholding in the Company.

As at the Latest Practicable Date, save for Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun, and Mr. WOLHARDT Julian Juul who is either a director of or holds senior positions at Mengniu, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of SFO.

INTEREST IN ASSOCIATED CORPORATION

Name of Director	Name of associated corporation	Number of Shares and underlying Shares	Approximate percentage of shareholding interest[1]
Mr. LU Minfang	China Mengniu Dairy Company Limited	11,651,240	0.30%
Mr. ZHANG Ping	China Mengniu Dairy Company Limited	1,992,613	0.05%
Mr. ZHAO Jiejun	China Mengniu Dairy Company Limited	2,551,416	0.06%
Ms. GAO Lina	China Mengniu Dairy Company Limited	43,000	0.001%

[1] Based on 3,948,224,281 shares of Mengniu in issue as of the Latest Practicable Date.

SHARE AWARD SCHEME

The Company operated a restricted share award scheme which was adopted by the Company on September 9, 2016 (the "**Share Award Scheme I**"). As the total contributed amount of the Share Award Scheme I had reached its limit in 2017, the Company adopted a new share award scheme on March 26, 2018 (the "**Share Award Scheme II**"), which shall remain effective for ten years.

Pursuant to the rules of the Share Award Scheme II (the "**Scheme Rules**"), the Company may from time to time instruct the Trustee to purchase the Shares by itself or through any direct or indirect wholly-owned subsidiary(ies) in the open market on the Stock Exchange or through private placement (other than from connected persons of the Company), and such purchased Shares shall be held by the Trustee on trust for the benefit of the designated selected participants (being all members of the middle and senior management of any member of the Group as may be selected by the Board at its absolute discretion for participation in the Share Award Scheme II) on and subject to the terms and conditions of the Scheme Rules. The Trustee is a private trust company incorporated under the laws of the British Virgin Islands which is owned by MaplesFS (BVI) Limited, a professional trust service provider.

As of the Latest Practicable Date, the total number of Shares held by the Trustee under the Share Award Scheme II is 32,646,179, of which (i) 23,200,000 Shares had been granted to the relevant selected participants but not yet vested; and (ii) 9,446,179 Shares have yet to be granted to any selected participants, provided that these numbers are subject to adjustment in the event that any selected participant ceases to be eligible for the awarded Shares (e.g. ceased to be employed by the Group prior to the relevant vesting date) in which case the granted Shares shall not vest but shall remain held by the Trustee as part of the trust fund.

According to the Scheme Rules, in the event that the Trustee is provided with the opportunity to exercise the voting rights in respect of any Shares which are held by the Trustee in any general meetings of the Company, the Trustee shall take no action. Therefore, with respect to the 32,646,179 Shares held by the Trustee as of the Latest Practicable Date, the Trustee will abstain from voting on the resolutions to approve, among others, (i) the Sale and Purchase Agreement, the Acquisition and the issue of Consideration Shares under the Specific Mandate contemplated thereunder; and (ii) the Whitewash Waiver at the EGM.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as of the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other shareholders interested in 5% or more of the interests and short positions in the Shares and underlying Shares or any person (other than a Director or chief executive of the Company) which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as otherwise recorded in the register required to be kept by the Company under section 336 of the SFO or required to be disclosed under the Takeovers Code:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding interest[3]
China Mengniu Dairy Company Limited	Beneficial owner	1,246,079,369 (L)[1]	17.53%
	Interest in controlled corporation (through Future Discovery Limited)	2,407,866,412 (L)[2]	33.87%
Central Huijin Investment Ltd.	Interest in controlled corporation (through BOCI Financial Products Limited)	543,553,596 (L) 542,053,596 (S)	7.65% 7.63%
	Interest in controlled corporation (through Nam Tung (Macao) Investment Limited)	1,500,000 (L)	0.02%

Name of Shareholders	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding interest(3)
Bank of China Limited	Interest in controlled corporation (through BOCI Financial Products Limited	542,053,596 (L) 542,053,596 (S)	7.63% 7.63%
	Interest in controlled corporation (through Nam Tung (Macao) Investment Limited)	1,500,000 (L)	0.02%
BOC International Holdings Limited	Interest in controlled corporation (through BOCI Financial Products Limited)	542,053,596 (L) 542,053,596 (S)	7.63% 7.63%
BOCI Financial Products Limited	Beneficial interest	542,053,596 (L) 542,053,596 (S)	7.63% 7.63%
New Hope Dairy Co., Ltd.	Interest in controlled corporation (through GGG Holdings Limited)	635,345,763 (L)	8.94%
New Century Ltd.	Interest in controlled corporation (through GGG Holdings Limited)	635,345,763 (L)	8.94%
Liu Chang	Interest in controlled corporation (through GGG Holdings Limited)	635,345,763 (L)	8.94%

Notes:

1. 613,877,227 Shares have been lent to BOCI Financial Products pursuant to a securities lending agreement dated June 17, 2020 entered into between Mengniu as lender and BOCI Financial Products as borrower. As of the Latest Practicable Date, the number of Shares that had been lent to BOCI Financial Products has decreased to 542,053,596.

2. Future Discovery is a subsidiary of Mengniu.

3. Based on 7,108,565,947 Shares in issue as of the Latest Practicable Date.

4. (S) denotes a short position.

5. (L) denotes a long position.

DIRECTORS' SERVICE CONTRACT

The Company has entered into (i) a service agreement with Ms. GAO Lina on October 29, 2019 for a term of three years; and (ii) a service agreement with Mr. SUN Yugang on April 1, 2020 for a term of three years. Pursuant to their respective service agreements, no fixed amount of remuneration is payable to Ms. GAO Lina or Mr. SUN Yugang in respect of their service as Directors, and they are entitled to participate in all employee award scheme(s) adopted by the Company and enjoy all benefits and welfare (such as health care) enjoyed by all the other employees of the Company.

Saved as disclosed above, as at the Latest Practicable Date, (i) none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which would not expire or was not determinable within one year without payment of compensation, other than statutory compensation; (ii) there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which (including both continuous and fixed term contracts) had been entered into or amended within the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date; (iii) there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are continuous contracts with a notice period of 12 months or more; and (iv) there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are fixed term contracts with more than 12 months to run irrespective of the notice period.

DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT

Modern Farming, an indirect non-wholly owned subsidiary of the Company, entered into the Framework Supply Agreement with Fuyuan, pursuant to which the Company agreed to purchase feedstuffs from Fuyuan. The term of the Framework Supply Agreement will expire on December 31, 2022. As of the Latest Practicable Date, Mengniu indirectly held 43.35% equity interest in Fuyuan.

In addition, Inner Mongolia Mengniu, a 99.99% owned subsidiary of Mengniu entered into an off-take agreement with Modern Farming on October 24, 2008 (the "**Off-Take Agreement**"), pursuant to which Inner Mongolia Mengniu agreed to purchase raw milk from Modern Farming for a term of ten years, which had been automatically extended for another ten years until October 23, 2028.

As of the Latest Practicable Date, each of Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun and Mr. WOLHARDT Julian Juul was either a director of or held senior positions at Mengniu, and each of Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun and Ms. GAO Lina held interest in Mengniu (see section headed "Disclosure of Interests – Interest in Associated Corporation"), and therefore, they were considered to have material interest in the transactions contemplated under the Framework Supply Agreement and the Off-Take Agreement.

Save as disclosed above, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date and which was significant in relation to the business of the Group.

DIRECTORS' INTERESTS IN ASSETS

Since December 31, 2020, being the date to which the latest published audited financial statements of the Group were made up, save for Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun, and Mr. WOLHARDT Julian Juul who were considered to have material interest in the Acquisition, none of the Directors or proposed Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Directors named in the paragraphs below have interests in businesses, which are considered to compete or likely to compete, either directly or indirectly, with the businesses of the Group as of the Latest Practicable Date.

As mentioned above, each of Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun and Mr. WOLHARDT Julian Juul held offices in Mengniu, and each of Mr. LU Minfang, Mr. ZHANG Ping, Mr. ZHAO Jiejun and Ms. GAO Lina held interest in Mengniu as of the Latest Practicable Date. Mengniu is a substantial shareholder of the Company and is engaged in the dairy industry.

The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, have acted and will continue to act in the best interests of the Group.

Save as disclosed above, none of the Directors or their respective close associates had any interest in any company or business which competes or may compete with the business of the Group as of the Latest Practicable Date.

5. LITIGATION

As of the Latest Practicable Date, neither the Company nor any of its subsidiaries have been engaged in any litigation or claims of material importance and, so far as the Directors are aware, there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. DISCLOSURE OF SHAREHOLDINGS AND DEALINGS PURSUANT TO THE TAKEOVERS CODE

As of the Latest Practicable Date:

(a) the Company did not hold, control or have any direction over any shares and any options, warrants, derivatives or convertible securities in respect of Mengniu, or its concert parties, and it had not dealt for value in any such securities of Mengniu or its concert parties during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date;

(b) none of the directors of Mengniu was interested in the shareholdings in the Company, and they have not dealt for value in any securities of the Company during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date;

(c) save as disclosed in the paragraph headed "INTEREST IN ASSOCIATED CORPORATION" in this appendix, none of the Directors was interested in the shareholdings in Mengniu, or its concert parties during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date;

(d) save as disclosed below, none of the Directors have dealt for value in any such securities of Mengniu, or its concert parties during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date;

Name of Director	**Date**	**Number of shares purchased**	**Price per share**
			(HK$)
Ms. GAO Lina	March 8, 2021	43,000	39.95

(e) none of the subsidiaries of the Company, pension fund of the Company or of a subsidiary of the Company and any advisers to the Company (as specified in class (5) of the definition of acting in concert or class (2) of the definition of associate in the Takeovers Code but excluding exempt principal traders and exempt fund managers) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

(f) neither the Company nor any Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into Shares;

(g) no person has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert" or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code; and

(h) no Shares or any convertible securities, warrants, option or derivatives of the Company was managed on a discretionary basis by fund managers connected with the Company, and no such person had dealt in the Share or any convertible securities, warrants, options or derivatives issued by the Company.

7. ARRANGEMENT IN CONNECTION WITH THE ACQUISITION AND THE WHITEWASH WAIVER

As of the Latest Practicable Date:

(a) there was no agreement, arrangement or understanding (including any compensation arrangement) between Mengniu or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Acquisitions and/or the Whitewash Waiver;

(b) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Acquisition and/or the Whitewash Waiver;

(c) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Acquisition and/or the Whitewash Waiver; and

(d) there was no material contract entered into by Mengniu in which any Director has a material personal interest.

8. MATERIAL CONTRACTS

In addition to the Sale and Purchase Agreement, the Group had entered into the following material contracts during the 2 years immediately before the date of the Announcement and up to and including the Latest Practicable Date, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries:

(a) On July 18, 2019, the Company entered into the subscription agreement with New Hope pursuant to which the Company has conditionally agreed to allot and issue, and New Hope or its designated subsidiary has conditionally agreed to subscribe for 276,228,409 subscription shares at the subscription price of RMB1.1920 (HK$1.3535) per subscription share for a total consideration of RMB329,264,000.

(b) On August 23, 2019, Modern Farming, non-wholly owned subsidiary of the Company, and Jiangsu Agriculture entered into a joint venture agreement in relation to the formation of Jiangyin Dairy Energy, pursuant to which Modern Farming agreed to contribute RMB168,000,000 for 30% equity interests in Jiangyin Dairy Energy.

(c) On December 31, 2019, Modern Farming and Jiangyin Dairy Energy entered into two share transfer agreements (the "**Transfer Agreements**"), pursuant to which Modern Farming agreed to sell, and Jiangyin Dairy Energy agreed to acquire, the entire equity interests in Wuhe Energy and Hefei Energy, the wholly-owned subsidiaries of Modern Farming, at an aggregate cash consideration of RMB148,124,000.

(d) On January 20, 2021, the Company entered into a placing agreement with China International Capital Corporation Hong Kong Securities Limited and CMB International Capital Limited (collectively, the "**Placing Managers**"), pursuant to which the Placing Managers agreed to act as placing agent for procuring purchasers to purchase 650,000,000 new Shares at the price of HK$2.40 per Share.

(e) On April 8, 2021, Modern Farming, non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Zhongyuan SPA**") with, amongst others, the seller, Asia Dairy Fab Ltd.* (中博農畜牧科技股份有限公司), to acquire 100% equity interests in Zhongyuan Muye Company Limited* (中元牧業有限公司) ("**Zhongyuan**") at a consideration of no more than RMB815,246,680 (subject to adjustment in accordance with the terms of the Zhongyuan SPA).

9. MATERIAL ACQUISITION AND DISPOSALS

On April 8, 2021, Modern Farming, a non-wholly owned subsidiary of the Company, entered into the Zhongyuan SPA with, amongst others, the seller, Asia Dairy Fab Ltd.* (中博農畜牧科技股份有限公司), to acquire 100% equity interests in Zhongyuan at a consideration of no more than RMB815,246,680 (subject to adjustment in accordance with the terms of the Zhongyuan SPA). The consideration will be funded by a combination of internal resources of the Group and external financing.

Zhongyuan is a company incorporated with limited liability under the laws of the PRC, and is principally engaged in cow breeding, farms management and operation, milk production and sale, meat processing and sale, forage grass planting and sale, livestock breeding technology development, as well as import and export of products and technology. As of the date of the Zhongyuan SPA, the main assets of Zhongyuan include an ecological farm, with a land area of approximately 1,940 acres and breeding capacity of 22,000 dairy cows, and more than 17,000 dairy cows.

Please refer to the announcement of the Company dated April 8, 2021 for further details of the Zhongyuan SPA and the acquisition contemplated thereunder.

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of the acquisition of Zhongyuan.

Save as disclosed in this circular, after the date to which the latest published audited accounts of the Group have been made up, the Group has not acquired or disposed, or agreed to acquire or dispose, or is proposing to acquire or dispose a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors' report or next published accounts of the Group.

10. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Ernst & Young	Certified Public Accountants
JLL	Independent Valuer
Somerley Capital Limited	Licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As of the Latest Practicable Date, each of Deloitte Touche Tohmatsu, Ernst & Young, Somerley and JLL:

(a) has given and has not withdrawn its written consent to the issue and publication of this circular with the inclusion of its name, letter, report and opinion and references to its name, letter, report and opinion in the form and context in which it appears;

(b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(c) did not have any direct or indirect interest in any assets which had been, since December 31, 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during from 9:00 a.m. to 6:00 p.m. on Monday to Friday (other than public holidays) at the Company's principal office address at Room A, 32nd Floor, COFCO Tower 262 Gloucester Road, Causeway Bay, Hong Kong and on the websites of the Company (http://www.moderndairyir.com) and the SFC (www.sfc.hk) from the date of this circular up to and including the date of the EGM:

(a) The memorandum of association and articles of association of the Company;

(b) The Sale and Purchase Agreement;

(c) The Framework Supply Agreement;

(d) The Milk Supply Agreement;

(e) The letter from the Board, the text of which is set out on pages 10 to 42 of this circular;

(f) The letter from the Listing Rules Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 43 to 44 of this circular;

(g) The letter from the Takeovers Code Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 45 to 46 of this circular;

(h) The letter from Somerley Capital Limited to the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 47 to 81 of this circular;

(i) The accountant's report on the historical financial information of the Target Group, the texts of which are set out in Appendix II to this circular;

(j) The accountant's report on the unaudited pro forma financial information of the Enlarged Group, the texts of which are set out in Appendix IV to this circular;

(k) The valuation certificate and associated valuation report on the entire equity value of Fuyuan, the texts of which are set out in Appendix V to this circular;

(l) The letter from Somerley in relation to the valuation report on the entire equity value of Fuyuan, the texts of which are set out in Appendix VI to this circular;

(m) The annual reports of the Company for each of the three years ended December 31, 2018, 2019 and 2020, respectively;

(n) The written consents referred to in the paragraphs headed "Experts and Consents" above in this Appendix;

(o) Copies of each of the service contracts referred to in the paragraphs headed "Directors' Service Contract" in this Appendix;

(p) Copies of each of the material contracts referred to in the paragraphs headed "Directors' Interests in Contract or Arrangements" and "Material Contracts" in this Appendix; and

(q) This circular.

12. GENERAL INFORMATION

(a) The company secretary of the Company is Mr. LI Kwok Fat, who is a member of both The Hong Kong Institute of Chartered Secretaries and The Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(c) The headquarter of the Company is Economic and Technological Development Zone, Maanshan City, Anhui Province, the PRC.

(d) The principal place of business in Hong Kong of the Company is Room A, 32nd Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

(e) The share registrar and transfer office in the Cayman Islands of the Company is Maples Finance Limited, PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands.

(f) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Service Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(g) The full names and addresses of Mengniu and its concert parties are as follows:

Name	**Address**
China Mengniu Dairy Company Limited, the principal member of the Mengniu Concert Group	Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands
Future Discovery Limited	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands
Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (內蒙古蒙牛乳業(集團)股份有限公司)	Shengle Economic Zone, Helingeer County, Hohhot, Inner Mongolia, the PRC

(h) In the event of inconsistency, the English text of this circular shall prevail over the Chinese version.

MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of the shareholders of China Modern Dairy Holdings Ltd. (the "**Company**") will be held at Jasmine Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Hong Kong on June 2, 2021 (Wednesday) at 9:45 a.m. (or as soon as after the annual general meeting of the Company to be held at the same place on the same date at 8:45 a.m. shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions as ordinary resolution of the Company. Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated May 14, 2021 (the "**Circular**").

ORDINARY RESOLUTIONS

Resolution in relation to the Sale and Purchase Agreement, the Acquisition and the grant of the Specific Mandate

1. "**THAT**:

   (i) the Sale and Purchase Agreement dated March 22, 2021 entered into among the Company, the Sellers and Fuyuan in relation to the acquisition of the entire equity interests (both direct and indirect) in Fuyuan, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

   (ii) the Directors be and are hereby granted the Specific Mandate to exercise the powers of the Company to allot and issue the Consideration Shares at the Issue Price of HK$2.24 per Consideration Share to Mengniu SPV pursuant to the terms and conditions of the Sale and Purchase Agreement; and the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

(iii) any one or more of the Directors be and is/are hereby authorized to do all such acts and things, to make, sign, execute and deliver such documents or agreements or deeds or instruments on behalf of the Company (and, where necessary, to affix the seal of the Company on them in accordance with the amended and restated articles of association of the Company) and to do such other things and to do and take all such actions, steps, deeds and things in such manner and to sign all documents as they may deem necessary, appropriate, desirable and expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Sale and Purchase Agreement) as are, in the opinion of such Director(s), in the interests of the Company and its shareholders as a whole."

Resolution in relation to the Whitewash Waiver

2. "**THAT** subject to and conditional upon:

(i) the passing of ordinary resolution no. 1 in this notice;

(ii) Mengniu Concert Group's interest in the Company decreases to 50% or below (but not less than 30%) at any time during the Relevant Period and the issue of the Consideration Shares pursuant to Settlement Scenario I has the effect of increasing Mengniu Concert Group's holding of voting rights in the Company by more than 2% from the lowest collective percentage holding of Mengniu Concert Group in the Company during the Relevant Period; and

(iii) the granting of the waiver by the Executive of any obligation on the part of Mengniu to make a mandatory general offer to the Shareholders for all the issued Shares not already owned or agreed to be acquired by Mengniu and parties acting in concert with it which might otherwise arise pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code (the "**Whitewash Waiver**") as a result of Mengniu's subscription for the Consideration Shares through Mengniu SPV pursuant to Settlement Scenario I under the Sale and Purchase Agreement, and the satisfaction of any conditions that may be imposed thereon,

the Whitewash Waiver be and is hereby approved, and that any one or more of the Directors be and is/are authorized to do all such acts and things and execute all such documents, agreements or deeds on behalf of the Company as such Director(s) consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver."

Yours faithfully,
For and on behalf of the Board,
China Modern Dairy Holdings Ltd.
Ms. GAO LINA
Vice Chairman and Chief Executive Officer

Hong Kong, May 14, 2021

Notes:

1. Mengniu Concert Group, BOCI Financial Products, Jinmu, Ms. GAO Lina and Mr. SUN Yugang and any other Shareholder who has a material interest in, is interested in or is involved in the Sale and Purchase Agreement, the Acquisition, the issue of the Consideration Shares under Specific Mandate and the transactions contemplated thereunder will be required to abstain from voting in respect of ordinary resolution no. 1.

2. Under the Takeovers Code, ordinary resolution no. 2 in relation to the Whitewash Waiver shall be approved by at least 75% of the independent vote (as defined in the Takeovers Code) cast either in person or by proxy by the Takeovers Code Independent Shareholders at the EGM.

3. Mengniu Concert Group, BOCI Financial Products, Jinmu, Ms. GAO Lina and Mr. SUN Yugang and any other Shareholder who has a material interest in, is interested in or is involved in the Whitewash Waiver will be required to abstain from voting in respect of ordinary resolution no. 2.

4. Pursuant to the rules relating to the share award scheme of the Company adopted on March 26, 2018, the trustee, Dairy Fortune (PTC) Limited, will abstain from voting in respect of ordinary resolutions no. 1 and no. 2.

5. Any member of the Company entitled to attend and vote at the EGM by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

6. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be delivered to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

   Completion and delivery of the proxy form will not preclude any member from attending and voting in person at the meeting or any adjourned meeting should he so wish. In such event, the proxy form previously submitted shall be deemed to be revoked.

7. In case of joint shareholding, the senior joint shareholder, whether in person or by proxy, will alone be entitled to vote, with his/her vote being accepted to the exclusion of the votes of any other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.

8. Shareholders whose names appear on the register of members of the Company on June 2, 2021 (Wednesday) are entitled to attend and vote at the EGM. The register of members of the Company will be closed from May 28, 2021 (Friday) to June 2, 2021 (Wednesday), both days inclusive, and during such period no share transfer will be registered. In order to qualify for voting at the meeting convened by the above notice, properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on May 27, 2021 (Thursday), for registration.

9. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

10. If typhoon signal no. 8 or above remains hoisted or a black rainstorm warning signal is in force at 8:45 a.m. on the date of the meeting by the above notice, the meeting will be postponed or adjourned. Shareholders are requested to visit the Company's website (http://www.moderndairyir.com) and Hong Kong Exchanges and Clearing Limited's website (www.hkex.com.hk) for details of alternative meeting arrangements.

    The meeting by the above notice will be held as scheduled when an amber or a red rainstorm warning signal is in force. Shareholders should make their own decision as to whether they would attend the meeting under the bad weather conditions bearing in mind their own situation and if they should choose to do so, they are advised to exercise care and caution.

11. As of the date hereof, the executive directors are Ms. GAO Lina and Mr. SUN Yugang, the non-executive directors are Mr. LU Minfang (Chairman), Mr. ZHANG Ping, Mr. ZHAO Jiejun and Ms. GAN Lu, and the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai, Conway and Mr. WOLHARDT Julian Juul.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

(1) Compulsory body temperature screening/checks

(2) Submission of health declaration form

(3) Wearing of surgical face mask

(4) No provision of refreshments or distribution of corporate gift

(5) Maintenance of appropriate distancing and spacing

Attendees who do not comply with the precautionary measures (1) to (3) above or is subject to any HKSAR Government prescribed quarantine may be denied entry to the meeting venue of the EGM, at the absolute discretion of the Company as permitted by law.

For the health and safety of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person.

Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish.