# 優然牧業
# YOURAN DAIRY

**China Youran Dairy Group Limited**
**中國優然牧業集團有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9858

# GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

华泰国际 HUATAI INTERNATIONAL    CREDIT SUISSE

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

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Joint Bookrunners and Joint Lead Managers

HSBC 滙豐    交銀國際 BOCOM International    中信建投國際 CHINA SECURITIES INTERNATIONAL    ICBC 工银国际    富途證券

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

優然牧業
YOURAN DAIRY

# China Youran Dairy Group Limited
# 中國優然牧業集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

## GLOBAL OFFERING

| | | |
|---|---|---|
| **Total number of Offer Shares under the Global Offering** | : | **715,435,000 Shares (comprising 493,404,000 new Shares and 222,031,000 Sale Shares, and subject to the Over-allotment Option)** |
| **Number of Hong Kong Public Offer Shares** | : | **71,544,000 Shares (subject to reallocation)** |
| **Number of International Offer Shares** | : | **643,891,000 Shares (comprising 421,860,000 new Shares and 222,031,000 Sale Shares, and subject to reallocation and the Over-allotment Option)** |
| **Maximum Offer Price** | : | **HK$8.66 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)** |
| **Nominal value** | : | **US$0.00001 per Share** |
| **Stock code** | : | **9858** |

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "1. Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and our Company (for ourselves and on behalf of the Selling Shareholders) on or before Thursday, June 10, 2021 or such later time as may be agreed between the parties, but in any event, no later than Friday, June 11, 2021. If, for any reason, the Joint Global Coordinators, on behalf of the Underwriters, and our Company (for ourselves and on behalf of the Selling Shareholders) are unable to reach an agreement on the Offer Price by Friday, June 11, 2021, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK$8.66 per Share and is expected to be not less than HK$6.98 per Share although the Joint Global Coordinators, on behalf of the Underwriters, and our Company (for ourselves and on behalf of the Selling Shareholders) may agree to a lower price.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, and in particular, the risk factors set out in the section headed "Risk Factors."

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Hong Kong Public Offering, the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, have the right in certain circumstances, in their absolute discretion, to terminate the obligation of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting – Grounds for Termination." It is important that you refer to that section for further details.

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

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. This document is available at the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our website at **www.yourandairy.com**. If you require a printed copy of this document, you may download and print from the website addresses above.

June 7, 2021

**IMPORTANT NOTICE TO INVESTORS:**
**FULLY ELECTRONIC APPLICATION PROCESS**

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.**

**This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at www.yourandairy.com**. If you require a printed copy of this document, you may download and print from the website addresses above.

To apply for the Hong Kong Public Offer Shares, you may:

(1) apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**) or at **www.hkeipo.hk**; or

(2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

i. instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf; or

ii. (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Public Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar, Tricor Investor Services Limited, at +852 3907 7333 on the following dates:

| | | |
|---|---|---|
| **Monday, June 7, 2021** | **–** | **9:00 a.m. to 9:00 p.m.** |
| **Tuesday, June 8, 2021** | **–** | **9:00 a.m. to 9:00 p.m.** |
| **Wednesday, June 9, 2021** | **–** | **9:00 a.m. to 9:00 p.m.** |
| **Thursday, June 10, 2021** | **–** | **9:00 a.m. to 12:00 noon** |

We will not provide any physical channels to accept any application for the Hong Kong Public Offer Shares by the public. The contents of the electronic version of this document are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

Please refer to the section headed "How to apply for Hong Kong Public Offer Shares" in this document for further details of the procedures through which you can apply for the Hong Kong Public Offer Shares electronically.

Your application must be for a minimum of 1,000 Hong Kong Public Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

| No. of Hong Kong Public Offer Shares applied for | Amount payable on application | No. of Hong Kong Public Offer Shares applied for | Amount payable on application | No. of Hong Kong Public Offer Shares applied for | Amount payable on application | No. of Hong Kong Public Offer Shares applied for | Amount payable on application |
|---|---|---|---|---|---|---|---|
| | *HK$* | | *HK$* | | *HK$* | | *HK$* |
| 1,000 | 8,747.26 | 25,000 | 218,681.68 | 300,000 | 2,624,180.05 | 6,000,000 | 52,483,600.92 |
| 2,000 | 17,494.54 | 30,000 | 262,418.00 | 400,000 | 3,498,906.73 | 7,000,000 | 61,230,867.74 |
| 3,000 | 26,241.80 | 35,000 | 306,154.34 | 500,000 | 4,373,633.41 | 8,000,000 | 69,978,134.56 |
| 4,000 | 34,989.07 | 40,000 | 349,890.67 | 600,000 | 5,248,360.09 | 9,000,000 | 78,725,401.38 |
| 5,000 | 43,736.34 | 45,000 | 393,627.01 | 700,000 | 6,123,086.77 | 10,000,000 | 87,472,668.20 |
| 6,000 | 52,483.60 | 50,000 | 437,363.34 | 800,000 | 6,997,813.46 | 20,000,000 | 174,945,336.40 |
| 7,000 | 61,230.87 | 60,000 | 524,836.01 | 900,000 | 7,872,540.14 | 30,000,000 | 262,418,004.60 |
| 8,000 | 69,978.13 | 70,000 | 612,308.68 | 1,000,000 | 8,747,266.82 | 35,772,000[1] | 312,907,228.69 |
| 9,000 | 78,725.40 | 80,000 | 699,781.35 | 2,000,000 | 17,494,533.64 | | |
| 10,000 | 87,472.67 | 90,000 | 787,254.01 | 3,000,000 | 26,241,800.46 | | |
| 15,000 | 131,209.01 | 100,000 | 874,726.68 | 4,000,000 | 34,989,067.28 | | |
| 20,000 | 174,945.34 | 200,000 | 1,749,453.36 | 5,000,000 | 43,736,334.10 | | |

(1) Maximum number of Hong Kong Public Offer Shares you may apply for.

No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

*If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published on the Company's website at **www.yourandairy.com** and the website of the Stock Exchange at **www.hkexnews.hk**.*

Hong Kong Public Offering commences . . . . . . . . . . . . . . . . . . . . . . .9:00 a.m. on Monday, June 7, 2021

Latest time to complete electronic applications under the **HK eIPO White Form** service through one of the below ways[2]:

(1) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
(2) the designated website **www.hkeipo.hk** . . . . . . . . . . . . . . . . .11:30 a.m. on Thursday, June 10, 2021

Application lists open[3] . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .11:45 a.m. on Thursday, June 10, 2021

Latest time for (a) giving **electronic application instructions** to HKSCC and (b) completing payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)[4] . . . . . . . . . . . . . . . . . . .12:00 noon on Thursday, June 10, 2021

If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close[3] . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .12:00 noon on Thursday, June 10, 2021

Expected Price Determination Date[5] . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Thursday, June 10, 2021

Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, and the basis of allocation in the Hong Kong Public Offering to be published on the website of the Stock Exchange at **www.hkexnews.hk** and the Company's website at **www.yourandairy.com**[6] on or before[8] . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Thursday, June 17, 2021

Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels. (see the section headed "How to Apply for Hong Kong Public Offer Shares – Publication of results" in this prospectus) from[8] . . . . . . . . . . . . Thursday, June 17, 2021

Results of allocations in the Hong Kong Public Offering will be available at the "IPO Results" function in the **IPO App** or at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function from[8] . . . . . . . . . . . . . . . . . . . . Thursday, June 17, 2021

Dispatch/Collection of Share certificates or deposit of Share certificates into CCASS and Dispatch/Collection of refund cheques/ **HK eIPO White Form** e-Auto Refund payment instructions (if applicable) on or before[7][8] . . . . . . . . . . . . . . . . . . . . . . . . . Thursday, June 17, 2021

Dealings in the Shares on the Stock Exchange expected to commence at[8] . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 9:00 a.m. on Friday, June 18, 2021

*Notes:*

(1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates.

(2) You will not be permitted to submit your application under the **HK eIPO White Form** service in the **IPO App** or on the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 10, 2021, the application lists will not open and will close on that day. Further information is set out in the section headed "How to Apply for Hong Kong Public Offer Shares – 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Public Offer Shares – 6. Applying through the CCASS EIPO Service" in this prospectus.

(5) The Price Determination Date is expected to be on or about Thursday, June 10, 2021, and in any event, not later than Friday, June 11, 2021. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or before Friday, June 11, 2021, the Global Offering will not proceed and will lapse.

(6) None of the websites or any of the information contained on the websites forms part of this prospectus.

(7) Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Thursday, June 17, 2021, but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects prior to 8:00 a.m. on Friday, June 18, 2021. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and in respect of successful applicants in the event that the final Offer Price is less than the price payable per Offer Share on application.

(8) In case a typhoon warning signal no.8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Monday, June 7, 2021 to Friday, June 18, 2021, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Public Offer Shares, please refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus, respectively.

# CONTENTS

***This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.***

***You should note that we completed the acquisition of SKX on January 8, 2020. See the section headed "History, Reorganization and Group Structure" in this prospectus for more information on such transaction. Therefore, unless otherwise stated, the historical results of operations and financial position of our Group for the years ended December 31, 2018 and 2019 presented and discussed in this prospectus only include the data of Youran for such periods and do not include the data of SKX, whereas the historical results of operations and financial position of our Group for the year ended December 31, 2020 include the data of Youran for such period and the data of SKX from January 8, 2020 to December 31, 2020. In addition, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020 to acquire 100% equity interest of Fonterra China Farms Group and completed such acquisition on April 1, 2021. Unless otherwise stated, the results of operations and financial position of Fonterra China Farms Group have not been consolidated into the results of operations and financial position of our Group during the Track Record Period.***

## BUSINESS OVERVIEW

We are a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

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

| Business Segments | Business Lines | Business Highlights |
|---|---|---|
| **Raw milk** | Raw milk business | We provide raw milk to large-scale dairy manufacturers for further processing into premium dairy products. China's raw milk supply market is highly fragmented with the top five industry players accounting for only 8.1% and 14.1% market share in terms of herd size as of December 31, 2020 and raw milk production volume for the year of 2020, respectively, among which we ranked first with a market share of 2.9% and 4.5%, respectively, according to Frost & Sullivan. For the years ended December 31, 2018, 2019 and 2020, Yili contributed RMB2,393.1 million, RMB2,845.4 million and RMB6,701.4 million to our revenue generated from sales of raw milk, representing 91.7%, 92.9% and 95.8% of our revenue generated from raw milk, respectively. |

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

| Business Segments | Business Lines | Business Highlights |
|---|---|---|
| **Comprehensive ruminant farming solutions** | Feed business | We provide nutritious concentrated feed and forage grass for dairy farms that meet the demands of ruminants for their growth and production, and offer ancillary ruminant farming support services, such as ruminant nutrition, breeding technique, and ruminant healthcare, free of charge. According to Frost & Sullivan, China's ruminant feed market is highly fragmented. The top five providers of concentrated feed for ruminants in China in terms of sales volume accounted for an aggregate of 19.2% market share in 2020, among which we are the largest concentrated feed provider for ruminants, with a market share of 5.8%. In addition, we are also a leading supplier of forage grass, mainly alfalfa hay and oat grass, in China in 2020. According to Frost & Sullivan, the top five alfalfa hay suppliers in China in terms of sales volume accounted for an aggregate of 10.4% market share in 2020, among which we had a largest market share of 3.2%. For the years ended December 31, 2018, 2019 and 2020, the customers that supplied raw milk to Yili contributed RMB2,896.1 million, RMB3,048.9 million and RMB3,088.8 million to our revenue generated from the comprehensive ruminant farming solutions, representing 77.8%, 66.2% and 64.5% of the revenue generated from the comprehensive ruminant farming solutions, respectively. |

| Business Segments | Business Lines | Business Highlights |
|---|---|---|
| | Breeding business | We provide dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas through our subsidiary, SKX. SKX is the largest dairy breeding company in China in terms of sales volume of frozen bovine semen for dairy cattle in 2019, with a market share of 9.5%, according to Frost & Sullivan. |
| | Ruminant farming products marketplace business | We provide ruminant farming products purchased from selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, through our online retail platform, *Jumuc.com*, and offline pick-up stores, to diversify our product offerings and further address our customers' business needs. |

During the Track Record Period, we recorded steady financial growth. Our revenue grew from RMB6,333.9 million for the year ended December 31, 2018 to RMB7,667.8 million for the year ended December 31, 2019 and further to RMB11,781.2 million for the year ended December 31, 2020 (on a consolidated post-SKX Acquisition basis), with a CAGR of 36.4% from 2018 to 2020. Our net profit was RMB652.9 million, RMB801.9 million and RMB1,540.6 million for the years ended December 31, 2018, 2019 and 2020 (on a consolidated post-SKX Acquisition basis), respectively, rising with a CAGR of 53.6% from 2018 to 2020.

The following table sets forth our revenue and gross profit by business segment and by customer type, in an absolute amount and as a percentage of the total revenue, for the periods indicated.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | | % | | % | | % |
| | *(RMB'000, except for percentages)* | | | | | |
| **Revenue** | | | | | | |
| Raw milk | 2,610,333 | 41.2 | 3,063,615 | 40.0 | 6,994,592 | 59.4 |
| – Yili | 2,393,105 | 37.8 | 2,845,380 | 37.1 | 6,701,441 | 56.9 |
| – Other customers | 217,228 | 3.4 | 218,235 | 2.8 | 293,151 | 2.5 |

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | | % | | % | | % |
| | (RMB'000, except for percentages) | | | | | |
| Comprehensive ruminant farming solutions | 3,723,587 | 58.8 | 4,604,203 | 60.0 | 4,786,603 | 40.6 |
| – Yili | 70 | 0.0 | – | – | 27 | 0.0 |
| – Customers who also supplied raw milk to Yili | 2,896,064 | 45.7 | 3,048,944 | 39.8 | 3,088,803 | 26.2 |
| – Other customers | 827,452 | 13.1 | 1,555,259 | 20.3 | 1,697,773 | 14.4 |
| **Total** | 6,333,920 | 100.0 | 7,667,818 | 100.0 | 11,781,195 | 100.0 |
| **Gross Profit** | | | | | | |
| Raw milk | 1,060,119 | 68.6 | 1,278,980 | 67.8 | 2,994,529 | 83.1 |
| – Yili | 976,542 | 63.2 | 1,195,912 | 63.4 | 2,875,505 | 79.8 |
| – Other customers | 83,577 | 5.4 | 83,067 | 4.4 | 119,024 | 3.3 |
| Comprehensive ruminant farming solutions | 485,572 | 31.4 | 607,280 | 32.2 | 608,663 | 16.9 |
| – Yili | – | – | – | – | 7 | 0.0 |
| – Customers who also supplied raw milk to Yili | 418,300 | 27.1 | 405,043 | 21.5 | 435,581 | 12.1 |
| – Other customers | 67,272 | 4.4 | 202,237 | 10.7 | 173,075 | 4.8 |
| **Total** | 1,545,691 | 100.0 | 1,886,260 | 100.0 | 3,603,192 | 100.0 |

## OUR BUSINESS

### Raw milk business

We provide raw milk to large-scale dairy manufacturers for further processing into premium dairy products. In 2020, revenue from our raw milk business accounted for 59.4% of our total revenue. As of December 31, 2020, we had 67 dairy farms in operation with 308,195 dairy cows, on a consolidated post-SKX Acquisition basis. In addition, as of December 31, 2020, we had eight dairy farms under construction, which are expected to commence operation within the next two years. Most of our dairy farms are located in the Golden Raw Milk Belt, a geographic area spanning from 40 to 50 degrees north latitude, which is an ideal latitude zone for dairy farming and quality raw milk production. We also strategically locate our dairy farms to accommodate demands of our downstream customers to ensure freshness of raw milk and convenient transportation. During the Track Record Period, our raw milk production volume and average milk yield per milkable cow had continuously improved. Raw milk production volume of Youran increased from 670,196 tons in 2019 to 860,413 tons in 2020. Annualised average milk yield per milkable cow of Youran (excluding Jerseys) increased from 10.4 tons in 2019 to 11.0 tons in 2020. Our advanced management and operating capabilities for raw milk business also enabled us to quickly integrate the raw milk business of SKX and improve its operation. Through dispatching talents and experts, applying advanced management practices and standards such as TPM, feeding SKX's dairy cows with superior feed catering to their specific demands and conditions and upgrading equipment and facilities deployed at SKX's dairy farms to improve cow comfort, we have largely improved raw milk production volume of SKX since the SKX Acquisition. Raw milk production volume of SKX increased from 617,775 tons in 2019 to 714,541 tons in 2020. Annualised average milk yield per milkable cow of SKX increased from 9.0 tons in 2019 to 10.0 tons in 2020.

We offer a variety of raw milk products. In addition to our premium raw milk, we also offer specialty raw milk, such as jersey milk, DHA milk, A2 milk and organic milk. We continue to develop and expand our specialty raw milk offerings though a variety of advanced and practical techniques and means to meet customers' growing demand for specialty raw milk. We introduce overseas purebred Jerseys and conduct researches on their scientific breeding methods and nutritional requirements to produce high protein-content, good-tasting Jersey milk; we study the metabolism mechanism of DHA in cows and use coating techniques to make DHA efficiently absorbed and converted into raw milk rich in DHA; we select cows with A2β-casein gene using genetic testing and raise them scientifically to produce A2 milk containing A2β-casein; and we follow the laws of nature during the farming processes, pay attention to animal welfare and health, and adopt raising and farming management practices that meet the natural behavior and living conditions of animals to produce organic milk as certified by China and the EU standards. Our revenue from specialty raw milk has been steadily increasing since we commenced to sell specialty raw milk. In 2020, our revenue from specialty raw milk sales accounted for 30.9% of our total revenue from raw milk sales.

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

The following tables set forth certain key operating data with respect to our raw milk business for the periods and as of the dates indicated:

| | For the year ended/as of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| Number of dairy farms | 38 | 40 | 67 |
| Number of dairy cows *(in heads)* | 127,345 | 152,037 | 308,195 |
| Raw milk production volume of Youran *(in tons)* | 588,558 | 670,196 | 860,413 |
| Raw milk production volume of SKX *(in tons)* | 571,426 | 617,775 | 714,541 |
| Annualised average milk yield per milkable cow of Youran (excluding Jerseys) *(in tons)* | 10.0 | 10.4 | 11.0 |
| Annualised average milk yield per milkable cow of SKX *(in tons)* | 8.6 | 9.0 | 10.0 |

**Feed business**

We have accumulated extensive knowledge of ruminant nutrition from nearly 40 years of business operations and research history, which, together with our own dairy farming experience, enables us to gain deep insights into nutritional needs of ruminants. We strive to provide high-quality and customized comprehensive ruminant farming solutions to dairy farms. In the year ended December 31, 2020, revenue from our feed business accounted for 37.3% of our total revenue. As one of a select number of companies in the upstream dairy industry in China that have their own proprietary research and development technologies and teams, we evaluate ruminant nutrient requirements and supply based on the identification of specific conditions, such as ruminant species, ages, life cycles, seasonality, specific demands at each stage and overall production performance and life span; we take into consideration customers' demands of production, and we have built a leading ruminant nutrient database in China. We are one of a select number of companies focusing on both ruminant farming and feed studies in China. Our huge ruminant herd size provided experimental basis for the development of new products and allowed us to detect feed performance and conduct the research and development of high-quality and characterized feed products.

We offer a wide selection of high-quality concentrated feed spanning the full lifecycle of dairy cows, beef cattle, sheep, dairy goats and other ruminants. As of the Latest Practicable Date, we operated seven feed mills and cooperated with five third-party feed manufacturers. In 2020, we achieved total concentrated feed production volume of 1,013,886 tons. As of the end of 2020, we provided leading comprehensive ruminant farming solutions to over 500 dairy farms in China, serving over 1 million ruminants. Our leading systematic dairy farming services include farm planning and design, data analysis, performance analysis, precise nutrition, efficient breeding, milking hall management and epidemic prevention, which can promote and improve the performance and efficiency of farming.

We also supply value-for-money forage grass, mainly alfalfa hay and oat grass, to dairy farm customers through large-scale forage grass growing and trading. According to Frost & Sullivan, we had the largest market share of 3.2% in China in 2020 in terms of sales volume of alfalfa hay, our major type of forage grass. In addition, we imported 258,657 tons of alfalfa hay in 2020, which made us the biggest alfalfa hay importer in China.

**Breeding business**

We provide dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle in China and overseas through our subsidiary, SKX. SKX is the largest dairy breeding company in China in terms of sales volume of frozen bovine semen for dairy cattle in 2019, with a market share of 9.5%, according to Frost & Sullivan. Through our controlling interest in SKX, we have obtained leading cow genetic improvement and sex-sorting technologies, high-quality breeding bulls and a strong research and development team. We carry out dairy breeding business mainly in China, while we cooperate with frozen semen production bases in the United States to conduct research and development. We are one of a select of breeding companies in China that operates an overseas bull station. By virtue of our strengths in breeding and reproduction, we continue to improve the genetic merits of our own dairy herds, and enhance the overall genetic traits of dairy herds in China.

## OUR CUSTOMERS

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

The following table sets forth certain information about our customers:

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

The top five customers of our Group contributed to 47.6%, 50.4% and 62.6% of our total revenue in 2018, 2019 and 2020, respectively.

During the Track Record Period, we had 20, 37 and 49 customers for our raw milk business in 2018, 2019 and 2020, respectively, among which Yili was our largest customer during all these relevant periods. In 2018, 2019 and 2020, we derived revenue of RMB2,393.1 million, RMB2,845.4 million and RMB6,701.4 million from sales of raw milk to Yili, accounting for 91.7%, 92.9% and 95.8% of our revenues generated from raw milk during the same periods, whereas substantially all of the remaining portion of such revenues were contributed by our top five customers for raw milk business (excluding Yili).

For further details, please refer to the section headed "Business – Our Customers" in this prospectus.

## OUR RELATIONSHIP WITH YILI

Founded in 1984, we were a subsidiary of Yili, the world's fifth largest* and fast-growing dairy manufacturer, until PAG invested in us in 2015, which constituted a deemed disposal by Yili. The dairy industry has a long value chain and the required strengths and competence for upstream and downstream participants are distinct and different – technical excellence in dairy farming is required for upstream suppliers whereas competence in branding and sales channel management is required for downstream market players. Hence, the separation of our Group from Yili in 2015 could enhance the operational efficiencies of each of Yili and our Group by allowing each of Yili and our Group to focus on their respective business areas, to further develop their respective strengths, and to respond more quickly and effectively to changes in their respective markets. Yili has remained as one of our Controlling Shareholders since our inception and our Company was owned as to 40.0% by Yili as of the Latest Practicable Date.

### Mutually beneficial and complementary relationship with Yili

We have maintained a long-term and stable relationship with Yili.

During the Track Record Period, we had 20, 37 and 49 customers for our raw milk business in 2018, 2019 and 2020, respectively, among which Yili was our largest customer during all these relevant periods. In 2018, 2019 and 2020, we derived revenue of RMB2,393.1 million, RMB2,845.4 million and RMB6,701.4 million from sales of raw milk to Yili, accounting for 91.7%, 92.9% and 95.8% of our revenues generated from raw milk during the same periods, whereas substantially all of the remaining portion of such revenues were contributed by our top five customers for raw milk business (excluding Yili). During the Track Record Period, substantially all of our revenue from raw milk business was generated from Yili, which was consistent with the industry norm of the dairy industry in China, according to Frost & Sullivan. Our Company has entered into a framework agreement with Yili, pursuant to which our Group (including our subsidiaries from time to time) will continue to supply raw milk to Yili and its associates (the "**Raw Milk Purchase and Sale Framework Agreement**"). Whilst we will continue to reach out to new customers, the Directors are of the view that a

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

strong relationship with an industry leader such as Yili is beneficial to our business development. We will continue to strengthen our business relationship with Yili, and it is expected that in the future we will continue to sell the majority of our raw milk to Yili. Our Directors estimate that the total annual purchase amount by Yili and its subsidiaries and associates from our Group (including our subsidiaries from time to time) under the Raw Milk Purchase and Sale Framework Agreement will not exceed RMB10,100 million, RMB12,500 million and RMB15,000 million for each of the three years ending December 31, 2021, 2022 and 2023, respectively (see the section headed "Continuing Connected Transactions" for details). Hence, we expect that raw milk sales to Yili will continue to represent a significant portion of our annual sales of raw milk produced in the foreseeable future. Notwithstanding the fact that in the circumstance where the supply of raw milk exceeds its demand due to market forces beyond our control and Yili could source raw milk from other suppliers with more favorable terms than our Group, Yili is contractually bound by its Raw Milk Purchase and Sale Framework Agreement with us to purchase from our Group raw milk which our Group agrees to sell at a price not lower than the price Yili offers to other dairy farms of similar scale in nearby locations in general during the term of such framework agreement. For details, please see the section headed "Continuing Connected Transactions – B. Non-exempt continuing connected transactions – Raw Milk Purchase and Sale Framework Agreement" in this prospectus.

At the same time, Yili has been relying on us as a stable supplier of high-quality raw milk due to our strong raw milk supply capacity, robust product innovation capabilities, superior quality of our raw milk, strategic locations of dairy farms as well as our long-standing and stable relationship with Yili. Among almost a thousand of raw milk suppliers of Yili that are mostly small- and mid-sized dairy farms, we were the largest raw milk supplier in 2020, and the raw milk supplied by us accounted for not more than 25% of the total amount of raw milk purchased by Yili, while the second largest raw milk supplier of Yili only accounted for less than 7% of the total raw milk purchased by Yili. In contrast, other raw milk suppliers have smaller scales of operations than our Group and account for significantly smaller proportions of the raw milk purchased by Yili. In 2020, the aggregate amount of raw milk supplied by the top 10 raw milk suppliers of Yili (excluding our Group) only accounted for less than 20% of the total amount of raw milk purchased by Yili. From Yili's perspective, it is far more efficient to purchase raw milk from large-scale suppliers, such as our Group, than to purchase the same quantity from a large number of small-scale suppliers. In addition, the specialty raw milk that we supplied to Yili accounted for more than 90% of the total amount of specialty raw milk purchased by Yili in 2020. Furthermore, as explained in the section headed "Industry Overview" in this prospectus, China's raw milk demand has surpassed the raw milk supply for many years, so it is relatively easy for the Company to find alternative customers than it is for Yili to find alternative suppliers.

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

Although we believe that our mutually beneficial, stable and long-term business relationship with Yili has been driving and will continue to drive our business growth, there is no assurance that we would be able to maintain good business relationship with Yili. Given Yili has and will continue to represent a significant portion of our annual sales of raw milk produced, if our relationship with Yili deteriorates or is terminated, or if we fail to maintain the relationship on commercially viable terms, or if Yili breaches its Raw Milk Purchase and Sale Framework Agreement with us and does not purchase raw milk in part or entirely from our Group pursuant to the our framework agreement, the business, financial performance and prospects of our Group will be materially and adversely affected. In addition, if Yili were to fail to make timely payments, our cash flows and financial position could be adversely affected. For further details of the relevant risk, please refer to the section headed "Risk Factors – We rely on our largest customer for the sale of our raw milk".

**Entrusted Payment Arrangement**

In respect of the comprehensive ruminant farming solutions business segment of our Group, a number of customers who make purchases from our Group are also raw milk suppliers of Yili (the "**Overlapping Parties**"). Since 2013, the relevant subsidiaries of our Company, members of the Yili group and the Overlapping Parties have been entering into an entrusted payment arrangement (the "**Entrusted Payment Arrangement**") pursuant to which, the Overlapping Parties would generally enter into a tripartite agreement with Yili and us and entrust Yili to pay to our Group the amount payable by such Overlapping Parties to our Group, after which Yili shall deduct the relevant amount from the balance of the amount owed by Yili to such Overlapping Parties. For further details, please refer to the section headed "Relationships with Controlling Shareholders – Entrusted Payment Arrangement" in this prospectus.

## OUR SUPPLIERS

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

## OUR STRENGTHS

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

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

## OUR STRATEGIES

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

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

## FINANCIAL PERFORMANCE

### Summary of Financial Information of Our Group

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

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

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 6,333,920 | 7,667,818 | 11,781,195 |
| Cost of sales | (5,810,627) | (7,014,226) | (11,048,726) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 1,022,398 | 1,232,668 | 2,870,723 |
| Gross profit | 1,545,691 | 1,886,260 | 3,603,192 |
| Loss arising from changes in fair value less costs to sell of biological assets | (87,271) | (133,255) | (413,784) |
| Other income | 51,469 | 55,396 | 76,979 |
| Impairment loss under expected credit loss model, net of reversal | (1,453) | (24,761) | (45,083) |
| Other gains and losses | (35,613) | (16,046) | (54,273) |
| Fair value loss on convertible notes | – | – | (10,769) |
| Selling and distribution expenses | (271,932) | (340,687) | (453,116) |
| Administrative expenses | (421,298) | (445,453) | (744,516) |
| Other expenses | (2,311) | (26,528) | (20,030) |
| Listing expenses | – | – | (34,365) |
| Share of profit of a joint venture | – | – | 25 |
| Finance costs | (80,081) | (104,071) | (309,825) |
| Profit before tax | 697,201 | 850,855 | 1,594,435 |
| Income tax expense | (44,334) | (48,973) | (53,805) |
| Profit for the year | 652,867 | 801,882 | 1,540,630 |
| Profit for the year/period attributable to: | | | |
| Owners of the Company | 652,867 | 801,882 | 1,340,735 |
| Non-controlling interests | – | – | 199,895 |
| | 652,867 | 801,882 | 1,540,630 |

Under IFRS, agricultural produce is recognised as inventories at fair value less costs to sell at the point of harvest. The fair value is determined based on the market price quoted in the local area. The resulting gain or loss of recognition of such fair value, being the difference between (i) the fair value less costs to sell of such raw milk and (ii) the breeding costs incurred in the case of raw milk business, is recognised in profit or loss for that period. The gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest was due to the difference between the production cost of agricultural produce under the cost approach and the market price of agricultural produce at the point of harvest.

We are required under IFRS to recognize changes in fair value less costs to sell in respect of our biological assets under "Gain/(loss) arising from changes in fair value less costs to sell of biological assets". This line item represents the difference in fair value less costs to sell of our biological assets from period to period due to the changes in physical attributes, market prices and discounted future cash flows of our biological assets, in particular dairy cows which constitutes a major part of our biological assets. The fair value is measured by reference to local market selling prices or by projecting future cash flows to be generated from those cows and discounting them to a present day value. Our biological assets were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets. In arriving at the assessed value, the income approach which is a generally accepted approach has been considered. For more information about the valuation methodology, the key assumptions and inputs for the valuation of our biological assets and the sensitivity analysis on the estimated value of milkable cows, please refer to the section headed "Financial Information – Valuation of Biological Assets" in this prospectus.

In 2020, we recorded revenue of approximately RMB11,781.2 million, among which approximately RMB2,959.8 million was attributable to SKX. We achieved gross profit of approximately RMB3,603.2 million, representing a gross profit margin of approximately 30.6% in 2020. During the same period, SKX's gross profit was approximately RMB1,128.3 million, representing a gross profit margin of approximately 38.1%. Excluding the effect of consolidation of SKX, the gross profit margin of our Group would have been 28.1% in 2020. For the avoidance of doubt, since we completed the acquisition of SKX on January 8, 2020 and consolidated SKX's financial statements starting from January 8, 2020, the revenue, gross profit and gross profit margin aforementioned exclude SKX's financial results on and before January 7, 2020.

The following table sets forth a breakdown of our revenue by our product types for the periods indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *(RMB'000)* | |
| Raw Milk | 2,610,333 | 3,063,615 | 6,994,592 |
| – Premium raw milk | 1,297,803 | 1,561,656 | 4,831,558 |
| – Specialty raw milk | 1,312,530 | 1,501,959 | 2,163,034 |
| Comprehensive ruminant farming solutions | 3,723,587 | 4,604,203 | 4,786,603 |
| – Feed | 3,508,771 | 4,376,520 | 4,395,724 |
| – Ruminant farming products | 214,816 | 227,683 | 339,992 |
| – Breeding products[1] | – | – | 50,887 |
| **Total** | 6,333,920 | 7,667,818 | 11,781,195 |

*Note:*

(1) We started to operate breeding products business upon our acquisition of SKX in January 2020.

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

| | For the Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | | | *(RMB'000, except for percentage)* | | | |
| | *Gross profit* | *Gross profit margin* | *Gross profit* | *Gross profit margin* | *Gross profit* | *Gross profit margin* |
| Raw milk | 1,060,119 | 40.6% | 1,278,980 | 41.7% | 2,994,529 | 42.8% |
| – Premium raw milk | 423,601 | 32.6% | 555,855 | 35.6% | 1,931,074 | 40.0% |
| – Specialty raw milk | 636,519 | 48.5% | 723,125 | 48.1% | 1,063,455 | 49.2% |
| Comprehensive ruminant farming solutions | 485,572 | 13.0% | 607,280 | 13.2% | 608,663 | 12.7% |
| – Feed | 435,935 | 12.4% | 563,681 | 12.9% | 530,569 | 12.1% |
| – Ruminant farming products | 49,637 | 23.1% | 43,599 | 19.1% | 56,977 | 16.8% |
| – Breeding products | – | – | – | – | 21,117 | 41.5% |
| Total | 1,545,691 | 24.4% | 1,886,260 | 24.6% | 3,603,192 | 30.6% |

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

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| Inventories | 899,994 | 967,286 | 1,972,145 |
| Trade and bills receivables | 617,658 | 974,298 | 834,521 |
| Bank balances and cash | 311,884 | 570,476 | 2,619,113 |
| Total current assets | 2,129,078 | 3,043,764 | 6,405,296 |
| Property, plant and equipment | 2,397,229 | 2,933,139 | 6,183,940 |
| Right-of-use assets | 482,045 | 532,968 | 1,321,296 |
| Biological assets | 2,606,450 | 3,322,917 | 7,038,112 |
| Total non-current assets(1) | 5,636,068 | 6,902,810 | 15,795,647 |
| **Total assets** | **7,765,146** | **9,946,574** | **22,200,943** |
| Trade and bills payables | 356,702 | 572,559 | 1,438,505 |
| Bank and other borrowings | 1,742,014 | 1,682,945 | 4,224,527 |
| Total current liabilities(2) | 2,598,064 | 2,900,534 | 6,944,108 |
| Total non-current liabilities | 579,145 | 1,656,221 | 6,195,299 |
| **Total liabilities** | **3,177,209** | **4,556,755** | **13,139,407** |
| **Net current (liabilities)/assets(3)** | **(468,986)** | **143,230** | **(538,812)** |
| **Net assets** | **4,587,937** | **5,389,819** | **9,061,536** |
| Equity attributable to owners of the Company | 4,587,937 | 5,389,819 | 7,820,208 |
| Non-controlling interests | – | – | 1,241,328 |
| **Total equity** | **4,587,937** | **5,389,819** | **9,061,536** |
| **Total equity and liabilities** | **7,765,146** | **9,946,574** | **22,200,943** |

*Notes:*

(1) During the Track Record Period, the increase in non-current assets was primarily due to the continued increase in our property, plant and equipment, right-of-use assets and biological assets. The substantial increase as of December 31, 2020 was partially due to the acquisition of the controlling interest in SKX. For more information, see the section headed "Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position Items of Our Group – Non-Current Assets and Liabilities."

(2) During the Track Record Period, the substantial increase in current liabilities was primarily due to (i) the increase in trade and bills payables, driven by the increased purchases of raw materials and equipment with the construction of new dairy farms and feed mills and the continuous expansion of herd size, and (ii) the increase in bank and other borrowings, attributable to the impact of acquisition of the

controlling interest in SKX and the increase in capital expenditures of our new dairy farms in 2020. For more information, see the section headed "Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position Items of Our Group – Current Assets and Liabilities."

(3) During the Track Record Period, our Group recorded net current liabilities positions which exposed our Group to ongoing liquidity risk. Our Directors are of the view that ongoing net current liabilities resulted from the facts we rely on bank and other borrowings as one of the significant sources of liquidity to finance our operation and our investing activities, among which the current portions are recorded as current liabilities whereas significant amount of our capital investments, including biological assets and property, plant and equipment, that generate our revenue are recorded as non-current assets, thus leading to relatively large balances of current liabilities and relatively small balances of current assets. The significant increase in net current liabilities as of December 31, 2020 was primarily due to the consolidation of SKX's current liabilities as a result of the acquisition of the controlling interest in SKX. We expect our net current liabilities will be gradually reduced by the following measures: (i) an increased use of mid-term and long-term loans to optimize SKX's financing structure, (ii) replenishing working capital with 10% of our total net proceeds from the Global Offering to reduce the demand for short-term loan, and (iii) further improving the operational efficiency and the profitability of our dairy farms and generating more cash, which can be used to reduce short-term loans. For more information, see the section headed "Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position Items of Our Group – Current Assets and Liabilities."

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

| | **For the year ended December 31,** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Net cash generated from operating activities | 605,801 | 870,809 | 1,707,871 |
| Net cash used in investing activities | (1,142,959) | (1,490,454) | (4,752,812)[1] |
| Net cash generated from financing activities | 424,955 | 878,237 | 5,093,578 |
| Net (decrease)/increase in cash and cash equivalents | (112,203) | 258,592 | 2,048,637 |
| **Cash and cash equivalents at the beginning of the year** | **424,087** | **311,884** | **570,476** |
| **Cash and cash equivalents at the end of the year, represented by bank balances and cash** | **311,884** | **570,476** | **2,619,113** |

*Note:*

(1) The net cash used in investing activities for the year ended December 31, 2020 was largely attributable to net cash outflows of RMB1,936.2 million for the acquisition of SKX.

**Biological Assets**

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

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *Heads* | | |
| Dairy cows: | | | |
| Calves and heifers | 65,488 | 74,082 | 150,879 |
| Milkable cows | 61,857 | 77,955 | 157,316 |
| Feeder cattle | 369 | 1,269 | 915 |
| Breeding stock | – | – | 125 |
| **Total** | **127,714** | **153,306** | **309,235** |

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

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | | |
| Dairy cows: | | | |
| Calves and heifers | 1,010,321 | 1,094,787 | 2,432,082 |
| Milkable cows | 1,596,129 | 2,228,130 | 4,564,233 |
| Feeder cattle | 1,629 | 12,070 | 9,564 |
| Breeding stock | – | – | 41,797 |
| **Total** | **2,608,079** | **3,334,987** | **7,047,676** |
| Less: current portion classified under current assets | (1,629) | (12,070) | (9,564) |
| Non-current portion classified under non-current assets | 2,606,450 | 3,322,917 | 7,038,112 |

Our net profit has been, and we expect will continue to be, affected by changes in fair value less costs to sell of biological assets in respect of our dairy cows. Under International Accounting Standard 41 "Agriculture", the Group's biological assets are measured at fair value less costs to sell. Details of this accounting policy and disclosures of biological assets are set out in Appendix I of this Prospectus. For more information, please refer to the sections headed "Risk Factors – Our results of operations are subject to fair value adjustments on our biological asset, which can be highly volatile and are subject to a number of assumptions." The following table sets forth the realised and unrealised fair value gains or losses on our biological assets and our profit for the periods indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *(RMB'000, except for percentages)* | | |
| Revenue | 6,333,920 | 7,667,818 | 11,781,195 |
| Cost of sales | (5,810,627) | (7,014,226) | (11,048,726) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 1,022,398 | 1,232,668 | 2,870,723 |
| Gross profit | 1,545,691 | 1,886,260 | 3,603,192 |
| Loss arising from changes in fair value less costs to sell of biological assets | (87,271) | (133,255) | (413,784) |
| – realised | (243,964) | (267,324) | (975,359) |
| – unrealised | 156,693 | 134,069 | 561,575 |
| Profit before tax | 697,201 | 850,855 | 1,594,435 |
| Profit for the year | 652,867 | 801,882 | 1,540,630 |
| – attributable to owners of the Company | 652,867 | 801,882 | 1,340,735 |
| – attributable to non-controlling interests | – | – | 199,895 |

Realised loss arising from changes in fair value less costs to sell of biological assets represents the losses from the culling and death of cows during the corresponding period, because the proceeds from the disposal of culled and dead cows are generally lower than their carrying value, namely fair value. In contrast, unrealised fair value gains or losses on biological assets are non-cash in nature and represent changes in fair value arising from the cows held by us as of the end of the relevant period which is derived from many assumptions. For details, see "Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position Items of Our Group – Non-Current Assets and Liabilities – Biological Assets," and Note 22 to the Accountants' Report set out in Appendix I to this prospectus.

**Summary of Financial Information of SKX**

SKX is a company established under the laws of the PRC and listed on the NEEQ (stock code: 834179), whose business segments consist of dairy farming and dairy breeding. On July 9, 2019, Youran Dairy entered into a share purchase agreement with the then shareholders of

SKX, who were Independent Third Parties, pursuant to which Youran Dairy agreed to purchase and the then shareholders of SKX agreed to sell 536,066,738 shares of SKX, representing approximately 58.36% of the equity interest of SKX, to Youran Dairy at a consideration of approximately RMB2.28 billion. We recorded a goodwill of RMB762.7 million for the acquisition of SKX. In January 2020, we completed the acquisition of SKX, which constitutes a major acquisition during the track record period, to expand our raw milk business and entered the breeding business. After the acquisition of SKX, we directly held 44.78% of the equity interest of SKX beneficially and 13.57% of the equity interest of SKX through a voting proxy arrangement. On September 2, 2020, the voting proxy arrangement expired and the 13.57% of the equity interest was transferred to us. As of the Latest Practicable Date, we directly hold 58.36% of the equity interest of SKX.

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

| | For the Year Ended December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Revenue | 2,103,874 | 2,407,511 |
| Cost of sales | (2,008,473) | (2,312,015) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 660,957 | 717,390 |
| Gross profit* | 756,358 | 812,886 |
| Profit before tax | 53,111 | 109,045 |
| Profit for the year | 52,826 | 109,237 |
| – attributable to owners of the Company | 49,712 | 112,004 |
| – attributable to non-controlling interests | 3,114 | (2,767) |

* before impairment loss on inventories

**Arbitration in relation to the Acquisition of SKX**

On December 7, 2020, we received a notice of defense issued by the Beijing Arbitration Commission (the "**Arbitration**") (the "**Arbitration Commission**"), notifying Youran Dairy that 29 former shareholders of SKX, as the arbitration claimants (the "**Claimants**"), requested the Arbitration Commission for a ruling that Youran Dairy to pay the Claimants the outstanding consideration for the share transfer pursuant to the relevant share purchase agreement (the "**Share Purchase Agreement**") in an aggregate amount of RMB44,909,459.44. The Share Purchase Agreement was entered into between Youran Dairy on one hand, and 79 former shareholders of SKX (the "**Sellers**", among which 29 are the Claimants) on the other hand on July 9, 2019, pursuant to which Youran Dairy agreed to purchase and the Sellers agreed to sell to Youran Dairy approximately 58.36% of the equity interest of SKX at a consideration of approximately RMB2.28 billion, subject to a post-completion downward adjustment (the "**Adjustment**") based on the results of an audited completion accounts of SKX (the "**Completion Accounts**"). After making the Adjustment based on the Completion Accounts of SKX, the Company subsequently settled all outstanding consideration payable to the Sellers in June and September 2020 in accordance with the terms of the Share Purchase Agreement. According to the terms of the Share Purchase Agreement, The Claimants, being 29 of the Sellers, disputed that (i) the Adjustment made did not comply with the terms of the Share Purchase Agreement; and (ii) the Completion Accounts contain errors and shall not be used as the basis of the Adjustment, and requested Youran Dairy to pay the outstanding consideration, being the respective Claimants' portion of the downward adjusted amount of the consideration. Arbitral hearing took place on March 12, 2021 which requested the supplement of further evidence. As of the Latest Practicable Date, such arbitral proceedings are still in progress and no judgement has been rendered.

As advised by our PRC legal advisors to the Arbitration, Beijing Zhong Wen Law Firm (the "**Arbitration Legal Advisor**"), on the bases that (i) the methodology and procedure for the Adjustment made by Youran Dairy comply with the Share Purchase Agreement; (ii) the accounting standards adopted by the accountants engaged by Youran Dairy to prepare the Completion Accounts comply with the financial standards and regulatory requirements; and (iii) the Adjustment to the consideration brought the transaction price closer in line with the actual transaction target, and therefore, there is no violation of the principle of good faith as proposed by the Claimants, the Claimants' arbitration claim lacks factual and legal basis and the likelihood of the Claimant obtaining a favorable ruling from Arbitration Commission is relatively low.

Having considered that (i) the damages claimed by the Claimants amounted to approximately RMB45,000,000, which accounted for approximately 2.9% of the net profit of our Group for the year ended December 31, 2020, (ii) SKX has become one of our Company's non-wholly-owned subsidiaries upon completion of the acquisition of SKX and as advised by our PRC Legal Advisor, the acquisition of SKX was legally and properly completed on January 8, 2020 in accordance with the relevant PRC laws and regulations, including the rules and regulations of the NEEQ, (iii) as advised by the Arbitration Legal Advisor, and concurred by our PRC Legal Advisor, the Arbitration will not affect the effectiveness and validity of the share transfer under the Share Purchase Agreement, and (iv) it is unlikely that an outflow of resources embodying economic benefits will be required to settle the obligation as the Arbitration Legal Advisor is of the view that the likelihood of the Claimants obtaining a favorable ruling from Arbitration Commission is relatively low on the bases aforementioned, no provision has been made in relation to this Arbitration, and the Company is of the view that such Arbitration will not have a material adverse impact on the business and financial condition of the Group, as a whole or on SKX. For further details of the Arbitration, please refer to the section headed "Business – Legal Proceedings – Arbitration in relation to the Acquisition of SKX" in this prospectus.

**Dissolution petition in relation to SKX**

On April 30, 2021, SKX received a statement of civil complaint (the "**Statement of Complaint**") filed by certain of the existing shareholders of SKX (the "**Plaintiffs**") requesting the Hohhot Intermediate People's Court to order for the dissolution of SKX (the "**Litigation**"), with Youran Dairy being joined as a third party to the Litigation, on the grounds that (i) the Plaintiffs are shareholders of SKX who in aggregate hold 22.05% of its voting interests; (ii) the Plaintiffs, as shareholders of SKX, could not participate in the decision-making and management control of SKX and thus the existence of SKX as a corporate entity has lost its meaning to the Plaintiffs, in particular, it was alleged that SKX has: (a) convened the shareholders' meeting in February 2020 to amend its articles of association and elect members of the board of the directors without given due notice to the shareholders; (b) conducted external investment in the sum of RMB370 million without convening shareholders' meeting; (c) conducted related-party transactions with Youran Dairy and Yili without convening shareholders' meeting; (d) certain resolutions proposed by the Plaintiffs to the board of directors were not submitted to the second shareholders' meeting in 2020 and the director candidate nominated by the Plaintiffs failed to be elected at such shareholders' meeting; and (e) denied certain Plaintiffs' request for the inspection of SKX's records; and (iii) the Plaintiffs could not resolve the management conflict with Youran Dairy through other means. To the best knowledge of the Directors after due inquiries and as confirmed by Tian Yuan Law Firm, the PRC legal advisor to SKX, (a) SKX has made all necessary announcements on the NEEQ system in relation to the amendments of its articles of association, change of directors and convening of the shareholders' meeting in accordance with the rules of the NEEQ rules, SKX's articles of association and other relevant laws and regulations where the shareholders are properly informed of the shareholders' meeting in February 2020 and were able to exercise their voting rights at such shareholders' meeting properly; (b) shareholders' meeting is not required for approving investment in the sum of RMB370 million under the rules of the NEEQ, SKX's articles of association and other relevant laws and regulations; (c) SKX's related-party transactions have been conducted in accordance with the NEEQ rules, SKX's articles of association and other relevant laws and regulations; (d) SKX has convened the second shareholders' meeting in 2020 and the election of directors in compliance with relevant rules of the NEEQ, SKX's articles of association and other relevant laws and regulations where certain resolutions proposed by the Plaintiffs was not submitted to the such shareholders' meeting owing to such proposals being unable to fulfill the relevant requirements of the applicable laws, administrative regulations or SKX's articles of association; and (e) the denial of Plaintiffs' request for inspection of certain SKX's records is rightful and legal as such request exceeded the scope of information right of shareholders under SKX's articles of association and the PRC Company Law. On that basis that (i) the allegations made by the Plaintiffs in the Statement of Complaint lack legal and factual basis abovementioned; and (ii) the bases of the Plaintiffs' allegations do not satisfy the statutory requirements for a dissolution petition under the PRC laws and in particular do not substantiate that there are "serious difficulties in operation and management" of SKX, Tian Yuan Law Firm, the PRC legal advisor to SKX, is of the view that it is extremely unlikely that the Plaintiffs' request will be supported by the court. Having considered (i) the view of Tian Yuan Law Firm, the PRC legal advisor to SKX abovementioned; and (ii) that none of the Plaintiffs' allegations in the Statement of Complaint being true nor accurate, the Company is of the view, and the Joint Sponsors concur, that the Litigation will not have a material adverse impact on the business and financial condition of the Group as a whole, or on SKX. As of the Latest Practicable Date, NEEQ did not raise any regulatory inquiries in relation to the Litigation.

## KEY FINANCIAL RATIOS

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

| | For the Year Ended December 31/ as of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| Return on equity(1) | 14.2% | 14.9% | 17.0% |
| Current ratio(2) | 0.82 | 1.05 | 0.92 |
| Quick ratio(3) | 0.47 | 0.72 | 0.64 |
| Net gearing ratio(4) | 31.2% | 39.9% | 71.6% |

*Notes:*

(1) Return on equity ratio for each of the years ended December 31, 2018, 2019 and 2020 is calculated as profit for the year divided by total equity at the end of the year and multiplied by 100%. Our return on equity increased from 14.9% for the year ended December 31, 2019 to 17.0% for the year ended December 31, 2020, mainly reflecting the rise in our net profit and the impacts of the acquisition of the controlling interest in SKX.

(2) Calculated as current assets divided by current liabilities. The decrease in the current ratio from 1.05 as of December 31, 2019 to 0.92 as of December 31, 2020 was primarily attributable to impacts of the acquisition of the controlling interest in SKX, which had a lower current ratio as compared to Youran.

(3) Calculated as current assets less inventories divided by current liabilities. Our quick ratio decreased from 0.72 as of December 31, 2019 to 0.64 as of December 31, 2020, mainly reflecting the impacts of the acquisition of the controlling interest in SKX, which had a lower quick ratio as compared to Youran.

(4) Calculated as net debt (which equals bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits under current assets) divided by total equity and multiplied by 100%. Our net gearing ratio increased from 31.2% as of December 31, 2018 to 39.9% as of December 31, 2019, mainly due to the increase in Youran's newly constructed projects, and increased from 39.9% as of December 31, 2019 to 71.6% as of December 31, 2020, mainly due to the issuance of the Convertible Notes in November 2020 and the increase in our bank and other borrowings as of December 31, 2020 resulting from the consolidation of SKX's financial positions.

## KEY OPERATING DATA

The following table sets forth the sales value and sales volume by our product types for the periods indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | Sales volume | Average selling price | Sales volume | Average selling price | Sales volume | Average selling price |
| | | *(RMB)* | | *(RMB)* | | *(RMB)* |
| **Raw Milk** | | | | | | |
| Premium raw milk | 335,829 tons | 3.9/kg | 383,071 tons | 4.1/kg | 1,133,671 tons | 4.3/kg |
| Specialty raw milk | 236,264 tons | 5.6/kg | 272,715 tons | 5.5/kg | 396,164 tons | 5.5/kg |
| **Comprehensive ruminant farming solutions** | | | | | | |
| Feed | 1,357,897 tons | 2,584/ton | 1,724,567 tons | 2,538/ton | 1,604,254 tons | 2,740.0/kg |
| Ruminant farming product(1) | N/A | N/A | N/A | N/A | N/A | N/A |
| Breeding products(2) | | | | | | |
| – Frozen semen | – | – | – | – | 797,668 units | 63.7/unit |
| – Embryo | N/A | N/A | N/A | N/A | 43 units | 1,510.9/ unit |

*Notes:*

(1) We sell various types of ruminant farming products, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, which do not have unified unit to measure sales volume. During the Track Record Period, the selling price of our ruminant farming products ranged from approximately RMB0.02 to RMB6,250,000.

(2) We started to operate breeding products business upon our acquisition of SKX in January 2020.

## PRE-IPO INVESTMENTS

We received Pre-IPO Investments from our Pre-IPO Investors, including the PAG Entities (wholly-owned subsidiaries of discretionary funds managed by PAG Capital Limited, one of Asia's largest independent alternative investment managers); Meadowland and Pasture (Meadowland is an exempted limited partnership wholly-owned by Ms. Hao Meirong (郝美蓉), an Independent Third Party, and Pasture is the limited partner of Meadowland. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Pasture is owned by certain employees or members of senior management of either Yili or our Group, all of whom are Independent Third Parties, except for Mr. Zhang Yujun (張玉軍), the chairman of our Board and a non-executive Director, Mr. Zhang Xiaodong (張小東), an executive Director and our president, Mr. Dong Jiping (董計平), an executive Director and our vice president, and Mr. Xu Jun (徐軍), a non-executive Director, each of whom is individually interested in less than 1% shareholding interest in Pasture); Bain (an exempted limited partnership managed by Bain Capital, one of the world's foremost alternative investment firms, and its affiliates); ICBC (an indirect wholly-owned subsidiary of ICBC International Holdings Limited); and BOC (a wholly-owned subsidiary of Bank of China Group Investment Limited). The aggregate amounts of considerations paid by the pre-IPO investors that our Group received with respect to the issuance of ordinary shares and the Convertible Notes pursuant to the Pre-IPO Investments were RMB3,467.1 million and US$460 million, respectively. For the further details, please refer to the section headed "History, Reorganization and Group Structure – The Pre-IPO Investments" in this prospectus.

## OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, the equity interest of the Company was held as to approximately 42.89% by the PAG Entities and 40.00% by Yili, through China Youran Dairy Holding Limited and Jingang Holding, its wholly-owned subsidiaries. Immediately following the completion of the Global Offering, the PAG Entities and Yili will be interested in approximately 31.46% and 34.80% of our issued share capital, respectively, assuming the Over-allotment Option is not exercised and the Convertible Notes are not converted.

Assuming full conversion of Convertible Notes immediately following completion of the Global Offering, the PAG Entities will be interested in approximately 40.07% (assuming the Over-allotment Option is not exercised) and 37.85% (assuming the Over-allotment Option is fully exercised) of the issued share capital of our Company, respectively; while Yili will be interested in approximately 27.36% (whether or not the Over-allotment Option is exercised) of the issued share capital of our Company. Therefore, the PAG Entities will remain to be our Controlling Shareholders as defined under the Listing Rules upon Listing, while Yili will cease to be one of our Controlling Shareholders upon Listing, assuming the Convertible Notes are fully converted.

For our shareholding structure, please refer to the section headed "History, Reorganization and Group Structure" in this prospectus.

## CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions, which will constitute continuing connected transactions for our Company upon the completion of the Global Offering. For the details of the continuing connected transactions, please refer to the section headed "Continuing Connected Transactions" in this prospectus.

## GLOBAL OFFER STATISTICS

| | Based on an Offer Price of HK$6.98 | Based on an Offer Price of HK$8.66 |
|---|---|---|
| Market capitalization of our Shares[(1)] | HK$26,492 million | HK$32,868 million |
| Unaudited pro forma adjusted net tangible asset value per Share[(2)] | HK$3.12 | HK$3.33 |

*Notes:*

(1) The calculation of the market capitalization is based on the assumption that 3,795,404,000 Shares will be in issue and outstanding immediately following the completion of the Global Offering.

(2) The unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of our Company per Share in the above table is calculated after the adjustments referred to in the section entitled "Appendix III – Unaudited Pro Forma Financial Information" in this prospectus and on the basis of 3,795,404,000 Shares in issue and outstanding immediately following the completion of the Global Offering. For more information about the effect of the conversion of the Convertible Notes on the unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of our Company, see the section headed "Financial Information – Unaudited Pro Forma Statement of Adjusted Net Tangible Assets".

## DIVIDENDS

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

## FUTURE PLANS AND USE OF PROCEEDS

Please see the section headed "Business – Our Strategies" in this prospectus for a detailed discussion of our future plans.

We intend to use the net proceeds from the Global Offering (assuming that the Over-allotment Option is not exercised) of HK$3,638 million (assuming that the Offer Price is HK$7.82, being the mid-point of the Offer Price range), mainly to continue scaling our business, thereby reinforcing our market leadership. Specifically, we intend to use the net proceeds from the Global Offering for the following purposes, and we will fund our other future plans and strategies through our operating cash flow and bank loans:

- Approximately HK$2,728 million, or 75.0% of our total estimated net proceeds, will be used for funding our investment projects over the next two years, including building our dairy farms under construction, new dairy farms and a feed mill and purchasing necessary facilities and equipment, to meet our increasing business demands and achieve sustainable growth through economies of scale.

- Approximately HK$546 million, or 15.0% of our total estimated net proceeds, will be used for purchasing dairy cows for our new dairy farms. We plan to import a total of approximately 20,000 Holsteins primarily from Australia and New Zealand over the next two years. Such number was determined with reference to the designed capacity of our new dairy farms, the natural breeding cycle of dairy cows and our target for production volume of raw milk in the next two years. Based on an estimated price of RMB24,000 per head of dairy cow, we expect to incur total costs of RMB480 million in connection with the purchase of dairy cows for our new dairy farms.

  On April 14, 2021, the government of New Zealand announced that the export of livestock by sea would cease following a transition period of up to two year. To the best knowledge of our Directors based on the currently available information, during the two-year transition period for this new rule to take effect, we would still be allowed to continue to import dairy cows from New Zealand. As we originally intended to use the net proceeds over the next two years to import dairy cows from New Zealand, we believe that such livestock export ban is unlikely to have a material adverse impact on our current importation plan. For a detailed analysis of the potential impact of such livestock export ban by the New Zealand government, see "Business – Raw Milk Business – Our Dairy Cows." Nevertheless, we would continue to monitor the progress of the implementation of such livestock export ban and conform our importation plan as necessary and appropriate.

- Approximately HK$364 million, or 10.0% of our total estimated net proceeds, is intended to be used for working capital and general corporate purposes.

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

For further details, please see the section headed “Future Plans and Use of Proceeds” in this prospectus.

**RISK FACTORS**

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

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

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

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

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

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

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

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

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

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

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

## LISTING EXPENSES

Based on the mid-point Offer Price of HK$7.82 (being the mid-point of our Offer Price range of HK$6.98 to HK$8.66 per Offer Share), the total listing expenses (including underwriting commissions) payable by our Company are estimated to be approximately HK$220.2 million (equivalent to approximately RMB181.2 million), assuming the Over-allotment Option is not exercised, representing 5.7% of our gross proceeds. These listing expenses mainly include professional fees paid and payable to the professional parties, commissions and incentive payable to the Underwriters for their services rendered in relation to the Listing and the Global Offering, and miscellaneous expenses in relation to out-of-pocket expenses of the professional parties.

As of December 31, 2020, the listing expenses (excluding underwriting commissions) that have been charged to the consolidated statements of comprehensive (loss)/income of our Group in relation to the Listing were RMB34.4 million. We estimate that listing expenses of approximately RMB181.2 million (including underwriting commissions and incentive of approximately RMB111.1 million, assuming the Over-allotment Option is not exercised and based on an Offer Price of HK$7.82 per Offer Share) will be incurred by our Group, of which approximately RMB61.7 million is expected to be charged to our consolidated statement of comprehensive income and approximately RMB119.5 million is expected to be charged against equity upon the Listing.

## RECENT DEVELOPMENTS

Profit of the Group for the year ending December 31, 2021 is expected to decrease primarily due to the following reasons: (i) the fair value change and finance cost in connection with our Convertible Notes issued in November 2020 and (ii) the increase in fair value loss on biological assets in 2021 which is mainly due to the absence of unrealised fair value gain on biological assets in 2020 from converting milkable cows for producing premium raw milk to milkable cows for producing specialty raw milk which carry a higher fair value than that of premium milk cows.

### Livestock Export Ban by New Zealand Government

On April 14, 2021, the government of New Zealand announced that the export of livestock by sea would cease following a transition period of up to two years, with a view to upholding New Zealand's reputation for high standards of animal welfare. Our Directors, upon due inquiry and consideration, are of the view that such livestock export ban by the New Zealand government would not be expected to have a material adverse impact on our business operations, expansion plan or financial condition on the grounds that: (i) historically we only imported a limited number of dairy cows from New Zealand during the Track Record Period, and we expect dairy cows imported from New Zealand to continue to account for a minority, if at all, of our total imported dairy cows in the near future before such livestock export ban comes into effect, (ii) we have adequate alternative sources around the world, through which we believe we can import sufficient numbers of dairy cows, and (iii) we believe that we are able to continue to rapidly expand our herds to support part of our future growth by virtue of

SKX's strong breeding techniques. For additional information, see "Business – Raw Milk Business – Our Dairy Cows," and "Risk Factors – Risks relating to Our Business and Industry – Our inability to guarantee the supply and quality of heifers and frozen bovine semen for dairy cattle may have an adverse effect on our business and the growth prospects."

**Increase in Production Volume of Raw Milk**

The raw milk production volume of our Group significantly increased for the year ended December 31, 2020 as compared to the year ended December 31, 2019, which was principally due to the consolidation of SKX's raw milk production capacity upon the completion of the acquisition of the controlling interest in SKX on January 8, 2020, and, to a lesser extent, due to (i) the increase in our production volume as a result of our new dairy farms put into production and (ii) the increase in our average milk yield per milkable cow. For the year ended December 31, 2020, our Group's production volume of raw milk was approximately 1,562,409 tons.

**Fonterra Acquisition**

On October 3, 2020, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement (the "**Fonterra SPA**") with the sole shareholder of Fonterra China Farms Group to acquire the 100% equity interest of Fonterra China Farms Group (the "**Fonterra Acquisition**"). The Fonterra Acquisition is in line with our strategy to continue to strategically expand our business size and maintain our market leadership. Fonterra China Farms Group is equipped with advanced production facilities and has premium herd structure primarily consisting of high-quality pure-bred, imported dairy cows. We plan to leverage our advanced management and operating capabilities for raw milk business and our experience in integrating and improving the raw milk business of SKX to further achieve economies of scale through Fonterra Acquisition. The Fonterra Acquisition will also expand the geographic coverage of our dairy farms in North China, which is a high consumption dairy product market according to Frost & Sullivan. We believe the Fonterra Acquisition can help us to increase the market penetration rate in North China.

The aggregate consideration of the Fonterra Acquisition is approximately RMB2.31 billion, which is subject to adjustment according to the specific terms of the Fonterra SPA including, among other things, the deduction of an amount equivalent to certain indebtedness owed, and the addition of an amount equivalent to the amount of cash held, by Fonterra China Farms Group as of the completion date from/to the agreed aggregate consideration of RMB2.31 billion. The Directors are of the view that such adjustments are normal closing adjustments in acquisition transactions which would not have a material impact on the business, financial performance and cash flows of our Group going forward. Such consideration was determined on the basis of, among other things, the net assets of Fonterra China Farms Group, as adjusted by eliminating the impact of the borrowings from the immediate controlling company of Fonterra China Farms Group when converted into additional registered capital prior to the completion. We funded the consideration by a term loan bearing interest ranging from 4.15% to 4.75% per annum.

Fonterra Acquisition constitutes a major acquisition of our Group after the Track Record Period. For more details, see the section headed "History, Reorganization and Group Structure – Major Acquisitions, Disposals and Mergers – Fonterra Acquisition" in this prospectus. The Fonterra Acquisition was completed on April 1, 2021 at a consideration of RMB2,530,565,725 which has been applied a purchase price adjustment and is subject to a further adjustment.

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

As of December 31, 2020, Fonterra China Farms Group operated six dairy farms in China, with a herd size of 52,296 dairy cows, among which 29,502 were milkable cows and 22,794 were heifers and calves. Such six dairy farms are strategically located in Yutian, Hebei and Yingxian, Shanxi in proximity to international commercial centers such as Beijing, and also to take advantage of the ideal farming conditions in such regions.

The following table sets forth certain details of operating farms of Fonterra China Farms Group as of December 31, 2020:

| **Region** | **Number of dairy farms** | **Approximately size (sq.m.)** | **Number of milkable cows** | **Number of calves and heifers** |
|---|---|---|---|---|
| Yutian, Hebei | 3 | 1,621,361 | 13,682 | 10,845 |
| Yingxian, Shanxi | 3 | 2,133,161 | 15,820 | 11,949 |
| **Total** | **6** | **3,754,522** | **29,502** | **22,794** |

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

| | **As of December 31,** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *heads* | |
| Calves and heifers | 23,922 | 24,931 | 22,794 |
| Milkable cows | 28,473 | 31,618 | 29,502 |
| | 52,395 | 56,549 | 52,296 |

The dairy farms of Fonterra China Farms Group have been designed to maximize cow comfort, with preferable layout allowing for more feeding and resting time. Accordingly, average milk yield per milkable cow of Fonterra China Farms Group, calculating by dividing the total raw milk production volume of Fonterra China Farms Group for a relevant period during the Track Record Period by the average number of milkable cows for that period, reached 8.8 tons, 9.2 tons and 9.3 tons in 2018, 2019 and 2020, respectively. With the benefit of stringent health and safety requirements as well as a robust food safety and quality framework, Fonterra China Farms Group aspires to produce fresh, safe raw milk of high quality for leading downstream dairy manufacturers such as Yili and Bright. In 2018, 2019 and 2020, Fonterra China Farms Group sold 246,261 tons, 269,048 tons and 279,348 tons of raw milk, respectively. For information of the top five suppliers and the top five customers of the enlarged group with Fonterra China Farms Group, see the sections headed "Business – Our Suppliers" and "Business – Our Customers" in this prospectus.

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| **Sales value** *(RMB' 000)* | 930,158 | 1,080,509 | 1,148,464 |
| **Sales volume** *(tons)* | 246,261 | 269,048 | 279,348 |

In the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group's revenue was RMB957.7 million, RMB1,111.4 million and RMB1,186.5 million, respectively. The following tables set forth the revenue, cost of sales, gains/losses arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest and gross profit of Fonterra China Farms Group for the periods indicated. For details of Fonterra China Farms Group's financial performance during the Track Record Period, see the section headed "Financial Information – Financial Information of Fonterra China Farms Group" in this prospectus.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Revenue | 957,654 | 1,111,354 | 1,186,518 |
| Cost of sales | (867,282) | (1,011,171) | (1,097,599) |
| Gains/(losses) arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | (12,269) | 94,418 | 181,832 |
| Gross profit | 78,103 | 194,601 | 270,751 |
| (Loss)/profit before tax | (270,795) | (873,386) | 33,090 |
| (Loss)/profit and total comprehensive income for the year | (270,795) | (873,386) | 33,090 |

As advised by our PRC legal advisors, as of the Latest Practicable Date, Fonterra China Farms Group had been in compliance with all relevant PRC laws and regulations in all material respects during the Track Record Period and had obtained all necessary material licenses, approvals and permits from the relevant regulatory authorities in respect of its operations in the PRC, including certificates for meeting animal epidemic prevention conditions and raw fresh milk purchase permits. As of the Latest Practicable Date, as advised by our PRC legal advisors, Fonterra China Farms Group did not hold any material trademarks, patents or domain names in the PRC, and did not have any intellectual property licensing arrangements with Fonterra Group.

During the Track Record Period and as of the Latest Practicable Date, there were no pending or threatened litigation matters or other proceedings, and Fonterra China Farms Group was not involved in litigation or other proceedings, that we believe would materially adversely affect the business, financial condition or results of operations of Fonterra China Farms Group as of the Latest Practicable Date.

Upon completion of the Fonterra Acquisition, we plan to immediately mobilize our internal resources to achieve a seamless integration between our raw milk business and that of Fonterra China Farms Group. Specifically, we intend to replicate our success in improving the operations of SKX and apply our modern and scientific operations and management and industry-leading standards to the dairy farms of Fonterra China Farms Group in every material aspect of dairy farming operations, which covers intelligent herd management, precision feeding, standardized milking process, eco-dairy farming and quality control systems, among other things. Furthermore, we believe our scale as well as our footprint along the upstream dairy value chain would enable us to improve the profitability. We intend to leverage our strong bargaining power over raw materials suppliers to reduce procurement costs. Leveraging our extensive dairy farming experience as well as our strengths along the upstream dairy value chain, we believe we can replicate our success and ramp up the raw milk production volume as well as average milk yield per milkable cow of Fonterra China Farms Group while achieving significant economies of scale and synergies of our Group as a whole and enhancing our long-term profitability. For a detailed analysis of the impact of the Fonterra Acquisition on our Group's financial condition and profitability, see the section headed "– Summary of Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group" in this prospectus.

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

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

| | **For the Year Ended December 31, 2020** |
|---|---|
| | *(RMB'000)* (unaudited) |
| Revenue | 12,870,418 |
| Cost of sales | (12,111,658) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 3,052,555 |
| Gross profit | 3,811,315 |
| Profit before tax | 1,724,311 |
| Profit for the year | 1,686,259 |
| – attributable to owners of the Company | 1,486,364 |
| – attributable to non-controlling interests | 199,895 |

*Note:*

The amounts in above table are after adjustments for the effect of bargain purchase from the Fonterra Acquisition; the elimination of intercompany transactions; the acquisition-related costs; the reversal of impairment loss of property, plant and equipment; the reversal of depreciation and amortisation based on carrying amount of property, plant and equipment and right of use assets; the recognition of depreciation and amortisation based on the fair value of property, plant and equipment and right of use assets acquired; the reversal of interest expense on the Fonterra China Farms Group's debt; and the impact to our Group as if the Fonterra Acquisition was completed at January 1, 2020. Please refer to "Appendix III – (B) Unaudited Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group – (2) Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Enlarged Group with Fonterra China Farms Group for the Year Ended December 31, 2020 – Note 3 to 8" in this prospectus for more information.

The following table presents assets, liabilities and equity for the year of the enlarged group with Fonterra China Farms Group (as defined in Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group) based on the audited consolidated statement of financial position of our Group as of December 31, 2020 as set out in Appendix I to the prospectus. The unaudited pro forma consolidated statement of financial position of the enlarged group with Fonterra China Farms Group has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the enlarged group as of December 31, 2020, or any future date.

| | **For the year ended December 31, 2020** |
|---|---|
| | *(RMB'000)* (unaudited) |
| Non-current assets | 18,084,423 |
| Current assets | 6,944,391 |
| Total assets | 25,028,814 |
| Non-current liabilities | 8,698,254 |
| Current liabilities | 7,264,452 |
| Total liabilities | 15,962,706 |
| Total equity | 9,066,108 |
| **Total equity and liabilities** | **25,028,814** |
| **Net current liabilities** | **(320,061)** |
| **Net assets** | **9,066,108** |

Upon the completion of Fonterra Acquisition on April 1, 2021, the nine-months financial performance and financial position of which is expected to lead to material impacts to consolidated financial results of our Group in 2021.

**Impact of the COVID-19 Outbreak**

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

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

- *Impact on sales of our products*. As a result of the COVID-19 outbreak, we experienced a temporary decline in our selling price of raw milk during the outbreak. Particularly, the selling prices of our premium raw milk in February and March 2020 were adversely affected by the COVID-19 outbreak, which results in the average selling price of our premium raw milk (excluding the portion of SKX) slightly decreased from RMB4.00/kg in the first half of 2019 to RMB3.88/kg in the first half of 2020. In addition, certain deliveries of feed products to our customers were delayed in February 2020 due to travel restrictions imposed by local governments in most China regions, and in January 2021, we also faced delivery delay issues in certain areas of Northeast China and Hebei province due to the governments' tightened measures in response to new COVID-19 cases. During the year ended December 31, 2020, the sales volume of our raw milk was not significantly and adversely affected by the outbreak and remained an upward trend from 655,786 tons in 2019 to 842,127 tons (excluding the portion of SKX) in 2020. In 2020, our comprehensive ruminant farming solutions business also maintained an upward movement as compared to 2019. As of the Latest Practicable Date, to the best of our Directors' knowledge, we have not cancelled any major projects in progress as a result of the COVID-19 outbreak.

- *Impact on our supply chain and production*. During the COVID-19 outbreak, our suppliers did not experience interruptions in their production, but we experienced delivery delays of our orders in certain regions of China in February 2020. In January 2021, we experienced delays in deliveries from certain of our suppliers who are located in certain areas of Northeast China and Hebei province. Given that we have maintained adequate inventory levels and kept communicating with the relevant government department for the purpose of coordinating transportation, as of the Latest Practicable Date, to the best of our Directors' knowledge, we had fully resumed work and our ability to perform our existing contractual obligations had not been materially affected as a result of the COVID-19 outbreak.

- *Other impacts on our operations*. In early 2020, some of our employees were required to work remotely due to mandatory quarantines. In addition, some of our scheduled on-site marketing activities and physical meetings with customers were postponed or needed to be conducted in other manners due to the impact of the outbreak. However, any of the foregoing did not materially affect our operations and we resumed normal business operations as the restrictions were gradually eased.

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

Based on the performance of our business in 2020 and other information known to us as of the Latest Practicable Date, we also do not expect significant financial damage or impact to our long-term commercial prospect from the COVID-19 outbreak, primarily considering that: (i) we had not suspended our operations due to the COVID-19 outbreak or failed to discharge our contractual obligation during the period; (ii) our financial and operational performance remained in an upward trend during the COVID-19 outbreak; and (iii) to the best of our knowledge, the operations of our customers and suppliers had not been materially interrupted by the COVID-19 outbreak. Specifically (a) there was no cancellation of orders by our customers; and (b) there was no termination of cooperations with our suppliers due to the COVID-19 outbreak. However, we cannot assure you that the COVID-19 outbreak will not further escalate or have a material adverse effect on our results of operations. For details, please refer to the paragraph headed "Risk Factors – Our business operations and financial performance are adversely affected by the outbreak of COVID-19, and may be materially and adversely affected by other natural disasters, epidemics, acts of war or terrorism or other factors beyond our control" and "Financial Information – Impact of the COVID-19 Outbreak" in this prospectus.

As of December 31, 2020 we had cash and cash equivalents of RMB2,619.1 million. In the worst case scenario that we have to completely suspend all of our business operations and hence does not generate any revenue after January 1, 2021 due to the COVID-19 outbreak, based on the following assumptions, we estimate our existing financial resources as of December 31, 2020 and the expected net proceeds (assuming the offer price at low end) received from the Global Offering to be used to supplement our working capital are sufficient for our necessary operations and support our financial viability for approximately one year.

In the unlikely event that we are forced to reduce or suspend part of our business operations, whether due to government policy or any other reasons beyond our control as a result of the COVID-19 outbreak, after estimating our existing financial resources only as of April 30, 2021 by taking into consideration the following key assumptions:

- no revenue would be generated due to suspension of business starting from May 1, 2021;
- the milking and blending operations would be suspended, but would continue to feed the dairy cows and breeding stock to maintain their survival;
- the production of feed and frozen semen would be suspended;

- no selling and distribution expenses relating to sales such as loading, unloading and transportation costs and marketing expenses would be incurred;

- cash outflows relating to unavoidable operating expenses would be same as normal business operations;

- all uncommitted new and existing construction projects would be postponed capital;

- no new bank facilities would be contracted and obtained but the Group could continue to utilise the existing available bank facilities;

- 10% of the net proceeds from the Global Offering will be used as the Group's general working capital and other general corporate purposes, based on the offer price of HK$6.98 per offer share, being the low-end of the indicative offer price range; and

- the settlement of account receivables and payables as of April 30, 2021 based on historical settlement pattern.

Based on the above and the estimated net cash used in operating activities in light of the Group's existing operating scale, the Directors are of the view that the Group will remain financially viable for approximately 10 months from April 30, 2021.

The abovementioned analysis is for illustrative purpose only and our Directors estimate that the likelihood of such situation is extremely remote.

**No Material Adverse Change**

Our Directors confirm that, other than the foregoing, there has been no material adverse change in our financial, operational or trading positions or prospects since December 31, 2020, being the date of our consolidated financial statements as set out in "Appendix I – Accountants' Report" to this prospectus, and up to the date of this prospectus.

*Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed "Glossary" in this prospectus.*

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| "Application Lists" | the application lists for the Hong Kong Public Offering |
| "Articles of Association" or "Articles" | the amended and restated articles of association of our Company conditionally adopted on May 17, 2021 and will come into effect upon Listing (as amended, supplemented or otherwise modified from time to time), a summary of which is set out in Appendix IV to this prospectus |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board of Directors" or "Board" | our board of Directors |
| "Bright" | the group of companies comprising Shanghai Bright Dairy & Food Co., Ltd. (上海光明乳業股份有限公司), a company incorporated in the PRC, and its subsidiaries, as a group being one of our customers |
| "Business Day" | a day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business |
| "BVI" | British Virgin Islands |
| "CAGR" | compound annual growth rate, being the annual growth rate computed on an annual-compounded basis |
| "Cayman Companies Act" or "Companies Act" | the Companies Act (as revised) of the Cayman Islands, as amended, consolidated or otherwise modified from time to time |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant |
| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |

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| "**CCASS EIPO**" | the application for the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC's Customer Service Center by completing an input request |
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation |
| "CCASS Operational Procedures" | the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force |
| "CCASS Participant" | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| "China" or "PRC" | the People's Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as the same may be amended, supplemented or otherwise modified from time to time |
| "Companies (Winding Up and Miscellaneous Provisions) Ordinance" | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as the same may be amended, supplemented or otherwise modified from time to time |

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|---|---|
| "Company," "our Company" | China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on August 21, 2020 |
| "connected person(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Controlling Shareholder(s)" | has the meaning ascribed to it under the Listing Rules. In the context of this prospectus, means the controlling shareholders of the Company, being Yili and the PAG Entities |
| "Convertible Note" | the convertible note issued by our Company to certain Pre-IPO Investors, particulars of which are set out in the section headed "History, Reorganization and Group Structure – Pre-IPO Investments" in this prospectus, and collectively the "Convertible Notes" |
| "Director(s)" | any one of the members of the Board of our Company |
| "Extreme Conditions" | extreme conditions caused by a super typhoon as announced by the government of Hong Kong |
| "Fonterra China Farms Group" | Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on December 14, 2010, and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on February 11, 2014, both of which were wholly-owned subsidiaries of Fonterra Group before the Fonterra Acquisition |
| "Fonterra Group" | Fonterra Co-operative Group Limited, a New Zealand-based dairy co-operative company incorporated with limited liability under the laws of New Zealand on October 16, 2001 |
| "Global Offering" | the Hong Kong Public Offering and the International Offering |
| "**GREEN** Application Form(s)" | the application form(s) to be completed by the **HK eIPO White Form** Service Provider designated by our Company |

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| "Group," "our Group," "we" or "us" | Our Company and its subsidiaries from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time<br><br>For avoidance of any doubt, unless otherwise indicated, the historical results of operations and financial condition of our Group for the years ended December 31, 2018 and 2019 and for the period from January 1, 2020 to January 7, 2020 presented and discussed in this prospectus do not reflect those of SKX; and the historical results of operations and financial condition of our Group for the years ended December 31, 2018, 2019 and 2020 presented and discussed in this prospectus do not reflect those of Fonterra China Farms Group |
| "HK$" or "Hong Kong dollars" | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong |
| "**HK eIPO White Form**" | the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting applications online through the **IPO App** or the designated website at **www.hkeipo.hk** |
| "**HK eIPO White Form** Service Provider" | the **HK eIPO White Form** service provider designated by our Company, as specified in the **IPO App** or on the designated website at **www.hkeipo.hk** |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Public Offer Shares" | the 71,544,000 Shares offered for subscription pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed "Structure of the Global Offering" of this prospectus) |

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|---|---|
| "Hong Kong Public Offering" | the offer by our Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong as described in the section headed "Structure of the Global Offering" at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein |
| "Hong Kong Share Registrar" | Tricor Investor Services Limited |
| "Hong Kong Stock Exchange" or "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Hong Kong Underwriter(s)" | the underwriter(s) of the Hong Kong Public Offering named in "Underwriting – Hong Kong Underwriters" of this prospectus |
| "Hong Kong Underwriting Agreement" | the conditional Hong Kong underwriting agreement dated June 4, 2021 relating to the Hong Kong Public Offering entered into by, among others, our Company and the Hong Kong Underwriters |
| "Independent Third Party(ies)" | an entity or person who is not a connected person of our Company within the meaning ascribed under the Listing Rules |
| "International Offer Shares" | the 421,860,000 new Shares initially being offered by our Company for subscription and the 222,031,000 Sale Shares initially being offered for sale by the Selling Shareholders, at the Offer Price under the International Offering (subject to adjustment as described in the section headed "Structure of the Global Offering") together with (unless the context otherwise requires) any Shares which may be sold by the Option Grantors pursuant to any exercise of the Over-allotment Option |

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|---|---|
| "International Offering" | the conditional placing by the International Underwriters of the International Offer Shares outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S and to QIBs in the United States for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in the section headed "Structure of the Global Offering" on and subject to the terms and conditions stated herein and in the International Underwriting Agreement |
| "International Underwriters" | the group of underwriters led by the Joint Global Coordinators, who are expected to enter into the International Underwriting Agreement |
| "International Underwriting Agreement" | the conditional placing and purchase agreement relating to the International Offering and expected to be entered into by, among others, our Company, the Selling Shareholders and the Joint Global Coordinators on behalf of the International Underwriters on or about the Price Determination Date |
| "ICP license" | Value-added Telecommunications Services Operating License (增值電信業務經營許可證) for providing commercial Internet information services in PRC |
| "**IPO App**" | the mobile application for the **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp** |
| "Jingang Holding" | HONGKONG JINGANG TRADE HOLDING CO., LIMITED (香港金港商貿控股有限公司), a company incorporated under the laws of Hong Kong with limited liability on January 17, 2011, and a wholly-owned subsidiary of Yili |

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|---|---|
| "Joint Bookrunners" | Huatai Financial Holdings (Hong Kong) Limited, Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited (In relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (In relation to the International Offering only), CLSA Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited, China Securities (International) Corporate Finance Company Limited, ICBC International Capital Limited and Futu Securities International (Hong Kong) Limited |
| "Joint Global Coordinators" | Huatai Financial Holdings (Hong Kong) Limited, Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited, CLSA Limited |
| "Joint Lead Managers" | Huatai Financial Holdings (Hong Kong) Limited, Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited (In relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (In relation to the International Offering only), CLSA Limited, The Hongkong and Shanghai Banking Corporation Limited, BOCOM International Securities Limited, China Securities (International) Corporate Finance Company Limited, ICBC International Capital Limited and Futu Securities International (Hong Kong) Limited |
| "Joint Sponsors" | Huatai Financial Holdings (Hong Kong) Limited and Credit Suisse (Hong Kong) Limited |
| "Latest Practicable Date" | May 28, 2021, being the latest practicable date prior to the publication of this prospectus for the purpose of ascertaining certain information contained in this prospectus |
| "Listing" | listing of the Shares on the Main Board of the Stock Exchange |
| "Listing Date" | the date expected to be on or about June 18, 2021 on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |

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| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| "Meadowland" | Meadowland Investment Limited Partnership, an exempted limited partnership established under the laws of the Cayman Islands on September 7, 2020, and one of our Pre-IPO Investors |
| "Memorandum of Association" or "Memorandum" | the amended and restated memorandum of association of our Company conditionally adopted on May 17, 2021 and will come into effect upon Listing (as amended, supplemented or otherwise modified from time to time), a summary of which is set out in Appendix IV to this prospectus |
| "NEEQ" | National Equities Exchange and Quotations |
| "Offer Price" | the final offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$8.66 and expected to be not less than HK$6.98, such price to be agreed upon by our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before the Price Determination Date |
| "Option Grantors" | PAG I and PAG II |
| "Offer Shares" | the Hong Kong Public Offer Shares and the International Offer Shares |
| "Over-allotment Option" | the option to be granted by the Option Grantors to the International Underwriters under the International Underwriting Agreement exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), pursuant to which the Option Grantors may be required to sell up to an aggregate of 107,315,000 additional Shares, at the Offer Price to cover over-allocations in the International Offering, if any |
| "PAG Entities" | means PAG I, PAG II and PAG III, collectively |

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| "PAG I" | PAGAC Yogurt Holding I Limited, a company incorporated under the laws of the BVI with limited liability on March 18, 2015, and one of our Pre-IPO Investors and Controlling Shareholders |
| "PAG II" | PAGAC Yogurt Holding II Limited, a company incorporated under the laws of Hong Kong on May 3, 2019, and one of our Pre-IPO Investors and Controlling Shareholders |
| "PAG III" | PAGAC Yogurt Holding III Limited, an exempted company incorporated under the laws of the Cayman Islands on October 4, 2019, and one of our Pre-IPO Investors and Controlling Shareholders |
| "PRC Legal Advisor" | Tian Yuan Law Firm, legal advisor to our Company as to PRC laws |
| "Price Determination Date" | the date, expected to be on or about Thursday, June 10, 2021 (Hong Kong time), when the Offer Price is determined and, in any event, no later than Friday, June 11, 2021 |
| "QIBs" | qualified institutional buyers within the meaning of Rule 144A |
| "Regulation S" | Regulation S under the U.S. Securities Act |
| "Reorganization" | the reorganization of our Group in anticipation of the Listing, the details of which are set out in the section headed "History, Reorganization and Group Structure" in this prospectus |
| "RMB" or "Renminbi" | the lawful currency of the PRC |
| "Rule 144A" | Rule 144A under the U.S. Securities Act |
| "Sale Shares" | the 222,031,000 Shares initially being offered for sale by the Selling Shareholders at the Offer Price under the Global Offering, and to the extent the Over-allotment Option is exercised in full, together with up to an aggregate of 107,315,000 additional Shares to be offered for sale by the Selling Shareholders |
| "Selling Shareholders" | PAG I and PAG II |

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| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) of par value US$0.00001 each in the issued share capital of our Company |
| "Shareholder(s)" | holder(s) of our Shares |
| "SKX" | Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd (內蒙古賽科星繁育生物技術(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the NEEQ (stock code: 834179) which has been our subsidiary since January 8, 2020 |
| "Stabilizing Manager" | Credit Suisse (Hong Kong) Limited |
| "Stock Borrowing Agreement" | the stock borrowing agreement expected to be entered into among PAG I, PAG II and the Stabilizing Manager on or about the Price Determination Date |
| "subsidiary" | has the meaning ascribed to it in the Listing Rules |
| "Track Record Period" | the three years ended December 31, 2020 |
| "Underwriters" | the Hong Kong Underwriters and the International Underwriters |
| "Underwriting Agreements" | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| "United States" or "U.S." | the United States, as defined in Regulation S |
| "U.S. Person" | has the meaning given to it in Regulation S |
| "U.S. Securities Act" | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| "US$" or "U.S. dollars" | United States dollars, the lawful currency of the United States |

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| "Yili" | Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of our Controlling Shareholders |
| "Youran" | (i) our Group, for the purpose of the years ended December 31, 2018 and 2019; and (ii) our Group without considering the SKX Acquisition and without reflecting the results of operations and financial position of SKX and its subsidiaries from time to time, for the purpose of the year ended December 31, 2020 |
| "Youran BVI" | Yogurt Holding II Limited, a company established under the laws of the BVI on March 18, 2015 and a subsidiary of our Company |
| "Youran Dairy" | Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a company established under the laws of the PRC on August 1, 2007 and a subsidiary of our Company |
| "Youran HK" | Yogurt Holding I (HK) Limited, a company established under the laws of Hong Kong on April 9, 2015 and a subsidiary of our Company |
| "%" | per cent. |

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

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| "A2" | A2β-casein, a type of protein found in animals' milk |
| "aerobic plate count" | the count of microbes and bacteria in raw milk, an important safety indicator of raw milk; lower aerobic plate count typically indicates improved sanitation and better health conditions |
| "alfalfa" | a type of perennial forage grass in the legume family Fabaceae cultivated as an important forage crop for ruminants |
| "annualised average milk yield per milkable cow" | unless otherwise specified, the total milk production volume of milkable cows over the period divided by total number of days for which the milkable cows are raised during the period, and then multiplied by the total number of days of the relevant year |
| "breeding stock" | livestock used for the purpose of breeding domestic animals by agricultural, animal husbandry production units or individuals to develop production |
| "bull" | a male bovine animal |
| "CAGR" | compound annual growth rate |
| "calf" or "calves" | young female cow(s) up to six months of age from birth |
| "cattle" | the general term for bovine animals, divided into dairy cows, beef cattle, etc. according to economic use |
| "CFU" | colony-forming unit, a measure of viable bacteria or fungal cells in a sample |
| "China Standard" | the National Food Safety Standard – Raw Milk issued by the Ministry of Health of the PRC |

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| "concentrated feed" | feed for ruminants that contain lower crude fiber as compared to forage grass and have a certain amount of energy and protein, and that are made by blending various crops, including corn, soybean meals and cottonseed meals |
| "dairy cows" | calves, heifers and milkable cows |
| "DHA" | Docosahexaenoic acid, a primary component of the brain. More and more studies proved that it probably has a key impact on the neurotransmitters of the brain, which contributes to the smooth communication among brain cells. It is widely used by infant formulas producers as food supplements |
| "dry cow(s)" | milkable cow(s) that are in the dry period of a lactation cycle, during which they do not produce any raw milk |
| "EU Standards" | quality standards of raw milk as set forth in the Council Directive 92/46/EEC adopted in the European Union |
| "FMD" | FMD is an acute, febrile, highly contagious disease caused by the foot-and-mouth disease virus. The clinical symptom is blistered on the oral mucosa, hoof and breast skin. It is mainly against cloven-hoofed beasts, with more than 70 susceptible animals |
| "forage grass" | feed that contain higher crude fiber (dry matter basis) |
| "feed ingredients" | feed that are derived from animals, plants, microbes and minerals, used for the processing and manufacture of feed but not feed additives |
| "feeder cattle" | beef cattle, a type of cattle that mainly produce beef |
| "heifer(s)" | young female cow(s) older than six months that has not given birth to a calf or bull |
| "Holsteins" | a breed of large dairy cattle that have high milk yield with unique black and white patterns on their bodies and strong adaptability to various environment conditions |

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| "Jerseys" | a breed of small dark brown dairy cattle originating from the Jersey Islands, the English Channel, with a high milk fat and milk protein content and lower milk yield per dairy cow as compared to Holsteins |
| "large-scale farms" or "large-scale dairy farms" | farms with 1,000 heads and more, typically have higher levels of capital investment and use more advanced technology |
| "liquid milk" | drinking milk, including UHT milk, pasteurized milk and yogurt, categorized by different processing techniques |
| "milkable cow(s)" | dairy cow(s) that have given birth to a calf or bull, including milking cows and dry cows |
| "milking cow(s)" | milkable cow(s) that are in the lactation period of a lactation cycle, during which they produce raw milk |
| "minerals" | inorganic components of feed, which are inherent components that cannot be decomposed or synthesized through chemical reactions |
| "mu" | an area unit used in China, equals to approximately 667 square meters |
| "nutritional standard" | the standard to determine nutritional quality of raw milk, with protein content and fat content as two of the major indicators |
| "pasteurized milk" | raw milk that has gone through low-temperature pasteurization |
| "protein" | an essential part of the animal organism and an important active substance that regulates the physiological activities in the animal body |
| "ruminants" | a group of mammals with special gastric structure and ruminant behavior, which can take in nutrients by fermenting plant-based feed by microorganisms living in specialized stomachs. Ruminants mainly include cattle, sheep, deer and others |

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| "safety standard" | the standard to determine the safety of raw milk, using aerobic plate count and SCC as two of the major indicators |
| "SCC" or "somatic cell count" | the total number of cells per milliliter in milk, an important quality indicator of milk; lower somatic cell count typically indicates improved sanitation and better health conditions |
| "silage" | succulent, moist feed made by storing a green crop in a silo; the crop most used for silage is corn; others are sorghum, wheat, legumes, and grass |
| "supplementary feed" | feed made from a variety of feed ingredients and feed additives in a certain ratio in order to supplement the nutrition of herbivores |
| "transition cow(s)" | dairy cow(s) that are within the period of 21 days before or after childbirth |
| "U.S. Standard" | the raw milk quality standards in Grade "A" premium Pasteurized Milk Ordinance issued by U.S. Department of Health and Human Services |
| "value contribution allocation method" | a method to allocate combined profit among various related parties by analyzing the contribution of value creation factors to the group's profit. The allocation takes into account one or a group of value contribution related allocation key elements including, among others, assets, costs, expenses, sales revenue and the number of employees; the value contribution distribution method is usually applicable to transactions where it is difficult to obtain comparable transaction information but the combined profit and the contribution of value creation factors can be reasonably determined |
| "vitamin" | extensively involved in the body's basic biochemical reactions and nutrient metabolism processes in the form of coenzymes and catalysts, an essential nutrient to ensure the normal function and metabolism of the body |

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

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

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

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

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

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

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

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

## RISKS RELATING TO OUR BUSINESS AND INDUSTRY

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

We have built a long-term and stable business relationship with Yili, one of our Controlling Shareholders and our major customers and we rely on such relationship to conduct our businesses. We entered into a framework agreement with Yili in 2015, under which we will provide long-term supply of raw milk for Yili. We derived revenues of RMB2,393.1 million, RMB2,845.4 million and RMB6,701.4 million from sales of raw milk to Yili in 2018, 2019 and 2020, respectively, accounting for approximately 91.7%, 92.9% and 95.8% of our sales of raw milk produced during the same periods. During the Track Record Period, substantially all of our revenue from raw milk business was generated from Yili, which was consistent with the industry norm of the dairy industry in China, according to Frost & Sullivan. Our Company has entered into a framework agreement with Yili, pursuant to which our Group (including our subsidiaries from time to time) will continue to supply raw milk to Yili and its associates. We expect that raw milk sales to Yili will continue to represent a significant portion of our annual sales of raw milk produced for the foreseeable future. For more information, see the section headed "Summary – Our relationship with Yili."

We cannot assure you that we would be able to maintain good business relationship with Yili or we will continue to benefit from our cooperation with Yili in the future. Given Yili has and will continue to represent a significant portion of our annual sales of raw milk produced, if our relationship with Yili deteriorates or is terminated, or if we fail to maintain the relationship on commercially viable terms, or if Yili breaches its framework agreement with us and does not purchase raw milk in part or entirely from our Group pursuant to the framework agreement, we will need to source other business partners and may not be able to locate alternative business partners within a short period of time and consequently, our ability to maintain our historical level of sales may be materially and adversely affected, which might result in a loss or materially adversely impact our business, financial performance and prospects in general. In addition, if Yili were to fail to make timely payments, we may be unable to recover significant amounts of trade receivables and our cash flows and financial position could be adversely affected.

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

A major outbreak of any illness or disease at any of our dairy farms could have a significant adverse impact on our raw milk production capacity and volume. The source of diseases may include our employees, our feed supplies, visitors to our dairy farms, contaminated water and pathogens transmitted through the air. We vaccinate different groups of dairy cows according to the different stages of their growth at our dairy farms. To the best of our knowledge, there were no outbreaks of major diseases at any of our dairy farms during the Track Record Period. However, we cannot guarantee that animal diseases, including but not limited to FMD will not occur at our dairy farms or we will not fail to monitor or detect any illness or diseases among our dairy cows or on neighboring farms. Any major outbreak of illness or diseases, including those mentioned above, at any of our dairy farms may lead to significant shortfalls in our raw milk production. We may also be required to suspend our business operations temporarily during any major outbreaks and examine all of our dairy cows. As of the Latest Practicable Date, our insurance policies covered cattle deaths caused by diseases and we may also receive government compensation in the event of an outbreak of a disease. However, we cannot assure you that these will be sufficient to cover all of our losses, particularly intangible losses including damage to our reputation and corporate image. In addition, an outbreak of any dairy cows disease at neighboring farms could result in concerns of the public and our customers, which could in turn adversely impact our sales, reputation and results of operations. In the event of any outbreak, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

In addition to product liability claims, if our products are found to be contaminated, we may be subject to regulatory actions. If we are found to violate the Food Safety Law of the PRC (中華人民共和國食品安全法), we could be subject to penalties, including monetary fines, confiscation of illegal gains, income and foodstuffs from the manufacturing or business activities, and of utensils, equipment, raw materials and other articles used for illegal business activities, and/or the revocation of licenses needed to conduct our business, which could materially and adversely affect our results of operations and financial condition.

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

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

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

The raw materials that we require mainly include forage grass to supply our dairy farms and feed ingredients to produce feed products. We currently purchase the majority of raw materials from third-party suppliers, and we expect to continue to do so in the future. For instance, our cost of feed in the raw milk segment amounted to RMB1,237.6 million, RMB1,437.6 million and RMB3,227.9 million in 2018, 2019 and 2020, respectively, accounting for 79.8%, 80.6% and 80.7% of the cost of sales of our raw milk business (before raw milk fair value adjustments) respectively. We cannot assure you that our raw material suppliers will continue their business relationship with us and deliver to us sufficient raw materials in a timely manner on commercially acceptable terms, or at all. In the event that our agreements with these suppliers are terminated, interrupted, or adversely modified, we cannot assure you that we are or will be able to secure alternative sources of raw materials with comparable prices or amounts on terms favorable to us, or at all. Any loss of our major suppliers could result in delay of our production and/or increase in our cost of sales, thereby materially and adversely affecting our business and financial position.

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

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

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

The quality and quantity of our dairy cows are important to our raw milk output. Historically, we have imported high quality heifers from Australia and New Zealand. Any adverse event, such as outbreak of disease, strikes, riots, export control and other government restrictions or economic downturns, within these countries may cause disruption or shortage of supply, deterioration of quality and price fluctuation of the heifers, which could have a material adverse effect on our business and results of operations. For example, on April 14, 2021, the government of New Zealand announced that the export of livestock by sea would cease following a transition period of up to two year. For a detailed analysis of the potential impact of such livestock export ban by the New Zealand government, see "Business – Raw Milk Business – Our Dairy Cows." In addition, the expansion of our business depends heavily on our ability to import sufficient numbers of heifers, failure of which could adversely affect our growth prospects.

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

**We are subject to credit risk in collecting the trade and bill receivables and other receivables due from the customers.**

For our raw milk business, we typically require our customers to make payments each month for raw milk purchased in the previous month. For the sale of our comprehensive ruminant farming solutions, we set credit terms based on customer's sizes and credit ratings, and grant certain credit term, generally ranged from 30 to 90 days. During the Track Record Period, the trade and bill receivables turnover days were 36 days, 44 days and 37 days for the years ended December 31, 2018, 2019 and 2020, respectively, which were within our credit period of 90 days. As at December 31, 2018, 2019 and 2020, trade and bills receivables of approximately RMB138.3 million, RMB318.7 million and RMB298.7 million, respectively, were past due. We consider that a long credit period inevitably increases the potential credit risk. Historically, we have not experienced material collection issues in connection with our trade and bill receivables. However, there is no assurance that all such amounts due to us will be settled on time. Accordingly, we face credit risk in collecting the trade and bill receivables due from the customers. Our performance, liquidity and profitability will be adversely affected if significant amounts due to us are not settled on time. The bankruptcy or deterioration of the credit condition of any of our major customers could also materially and adversely affect our business.

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

We have experienced a stable growth during the Track Record Period. Our revenue increased significantly from RMB6,333.9 million in 2018 to RMB7,667.8 million in 2019, and further to RMB11,781.2 million in 2020, representing a CAGR of 36.4% from 2018 to 2020. However, there is no assurance that we will be able to maintain our historical growth in the future. Our revenue growth may slow down or our revenues may decline for a number of reasons beyond our control, including decreasing dairy consumption, increasing competition, changing consumer preferences, slowing growth of China's dairy industry, supply and production bottlenecks, changes in government policies or general economic conditions. If our growth declines, investors' perception of our business and business prospects may be adversely affected and the market price of our Shares would decline.

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

We operate in highly competitive markets in China. For our raw milk business, we primarily compete with other large-scale dairy farms in China. For the ruminant feed market in China, we face direct competition with regional and foreign feed producers for our concentrated feed, while face direct competition with other forage grass producers for the forage grass production. For breeding business, we are exposed to intensive competition with domestic and foreign frozen semen providers. See the section headed "Business – Competition" in this prospectus for details on our competitive landscape. To obtain and maintain competitive advantage in any of these business segments would require us to divert significant managerial, financial and human resources. In addition, each of our business segments is subject to rapid changes in the respective market and new market entrants. Some of our current competitors have, and future competitors may have, greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer base than we do. Our competitors may also enter into business combinations or alliances that strengthen their competitive positions. Increased competition may reduce our market share and profitability and require us to increase our marketing and promotional efforts and capital commitment in the future, which could negatively affect our results of operations or force us to incur further losses.

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

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

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

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

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

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

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

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

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

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

In addition, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire the 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. The Fonterra Acquisition was completed on April 1, 2021 at a consideration of RMB2,530,565,725 which has been applied a purchase price adjustment and is subject to a further adjustment. For the details, please see the section headed "History, Reorganization and Group Structure" in this prospectus. We believe that the Fonterra Acquisition will be conductive to further meeting the needs of our expanding business and sustaining profitability through economies of scale. However, in respect of the business acquired from Fonterra China Farms Group, we are facing the same challenges and risks in consolidating its business into our existing business as the SKX Acquisition, including the liquidity risk we might be imposed considering the net current liabilities Fonterra China Farms Group recorded historically.

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

**Loss of or failure to obtain or renew certifications for organic dairy farming and concentrated feed processing could materially and adversely affect our business.**

We have been granted certifications for organic dairy farming and concentrated feed processing from Organic Food Development and Certification Center of China (南京國環有機產品認證中心) under the PRC standards and/or Bioagricert srl under the E.U. standards, which permit us to use the relevant organic labels on our raw milk and certain concentrated feed products as an indication of organic quality. For further details, see "Business – Our Dairy Farms – Our Organic Dairy Farms." We consider these certifications critical to our core business. The certification granted by Organic Food Development and Certification Center of China (南京國環有機產品認證中心) and Bioagricert srl are typically renewed on an annual basis. During the examination process for the application and renewal of these certifications, on-site audit teams from Organic Food Development and Certification Center of China (南京國環有機產品認證中心) and/or Bioagricert srl will inspect our farming and production facilities and processes to ensure strict compliance with the respective organic standards, as applicable. There can be no assurance that we will always be able to retain our organic certifications. If we fail to obtain or renew such certifications in a timely manner or at all, our ability to market our products may be adversely affected and our sales volume may be reduced. In addition, without the organic certification, we may not be able to market and sell our organic raw milk at a relatively higher price, which may adversely impact our profitability and results of operations.

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

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

- temporary decrease in the price of raw milk;

- some of our employees were required to work remotely due to mandatory quarantines;

- some of our scheduled on-site marketing activities and physical meetings with customers have been postponed or need to be conducted in other manners due to the impact of the outbreak;

- delayed supply by our suppliers due to the pandemic; and

- restricted the transportation of products.

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

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

COVID-19 across China and around the world, could lead to widespread health crises, which may materially and adversely affect the consumption markets and the national economy. War or terrorist activities may also injure our employees, cause loss of life, or disrupt our business operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have, to date, financed our working capital and capital expenditure needs primarily by managing our inventories, receivables and payables and through capital contributions from shareholders and bank loans from local banks. Our total bank and other borrowings (excluding the data of SKX) as of December 31, 2018 and 2019 were RMB1,742.0 million and RMB2,782.6 million, respectively. As of December 31, 2020, our total bank and other borrowings (including the data of SKX) were RMB6,196.1 million. See the section headed "Financial Information – Discussion of Certain Key Consolidated Statement of Financial Position Items of Our Group – Current assets and liabilities" and "Financial Information – Discussion of Certain Key Consolidated Statement of Financial Position Items of Our Group – Non-current assets and liabilities" for more information. We may, in the future, require additional cash resources as we continue to expand our business operations and production facilities and implement other growth strategies. We cannot assure you that we will not experience working capital deficiencies or net cash outflows in the future. If our own financial resources are insufficient to satisfy our working capital requirements, we may seek to obtain additional credit facilities or sell additional private or public equity or debt securities.

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

**The dairy industry in China could face slower market growth.**

China's dairy industry has experienced significant growth in the past few years, with the dairy products market in China rising from RMB326.4 billion in 2015 to RMB490.3 billion in 2020, representing a CAGR of 8.5% in terms of retailing sales, according to Frost & Sullivan. This growth has been, in part, attributable to increasing demand for dairy products in China. The prices at which we sell our products and the demand for our planned new products could be influenced by the level of consumer demand for dairy products in China. We cannot assure you that China's dairy industry will continue to grow at the same pace or at all in the future. China's dairy industry may experience slower growth due to market saturation or competition from alternative products, such as soy-based beverages and products, which may have an impact upon the size and growth of the dairy products markets. If the demand for dairy products in China declines for any reason, including changing consumer preferences, our results of operations and expansion plans could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

In recent years, international market conditions and regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. Changes in international trade or investment policies, treaties and tariffs, fluctuations in exchange rates or the perception that these changes could occur, could adversely affect our business, financial condition and results of operations. The U.S. administration has advocated and taken steps towards trade restrictions on certain goods, particularly from China. China and other countries have retaliated in response to new trade policies, treaties and tariffs implemented by the United States. For instance, in response to the tariff announcements by the United States in August 2019, China announced it would stop buying U.S. agricultural products and levied new rounds of retaliatory tariffs on U.S. products. After several rounds of trade talks between China and the United States, the two countries entered into the Sino-U.S. phase one deal in January 2020, according to which China suspended its retaliatory tariffs and agreed to increase purchases of U.S. agricultural products.

Our forage grass trading business relies heavily on importation of forage grasses, such as alfalfa, from the United States, which was once subject to a 25% retaliatory tariffs during the period from approximately July 2018 to September 2019. Accordingly, we were imposed on additional tariffs of approximately RMB104 million with respect to our imported forage grass during the Track Record Period, accounting for no more than 1.5% of our revenues in 2019, which had been fully refunded by the Chinese government as of the Latest Practicable Date. In September 2019, the Chinese government announced that it suspended imposing additional tariffs on alfalfa imported from the United States and decided to refund the tariffs already imposed in this regard. As of the Latest Practicable Date, the aggregate amount of RMB104 million additional tariffs had been fully refunded by the Chinese government. In addition, historically we have imported Holsteins primarily from Australia and New Zealand, and our importing of dairy cows had not been impacted by any trade conflicts, if any, with such countries. Although our business operations and financial condition as a whole had not been materially impacted by any international trade conflicts, especially the Sino-U.S. trade war, up to the Latest Practicable Date, there can be no assurance that we will always be able to do so. There are uncertainties as to whether the Sino-U.S. phase one trade deal will be implemented strictly or not at all, or whether China will impose additional tariffs on U.S. products in the near future. If the import price of forage grasses surges due to increased tariffs or import restrictions, we will have to raise our selling price accordingly, which could lead to loss of customers and market share, and have an adverse effect on our business and results of operations.

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

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

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

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

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

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

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

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

**If we are unable to continue to benefit from government subsidies and preferential tax treatments, our results of operations could be adversely affected.**

We have historically benefited from government policies that favor China's dairy industry and feed industry. We have received government subsidies and enjoyed preferential tax treatments (such as exemption on, or preferential rates of, valued-added taxes and/or income tax) as a result of government policies which benefit the dairy industry and feed industry in order to promote, among other things, improved industrialization and specialization levels of the husbandry industry, acceleration of the breeding and promotion of fine breeds of livestock. For the three years ended December 31, 2018, 2019 and 2020, we recognized government subsidies of RMB31.1 million, RMB39.4 million and RMB44.3 million in profit or loss, respectively. For the three years ended December 31, 2018, 2019 and 2020, we received government subsidies in the amount of approximately RMB20.1 million, RMB19.9 million and RMB53.5 million, respectively, of which RMB6.2 million, RMB11.8 million and RMB43.7 million were project or event-based, one-off grants. During the track record period, we also enjoyed preferential tax treatments including (i) exemption on valued-added taxes for our raw milk segment, and self-produced frozen semen, self-produced forage grasses and feed processing business under our comprehensive ruminant farming solutions segment, (ii) exemption on enterprise income taxes for our raw milk segment, and self-produced frozen semen and self-produced forage grasses under our comprehensive ruminant farming solutions segment, and (iii) a preferential rate of 15% of enterprise income taxes for certain of our comprehensive ruminant farming solutions business in areas enjoying China's Western Development policies. Among those preferential tax treatments, the total amount of tax benefits enjoyed by us on enterprise income taxes for the years ended December 31, 2018, 2019 and 2020 was RMB129.9 million, RMB164.5 million and RMB358.6 million, respectively; approximately RMB1.6 million, RMB1.1 million and RMB2.4 million of tax preference enjoyed for the three years ended December 31, 2018, 2019 and 2020, respectively, were project or event-based, one-off grants. For more information, see the section headed "Financial Information – Major Factors Affecting Our Results of Operations and Financial Condition – Our Ability to Continuously Benefit from Government Support". We cannot assure you that we will continue receiving such governmental support or preferential tax treatments in the future, and if these government policies change, our results of operations could be adversely affected.

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

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

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

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

**We face the risk of obsolescence for our inventory.**

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

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

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

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

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

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

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

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

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

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

We lease premises for our operation of certain dairy farms and feed mills. A few of our leased properties have certain title defects, as the lessors had not completed the relevant filing procedures of land used for agricultural facilities for certain leased dairy farms, had not obtained the relevant construction planning permit for the construction of the leased building, or had constructed factory buildings on non-constructive land collectively owned by farmers. If the lessors fail or decline to rectify the title defects, we may not be able to enforce our rights to lease such properties under the respective lease agreements and we may be required to find alternatives, in which event we could only initiate the claim against the lessors under relevant property lease agreements for indemnities for their breach of the relevant leasing agreements. As of the Latest Practicable Date, we are not aware of any claim or challenge brought by any third parties or governmental authorities concerning the use of our leased properties with title defects or procedural defects. However, in the case where we may not be able to enforce our rights under the respective lease agreements, we cannot assure you that suitable alternatives are readily available on commercially reasonable terms, or at all, and if we are unable to find alternatives in a timely manner, our operations may be interrupted. For more details, see the section headed "Business – Properties – Leased Properties" in this prospectus.

**We recorded net current liabilities as of December 31, 2018 and 2020.**

The expansion of our businesses has been capital intensive. We recorded net current liabilities of RMB469.0 million and RMB538.8 million as of December 31, 2018 and 2020, respectively, primarily reflecting the expenditures incurred in relation to construction of infrastructure, purchase of equipment and import of heifers for the expanded or newly developed dairy farms under our expansion plans. During the Track Record Period, we funded our liquidity and capital requirements primarily through capital contributions from our Shareholders, bank borrowings and cash generated from our operating activities. For more details on our net current liabilities, please see the section headed "Financial Information – Discussion of Certain Key Consolidated Statement of Financial Position Items of Our Group – Current assets and liabilities" in this prospectus. Our future liquidity will primarily depend on our ability to maintain adequate cash inflows from our operating activities and secure adequate external financing. Our ability to generate adequate cash inflows from operating activities may be affected by decreasing sales or downward movements in the prices for our raw milk and cow feed. In addition, we may not be able to renew or refinance our existing bank borrowings or secure additional external financing. The occurrence of any of the foregoing may cause us not to have sufficient cash flow to fund our operating costs and, in that event, our business, financial condition and results of operations could be materially and adversely affected.

**Fair value changes in our Convertible Notes issued to Pre-IPO investors and related valuation uncertainty due to unobservable inputs as well as the redemption of our Convertible Notes may affect our financial condition and results of operations.**

In November 2020, our Company issued Convertible Notes to certain Pre-IPO investors. For more details, please see the section headed "History, Reorganization and Group Structure – Issuance of Convertible Notes" of this prospectus.

The Convertible Notes are designated as financial liabilities at fair value through profit or loss. They are initially recognized at fair value and the subsequent changes in fair value are recognized to profit or loss. The fair value of the Notes is established by using binomial pricing model. The discounted cash flow method was used to determine the total equity value of the Company while the binomial model was adopted to determine the fair value of the Convertible Notes, and the key valuation assumptions used included discount rate, risk-free interest rate and volatility. Any change in the assumptions may lead to different valuation results and, in turn, changes in the fair value of these financial instruments issued to investors. The risk factors included but not limited to the parameters to drive to discount rate such as yield from the comparable bonds, and premiums like the liquidity premium, country premium and specific premium. As unobservable inputs were used to drive the Convertible Notes' discount rate in the valuation, there is valuation uncertainty related to our Convertible Notes. Upon conversion the Notes will be reclassified and re-designated to ordinary shares of the Company and the conversion is a non-cash transaction. The holders of the Convertible Notes shall have the right, but not the obligation, to convert the outstanding principal amount of the Convertible Notes into such number of Shares pursuant to the terms of the Convertible Notes at any time. For details about our Shares expected to be allotted and issued upon conversion of the Convertible Notes immediately following the completion of the Global Offering, please see "– You will experience immediate dilution and may experience further dilution in the future." To the extent we need to revalue the Convertible Notes prior to their conversion, any change in fair value of Convertible Notes and related valuation uncertainty could materially affect our financial position and performance.

Further, before the maturity date of the Convertible Notes, the holders of the Convertible Notes may require the early redemption of the Convertible Notes in case that: (i) at any time after the occurrence of an event of default under the Convertible Notes, the holders of the Convertible Notes may require the Company to redeem the outstanding principal amount of the applicable Convertible Notes or any portion thereof; and (ii) upon the expiration of the fifteenth (15th) month of the applicable issuance dates of the Convertible Notes, the holders of the Convertible Notes has an one-off right to require us to redeem all outstanding principal amounts of the Convertible Notes (including the outstanding principal amount), or any portion thereof. If the Convertible Notes are to be redeemed upon the expiration of the fifteenth (15th) month of the applicable issuance dates, the redemption amount shall be the principal amounting to US$460,000,000 (equivalent to approximately RMB3,017,278,000), plus total accrued interest calculated at 10% per annum (cash and PIK interest) on the principal, amounting to US$57,914,000 (equivalent to approximately RMB379,875,300). The redemption of the Convertible Notes, if triggered, would reduce the Group's cash position.

**We have incurred, and may in the future incur, impairment loss on non-current assets. Significant impairment of our non-current assets could materially impact our financial position and results of our operations.**

We have made significant investments in non-current assets. We review our non-current assets, including property, plant and equipment, investment properties, right-of-use assets, goodwill and intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the non-current assets to the recoverable amount of the assets, which are the greater of the fair value less costs of disposal and the value in use. If the recoverable amount is less than the carrying amount of the assets, we recognize an impairment loss based on the recoverable amount of the assets. The application of non-current asset impairment test requires significant management judgment. If our estimates and judgments are inaccurate, the recoverable amount determined could be inaccurate and the impairment recognized may not be adequate, and we may need to record additional impairments in the future. Any significant impairment losses charged against our non-current assets could materially adversely affect our results of operations.

**We have made, and may continue to make, equity investments in businesses as opportunities arise. Any changes in fair value may affect our financial position.**

SKX historically made equity investments in certain companies and we may in the future make equity investments from time to time. We have certain equity investments measured at fair value through other comprehensive income. Fair value is estimated using market approach, based on value of comparable listed companies and discounted for lack of liquidity, over which we have no control. Estimating the fair value of equity investments is inherently subjective. Any changes in fair value may affect our other comprehensive income and financial position.

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

We depend on certain key qualified personnel, key senior management and other employees in our business, including our executive Director and president, Mr. Zhang Xiaodong, our executive Director and vice president, Mr. Dong Jiping, our vice president, Mr. Jiang Guangjun, Mr. Xu Yanfei and Mr. Yang Ming. For details of our key senior management, see the section headed "Directors and Senior Management" in this prospectus. The expertise, industry experience and contributions of our senior management are crucial to our success. There can be no assurance that such persons will continue to provide services to us or will honor the agreed upon terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain key personnel for our future operations and development may have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

We may be a party to legal proceedings or regulatory investigations arising from time to time. See "Business – Legal Proceedings." As of the Latest Practicable Date, except for the litigations involving SKX as disclosed elsewhere in this prospectus, we were not involved in any litigation or legal proceedings that we believe could have a material adverse effect on our business or financial condition. In addition, we may at times be involved in other litigation or legal proceedings during the ordinary course of business operations, or related to, among other things, product or other types of liability, labor disputes or contract disputes. If we become involved in any litigation or other legal proceedings in the future, actions brought against us may result in compensation payments, settlements, injunctions, fines, penalties or other results that may adversely affect our reputation, business and financial condition. In addition, any litigation or legal proceedings could involve substantial legal expenses as well as significant time and attention of our management, diverting their attention from the operations of our Company. Please refer to the section headed "Appendix V – Statutory and General Information – Other Information – Litigation" in this prospectus.

**Inability to fulfill the obligation of contract liabilities may affect our liquidity position.**

Contract liabilities arise when payment is received before we transfer a good or service to the customer. Our contract liabilities amounted to RMB34.8 million as of December 31, 2020. We are diligent at meeting the demand of our customers. Due to any reasons beyond our control, we may not be able to satisfy our performance obligations. If we are required to refund the prepayments to our customers as a result of our failure to fulfill the obligation of contract liabilities, our financial results and liquidity position may be adversely affected.

**Our business operations are subject to risks relating to environmental, social and governance.**

Our business operations are subject to risks relating to environmental, social and governance (the "**ESG**"), especially those related to climate change. Climate-related risks may potentially affect our business and financial condition in the short, medium and long term. Substantially all of our dairy farms are located in northern part of China, including Inner Mongolia and Northeastern Region, which are subject to the risk of severe weather conditions of icing and snowing that could potentially lower raw milk yield. Furthermore, extreme heat across China could also have an adverse impact on the health conditions of our dairy cows, which may result in lower production volumes. Additionally, we may experience indirect impacts from supply chain disruption if we and/or our suppliers, especially our feed ingredients and forage grass suppliers, suffered from extreme weather conditions such as snowing, icing and flooding. The decrease in our raw milk yield or disruptions to our supply chain management may impact our ability to fulfill our existing contractual obligations, which, in turn, may cause monetary damages and loss of existing and potential customers.

Furthermore, potential transition risk may result from the transitioning to a lower-carbon economy which entails change in climate-related regulations and policies. Tightened environmental regulations may require significant investment to be made in transforming our business and operations, which may have a material adverse impact on our business, results of operations and financial condition.

We have adopted a complete set of ESG-related policies and procedures to ensure our long-term and sustainable growth. For details, see the section headed "Business – Environmental, Social and Governance." However, such policies and procedures may not always be effective, or at all, to tackle the ESG-related risks that we may be exposed to. In addition, although there was no event relating to ESG that might have a material adverse impact on our business operations and financial condition during the Track Record Period and up to the Latest Practicable Date, there can be no assurance that we would not encounter any such events in the future.

Under our ESG-related policies and procedure, we use a set of key metrics to measure and manage climate-related risks and opportunities. Such key metrics include air pollutants emissions, greenhouse gas (the "**GHG**") emissions, water usage and power usage. In particular, due to the nature of our business, emission of GHGs is among the most important metrics to assess the impact of our operations on the environment. During the Track Record Period, our GHG emissions totaled 63.4 tons, 63.3 tons and 86.0 tons per million revenue in 2018, 2019 and 2020, respectively, among which the Scope 1 GHG emissions were 50.6 tons, 49.9 tons and 67.9 tons per million revenue during the respective periods. Since our dairy farming operation contributes a substantial portion of our total GHG emissions, and the GHGs emitted by dairy cows primarily come from their manure and exhaled breaths, we strive to continue to reduce the amount of GHGs emitted by our dairy cows through a series of measures. However, there can be no guarantee that such measures would always be effective, if at all, to manage and control the level of our GHG emissions. Any failure of such measures could result in increases of our GHG emissions, which may subject us to administrative penalties or additional costs associated with addressing the increased GHG emissions. Additionally, if we fail to meet our emission reduction and resource consumption targets, or continue to reduce our emissions and resource consumption in general, our business, reputation and financial condition may be materially adversely affected.

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

Under PRC laws and regulations, we are required to make social insurance and housing provident funds contributions for the benefit of our employees. Some of our PRC subsidiaries failed to make social insurance or housing provident funds contributions to certain of their employees. During the Track Record Period, we failed to make sufficient social insurance contributions with a total amount of RMB7.2 million and failed to make sufficient housing provident fund contributions with a total amount of RMB9.5 million. If we fail to make required payment within the prescribed period as required by the local social insurance administration department, the potential maximum monetary penalty that may be imposed on us was RMB22.1 million as of December 31, 2020. For more details, please refer to the section headed "Business – Licenses, Regulatory Approvals, Certificates and Compliance Records" in this prospectus. As advised by our PRC Legal Advisors, pursuant to the relevant PRC laws and regulations, our subsidiaries may (i) be ordered to pay or make up the outstanding social insurance contributions within a prescribed time limit and be subject to an overdue fine of 0.05% of the delayed payment per day from the date on which the payment is payable, and if such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of the overdue payment; and (ii) be ordered to pay the outstanding housing provident fund contribution within a prescribed time limit; if the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. As of the Latest Practicable Date, we had not received any administrative penalty from regulatory authorities or were be required to make up the outstanding contributions or pay any overdue fine due to the aforementioned matters. However, there can be no assurance that the relevant authorities would not enforce such payments, surcharges and penalties against us.

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

As of the Latest Practicable Date, the equity interest of the Company was held as to approximately 42.89% by PAG Entities and 40.00% by Yili, through China Youran Dairy Holding Limited and Jingang Holding, its wholly-owned subsidiaries. Immediately following the completion of the Global Offering, PAG Entities and Yili, through China Youran Dairy Holding Limited and Jingang Holding, its wholly-owned subsidiaries, will be interested in approximately 31.46% and 34.80% of our issued share capital, respectively, assuming the Over-allotment Option is not exercised and the Convertible Notes are not converted. Assuming full conversion of Convertible Notes immediately following completion of the Global Offering, the PAG Entities will be interested in approximately 40.07% (assuming the Over-allotment Option is not exercised) and 37.85% (assuming the Over-allotment Option is fully exercised) of the issued share capital of our Company, respectively; and Yili will be interested in approximately 27.36% (whether or not the Over-allotment Option is exercised) of the issued share capital of our Company. Therefore, the PAG Entities will remain to be our Controlling Shareholders; while Yili will cease to be one of our Controlling Shareholders upon Listing, assuming the Convertible Notes are fully converted. Although our business operations are run independently by our Board of Directors and management, our Controlling Shareholders, subject to our Memorandum and Articles of Association and applicable laws and regulations, will have substantial influence over our business. In addition, our Controlling Shareholders may have interests that conflict with those of the other Shareholders, and may take actions that would not be in the best interests of the other Shareholders. This may discourage, delay or even prevent a change in control of our Company, which could deprive you as Shareholders of the opportunity to receive a premium for your Shares in a sale of our Company or may reduce the market price of our Shares. For more details, see the section headed "Relationship with Controlling Shareholders" in this prospectus.

## RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

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

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for the past four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the dairy industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be adversely affected.

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

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

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

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

Under the PRC Anti-monopoly Law, companies undertaking certain investments and acquisitions relating to businesses in China must notify the anti-monopoly enforcement agency in advance of any transaction where the parties' turnover around the world or in China exceed certain thresholds and the buyer would obtain control of, or decisive influence over, the other party. Under the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, the approval of MOFCOM must be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents merge and acquire domestic companies affiliated with PRC enterprises or residents. In addition, the Provisions on Implementation of Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns, and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns, are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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

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

The EIT Law provides that if an enterprise incorporated outside the PRC has its "de facto management body" within the PRC, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to a uniform 25% enterprise income tax on its global incomes (excluding dividends received from "resident enterprises"). "De facto management body" is defined as the body that exercises substantial overall management and control over the manufacturing and business operation, personnel, accounts, properties, etc. of an enterprise. In April 2009, the State Tax Administration of PRC, or the STA, promulgated the "Notice of the State Administration of Taxation on Issues about the Determination of Chinese – Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management" (Guo Shui Fa [2009] No. 82), which clarified the certain criteria for the determination whether the "de facto management body" of an offshore Chinese enterprise as the controlling shareholder of Mainland China enterprise. These criteria include: (i) the enterprise's senior management personnel and department who are responsible for managing the day-to-day business operation perform their obligations primarily in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 1/2 (including 1/2) or more of voting directors or senior executives of the enterprise habitually reside in the PRC. Meanwhile, the determination of "de facto management" shall apply based on the principle of substance over form. The STA further issues administrative rules in July 2011 and January 2014 regarding administrative procedures for recognizing PRC resident enterprise status of a Chinese-controlled company registered abroad.

Although this circular applies only to offshore enterprises funded by Chinese enterprises as controlling shareholders, rather than those funded by Chinese or foreign individuals or foreign enterprises as controlling shareholders (such as our Company), the determining criteria set forth in the circular may reflect STA's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of how they are funded. Although our Company is not funded by Chinese enterprises as controlling shareholders, substantial uncertainties remain as to whether our Company or any of our other non-PRC entities will be deemed a PRC resident enterprise for the EIT purposes. If we or any of our subsidiaries registered outside the PRC are to be deemed a "resident enterprise" under the EIT Law, our income tax expenses may increase significantly, and our profitability could decrease materially. Furthermore, the EIT Law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how "domicile" may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. If we are treated as a PRC resident enterprise for PRC-tax purposes, according to aforementioned circulars issued by STA, any dividends we pay to our overseas corporate shareholders that are non-PRC resident enterprise, which do not have an establishment or place of business in PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business, may be regarded as PRC-sourced income and as a result become subject to PRC withholding income tax at a rate of up to 10.0%. Any gains realized on the transfer of our shares by such non-PRC resident enterprise investors would be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Under the PRC Individual Income Tax Law and its implementation rules, PRC sourced dividends paid to non-PRC individual investors are generally subject to a PRC withholding income tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of our shares are generally subject to a 20% PRC income tax. If PRC income tax were imposed on gains realized through the transfer of our shares or on dividends paid to our non-resident investors, the value of your investment in our shares may be materially and adversely affected. Any PRC tax liability described above may be reduced under applicable tax treaties. However, it is unclear whether our shares holders whose jurisdictions of residence have tax treaties or arrangements with China, the PRC will be able to obtain the benefits of such tax treaties or arrangements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## RISKS RELATING TO THE GLOBAL OFFERING

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

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

**The market price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing our Shares in the Global Offerings.**

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility of the price of, and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong

Kong. Some of these companies have experienced significant volatility, including significant price declines after their offerings. The trading performances of the securities of these companies at the time of, or after, their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong, and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

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

Our Company issued Convertible Notes to PAG III in the aggregate principal amount of US$330.0 million, issued Convertible Notes to BCC Piano Investments, L.P. ("Bain") in the aggregate principal amount of US$75.0 million, issued Convertible Notes to Victory Ride Holdings Limited ("ICBC") in the aggregate principal amount of US$30.0 million and issued Convertible Notes to Good Virtue Limited ("BOC") in the aggregate principal amount of US$25.0 million. Under the Convertible Notes, the holder of the Convertible Notes shall have the right, but not the obligation, to convert the outstanding principal amount into such number of fully paid and non-assessable Shares of the Company pursuant to the terms of the respective Convertible Notes. Based on the number of Shares which are expected to be in issue immediately upon Listing, PAG III, Bain, ICBC, and BOC are expected to be allotted and issued in aggregate 1,031,274,521 Shares upon conversion of the Convertible Notes, representing approximately 21.4% of the enlarged issued Share capital immediately following the completion of the Global Offering (based on the number of Shares which are expected to be in issue immediately upon Listing and assuming the Convertible Notes are all converted). The cost per Share will be approximately US$0.44605 per Share and represents approximately a 50.4% discount to the lowest range of the Offer Price of HK$6.98 per Share and approximately a 60.0% discount to the highest range of the Offer Price of HK$8.66 per Share. For more details, please see the section headed "History, Reorganization and Group Structure – Issuance of Convertible Notes" of this prospectus. To the extent the Convertible Notes are partially or all converted, the shareholding percentages of the existing Shareholders in the Company would be diluted and the market price of the Shares could be negatively affected.

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

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

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

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

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

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

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

**We have discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.**

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

**Investors may experience difficulties in enforcing Shareholder rights.**

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. The corporate affairs of our Company are governed by the Memorandum and Articles of Association, the Companies Act and the common law of the Cayman Islands. The rights of Shareholders to take legal action against our

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

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

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

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

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

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

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

**You should rely only on this prospectus and not place any reliance on any information contained in press articles or other media in making your investment decision.**

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

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

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

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

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provision of the Listing Rules:

## MANAGEMENT PRESENCE IN HONG KONG

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

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

(a) our Group's principal business operations are located in the PRC;

(b) our Directors and members of our Group's senior management are, and expect to continue to be, based primarily in the PRC; and

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

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

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

(b) each of the authorized representatives has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times and as when the Stock Exchange wishes to contact the members of the Board for any matter. In addition, we have provided all of our Directors' mobile phone numbers, office phone numbers and e-mail addresses to the Stock Exchange;

(c) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange in Hong Kong within reasonable notice; and

(d) in compliance with Rule 3A.19 of the Listing Rules, we retained Lego Corporate Finance Limited as our compliance advisor, they will act as an additional channel of communication with the Stock Exchange.

## CONTINUING CONNECTED TRANSACTIONS

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

## WAIVER FROM PRINTED PROSPECTUSES

Pursuant to Rules 12.04(3), 12.07 and 12.11 of the Listing Rules, we are required to make available copies of this prospectus in printed form.

The waiver from the requirements to make available printed copies of this prospectus is in line with recent amendments to the Listing Rules relating to environmental, social and governance ("**ESG**") matters. As the Stock Exchange noted on page 1 of its Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules published in December 2019, such amendments relating to ESG matters "echo the increasing international focus on climate change and its impact on business." In addition, a fully electronic application process with a paperless prospectus and application forms is in line with the conclusions to the consultation on Paperless Listing & Subscription Regime, Online Display of Documents and Reduction of the Types of Documents on Display issued by the Stock Exchange dated December 2020. Electronic, in lieu of printed, prospectuses and application forms will help mitigate the environmental impact of printing, including the exploitation of precious natural resources such as trees and water, the handling and disposal of hazardous materials, air pollution, among others.

We also note that in light of the uncertain situation of the ongoing COVID-19 pandemic, an electronic application process with a paperless prospectus will reduce the need for prospective investors to gather in public, including branches of the receiving bank and other designated points of collection, in connection with the Hong Kong Public Offering.

Accordingly, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 12.04(3), 12.07 and 12.11 of the Listing Rules in respect of the availability of copies of the prospectus in printed form.

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

Our Hong Kong Share Registrar has implemented enhanced measures to support the **HK eIPO White Form** service, including increasing its server capacity and making available a telephone hotline to answer investors' queries in connection with the fully electronic application process. For details of the telephone hotline and the application process, please see the section headed "How to Apply for Hong Kong Public Offer Shares".

We will adopt additional communication measures to inform potential investors that they can only subscribe for the Hong Kong Public Offer Shares electronically, including: (i) publishing a formal notice of the Global Offering on the websites of the Stock Exchange and our Company and in selected English and Chinese local newspapers describing the fully electronic application process including the available channels for share subscription; (ii) advertising through the **HK eIPO White Form** service in the **IPO App** or at **www.hkeipo.hk** the electronic methods for subscription of the Hong Kong Public Offer Shares; and (iii) the enhanced support provided by our Hong Kong Share Registrar in relation to the Hong Kong Public Offering.

## WAIVER IN RELATION TO PUBLIC FLOAT REQUIREMENTS

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

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

Based on the minimum Offer Price of HK$6.98 and assuming that the Over-allotment Option is not exercised and the Convertible Notes are not converted, we expect that our market capitalization will be no less than approximately HK$26.49 billion at the time of Listing.

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

(i) 18.85% of the Company's total issued share capital; and

(ii) such percentage of Shares to be held by the public immediately after the completion of the Global Offering (as increased by the Shares to be issued upon any exercise of the Over-allotment Option and/or conversion of the Convertible Notes) provided that the highest of (i) and (ii) above is below the minimum public requirement of 25% under Rule 8.08(1) of the Listing Rules.

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

(i) we will have an expected market capitalization at the time of Listing of over HK$10 billion;

(ii) the quantity and scale of the Shares would enable the market to operate properly with a lower percentage of public float;

(iii) we will make appropriate disclosure of the lower percentage of public float as approved by the Stock Exchange in this prospectus; and

(iv) we will confirm sufficiency of public float in our successive annual reports after the Listing.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus 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 prospectus misleading.

## GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus contains the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined between the Joint Global Coordinators (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

The Offer Price is expected to be determined between the Joint Global Coordinators (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, June 10, 2021 and, in any event, not later than Friday, June 11, 2021 (unless otherwise determined between the Joint Global Coordinators (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders)). If, for whatever reason, the Offer Price is not agreed between the Joint Global Coordinators and our Company on or before Friday, June 11, 2021, the Global Offering will not become unconditional and will lapse immediately.

See the section headed "Underwriting" in this prospectus for further information about the Underwriters and the underwriting arrangements.

## PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The application procedures for the Hong Kong Public Offer Shares are set forth in "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this prospectus.

## SELLING RESTRICTIONS ON OFFERS AND SALE OF SHARES

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

## SELLING SHAREHOLDERS

We estimate the net proceeds to the Selling Shareholders from the sale of Sale Shares pursuant to the Global Offering, assuming the Over-allotment Option is not exercised, to be approximately HK$1,675.4 million (assuming an Offer Price of HK$7.82 per Offer Share, being the mid-point of the indicative Offer Price range), after deducting the underwriting commission and estimated related expenses payable by the Selling Shareholders. We will not receive net proceeds from the sale of Sale Shares pursuant to the Global Offering, whether or not the Over-allotment Option is exercised.

## APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued (i) pursuant to the Global Offering, and (ii) upon conversion of the Convertible Notes.

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, June 18, 2021. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong register of members of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

## OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed "Structure of the Global Offering" in this prospectus. Assuming that the Over-allotment Option is exercised in full, the Option Grantors may be required to sell up to an additional 107,315,000 Shares.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

## SHARE REGISTER AND STAMP DUTY

Our principal register of members will be maintained in the Cayman Islands by our principal registrar, Ogier Global (Cayman) Limited, in the Cayman Islands, and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited in Hong Kong.

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

## PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, holding and dealing in the Shares or exercising any rights attached to them. It is emphasised that none of the Company, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective affiliates, directors, supervisors, employees, agents or advisors or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares or exercising any rights attached to them.

## EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates.

Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rates:

RMB0.8228 to HK$1.00
RMB6.3858 to US$1.00
HK$7.7680 to US$1.00

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

## LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

## ROUNDING

Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding.

## DIRECTORS

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

| Name | Address | Nationality |
|---|---|---|
| **Independent Non-executive Directors** | | |
| Ms. Xie Xiaoyan (謝曉燕) | No. 14, Unit 2, Building 28<br>Inner Mongolia Agricultural University<br>Xinjian East Street, Saihan District<br>Hohhot, Inner Mongolia<br>China | Chinese |
| Mr. Yao Feng (姚峰) | No. 416, Gate 4<br>Building 5, Cuiwei Zhongli<br>Haidian District<br>Beijing<br>China | Chinese |
| Mr. Shen Jianzhong (沈建忠) | Room 5028, Unit 3, Building 56<br>North Malianwa Road<br>Haidian District<br>Beijing<br>China | Chinese |

For further information regarding our Directors, please see the section headed "Directors and Senior Management" of this prospectus.

## PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|---|---|
| **Joint Sponsors** | **Huatai Financial Holdings (Hong Kong) Limited**<br>62/F, The Center<br>99 Queen's Road Central<br>Hong Kong |
| | **Credit Suisse (Hong Kong) Limited**<br>International Commerce Centre, Level 88<br>One Austin Road West<br>Kowloon, Hong Kong |
| **Joint Global Coordinators** | **Huatai Financial Holdings (Hong Kong) Limited**<br>62/F, The Center<br>99 Queen's Road Central<br>Hong Kong |
| | **Credit Suisse (Hong Kong) Limited**<br>International Commerce Centre, Level 88<br>One Austin Road West<br>Kowloon, Hong Kong |
| | **Citigroup Global Markets Asia Limited**<br>50/F, Champion Tower<br>3 Garden Road<br>Central, Hong Kong |
| | **CLSA Limited**<br>18/F, One Pacific Place<br>88 Queensway<br>Hong Kong |

**Joint Bookrunners**

**Huatai Financial Holdings (Hong Kong) Limited**
62/F, The Center
99 Queen's Road Central
Hong Kong

**Credit Suisse (Hong Kong) Limited**
International Commerce Centre, Level 88
One Austin Road West
Kowloon, Hong Kong

**Citigroup Global Markets Asia Limited**
*(In relation to the Hong Kong Public Offering only)*
50/F, Champion Tower
3 Garden Road
Central, Hong Kong

**Citigroup Global Markets Limited**
*(In relation to the International Offering only)*
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**CLSA Limited**
18/F, One Pacific Place
88 Queensway
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**
1 Queen's Road Central
Hong Kong

**BOCOM International Securities Limited**
9/F, Man Yee Building
68 Des Voeux Road
Central, Hong Kong

**China Securities (International) Corporate Finance Company Limited**
18/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

**ICBC International Capital Limited**
37/F ICBC Tower
3 Garden Road
Hong Kong

**Futu Securities International (Hong Kong) Limited**
Unit C1-2 13/F, United Centre
No. 95 Queensway
Admiralty, Hong Kong

**Joint Lead Managers**

**Huatai Financial Holdings (Hong Kong) Limited**
62/F, The Center
99 Queen's Road Central
Hong Kong

**Credit Suisse (Hong Kong) Limited**
International Commerce Centre, Level 88
One Austin Road West
Kowloon, Hong Kong

**Citigroup Global Markets Asia Limited**
*(In relation to the Hong Kong Public Offering only)*
50/F, Champion Tower
3 Garden Road
Central, Hong Kong

**Citigroup Global Markets Limited**
*(In relation to the International Offering only)*
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**CLSA Limited**
18/F, One Pacific Place
88 Queensway
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**
1 Queen's Road Central
Hong Kong

**BOCOM International Securities Limited**
9/F, Man Yee Building
68 Des Voeux Road
Central, Hong Kong

**China Securities (International) Corporate Finance Company Limited**
18/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

**ICBC International Securities Limited**
37/F ICBC Tower
3 Garden Road
Hong Kong

**Futu Securities International (Hong Kong) Limited**
Unit C1-2 13/F, United Centre
No. 95 Queensway
Admiralty, Hong Kong

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| **Legal Advisors to our Company** | *as to Hong Kong and U.S. laws:*<br>**Davis Polk & Wardwell**<br>18/F, The Hong Kong Club Building<br>3A Chater Road<br>Hong Kong<br><br>*as to PRC law:*<br>**Tian Yuan Law Firm**<br>10/F, China Pacific Insurance Plaza B<br>28, Fengsheng Lane<br>Xicheng District, Beijing<br>PRC<br><br>*as to Cayman Islands law:*<br>**Ogier**<br>11/F, Central Tower<br>28 Queen's Road Central<br>Central<br>Hong Kong |
| **Legal Advisors to the Joint Sponsors and the Underwriters** | *as to Hong Kong and U.S. laws:*<br>**Sidley Austin**<br>39/F, Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong<br><br>*as to PRC law:*<br>**Beijing Dentons Law Offices, LLP**<br>7/F, Building D, Parkview Green FangCaoDi<br>No. 9, Dongdaqiao Road<br>Chaoyang District, Beijing<br>China |
| **Auditor and Reporting Accountants to our Group** | **Deloitte Touche Tohmatsu**<br>*Certified Public Accountants*<br>35/F One Pacific Place<br>88 Queensway<br>Hong Kong |

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|---|---|
| **Reporting Accountants on the historical financial information of Fonterra China Farms Group** | **KPMG**<br>*Certified Public Accountants*<br>8th Floor, Prince's Building<br>Central, Hong Kong |
| **Industry Consultant** | **Frost & Sullivan (Beijing) Inc.**<br>1018, Tower B<br>500 Yunjin Road<br>Shanghai, 200232, China |
| **Biological Asset Appraiser** | **Jones Lang LaSalle Corporate Appraisal and Advisory Limited**<br>7/F One Taikoo Place<br>979 King's Road<br>Hong Kong |
| **Receiving Banks** | **Standard Chartered Bank (Hong Kong) Limited**<br>18/F Standard Chartered Tower<br>388 Kwun Tong Road<br>Kwun Tong<br>Hong Kong |
| | **Bank of Communications Co., Ltd. Hong Kong Branch**<br>Unit B B/F & G/F, Unit C G/F, 1-3/F,<br>16/F Room 01 & 18/F<br>Wheelock House<br>20 Pedder Street<br>Central<br>Hong Kong |

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

| | |
|---|---|
| **Compliance Advisor** | **Lego Corporate Finance Limited**<br>Room 1601, 16/F<br>China Building<br>29 Queen's Road Central<br>Hong Kong |
| **Principal Share Registrar and Transfer Office** | **Ogier Global (Cayman) Limited**<br>89 Nexus Way<br>Camana Bay<br>Grand Cayman, KY1-9009<br>Cayman Islands |
| **Hong Kong Share Registrar** | **Tricor Investor Services Limited**<br>Level 54, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Principal Bank** | **Bank of Communications Inner Mongolia Region Branch**<br>Fengye Mansion, No. 110, Daxue Road<br>West Hohhot, Inner Mongolia<br>China |
| **Company Website** | **www.yourandairy.com** (the information contained in this website does not form part of this prospectus) |

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

## POLICIES RELATING TO FOREIGN INVESTMENT

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

## POLICIES RELATING TO MODERN HUSBANDRY AND DAIRY INDUSTRY

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

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

## LARGE-SCALE ANIMAL RAISING AND BREEDING INDUSTRY

### Record Filing of Livestock and Poultry Breeding Farms

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

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

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

### License for Production and Operation of Breeding Livestock and Poultry

Pursuant to the Animal Husbandry Law, entities or individuals that intend to engage in production and operation in the breeding or in the commercial production of young livestock and poultry shall obtain the license for production and operation of breeding livestock and poultry. For obtaining the license for production and operation of such genetic material as the ova, frozen sperms and embryos of livestock, an application shall be submitted to the administrative department for animal husbandry and veterinary medicine under the people's government at the provincial level; while the license for production and operation of other breeding livestock and poultry shall be issued after examination by the administrative department for animal husbandry and veterinary medicine under the local people's government at or above the county level.

### Disease Prevention

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

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

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

### Water Resource

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

**Prevention and Control of Pollution**

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

## FOOD SAFETY STANDARDS

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

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

## PRODUCT QUALITY

### Product Quality Law in General

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

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

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

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

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

### Agriculture Products Safety

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

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

**Quality of Dairy Products**

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

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

## FEED PRODUCTION

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

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

## DISTRIBUTION OF VETERINARY DRUGS

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

## PRODUCTION SAFETY

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

## LAND USE

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

### Land Used for Agricultural Facilities

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

## ENVIRONMENTAL PROTECTION

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

**Construction Project Environmental Protection**

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

**Prevention and Control of Pollution**

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

**ONLINE TRADING**

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

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

## IMPORT AND EXPORT OF GOODS

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

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

## INCORPORATION, OPERATION AND MANAGEMENT OF CORPORATE ENTITIES

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

Before 2020, the establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Law of the PRC on wholly Foreign-owned Enterprises (中華人民共和國外資企業法), which was promulgated and became effective on April 12, 1986 and amended on October 31, 2000 and September 3, 2016, and the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法實施細則), which was promulgated on December 12, 1990 and amended on April 12, 2001 and February 19, 2014, and the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) which became effective on October 8, 2016 and amended on July 30, 2017 and June 29, 2018.

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

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

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

Pursuant to Provisions Regarding Mergers and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Rules**") which was promulgated by the MOFCOM, the SASAC, the SAT, the SAIC, the CSRC and the SAFE on August 8, 2006 and became effective as of September 8, 2006, and subsequently amended by the MOFCOM on June 22, 2009, which requires that a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for a new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor established a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to the Article 11 of the M&A Rules, where a domestic company, domestic enterprise, or a domestic natural person, through an overseas company legally established or controlled by it, acquires a domestic company affiliated thereto, an approval from the MOFCOM is required.

## TAXATION

### Enterprise Income Tax

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

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

### Value-added Tax

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

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

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

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

## FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

### Foreign Currency Exchange

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

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

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

### Dividend Distribution

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

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

## EMPLOYMENT, SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

### Employment

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

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

**Social Insurance and Housing Provident Fund**

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

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

**INTELLECTUAL PROPERTY**

**Trademark**

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

**Patent**

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

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

**Domain Names**

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

**Copyright**

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

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

## SOURCES OF INFORMATION

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

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

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

According to Frost & Sullivan, the data and statistics described in this section have taken into account the impact of the epidemic and were derived through primary and secondary research conducted with multiple sources in the dairy industry. The raw milk supply market in China has been impacted by COVID-19 in terms of price, while the dairy industry in China has been impacted by COVID-19 in terms of price and logistics distribution in the first quarter of 2020. However, thanks to governments' effective control of COVID-19, consumers' rising health awareness and rigid demand for dairy products, the raw milk supply market and the dairy industry in China continued to grow in 2020 and are expected to continue to grow in 2021. Primary research involved performing in-depth interviews with industry experts from leading domestic comparable companies. Secondary research involved reviewing (i) public factual information, including but not limited to the growth rates of production volumes of raw milk and dairy products, and revenue from principal business disclosed by the National Bureau of Statistics in the first half of 2020; the prices and changes thereof of raw milk and concentrated feed ingredients (corn and soybean meal) from January to September 2020 disclosed by the Ministry of Agriculture; the import and export volumes of dairy products from January to September 2020 disclosed by the General Administration of Customs; and (ii) public reports of listed companies, etc. Based on the due diligence work performed by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would lead them to cast doubts on the assumptions adopted by Frost & Sullivan in reaching its opinions on the impact of the epidemic and that the industry statistics are reasonable.

## OVERVIEW OF THE GLOBAL DAIRY INDUSTRY

The global dairy industry has witnessed a steady growth in recent years, driven by the increasing market demands for dairy products across the globe. According to Frost & Sullivan, the number of dairy cows around the world has increased from 272.4 million heads in 2014 to 276.0 million heads in 2019, representing a CAGR of 0.3%. Accordingly, the production volume of raw milk around the world has also experienced a stable growth from 656.2 million tons in 2014 to 715.0 million tons in 2019, representing a CAGR of 1.7%. In terms of geographic distribution, countries and regions including the United States, India, the European Union, China, Brazil and Russia take pride in their scaled dairy farming practices due to optimal climate conditions and sizable domestic markets. In 2019, China accounted for 3.8% and 4.5% of the global market in terms of herd size of dairy cows and raw milk production volume, respectively.

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

**Top Five Comparable Industry Participants (Global), 1H 2020**

| Ranking | Dairy Farming Companies | Number of Dairy Cows (Thousand) | Market Share (%) | Ranking | Dairy Farming Companies | Raw Milk Production Volume (Thousand Tons) | Market Share (%) |
|---|---|---|---|---|---|---|---|
| **1** | **The Group** | **287.0** | **0.1%** | **1** | **The Group** | **769.3** | **0.2%** |
| 2 | Company A | 235.9 | 0.1% | 2 | Company A | 750.0 | 0.2% |
| 3 | Company B | 195.0 | 0.1% | 2 | Company B | 750.0 | 0.2% |
| 4 | Company C | 180.0 | 0.1% | 4 | Company C | 590.0 | 0.2% |
| 5 | Company D | 175.0 | 0.1% | 5 | Company D | 500.0 | 0.1% |
| **Top Five** | | **1,072.9** | **0.5%** | **Top Five** | | **3,359.3** | **0.9%** |
| **Total** | | **276,124.5** | **100.0%** | **Total** | | **359,272.1** | **100.0%** |

*Notes:*

(1) The Group's data are on a consolidated post-SKX Acquisition basis.

(2) Company A is a Hong Kong-listed company which is principally engaged in the production and sales of raw milk and liquid milk.

(3) Company B is a multinational dairy products, food and beverage company headquartered in Saudi Arabia, which produces dairy products including liquid milk and milk powder, as well as food and beverage such as juices and bakery products.

(4) Company C is a private dairy farming company and raw milk supplier headquartered in the United States, principally engaged in the production of raw milk and various other dairy products.

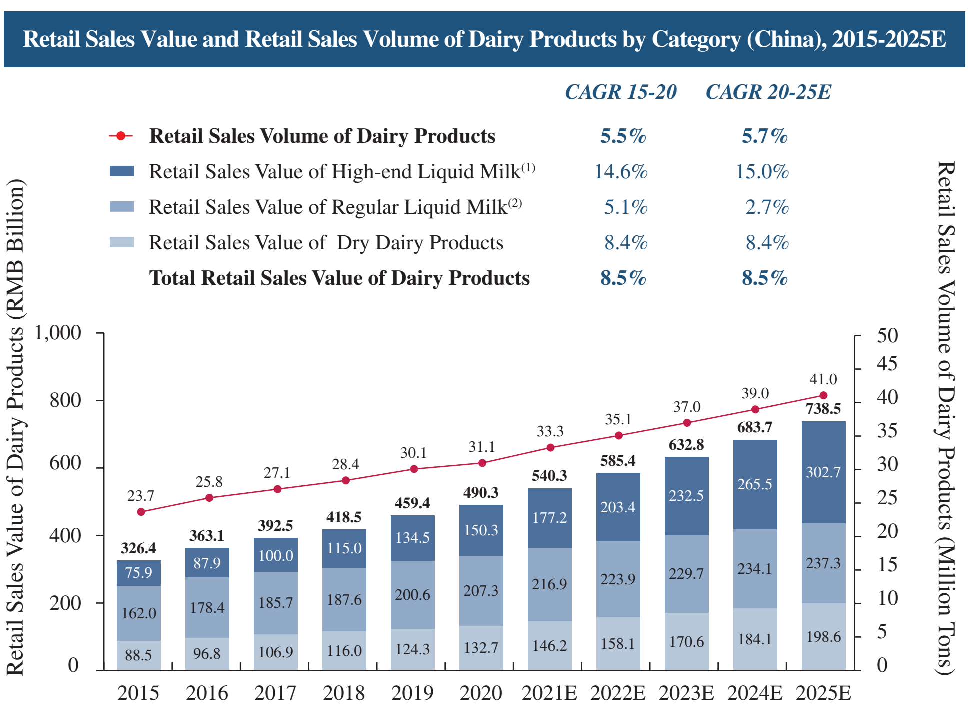
(5) Company D is a private dairy farming company and raw milk supplier headquartered in the United States, principally engaged in the production of raw milk.

*Source: Frost & Sullivan*

## OVERVIEW OF DAIRY INDUSTRY IN CHINA

### Overview

China's dairy industry has been undergoing significant growth in recent years, driven by increasing dairy product consumption and demand of end consumers. As illustrated in the diagram below, the growing dairy product consumption from downstream customers has been driving the demand for raw milk. According to the Frost & Sullivan Report, the retail sales volume of dairy products in China has grown from 23.7 million tons in 2015 (17.2 kilogram per capita) to 31.1 million tons in 2020 (22.1 kilogram per capita), and is expected to further increase to 41.0 million tons in 2025 (28.9 kilogram per capita). In terms of retail sales value, the market has grown from RMB326.4 billion in 2015 to RMB490.3 billion in 2020, and is expected to reach RMB738.5 billion in 2025, representing a CAGR of 8.5% from 2020 to 2025. High-end liquid milk has achieved significant market acceptance in recent years. The retail sales value of high-end liquid milk has grown from RMB75.9 billion in 2015 to RMB150.3 billion in 2020, and it is expected to further grow at a CAGR of 15.0% to RMB302.7 billion in 2025, which represents a significant higher growth rate as compared to that of regular liquid milk.




*Notes:*

(1) liquid milk with a retail price of no less than RMB20/L in 2020.

(2) liquid milk with a retail price of less than RMB20/L in 2020.

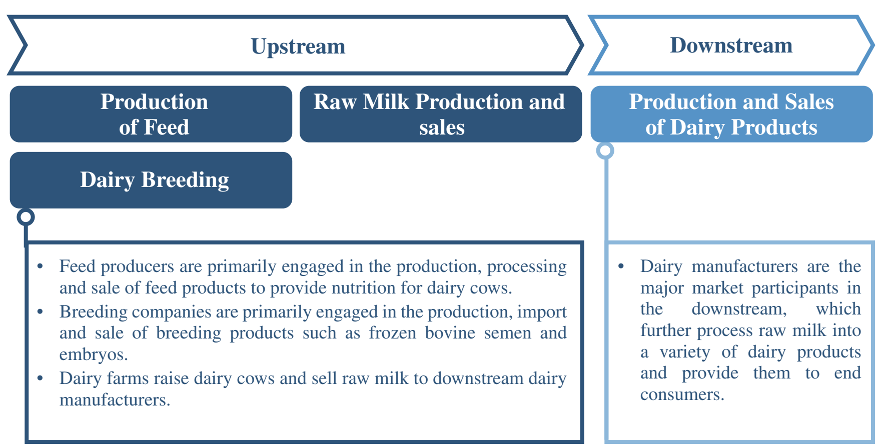
*Source: National Bureau of Statistics, Frost & Sullivan*

Compared to the dairy product market in developed countries, China's dairy product market is still underpenetrated, and has significant growth potential. Unlike consumers in developed countries who relatively prefer dry dairy products, such as butter, cheese and cream, Chinese consumers prefer liquid milk. According to Frost & Sullivan, in terms of the equivalent of liquid milk, per capita dairy product consumption in China was 42.1 kilogram in 2020, which was only 17.0% of that in the European Union and 18.5% of that in the United States. We expect dairy product consumption in China to continue to grow rapidly with increasing disposable income and consumption upgrade.

**Dairy Value Chain in China**

The dairy value chain in China is usually divided into two major sectors, namely upstream and downstream. There are producers participants along the upstream dairy value chain, mainly including breeding companies, feed producers and dairy farms, which serve and support dairy farming operations. Raw milk is the final product that the upstream delivers to the downstream. Dairy manufacturers, who are the major market suppliers in the downstream, further process raw milk into diverse dairy products and provide them to end consumers. The following diagram illustrates the dairy value chain in China.

**Dairy Value Chain in China**




*Source: Frost & Sullivan*

The downstream dairy value chain in China is highly concentrated. There were hundreds of dairy manufacturers in 2020, while the top five dairy manufacturers by retail sales value of dairy products had an aggregate market share of 73.5%. The leading players in China's downstream dairy value chain are scaling and growing rapidly, which requires suppliers with larger size and broader footprints to meet their high demand. Demand in the downstream dairy value chain is driving rapid growth of the upstream dairy value chain, particularly benefiting those large-scale industry players with their business layout covering the full upstream dairy value chain, including breeding companies, feed producers and dairy farms. As competition in the upstream dairy value chain is becoming increasingly intensified, the advantages of the top players are gradually prominent.

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

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

*Notes:*

(1) Company E is a Hong Kong-listed dairy farming company and liquid milk supplier and is principally engaged in the production of raw milk and liquid milk.

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

(3) Company G is a Hong Kong-listed dairy farming company, principally engaged in raw milk production.

*Source: Frost & Sullivan*

### Key Growth Drivers of Dairy Industry in China

- *Increase in per capita disposable income.* With the increase in per capita disposable income, the level of consumption has increased, and more and more Chinese consumers are willing to consume dairy products. According to Frost & Sullivan, the retail sales value of dairy products increased from RMB326.4 billion in 2015 to RMB490.3 billion in 2020, and is expected to increase to RMB738.5 billion in 2025 at a CAGR of 8.5%.

- *Continuous consumption upgrade.* Continuous consumption upgrade in China drives the demand for dairy products, especially the demand for high-end dairy products with rich nutrients. The retail sales value of high-end liquid milk increased from RMB75.9 billion in 2015 to RMB150.3 billion in 2020, and is expected to increase to RMB302.7 billion in 2025 at a CAGR of 15.0%, according to Frost & Sullivan.

- *Rising health awareness.* Chinese consumers, especially the young generation, have become more health-conscious and placed greater importance on balanced diet and diversified nutrients. As such, the demand for diversified and differentiated dairy products will be increasingly heightened. Dairy products with high nutritional value have become a popular dietary staple in China. In addition, the distinct nutritional needs of particular age groups have also contributed to the development of specialty dairy products in China. For example, specialty dairy products with high nutritional value, such as organic milk, Jersey milk and yogurt, have gained wide popularity in China. The evolving consumer preferences and consumption structure present significant market opportunities for industry participants in the dairy value chain and drive dairy market growth. Furthermore, COVID-19 pandemic has greatly changed Chinese consumers' consumption consciousness, making them more rational and focus on health. With the pandemic prevention and control becoming regular, the dairy consumption has rapidly recovered, which has brought new growth opportunities for the long-term development of the dairy market.

- *Thriving new retail models*. Dairy manufacturers leverage the thriving online retail model and China's fast and convenient delivery network to penetrate into regional markets. The emergence of data-driven new retail models and the efficient supply chain have driven the sales of products with limited shelf lives and offered superior customer experience. These have transformed the dairy industry in China and is expected to drive up dairy product sales.

- *Supportive government policies*. The PRC government has been a key advocate in promoting the development of the dairy industry. For example, in 2018, the Chinese government issued the "Opinions on Revitalization of the Dairy Industry and Ensuring Quality and Safety of Dairy Products" (關於推進奶業振興保障乳製品質量安全的意見), which clearly promoted the development of standardized, scaled dairy farming, large-scale breeding of quality dairy cows, and promoting the production of high-quality forage grass. Such kinds of government policies will contribute to the sustainable development of the dairy industry.

**Future Trends for Dairy Industry in China**

- *Consumers' growing food safety concerns*. Chinese consumers are paying more attention to the safety, quality and nutritional value of dairy products. The growing food safety concerns about dairy products call for more stringent quality control over raw milk procurement and production. Accordingly, large-scale dairy farms that leverage modern management procedures and standard production process to deliver safe, high-quality raw milk are expected to enjoy significant growth and market shares.

- *Increasing presence of large-scale dairy farms*. Large-scale dairy farms with over 1,000 dairy cows are expected to scale up their presence. Thanks to abundant resources, advanced technologies and standardized management procedures, large-scale dairy farms are able to produce large quantities of safe and high-quality raw milk in an economical manner. In addition, the PRC government also introduced supportive regulations and policies, such as the Outlines of the Restructuring and Revitalization Plan for the Dairy Industry (奶業整頓和振興規劃綱要), which encourage the development of large-scale dairy farms.

- *Consumers' demand for diverse dairy products*. As a result of the continuous urbanization, the increase in per capita disposable income and changes in the age structure of the Chinese population, Chinese consumers' demand for dairy products has also evolved. The downstream dairy product market has witnessed a shift in consumer preference towards high-end specialty dairy products, which is expected to diversify and drive the development of dairy product market.

- *Digital transformation of the dairy industry*. The dairy industry in China has undergone digital transformation and many dairy manufacturers and dairy farms are now equipped with cutting-edge technologies such as data analytics, cloud computing and artificial intelligence. In particular, technology is revamping the way how dairy farms manage their daily operations to enhance supply chain management and improve operational efficiency of dairy farms. At the same time, dairy manufacturers are likely to leverage data analytics to identify consumption patterns in China and address consumers' changing demands.

- *Diversification of downstream market demands*. The dairy industry in China is currently dominated by large conglomerates, such as Yili. While such dairy conglomerates are expected to continue to drive the development of dairy market in China, regional and specialized dairy manufacturers will also become active in the market to address consumers' growing demands for specialty dairy products.

- *Long-term strategic synergies of upstream and downstream markets*. Increasing competition in the dairy market in China has driven dairy manufacturers, dairy farms and other market participants along the dairy value chain to optimize their business operations. More dairy manufacturers are expected to adopt scientific management systems and integrated business models and strategically collaborate with upstream and/or downstream market players to remain competitive in the market and achieve long-term profit growth.

## RAW MILK SUPPLY MARKET IN CHINA

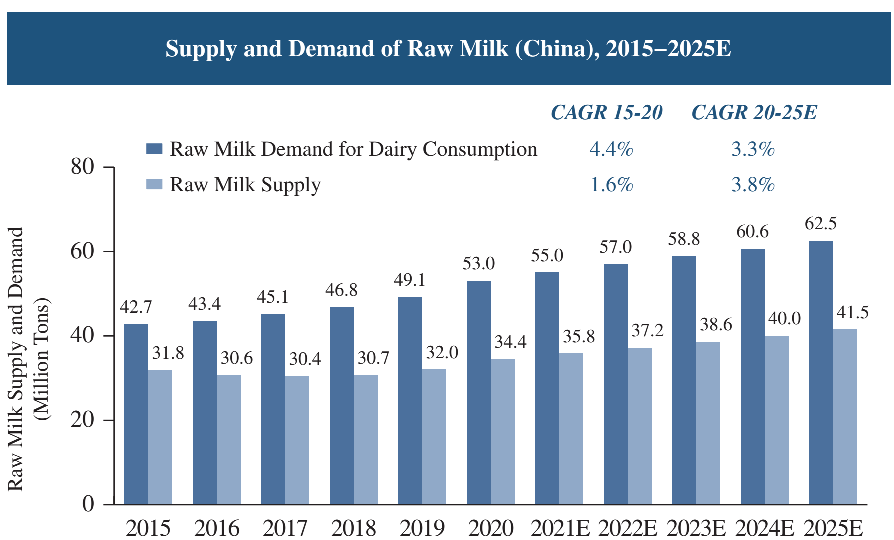
### Raw Milk Supply

For the purpose of this section, Frost & Sullivan estimates the raw milk demand for dairy consumption in China based on the domestic raw milk supply and net imports of dairy products for a given year. Given raw milk cannot be directly imported, Frost & Sullivan estimates the demand for imported raw milk by gauging the amount of raw milk required to manufacture the net imports of dairy products for a particular year, using the ratio of 1:1 for imported liquid milk and 1:8 for imported dry dairy products, respectively. Such estimation is in line with the methodology adopted by the Ministry of Agriculture and Rural Affairs of China and the PRC

National Dairy Cow Industry and Technology System. When estimating the raw milk demand for dairy consumption in China, Frost & Sullivan assumes that (i) China's economy is likely to maintain steady growth in the forecast period, (ii) China's social, economic and political environment is likely to remain stable in the forecast period and (iii) the market drivers outlined below are likely to drive China's raw milk demand in the forecast period.

China's raw milk demand for dairy consumption has grown steadily in the past few years, from 42.7 million tons in 2015 to 53.0 million tons in 2020. Driven by the increasing demand for dairy products from Chinese consumers, raw milk demand for dairy consumption in China is expected to continue to grow and reach 62.5 million tons in 2025, representing a CAGR of 3.3% from 2020 to 2025.

China's raw milk supply dropped from 31.8 million tons in 2015 to 30.4 million tons in 2017. The decrease was primarily attributable to the decline in the total number of dairy cows due to the exit of a large number of small-scale dairy farms in light of the drop in raw milk price in 2014. With the transformation of China's dairy industry led by sophisticated medium- and large-scale dairy farms, the raw milk supply in China has gradually recovered since 2018, and increased to 34.4 million tons in 2020. Due to the increasing average milk yield and the rising number of dairy cows, the raw milk supply is expected to grow at a CAGR of 3.8% from 34.4 million tons in 2020 to 41.5 million tons in 2025.

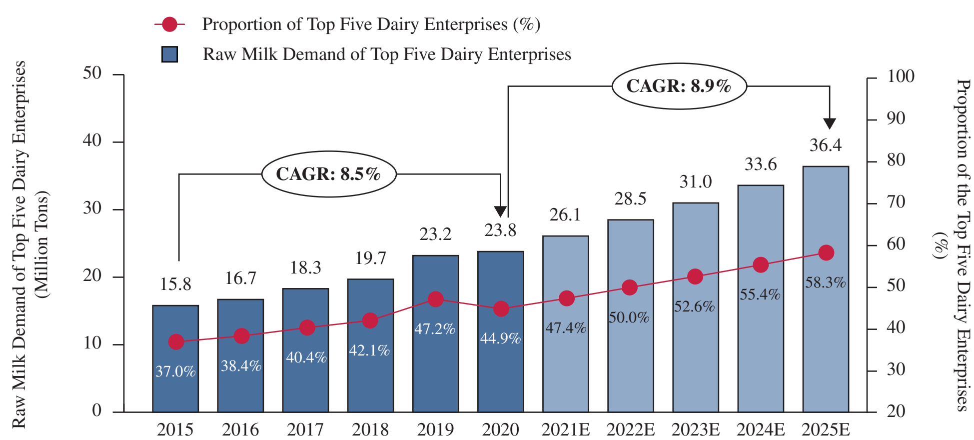



*Source: National Bureau of Statistics, Frost & Sullivan*

As illustrated in the diagram above, raw milk demand for dairy consumption in China has outstripped raw milk supply over the years, and the shortfall in supply is expected to reach approximately 21.0 million tons in 2025 according to Frost & Sullivan, based on the grounds that (i) the raw milk demand for dairy consumption in China continued to ramp up in a faster pace than that of the supply for raw milk in the past few years, and (ii) such upward momentum for the growing demand is likely to remain in the near future despite the estimation that the supply for raw milk is catching up.

Major leading downstream dairy manufacturers are driving the raw milk demand for dairy consumption in China. From 2015 to 2020, the raw milk demand for dairy consumption of China's top five dairy manufacturers increased from 15.8 million tons in 2015 to 23.8 million tons in 2020 representing a CAGR of 8.5%, which was far higher than the industry average of 2.5%. As the downstream dairy industry become more concentrated, the raw milk demand for dairy consumption of the top five dairy manufacturers will further grow, and will reach 36.4 million tons in 2025, accounting for 58.3% of the total raw milk demand for dairy consumption in China. The CAGR from 2020 to 2025 is expected to be 8.9%, which is still higher than the industry average of 3.3%.

**Raw Milk Demand of Top Five Dairy Enterprises (China), 2015-2025E**




*Source: Frost & Sullivan*

In particular, the demand and supply of high-end raw milk have witnessed a phase of rapid growth as the downstream consumption of high-end liquid milk continues to increase. In terms of retail sales value, the proportion of high-end liquid milk in all liquid milk increased from 31.9% in 2015 to 42.0% in 2020, and is expected to grow further to more than 55.0% in 2025. Unlike other ordinary dairy products, high-end liquid milk can only be processed from high-end raw milk to maintain its nutrient value and flavors. Thus, it is expected that the popularity of high-end liquid milk in the downstream dairy market will also continue to drive demand for high-end raw milk, which will further bring huge market opportunities for large-scale dairy farms with matched production capacities.

***Raw Milk Quality***

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

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

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

*Notes:*

(1) Information on indicators is based on the test reports issued by SGS, the world's leading inspection, verification, testing and certification company that is independent from our Group, upon sampling test on our raw milk in 2020.

(2) As set forth in China's Premium Milk Initiative in 2017.

(3) Representing the average data in 2019 of 230 large-scale dairy farms with over 1,000 heads of dairy cows selected by the PRC National Dairy Cow Industry and Technology System (中國國家奶牛產業技術體系) for demonstration purposes, which are representatives of large-scale dairy farms in China having comparable size and dairy farming practices to our dairy farms. The PRC National Dairy Cow Industry and Technology System is a joint initiative led by the Ministry of Agriculture and Rural Affairs and the Ministry of Finance of the PRC, which aims to promote technology innovations and propel the development of China's dairy farming operations through research and development and demonstration in the fields of dairy breeding, feed and disease control, among other things.

(4) As set forth in China Standard published in 2010.

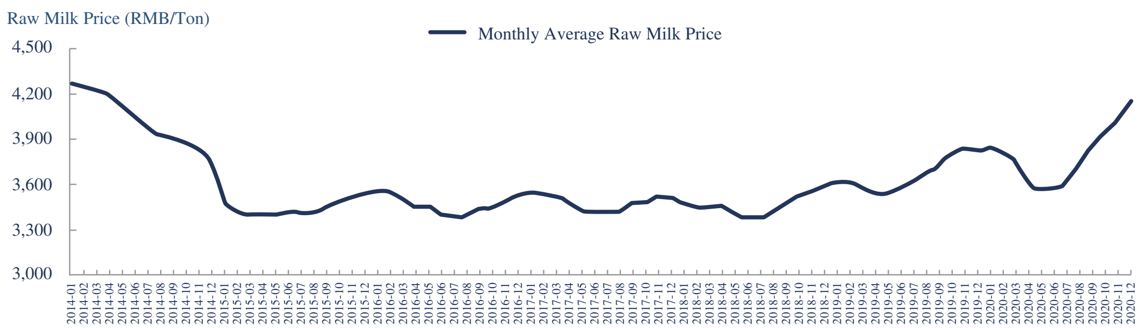
(5) As set forth in "A" Pasteurized Milk Ordinance issued by U.S. Department of Health and Human Services in 2011.

(6) As set forth in Standard Table of Food Composition issued by Ministry of Education, Culture, Sports, Science and Technology in 2015. Data of Japan is the standard of Holstein raw milk, in which the fat content refers to the fatty acid, triacyl-glycerol equivalents.

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

***Raw Milk Price***

Although few local governmental authorities or dairy industry associations may issue guidances on raw milk price from time to time, there is nonetheless no fixed price range for raw milk as such price guidance typically are not mandatory. Therefore, raw milk price in China is generally subject to the dynamics of market supply and demand. Set forth below is the monthly raw milk price trend in China from January 2014 to December 2020.




*Source: Ministry of Agriculture and Rural Affairs of China*

The price of raw milk in China shown in the chart above is mainly the average price of various type of raw milk in China's raw milk supply market. According to Frost & Sullivan, as the majority of raw milk in China's raw milk supply market is regular raw milk, the price of raw milk predominantly reflects the price trend of regular raw milk, yet does not necessarily reflect the price trend of high-end specialty raw milk such as organic raw milk.

Raw milk price in China is typically subject to the dynamics of raw milk supply on the upstream side, and demand for domestic fresh raw milk on the downstream side.

Since 2014, China's raw milk price had entered a downward trend after reaching a peak of RMB4,260 per ton in early 2014, primarily due to the overcapacity in its dairy market. The previous rising raw milk price had attracted small-scale dairy farms to expand their herds and increase production volume. As a result, raw milk production volume in China increased by 5.3% year-on-year to 31.6 million tons in 2014, and further increased to 31.8 million tons in 2015, according to Frost & Sullivan, which outpaced the downstream demand for domestic fresh raw milk and subsequently led to a sharp decline in raw milk price from 2014 to 2015.

From 2015 to 2017, China's raw milk price remained at a relatively low level and fluctuated within a range from RMB3,390 per ton to RMB3,550 per ton. The sharp fall in the raw milk price in 2014 and the sluggish raw milk price thereafter had weeded out small-scale and less competitive dairy farms, leading to a decline in the total number of dairy cows in China. Accordingly, raw milk production volume decreased from 31.6 million in 2015 to 30.4 million tons in 2017, according to Frost & Sullivan.

It was not until August 2018 did the raw milk price in China started trending upward. As China's raw milk supply and downstream demand for domestic fresh raw milk gradually reached a balance, raw milk price in China has since August 2018 started to rally and increased to RMB3,830 per ton in December 2019, and further to RMB4,152 per ton in December 2020.

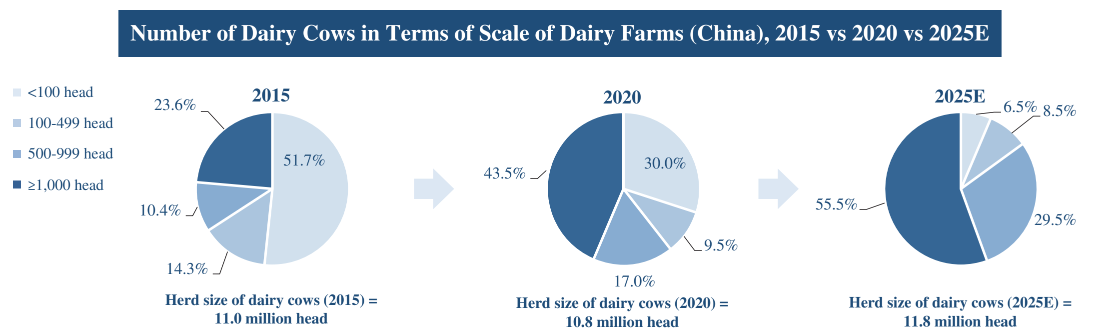
The average selling prices of premium raw milk of industry participants in the raw milk supply market is subject to the raw milk price trend. From 2014 to 2020, the average selling prices of premium raw milk of industry participants, including the Group, is generally consistent with the above trend of raw milk price in China. According to Frost & Sullivan, the average selling prices of premium raw milk of industry participants, in the raw milk supply market had reduced since the beginning of 2014 due to the sluggish market price of raw milk, and had fluctuated at a relatively lower level until August 2018. Although the average selling prices of premium raw milk of certain industry participants including our Group had experienced a slight increase from 2017 to 2018, the overall profitability of premium raw milk within the industry, as compared with the high point of raw milk price at the beginning of 2014, was, to varying extent, adversely affected by significant decline of raw milk price in 2014.

High-end specialty raw milk such as organic raw milk, in contrast, was less affected by the downward price of raw milk due to its high quality and relative scarcity. According to Frost & Sullivan, there is no fair market price for organic raw milk in China as there is no market-guidance price or average market price for organic raw milk disclosed by the Ministry of Agriculture and Rural Affairs or the Dairy Association of China. Unlike regular raw milk, the quality of which typically can be effectively evaluated by reference to a number of metrics such as fat content, protein content, aerobic plate count and somatic cell count, there is no particular and unified standards as to the quality output of organic raw milk. Rather, the industry places paramount importance on and sets stringent standards for the production process of organic raw milk, covering conditions of dairy farms, feed growing and raw milk production. As a result, although quality is still among the key considerations for pricing decisions, organic raw milk price is nonetheless subject to one-on-one price negotiations between organic raw milk suppliers and downstream dairy manufacturers. Frost & Sullivan obtained the selling price range of organic raw milk from a number of publicly traded and private organic raw milk suppliers from 2018 to 2020 through detailed primary research on a best-efforts basis. The selling price range of our Group's organic raw milk from 2018 to 2020 was approximately RMB5,500 per ton to RMB5,700 per ton, which was within the range among these organic raw milk suppliers.

**Dairy Farming**

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

In recent years, the introduction of supportive government policies, such as the "Outlines of Rectification and Rejuvenation Plan for the Dairy Industry" (奶業整頓和振興規劃綱要), encouraged the development of large-scale dairy farms and promoted larger scale of dairy farming, with an increasing numbers of dairy cows housed in large-scale dairy farms. As of 2015, large-scale dairy farms with more than 1,000 dairy cows housed 23.6% of total dairy cows in China, which increased to 43.5% by the end of 2020. Driven by the growing demand of consumers for premium raw milk as well as dairy manufacturers' shifting focus on securing direct, stable and reliable supply of raw milk, large-scale dairy farms are ramping up to a dominant market position and are expected to house 55.5% of total dairy cows in China at the end of 2025. Set forth below is the share of dairy farms by scale at the end of 2015, 2020 and 2025.




*Source: National Bureau of Statistics, Frost & Sullivan*

Large-scale dairy farms with more than 1,000 dairy cows typically receive higher levels of capital investments, utilize more advanced technologies and employ more advanced and standardized farming methods, which enable them to achieve higher quality milk and higher milk yield than farms of a smaller scale. Large-scale dairy farms are more efficient, environment-friendly and are in line with the national policy of sustainable development. The increasing presence of large-scale dairy farms, combined with growing demand from downstream consumption, supportive government policies and expanding growing of high-quality forage grass, have been driving the expansion of herd size in China. The number of dairy cows in China is expected to increase from 10.8 million in 2020 to 11.8 million in 2025.

**Key Growth Drivers of Raw Milk Supply Market in China**

- *Growing demand in downstream dairy product market.* With Chinese consumers' increasing demand for a wide array of safe, diverse dairy products, dairy manufacturers have a strong incentive to strengthen quality control and source high-quality raw milk from large-scale dairy farms that are able to secure stable and reliable supply. In addition, the growing demand for high-end liquid milk in the downstream dairy product market in China has further driven the sales of fresh, high-end raw milk, and propelled the development of the raw milk supply market in China.

- *Improved operational efficiency*. Through increasing adoption of modern management procedures and cutting-edge technologies, dairy farms in China have been optimizing business operations, which has largely improved operational efficiency. In addition, the transformation of China's dairy industry, featured by the exit of small-scale dairy farms and the prevalence of medium-and large-scale dairy farms, has further driven economies of scale and the operational efficiency in the entire industry through the empowerment of dairy farming by medium-and large-scale dairy farms.

- *Increased average milk yield per dairy cow driven by technologies.* With the enhanced basic management of dairy farms, it is necessary to conduct research and development and make breakthroughs in selective breeding and precise nutrition of dairy cows with a view to increase average milk yield per dairy cow in the future. Scientific selection and breeding is conductive to breeding healthy and high-yield dairy cows, thereby steadily increasing the average milk yield per dairy cow. In addition, the scientific feed formula can accurately meet the production needs of dairy cows, and fully developing and utilising local feed resources can help achieve the optimization of technology, economy and effect.

- *Supportive government policies.* The PRC government has promulgated a series of encouraging policies to support the development of the raw milk supply market in China. For example, the State Council of the PRC promulgated the Opinions on Revitalization of the Dairy Industry and Ensuring Quality and Safety of Dairy Products (關於推進奶業振興保障乳品質量安全的意見), which calls for large-scale standardized dairy farming operations and self-sufficiency of milk supply in China, which is expected to boost the raw milk supply market in China.

**Future Trends for Raw Milk Supply Market in China**

- *Further rising market concentration.* Market concentration has been trending in China's raw milk supply market. The proportion of scaled dairy farms with no less than 100 dairy cows in China has increased from 48.3% in 2015 to 70.0% in 2020, according to Frost & Sullivan. Looking forward, dairy farms in China are expected to further scale up their business operation to enjoy benefits brought by economics of scale and improved operational efficiency.

- *Intelligent dairy farm management*. Scaled business operation makes it possible for large-scale dairy farms in China to achieve the intelligent management of the dairy farm in a cost-effective way and help improve milk yield and quality. Through intelligent management, players in the dairy value chain, including dairy farms, are expected to obtain more comprehensive data and technology support, which will help them to improve operational efficiency in various aspects. Accordingly, the PRC government and Chinese dairy farms are investing more resources in research and development on cutting-edge dairy farming technologies and methods to significantly optimize the business operations of dairy farms in China.

- *Integration of dairy value chain*. To ensure stable supply and control the product safety and quality, large-scale dairy manufacturers are moving upwards on the value chain and integrating with industry participants in the upstream value chain.

- *Heightened entry barriers*. Dairy farms, especially large-scale dairy farms, require significant substantial investments in fixed assets and dairy farms, and the technology and capital barriers of the raw milk supply market are relatively high. Pioneers in this market have occupied the valuable and scarce resources required for dairy farming, such as ideally located pastures, which further heightened the entry barriers.

**Competitive Landscape of Raw Milk Supply Market in China**

The raw milk supply market in China is highly fragmented. The top five industry comparables accounted for only 8.1% of the market share in terms of herd size of dairy cows as of December 31, 2020. We ranked No. 1 with a market share of 2.9%, according to Frost & Sullivan. We were also the No. 1 player in terms of raw milk production volume with a market share of 4.5% for the same period. We produced 407,200 tons of specialty raw milk in 2020, ranking No. 1 in China, according to Frost & Sullivan. The following diagram illustrates the market share of China's top five industry comparables in terms of herd size of dairy cows as at December 31, 2020 and raw milk production volume in 2020, respectively.

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

| Ranking | Dairy Farming Companies | Number of Dairy Cows (Thousand) | Market Share (%) | Ranking | Dairy Farming Companies | Production of Raw Milk (Thousand Tons) | Market Share (%) |
|---|---|---|---|---|---|---|---|
| 1 | **The Group** | **308.2** | **2.9%** | 1 | **The Group** | **1,562.4** | **4.5%** |
| 2 | Company A | 247.4 | 2.3% | 2 | Company A | 1,490.0 | 4.3% |
| 3 | Company H | 123.0 | 1.1% | 3 | Company H | 615.0 | 1.8% |
| 4 | Company E | 110.7 | 1.0% | 4 | Company E | 611.4 | 1.8% |
| 5 | Company I | 90.0 | 0.8% | 5 | Company J | 584.7 | 1.7% |
| | **Top Five** | **879.3** | **8.1%** | | **Top Five** | **4,863.5** | **14.1%** |
| | **Total** | **10,784.9** | **100.0%** | | **Total** | **34,400.0** | **100.0%** |

*Notes:*

(1) The Group's data is on a consolidated post-SKX Acquisition basis.

(2) Company H is a private dairy producer and mainly engages in forage grass growing, feed production, raw milk production and liquid milk production.

(3) Company I is a subsidiary of a privately-owned dairy producer. It is principally engaged in the provision of raw milk production.

(4) Company J is a subsidiary owned by a private international dairy producer. It is principally engaged in production of raw milk and liquid milk products.

*Source: Frost & Sullivan*

In addition, we were also the largest raw milk supplier by sales value of raw milk in 2020, with a market share of 5.4%. The following diagram illustrates the market share of China's top five industry comparables in terms of sales value of raw milk in 2020.

**Top 5 Industry Comparables in Terms of Sales Value of Raw Milk (China), 2020**

| Ranking | Dairy Farming Companies | Sales Value of Raw Milk (RMB Million) | Market Share (%) |
|---|---|---|---|
| **1** | **The Group** | **6,994.6** | **5.4%** |
| 2 | Company A | 6,020.2 | 4.6% |
| 3 | Company E | 2,660.8 | 2.0% |
| 4 | Company J | 2,521.3 | 1.9% |
| 5 | Company X | 2,048.6 | 1.6% |
| | **Top Five** | **20,245.5** | **15.5%** |
| | **Total** | **130,470.6** | **100.0%** |

*Notes:*

(1) The Group's data is on a consolidated post-SKX Acquisition basis.

(2) Company X is a subsidiary of a state-owned group, which principally provides raw milk and breeding products.

*Source: Frost & Sullivan*

According to Frost & Sullivan, large-scale dairy farms generally have higher milk yield leveraging their significant operational efficiency. The average milk yield per milkable cow of Youran (excluding Jerseys) and SKX reached 11.0 tons per annum and 10.0 tons per annum in 2020, respectively, which significantly surpassed the national average of 8.0 tons per annum for the same year.

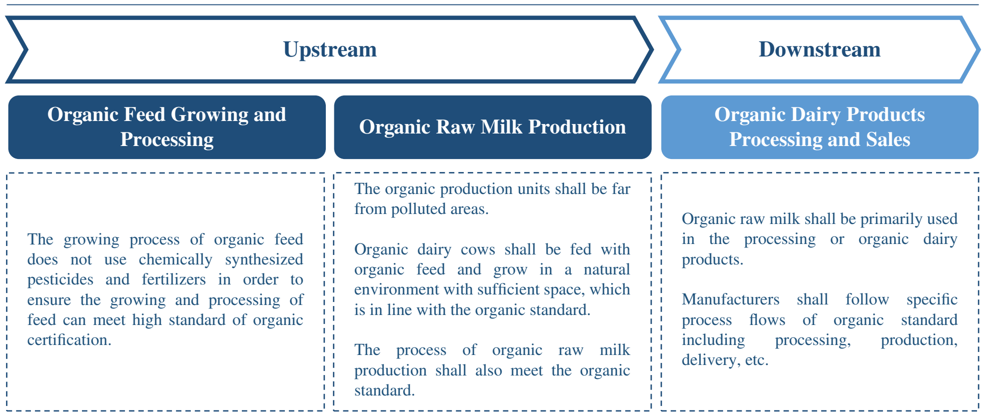
## Organic Raw Milk Market in China

### *Organic Dairy Value Chain*

The organic dairy products are products that follow the laws of nature and ecological principles and produced using natural substances and processes, which are in line with the concept of organic production and standard, involving organic feed growing and process, organic raw milk production, and organic dairy products processing.

The organic dairy industry value chain in China is usually divided into two major sectors, namely upstream and downstream. The upstream mainly includes organic feed growing and processing, and organic raw milk production. Organic dairy manufacturers, who are the major market suppliers in the downstream, further process organic raw milk into diverse organic dairy products and provide them to end consumers.

**Value Chain of Organic Dairy Industry**

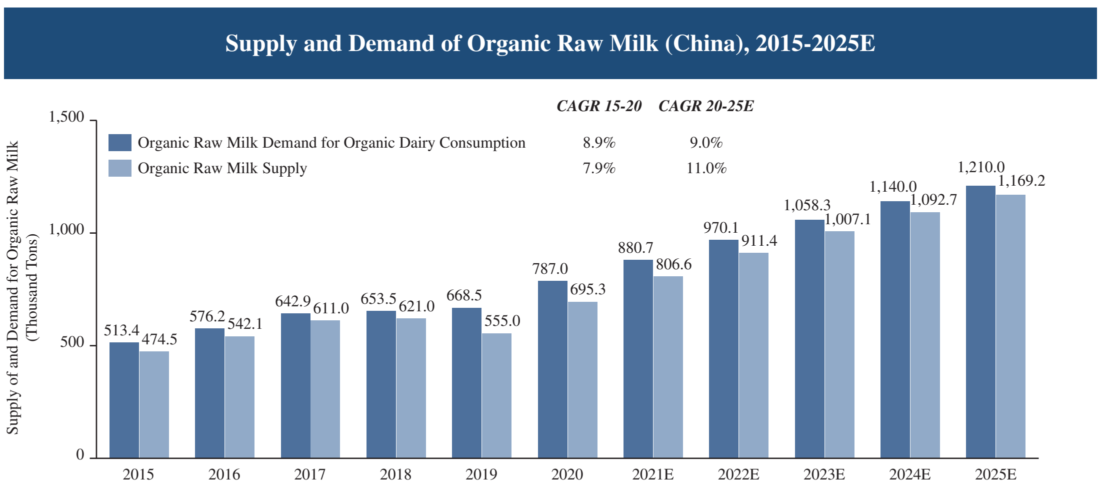



*Source: Frost & Sullivan*

### *Demand and Supply of Organic Raw Milk*

The production volume of organic raw milk, which also represents the market supply, is primarily led by a selected number of leading market participants within the industry. According to Frost & Sullivan, the market supply grew rapidly from 474,500 tons in 2015 to 621,000 tons in 2018, and then decreased to 555,000 tons in 2019, primarily due to the strategic switch of the then largest market participant, leading to the decrease in the number of its organic dairy farms, and as a result, its production volume of organic raw milk during the same year. In 2020, such largest market participant reinforced its organic milk business and converted three of its dairy farms into organic farms, according to Frost & Sullivan. As a result, the market supply of organic raw milk increased to 695,300 tons in 2020. The market supply of raw milk is expected to reach 1,169,200 tons in 2025, representing a CAGR of 11.0% from 2020 to 2025.

The organic raw milk demand for organic dairy consumption in China has grown steadily in the past few years, from 513,400 tons in 2015 to 787,000 tons in 2020, representing a CAGR of 8.9% from 2015 to 2020. As Chinese consumers are becoming increasingly aware of the health and nutrition benefits of organic milk, such demand is likely to drive the future growth of the market. The market for organic dairy products is expected to expand and more organic dairy products such as organic pasteurized milk, organic yogurt and organic milk powder are likely to gain more market share.




*Source: National Bureau of Statistics, Certification and Accreditation Administration of the PRC, Frost & Sullivan*

### *Certification of Organic Dairy Farming*

Organic certification is a certification process for producers of organic agricultural products, including organic raw milk and dairy products. It is intended to promote and accelerate the development of organic industry, assure the quality of organic production and processing to meet consumers' rising demand for organic products. Certification requirements vary from country to country, and generally involve a set of organic standards for feed growing, feed processing, dairy farms, dairy farming, etc. Set forth below are current key criteria for organic certification on dairy farming in China and the European Union.

| | Feed Growing | Feed Processing | Dairy Farm | Dairy Farming |
|---|---|---|---|---|
| China GB | At least 24-month conversion period before sowing for annual forage and feed crops;<br><br>At least 50% of the feed shall come from self-owned or partnered organic farms in the same region. | At least 95% of the processed feed by weight or volume are organic;<br><br>Organic processed feed shall be used in preference or, if such feed is not available, regular feed does not exceed 5% of the total quantity by weight, and agricultural feed shall be used in preference. | The production of organic products shall be carried out under suitable environmental conditions.<br><br>The production units shall be far from cities, industrial and mining areas, traffic trunks, polluted areas, etc.<br><br>- Air quality to meet GB3095 | Six-month conversion period for dairy cows;<br><br>6 $m^2$ inside and 4.5 $m^2$ outside active area per cow |
| EU Standard | At least 24-month conversion period before sowing for annual forage and feed crops;<br><br>At least 60% of the feed shall come from the farm itself or produced in cooperation with other organic production units from the same region. | At least 95% of the dry matter of the processed feed are organic | No polluting risks exist nearby | Six-month conversion period for dairy cows;<br><br>6 $m^2$ inside and 4.5 $m^2$ outside active area per cow |

*Source: GB/T 19630-2019, Official Journal of the European Union*

***Entry Barriers***

- *Capital intensity.* The organic raw milk industry is a capital-intensive industry, and significant and continuous capital investment is needed for entering organic raw milk industry. Investment includes dairy farms development and maintenance as well as purchasing and raising dairy cows. Considering the conversion of the upstream supply chain and dairy farming operations, it typically takes 2.5 to 3 years to convert a non-organic farm to an organic one in all aspects, subject to the conversion time for cultivation of land and the corresponding organic certification requirements, as a part of the upstream organic raw milk production chain. On top of the challenges of natural resources and conditions, the investment in organic raw milk industry is also subject to the limited supply of organic feed and lack of experienced management team for dairy farming in China and a relative long time cost required to convert into organic dairy farm under the corresponding organic certification requirements.

- *Long-standing, stable collaborations along the dairy value chain.* Brand image represents a key driver of sales of downstream dairy products manufacturers and required a substantial amount capital investment and time to build up. Downstream dairy product manufacturers are, therefore, extremely cautious and sensitive to the product risks that may damage their brand images and tend to place stringent requirements to monitor the milk production, particularly on organic raw milk, which has stricter standards to follow as it normally can charge a significantly higher premium. Downstream liquid milk manufacturers typically have their own organic dairy farms or have long-term strategic business relationships with organic raw milk suppliers due to the stringent and complicated certification process for organic raw milk. Therefore, organic raw milk suppliers generally do not cross-supply to different downstream liquid milk manufacturers. Also, the product risks is minimized for large downstream dairy product manufacturers to engage with and monitor a long-term supplier who can stably supply large volume of organic raw milk than to work with multiple small suppliers and monitor each of them individually. Therefore, over the past decade, the organic raw milk supply in the PRC market remain highly concentrated.

***Key Growth Drivers***

- *Improvement of health awareness.* Due to the rising income, growing health awareness, and consumption upgrade, the demand for organic dairy products is expected to grow continuously, and is expected to be the driving force of the high-end raw milk market in China, as organic dairy product is pollution-free and additive-free, and satisfied strict organic standards, and are more trusted and favored by consumers.

- *More variety of downstream organic dairy products.* In recent years, dairy product manufacturers have introduced more types of organic dairy products, such as organic UHT liquid milk and organic infant milk formula, etc. to meet the different needs of more consumers. In the future, with the increasing recognition and demand for organic dairy products, more organic dairy products such as organic pasteurized milk, organic yogurt, and even organic cheese and organic cream will be launched, driving the demand for organic raw milk in the upstream.

- *Supportive government policy.* The PRC government attaches great importance to the adjustment of agricultural structure and the development of organic agricultural products. For example, the Ministry of Agriculture proposed in the "Key Points for the Green Development of Agriculture and Rural Areas in 2020" (2020年農業農村綠色發展工作要點) that the certification and management of green food, organic agricultural products and agricultural products with geographical indications should be strengthened.

***Future Trends***

- *Rapid market growth.* With the increasing disposable income of Chinese consumers, as well as their increasing health consciousness, China's organic dairy products market has grown rapidly in the past several years and is expected to continue the rapid growth in the future. More consumers are expected to consume organic dairy products.

- *More diversified product categories.* With the intensification of market competition and the upgrading of consumption, there emerges an increasing number of new organic dairy products, such as organic pasteurized milk and organic yogurt, that can meet the differentiated needs of consumers. In the future, with product innovations, continuous improvement of product quality, and continued marketing and promotion activities, these diverse organic dairy products will be better accepted by consumers.

- *Increasing availability.* Distribution channels of organic dairy products are limited compared to those of regular dairy products. In the future, with the development of distribution channels, such as online channels, organic dairy products are expected to become available in more cities and regions of China, which will contribute to the growth of the market for organic dairy products.

***Competitive Landscape of Organic Raw Milk Market***

Coupled with the high barriers of entry from maintaining organic certification of the organic raw milk business, the organic raw milk market in China was highly concentrated, with the top five organic raw milk producers in terms of organic raw milk supply accounting for an aggregate market share of approximately 95.3% in 2020. Our Group was among the two largest organic raw milk producers in China in terms of organic raw milk supply in 2020, which in aggregate accounted for approximately 88.8% market share.

**Top 5 Organic Dairy Farming Companies in Terms of Organic Raw Milk Supply (China), 2020**

| Ranking | Organic Dairy Farming Companies | Organic Raw Milk Supply (Thousand Tons) | Market Share (%) |
|---|---|---|---|
| **1** | **The Group** | **332.5** | **47.8%** |
| 2 | Company E | 285.1 | 41.0% |
| 3 | Company G | 20.0 | 2.9% |
| 4 | Company I | 13.0 | 1.9% |
| 5 | Company f | 12.0 | 1.7% |
| | **Top Five** | **662.6** | **95.3%** |
| | **Total** | **695.3** | **100.0%** |

*Notes:*

1. The Group's data is provided by the Group.

2. Company E is a Hong Kong-listed company that used to be an organic liquid milk product manufacturer until it disposed of its liquid milk business in 2019.

3. Company G is a Hong Kong-listed company, headquartered in Qiqihar, Heilongjiang, principally engaged in production of raw milk, including organic raw milk.

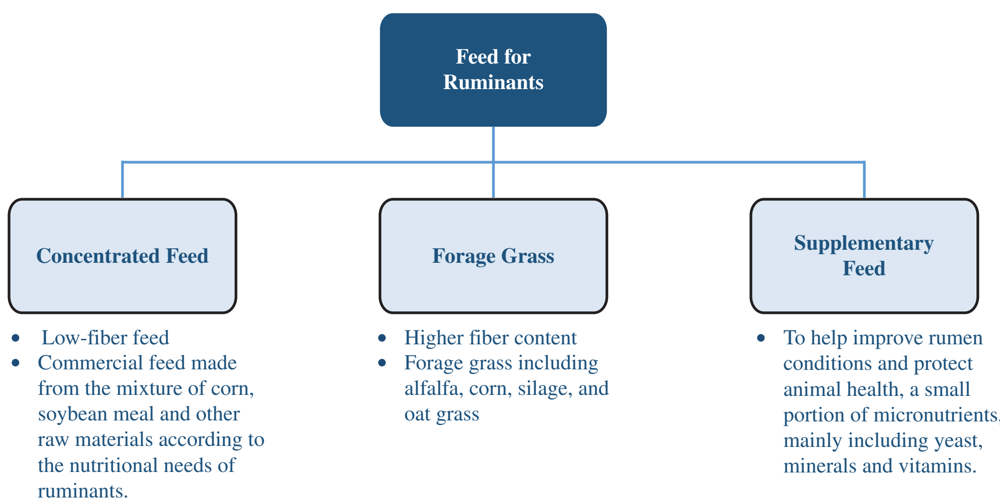
4. Company I is a subsidiary owned by a private enterprise, headquartered in Shijiazhuang, Hebei. It principally provides raw milk, including organic raw milk.

5. Company f is a private dairy farming company, headquartered in Zhangye, Gansu. It principally provides raw milk, including organic raw milk.

*Source: Annual Report, Frost & Sullivan*

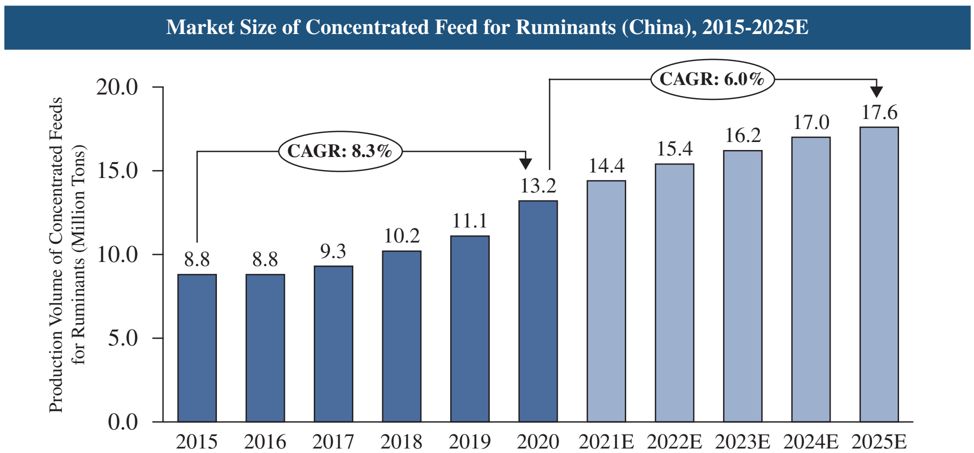
## RUMINANT FEED MARKET IN CHINA

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




### Concentrated Feed for Ruminants

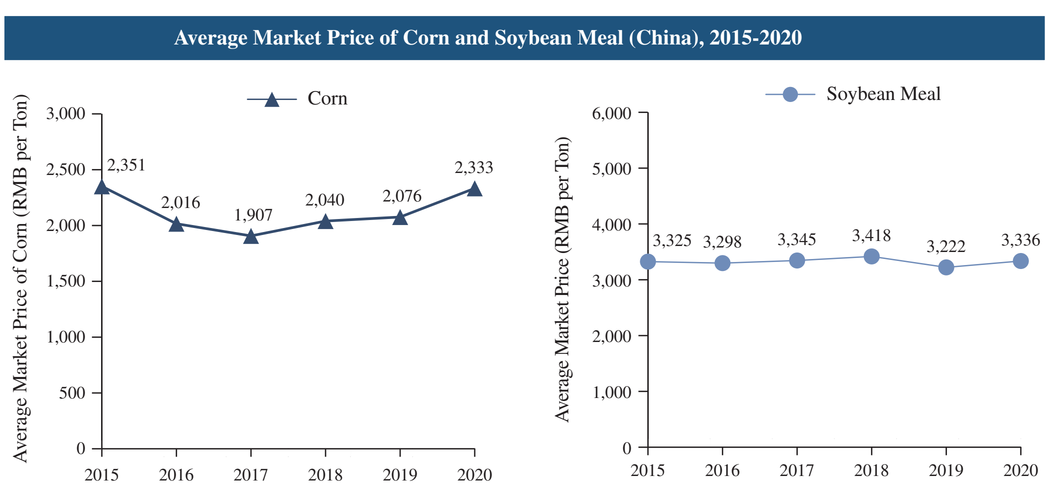
Concentrated feed for ruminants comes in a perplexing variety of different individual ingredients, descriptions and forms, such as premixes, concentrates and concentrate supplements. Concentrated feed provides the essential extra energy and protein for ruminants to support modern production levels. Due to its high efficiency and performance in improving the average milk yield per dairy cow, concentrated feed has enjoyed growing popularity among an increasing number of large-scale dairy farms. The demand of concentrated feed for dairy cows has drastically increased from 6.1 million tons in 2015 to 9.5 million tons in 2020 at a CAGR of 9.4%, and is expected to further reach 15.3 million tons in 2025, representing a CAGR of 10.0% from 2020 to 2025. In addition, the expansion of ruminant herd size, especially the increasing prevalence of scale farming of ruminants, in China, has also driven the consumption of and demand for concentrated feed, which contributed to the growth of the market for concentrated feed for ruminants. The production volume of concentrated feed for ruminants has increased at a CAGR of 8.3% from 8.8 million tons in 2015 to 13.2 million tons in 2020, and is expected to further increase to 17.6 million tons in 2025, representing a CAGR of 6.0% from 2020 to 2025.




*Source: China Feed Industry Association, Frost & Sullivan*

**Feed Ingredient Price**

Ingredients to be processed into concentrated feed typically include corn, soybean meal, etc that are commodities easily accessible nationwide. The market price for corn and soybean meal are subject to various factors, including demand and supply dynamics, government policies, weather conditions, pests and other acts of nature. For the past few years, the market price for both corn and soybean meal has been relatively stable with a mild uptrend, and it is expected to remain steady from 2020 to 2025, according to Frost & Sullivan. The following diagrams illustrate the historical market price in China for corn and soybean meal for the periods indicated:




*Source: Ministry of Agriculture and Rural Affairs of China*

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

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

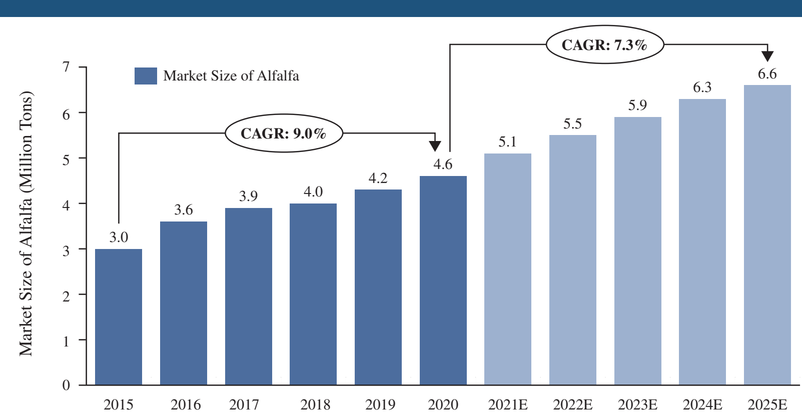
Alfalfa is a high-quality forage crop grown across regions such as northwest and northern China. It is rich in protein, fiber, vitamins and minerals. As one of the most important feed components for dairy cows, alfalfa plays a crucial role in increasing the milk yield as well as the protein level of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

In China, alfalfa is widely used by scaled dairy farms with a herd size of no less than 100 dairy cows. Driven by the increasing number of scaled dairy farms, the demand for alfalfa hay in China has grown accordingly. The market size in terms of demand for alfalfa hay increased from 3.0 million tons in 2015 to 4.6 million tons in 2020 and is expected to reach 6.6 million tons in 2025, representing a CAGR of 7.3% from 2020 to 2025.

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

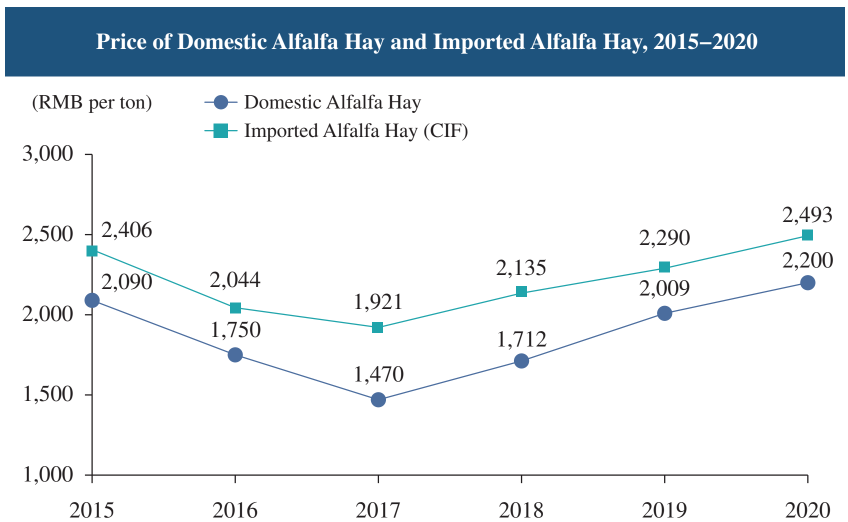
The Chart below illustrates the market size of alfalfa hay in terms of demand in China from 2015-2025.

**Market Size of Alfalfa Hay in terms of Demand (China), 2015-2025E**




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

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




*Source: China Customs, Frost & Sullivan*

**Competitive Landscape of Ruminant Feed Market in China**

The ruminant feed market in China is highly competitive with approximately 1,000 feed suppliers as of December 31, 2020. Most of the market participants focus their business on one market segment, either providing concentrated feed for ruminants or forage grass products, primarily alfalfa, to dairy farms, which makes China's ruminant feed market relatively fragmented.

In the market segment of concentrated feed for ruminants in China, we were the No. 1 player in 2020 in terms of both sales volume and sales value, with a market share of 5.8% and 6.1%, respectively. The following diagram illustrates the market shares of the top five players in terms of sales volume and sales value, respectively, in the market segment of concentrated feed for ruminants in China in 2020.

**Top 5 Concentrated Feed for Ruminants Providers in Terms of Sales Volume (China), 2020**

| Ranking | Concentrated feeds for ruminants providers | Sales volume of concentrated feeds for ruminants (thousand tons) | Market Share (%) |
|---|---|---|---|
| **1** | **The Group** | **770.5** | **5.8%** |
| 2 | Company K | 631.0 | 4.8% |
| 3 | Company M | 473.1 | 3.6% |
| 4 | Company L | 360.0 | 2.7% |
| 5 | Company N | 300.0 | 2.3% |
| | **Top Five** | **2,534.6** | **19.2%** |
| | **Total** | **13,188.0** | **100.0%** |

**Top 5 Concentrated Feed for Ruminants Providers in Terms of Sales Value (China), 2020**

| Ranking | Concentrated feeds for ruminants providers | Sales value of concentrated feeds for ruminants (RMB million) | Market Share (%) |
|---|---|---|---|
| **1** | **The Group** | **2,323.3** | **6.1%** |
| 2 | Company K | 1,887.0 | 4.9% |
| 3 | Company M | 1,400.0 | 3.7% |
| 4 | Company L | 1,062.0 | 2.8% |
| 5 | Company N | 990.0 | 2.6% |
| | **Top Five** | **7,662.3** | **20.1%** |
| | **Total** | **38,245.0** | **100.0%** |

*Notes:*

(1) The Group's data is audited and is provided by the Group.

(2) Company K is an A-share listed feed and animal husbandry company, which is principally engaged in production of feed and trading of feed ingredients, poultry farming, hog farming, etc.

(3) Company L is private feed company, which principally engaged in provision of ruminant feed, related techniques and services, etc.

(4) Company M is an A-share listed agricultural company, which is principally engaged in feed production, hog products and seed products.

(5) Company N is a wholly owned subsidiary of a Hong Kong-listed multinational company, which mainly provides a wide range of feed products for livestock and aquatic animals.

*Source: Frost & Sullivan*

In addition, we are also a leading supplier of forage grass, mainly alfalfa hay and oat grass, in China, and we ranked first in terms of both sales volume and sales value of alfalfa hay in 2020, with a market share of 3.2% and 3.5%, respectively. The following diagram illustrates the market shares of the top five players in terms of sales volume and sales value in the alfalfa hay market in China in 2020.

**Top 5 Alfalfa Hay Suppliers in Terms of Sales Volume (China), 2020**

| Ranking | Alfalfa providers | Sales volume of alfalfa (thousand tons) | Market Share (%) |
|---|---|---|---|
| **1** | **The Group** | **147.4** | **3.2%** |
| 2 | Company O | 128.4 | 2.8% |
| 3 | Company P | 88.0 | 1.9% |
| 4 | Company Q | 60.0 | 1.3% |
| 5 | Company R | 55.0 | 1.2% |
| | **Top Five** | **478.8** | **10.4%** |
| | **Total** | **4,642.9** | **100.0%** |

**Top 5 Alfalfa Supplier in Terms of Sales Value (China), 2020**

| Ranking | Alfalfa providers | Sales value of alfalfa (RMB million) | Market Share (%) |
|---|---|---|---|
| **1** | **The Group** | **397.8** | **3.5%** |
| 2 | Company O | 297.6 | 2.6% |
| 3 | Company P | 284.2 | 2.5% |
| 4 | Company Q | 187.2 | 1.6% |
| 5 | Company R | 176.6 | 1.5% |
| | **Top Five** | **1,343.4** | **11.7%** |
| | **Total** | **11,430.0** | **100.0%** |

*Notes:*

(1) The Group's data is audited and is provided by the Group.

(2) Company O is a wholly-owned subsidiary company of a A-share listed agricultural company, which is primarily engaged in growing, processing, sales and research and development of forage grass.

(3) Company P is a wholly-owned subsidiary of a stated-owned agricultural company, which is principally engaged in the import of alfalfa hay and the growing, processing and sales of forage grass.

(4) Company Q is a private feed supplier, principally engaged in the import of feed and grain.

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

*Source: Frost & Sullivan*

**Future Trends for Ruminant Feed Market in China**

- *Increasing industry concentration.* Increasingly intensified market competition is likely to weed out small-scale ruminant feed providers as they lack resources and technological capabilities to produce nutritive, well-balanced feed. With heightened requests for safe, quality feed from downstream industry participants, the ruminant feed market in China is expected to become more concentrated in the future.

- *Growing focus on quality and nutrition.* As downstream industry participants pay more attention to the safety and quality of dairy products, feed providers have been focusing on researching and developing formulas to produce feed of higher nutritive value. Feed providers are also expected to continue to innovate and expand product offerings to meet the diverse, evolving downstream needs.

- *Holistic solutions as a new business model.* Holistic solutions that effectively integrate ruminant feed products and a broad range of dairy farming services have transformed the traditional pure-play model for ruminant feed. Comprehensive dairy farming services help dairy farms improve productivity and profitability in addition to enhancing the functions and effectiveness of ruminant feed products. It is expected that dairy farming services will become an integral part of ruminant feed providers' offerings and those ruminant feed providers capable of providing holistic solutions are expected to obtain predominant market shares.

## FROZEN BOVINE SEMEN FOR DAIRY CATTLE MARKET IN CHINA

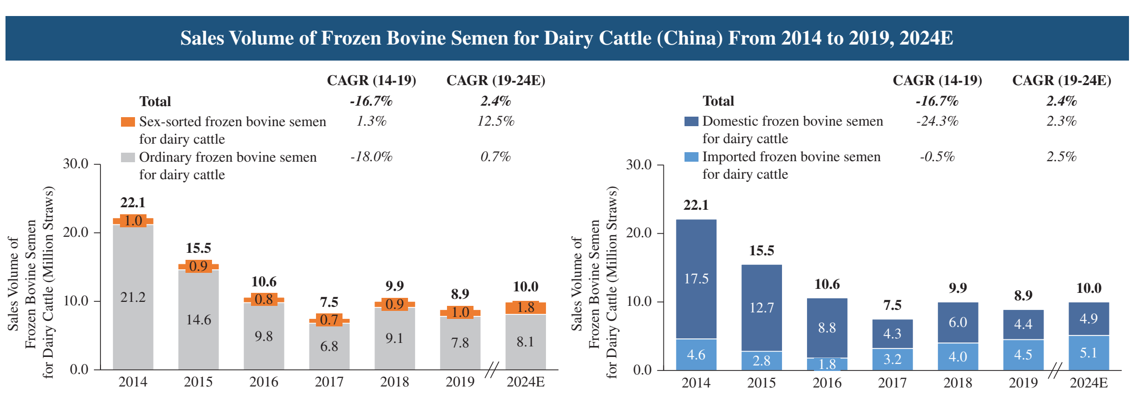
Frozen semen is a breeding product stored at low temperature by adding cryoprotectants for artificial insemination after unfreezing. Frozen bovine semen for dairy cattle is widely used by dairy farms to produce calves. By scientifically collecting semen from selected high quality breeding bulls, dairy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

Thanks to technological advancements and the PRC government's supportive policies and subsidies, the frozen bovine semen for dairy cattle market in China had experienced a rapid growth and had peaked in around 2014. However, there has been a decrease in the demand for frozen bovine semen for dairy cattle in China since 2015. The dose of frozen bovine semen for dairy cattle in use is related to the farming level, the quality of frozen bovine semen for dairy cattle, and the level of breeding technology. In general, by adopting the same breeding technology, the higher the quality of frozen bovine semen for dairy cattle is, the lesser the dose of frozen bovine semen for dairy cattle is necessary to make a cow successfully pregnant.

Therefore, in the case of slower growth in the herds, the improvement in the quality of frozen bovine semen for dairy cattle will lead to less dose of frozen bovine semen for dairy cattle, thereby lowering the demand for frozen bovine semen for dairy cattle. Moreover, the subsidies for fine breeds of dairy cattle were cancelled by the PRC government in 2016. The sales volume of frozen bovine semen for dairy cattle in China had significantly dropped from 22.1 million straws in 2014 down to 7.5 million straws in 2017. Nevertheless, with the recovery of the raw milk supply market and expansion of herd size in China, the frozen bovine semen for dairy cattle market has trended upward. In particular, to effectively grow herds, sex-sorted frozen bovine semen for dairy cattle is expected to enjoy growing popularity among dairy farms in China. The sales volume of sex-sorted frozen bovine semen for dairy cattle is expected to increase from 1.0 million straws in 2019 to 1.8 million straws in 2024, representing a CAGR of 12.5% from 2019 to 2024.

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

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




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

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

The frozen bovine semen for dairy cattle market in China is relatively concentrated. The top five players in terms of sales volume and sales value of frozen bovine semen for dairy cattle accounted for 42.9% and 51.5%, respectively, of the market share in 2019. SKX ranked No. 1 with a market share of 9.5% and 12.3%, respectively. The following diagram illustrates the market shares of the top five players in terms of sales volume and sales value of frozen bovine semen for dairy cattle in 2019, respectively.

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

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

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

| Ranking | Providers of Frozen Bovine Semen for Dairy Cattle | Sales Value of Frozen Bovine Semen for Dairy Cattle (RMB million) | Market Share (%) |
|---|---|---|---|
| **1** | **SKX** | **59.5** | **12.3%** |
| 2 | Company S | 58.0 | 11.9% |
| 3 | Company T | 57.0 | 11.7% |
| 4 | Company V | 47.6 | 9.8% |
| 5 | Company U | 28.0 | 5.8% |
| | **Top Five** | **250.2** | **51.5%** |
| | **Total** | **485.8** | **100.0%** |

*Notes:*

(1) The sales volume of frozen bovine semen for dairy cattle refers to the sales volume of domestically produced and imported frozen bovine semen for dairy cattle.

(2) SKX data is audited and provided by SKX.

(3) Company S is a joint venture a world-leading provider of genetic material for artificial insemination of cattle and dairy farm management services in China.

(4) Company T is a joint venture of a world-leading provider of cattle genetics and breeding products and solutions in China.

(5) Company U is a leading service provider in China specialized in cattle genetics and breeding.

(6) Company V is a wholly-owned PRC subsidiary of a world-leading provider of bovine genetic material and services.

*Source: Frost & Sullivan*

In addition, SKX was also the No. 1 player in 2019 in China by both sales volume and sales value of sex-sorted frozen bovine semen for dairy cattle, with a market share of 22.2% and 18.7%, respectively. The following diagram illustrates the market shares of top five players in China in 2019 in terms of both sales volume and sales value of sex-sorted frozen bovine semen for dairy cattle.

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

| Ranking | Providers of Sex-sorted Frozen Bovine Semen for Dairy Cattle | Sales Volume of Sex-sorted Frozen Bovine Semen for Dairy Cattle (Thousand straws) | Market Share (%) |
|---|---|---|---|
| **1** | **SKX** | **227.6** | **22.2%** |
| 2 | Company S | 100.0 | 9.8% |
| 3 | Company T | 90.0 | 8.8% |
| 4 | Company V | 90.0 | 8.8% |
| 5 | Company W | 80.0 | 7.8% |
| | **Top Five** | **587.6** | **57.4%** |
| | **Total** | **1,024.0** | **100.0%** |

**Top 5 Providers of Sex-sorted Frozen Bovine Semen for Dairy Cattle in Terms of Sales Value (China), 2019**

| Ranking | Providers of Sex-sorted Frozen Bovine Semen for Dairy Cattle | Sales Value of Sex-sorted Frozen Bovine Semen for Dairy Cattle (RMB million) | Market Share (%) |
|---|---|---|---|
| **1** | **SKX** | **34.4** | **18.7%** |
| 2 | Company S | 20.0 | 10.9% |
| 3 | Company T | 18.9 | 10.3% |
| 4 | Company V | 18.0 | 9.8% |
| 5 | Company Z | 14.0 | 7.6% |
| | **Top Five** | **105.3** | **57.3%** |
| | **Total** | **183.8** | **100.0%** |

*Notes:*

(1) The sales volume of sex-sorted frozen bovine semen for dairy cattle refers to the sales volume of domestically produced and imported sex-sorted frozen bovine semen for dairy cattle.

(2) SKX's data is audited and provided by SKX.

(3) Company W is a leading supplier of dairy breeding products and services in China.

(4) Company Z is a wholly-owned subsidiary of a world-leading genetic products and solutions provider for dairy and beef cattle.

*Source: Frost & Sullivan*

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

- *Accelerated adoption of sex-sorted techniques.* With technological innovations and an increasing number of large-scale pastures, the demands of dairy farms in China for frozen semen are expected to increase. In particular, it is to expedite adoption of sex-sorted frozen bovine semen for dairy cattle to enhance cow reproductive capability, improve the genetic quality of herds and increase operational efficiency.

- *Continuous technology innovation*. The increasing adoption of technologies will contribute to significant breakthroughs in breeding techniques and methods, such as genomic selection, gene editing, ovum pick-up and in vitro fertilization. Continuous technology innovations will drive China's frozen bovine semen for dairy cattle market and improve the overall genetic quality of dairy herd in China.

- *Closer cooperation with downstream industry participants.* Downstream industry participants, such as dairy farms and dairy manufacturers, have become more aware of the important role of high-quality frozen bovine semen for dairy cattle in advancing fertility and raw milk quality. As a result, they are seeking to establish a closer relationship with breeding companies to secure quality frozen bovine semen for dairy cattle, leading to business integration and synergies among feed and breeding in the upstream dairy value chain.

## OVERVIEW

We are a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

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

## MILESTONES

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

| Time | Milestone |
|---|---|
| April 1984 | Hohhot Compound Feed Factory (呼和浩特市配合飼料廠), our predecessor, commenced its construction |
| June 1988 | Hohhot Compound Feed Factory started its trial production |
| July 2000 | Yili acquired Hohhot Compound Feed Factory and established Inner Mongolia Yili Feed Co. Ltd. (內蒙古伊利飼料有限責任公司) (currently known as Inner Mongolia Muquan Yuanxing Feed Co., Ltd. (內蒙古牧泉元興飼料有限責任公司) ("**Muquan Yuanxing**")) to develop modern, professional and standardized feed business, which is now one of our principal operating subsidiaries |
| August 2007 | Youran Dairy (previously known as Inner Mongolia Yili Animal Husbandry Development Co., Ltd. (內蒙古伊利畜牧發展有限責任公司)), our principal operating subsidiary, was established |
| December 2015 | PAG invested in our Group and we ceased to be a subsidiary of Yili |
| January 2020 | We completed the acquisition of SKX to expand our raw milk business and entered the dairy breeding business |
| April 2021 | We completed the acquisition of two entities comprising the Fonterra China Farms Group to expand our raw milk business |

## OUR MAJOR SUBSIDIARIES

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

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

## MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

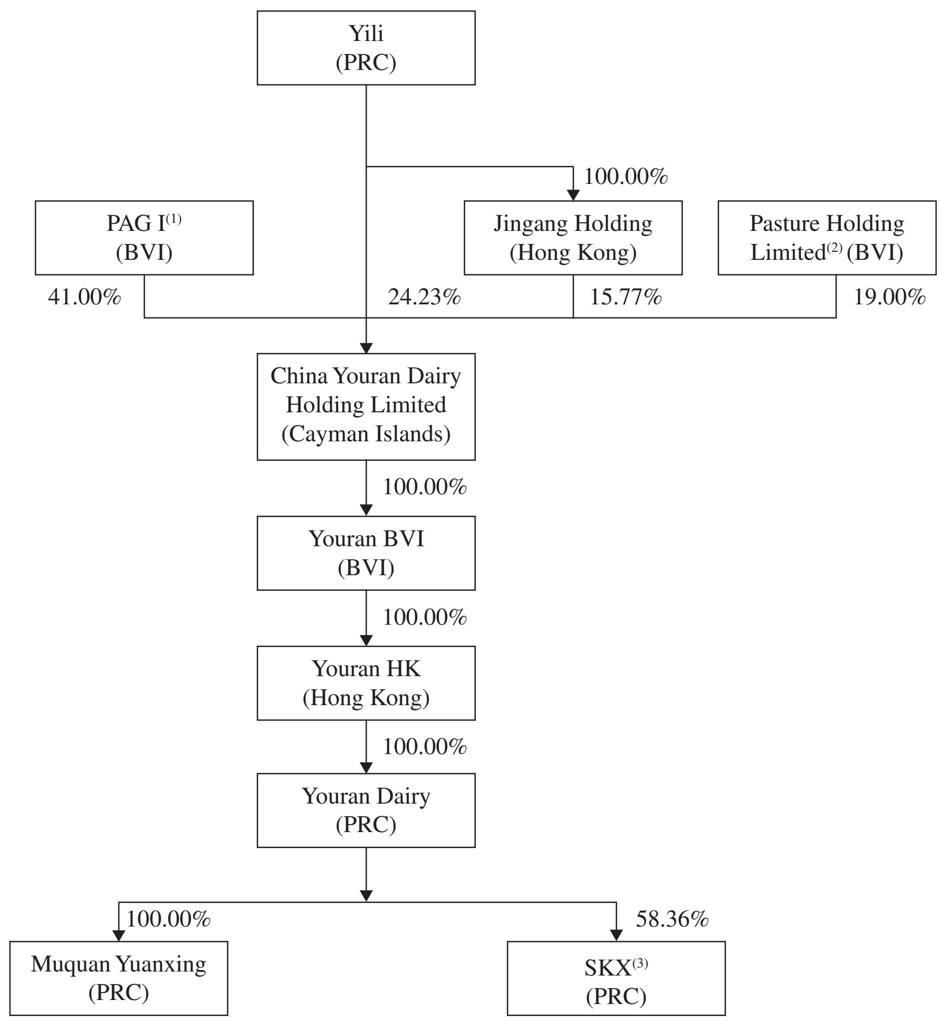
Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 21, 2020, with an authorized share capital of US$100,000 divided into 10,000,000,000 Shares of US$0.00001 each.

Our Company underwent a series of shareholding changes in connection with corporate reorganization and pre-IPO investments. For further details, please refer to the paragraphs headed "– Reorganization" and "– The Pre-IPO Investments" in this section below.

## REORGANIZATION

### Corporate Chart immediately prior to the Reorganization

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




*Notes:*

(1) For further information about PAG I, please refer to the paragraph headed "– The Pre-IPO Investments – Background Information about the Pre-IPO Investors – The PAG Entities" in this section below.

(2) For further information about Pasture Holding Limited ("Pasture"), please refer to the paragraph headed "– The Pre-IPO Investments – Background Information about the Pre-IPO Investors – Meadowland" in this section below.

(3) SKX is a company established under the laws of the PRC, whose shares are listed on the NEEQ (stock code: 834179). SKX is held as to 58.36% by Youran Dairy and 41.64% by other minority shareholders.

***Step 1: Incorporation of our Company***

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

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

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

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

On October 27, 2020, the Old Cayman Holdco and each of PAG I, Jingang Holding and Pasture entered into a share exchange agreement, pursuant to which (i) PAG I agreed to redeem its 6,769 ordinary shares held in the Old Cayman Holdco, and in exchange, Old Cayman Holdco agreed to transfer 1,353,800,000 Shares to PAG I; (ii) Jingang Holding agreed to redeem its 2,604 ordinary shares held in the Old Cayman Holdco, and in exchange, the Old Cayman Holdco agreed to transfer 520,800,000 Shares to Jingang Holding; and (iii) Pasture agreed to redeem its 3,137 ordinary shares held in the Old Cayman Holdco, and in exchange, the Old Cayman Holdco agreed to transfer 627,400,000 Shares to Pasture. The above share redemptions and share transfers were properly and legally completed and settled on October 27, 2020. Subsequent to such share redemptions, Yili became the sole shareholder of Old Cayman Holdco. Our Company (rather than the Old Cayman Holdco) is used as the listing vehicle for the purpose of the Listing because Yili intends to use any future dividend payment from our Company to finance its future offshore investments. If the Old Cayman Holdco were used as the listing vehicle, any dividend payment from us would be paid by the Old Cayman Holdco (an offshore entity) to Yili (an onshore entity), and the proceeds would cross the borders again if Yili would use them to finance any offshore investments, hence creating unnecessary administrative and tax burdens. Therefore, the current intention of Yili is to use the Old Cayman Holdco as its offshore investment platform, which would hold any dividend payment from us offshore to finance any of its offshore investments in the future. To the best of the knowledge of the Directors, the Old Cayman Holdco was not involved in any material non-compliance incidents, claims, litigation or legal proceedings (whether actual or threatened) during the Track Record Period and up to the Latest Practicable Date.

***Step 4: Transfer of Shares by Pasture to Meadowland***

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

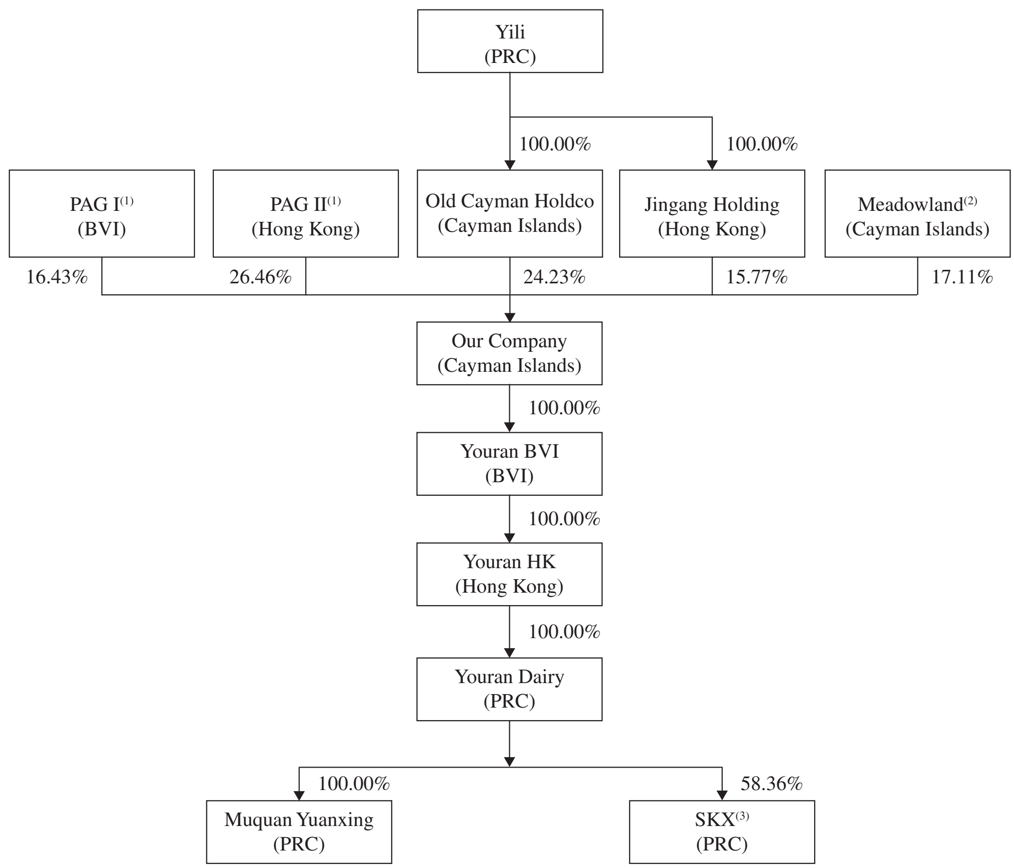
***Step 5: Transfer of the Shares from PAG I and Meadowland to PAG II***

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

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

*Corporate Chart immediately upon Completion of the Reorganization*

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




*Notes:*

(1) For further information about PAG I and PAG II, please refer to the paragraph headed "– The Pre-IPO Investments – Background Information about the Pre-IPO Investors – The PAG Entities" in this section below.

(2) For further information about Meadowland, please refer to the paragraph headed "– The Pre-IPO Investments – Background Information about the Pre-IPO Investors – Meadowland" in this section below.

(3) SKX is a company established under the laws of the PRC, whose shares are listed on the NEEQ (stock code: 834179). SKX is held as to 58.36% by Youran Dairy and 41.64% by other minority shareholders.

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

## REASONS FOR THE LISTING ON THE STOCK EXCHANGE

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

## THE PRE-IPO INVESTMENTS

### Issuance of Ordinary Shares

We underwent the following rounds of Pre-IPO Investments:

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

On March 24, 2016, the Old Cayman Holdco, Yili and PAG I entered into a share subscription agreement, pursuant to which Yili and PAG I agreed to subscribe for 4,000 and 5,999 shares of the Old Cayman Holdco for a consideration of RMB1,400 million and approximately RMB2,100 million, respectively. The allotment and issuance of 4,000 shares by the Old Cayman Holdco to Yili was completed and the consideration was settled on April 12, 2016. The allotment and issuance of 5,999 shares by the Old Cayman Holdco to PAG I was completed on April 12, 2016 and fully paid up to 6,000 shares (of which 4,100 shares, including the one existing share of the Old Cayman Holdco already held by PAG I were fully paid on April 19, 2016, and the remaining 1,900 shares were fully paid as described in paragraph (2) headed "Transfer of Shares of the Old Cayman Holdco from PAG I to Pasture" below). Together with this one existing share, PAG I held 60% of the enlarged issued share capital of the Old Cayman Holdco.

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

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

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

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

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

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

A summary of the Pre-IPO Investments mentioned above and their principal terms are as set out below:

| Name of investor | Date of the agreement in relation to the Pre-IPO investment | Amount of consideration paid | Basis of consideration | Payment date of the consideration | Effective cost per Share paid | Discount to the mid-point of the indicative Offer Price range of HK$7.82 | Use of net proceeds and its utilisation by our Company | Effective shareholding upon Listing[(2)] | Lock-up period | Strategic benefits brought to our Group by the investor |
|---|---|---|---|---|---|---|---|---|---|---|
| PAG I | March 24, 2016<br><br>December 30, 2019 | RMB1,435,000,000<br><br>RMB934,150,000 | Based on commercial negotiations with reference to the initial investment contribution of the transferor | April 12, 2016 and April 20, 2016<br><br>January 15, 2020 and June 16, 2020 | RMB1.75[(1)] | 72.80% | The proceeds have been used for our general working capital purposes | 542,376,651 Shares, representing approximately 16.43% of the issued Shares of our Company immediately prior to Listing; and 371,583,651 Shares, representing approximately 9.79% of the issued Shares of our Company upon Listing | There is no lock-up arrangement under the terms of the relevant pre-IPO Investment. However, the Shares held by PAG I are subject to certain lock-up arrangement after Listing. For further information about the lock-up arrangements, please refer to the section headed "Underwriting" in this prospectus. | At the time of the Pre-IPO Investments, our Directors were of the view that our Company could benefit from the additional capital that would be provided by the Pre-IPO Investors' investments in our Company and the Pre-IPO Investors' knowledge and experience. In particular, with the established network and track record of PAG as an experienced investor, we could benefit from its expertise and commitment as the investment demonstrates their confidence in the operations of our Group and serves as an endorsement of our Group's performance, strengths and prospects. |

| Name of investor | Date of the agreement in relation to the Pre-IPO investment | Amount of consideration paid | Basis of consideration | Payment date of the consideration | Effective cost per Share paid | Discount to the mid-point of the indicative Offer Price range of HK$7.82 | Use of net proceeds and its utilisation by our Company | Effective shareholding upon Listing[(2)] | Lock-up period | Strategic benefits brought to our Group by the investor |
|---|---|---|---|---|---|---|---|---|---|---|
| PAG II | November 3, 2020 | US$350 million | Based on commercial negotiations with reference to the timing of the share transfer and the valuation of our Group at the time of the share transfer | November 4, 2020 | US$0.4 | 60.30% | Not applicable as the proceeds of the relevant transfer were not received by our Company | 873,840,530 Shares, representing approximately 26.46% of the issued Shares of our Company immediately prior to Listing; and 822,602,530 Shares, representing approximately 21.67% of the issued Shares of our Company upon Listing | There is no lock-up arrangement under the terms of the relevant pre-IPO Investment. However, the Shares held by PAG II are subject to certain lock-up arrangement after Listing. For further information about the lock-up arrangements, please refer to the section headed "Underwriting" in this prospectus. | |

| Name of investor | Date of the agreement in relation to the Pre-IPO investment | Amount of consideration paid | Basis of consideration | Payment date of the consideration | Effective cost per Share paid | Discount to the mid-point of the indicative Offer Price range of HK$7.82 | Use of net proceeds and its utilisation by our Company | Effective shareholding upon Listing[2] | Lock-up period | Strategic benefits brought to our Group by the investor |
|---|---|---|---|---|---|---|---|---|---|---|
| Pasture | April 13, 2016 | RMB665,000,000 | Based on commercial negotiations with reference to the initial investment contribution of the transferor | April 19, 2016 | RMB1.75[1] | 72.80% | The proceeds have been used for our general working capital purposes | Approximately 564,982,819 Shares, representing approximately 14.89% of the issued Shares of our Company upon Listing | There is no lock-up arrangement under the terms of the relevant pre-IPO Investment. However, the Shares held by Meadowland are subject to certain lock-up arrangement after Listing. For further information about the lock-up arrangements, please refer to the section headed "Underwriting" in this prospectus. | |
| | December 30, 2019 | RMB432,950,000 | | June 12, 2020 | | | | | | |

*Notes:*

(1) Calculated based on the total amount of consideration paid divided by the number of shares held by such Pre-IPO Investor after the exchange of shares in the Old Cayman Holdco with Shares in our Company, which were completed on October 27, 2020. For further details, please refer to the paragraph headed "– Reorganization – Step 3: Exchange of shares held by PAG I, Jingang Holding and Pasture in Old Cayman Holdco for shares of our Company" of this section.

(2) Upon completion of the Global Offering, assuming the Over-allotment Option is not exercised and the Convertible Notes are not converted.

**Rights of Pre-IPO Investors of the Shares**

The principal special rights granted to the Pre-IPO Investors of the Shares include customary protective provisions, pre-emption rights, tag-along rights, rights of distribution of profits and information rights. All special rights granted to the Pre-IPO Investors will terminate upon completion of the Listing, other than the conversion rights themselves which shall remain effective after Listing.

**Issuance of Convertible Notes**

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

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

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

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

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

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

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

| Pre-IPO Investor | PAG III | ICBC | BOC | Bain |
|---|---|---|---|---|
| Issuance date of the Convertible Note | November 4, 2020 | November 11, 2020 | November 20, 2020 | November 20, 2020 |
| Amount of consideration paid | US$330 million | US$30 million | US$25 million | US$75 million |

| Pre-IPO Investor | PAG III | ICBC | BOC | Bain |
|---|---|---|---|---|
| Basis of consideration | The consideration represents 100% of the principal amount of the Convertible Note subscribed for by each Pre-IPO Investor. | | | |
| Payment date of the consideration | November 5, 2020 | November 11, 2020 | November 20, 2020 | November 20, 2020 |
| Interest and interest payment dates | (i) The rate of cash interest ("**Cash Interest**") on the outstanding principal amount of the Convertible Notes is 4% per annum.<br><br>(ii) Our Company shall pay to the holders in cash all accrued and unpaid Cash Interest on March 31, June 30, September 30 and December 31 of each year, commencing on December 31, 2020.<br><br>(iii) The Cash Interest shall accrue on a daily basis on the principal amount outstanding on any given day and shall begin to accrue on the principal amount starting from the issuance date based on the actual number of days elapsed over a base year of 365 days. The Cash Interest shall not accrue on the capitalized PIK Interest (as defined below).<br><br>(iv) The rate of pay-in-kind interest ("**PIK Interest**") on the outstanding principal amount of the Convertible Notes is 6% per annum.<br><br>(v) On each anniversary of the issuance date, the accrued PIK Interest shall capitalize and be added into the then-outstanding principal amount, whereupon PIK Interest shall accrue on the then-outstanding principal amount plus any capitalized amount of PIK Interest at the same rate. Accrued and capitalized PIK Interest on any portion of the principal amount that is converted into Conversion Shares (as defined below) shall be waived upon the completion of such conversion.<br><br>(vi) The PIK Interest shall accrue on a daily basis on the principal amount outstanding on any given day and shall begin to accrue on the principal amount starting from the issuance date based on the actual number days elapsed over a base year of 365 days. | | | |
| Maturity date | November 3, 2023, and may be extended at the discretion of the relevant holder to November 4, 2025 ("**Maturity Date**"). | | | |
| Conversion right | The holders of the Convertible Notes shall have the right ("**Conversion Right**"), but not the obligation, to convert the outstanding principal amount of the Convertible Notes into such number of Shares ("**Conversion Shares**") at any time before the Maturity Date pursuant to the terms of the Convertible Notes. | The holders of the Convertible Notes shall have the Conversion Right, but not the obligation, to convert the outstanding principal amount of the Convertible Notes into Conversion Shares at any time before the Maturity Date save for the time during the period commencing from the date on which the Company submits its application for listing on the Stock Exchange to the earliest of (i) the date on which the Company withdraws its listing application, (ii) the date on which the Company receives from the Stock Exchange a definitive rejection notice with respect to its listing application, (iii) the date on which the Company completes its initial public offering and gets listed on Stock Exchange, and (iv) June 30, 2021, pursuant to the terms of the Convertible Notes. | | |
| Determination of the number of Conversion Shares | The number of Conversion Shares to be issued by our Company to the holders shall be equal to the quotient of (i) the principal amount of the relevant Convertible Note subject to the Conversion Right divided by (ii) the conversion price, rounded to the nearest whole share, and shall be free from all taxes and encumbrances. | | | |
| Conversion price | The initial conversion price upon issuance of the Convertible Note shall be US$0.44605 per Share, subject to anti-dilution adjustments for any subdivision, combination or reclassification of Shares, or for any capital distributions made to shareholders. Commencing from the third anniversary of the relevant issuance date, the conversion price shall increase at a rate of 2% per annum, or 0.5% per quarter, on each interest payment date. For the avoidance of doubt, on the respective issuance date of the Convertible Note, the conversion price was fixed at a dollar amount as the interest rate on the conversion price has been fixed, and there is no conversion price reset mechanism after the respective issuance date of the Convertible Note. | | | |

| Pre-IPO Investor | PAG III | ICBC | BOC | Bain |
|---|---|---|---|---|
| Redemption right | The holders of the Convertible Notes shall have the right to require the Company to redeem the outstanding principal amount of the Convertible Notes, or any portion thereof, (i) at any time after the occurrence of an event of default under the Convertible Notes, or (ii) upon the expiration of the fifteenth (15th) month of the applicable issuance date of the Convertible Notes. | | | |
| Effective cost per Share paid | US$0.44605 | | | |
| Discount to the mid-point of the indicative Offer Price range of HK$7.82 | 55.7% | | | |
| Use of net proceeds and its utilization by our Company | Approximately 39.21% of the proceeds has been used to pay the special dividend declared on November 4, 2020, approximately 0.02% has been used for general working capital purposes, and the remaining will be used for our general working capital purposes. | | | |
| Effective shareholding upon Listing, assuming (1) all the Convertible Notes are fully converted into Shares at a conversion price of US$0.44605; and (2) 493,404,000 Shares are issued pursuant to the Global Offering; | Approximately 739,827,374 Shares, representing approximately 15.33% of the total issued shares of our Company upon Listing | Approximately 67,257,034 Shares, representing approximately 1.39% of the total issued shares of our Company upon Listing | Approximately 56,047,528 Shares, representing approximately 1.16% of the total issued shares of our Company upon Listing | Approximately 168,142,585 Shares, representing approximately 3.48% of the total issued shares of our Company upon Listing |
| Lock-up period | The Conversion Shares to be held by each of Bain, ICBC or BOC upon conversion of their respective Convertible Note are not subject to any lock-up pursuant to the terms of the Convertible Notes. Pursuant to the lock-up undertaking each of PAG III, Bain, ICBC and BOC have given to our Company, the Joint Sponsors and the Joint Global Coordinators, the Conversion Shares to be converted, the Convertible Notes held and any interest therein are subject to certain lock-up arrangement. For further information about the lock-up arrangements, please refer to the section headed "Underwriting" in this prospectus. | | | |
| Strategic benefits brought to our Group by the investor | At the time of the Pre-IPO Investments, our Directors were of the view that our Company could benefit from the additional capital that would be provided by the Pre-IPO Investors' investments in our Company and the Pre-IPO Investors' knowledge and experience. In particular, with the established networks and track record of each of PAG, ICBC, BOC and Bain as experienced investors, we could benefit from their expertise and commitment as the investments demonstrate their confidence in the operations of our Group and serves as an endorsement of our Group's performance, strengths and prospects. | | | |

### Rights of Pre-IPO Investors of the Convertible Notes

The principal special rights granted to the Pre-IPO Investors include customary negative covenants and information rights. All special rights granted to the Pre-IPO Investors will terminate upon completion of the Listing. To the best knowledge of our Directors after making reasonable inquiries, the Pre-IPO Investors of the Convertible Notes will exercise the conversion right under the relevant Convertible Note in compliance with the Listing Rules and the Takeovers Code.

### Public Float

Yili holds indirectly, through its wholly-owned subsidiaries the Old Cayman Holdco and Jingang Holding, 34.80% of the issued share capital of our Company immediately following completion of the Global Offering (assuming no Convertible Notes are converted into Shares) (whether or not the Over-allotment Option is exercised). As such, Yili will be considered a core connected person of our Company under the Listing Rules, and such Shares will not be considered as part of the public float.

PAG I and PAG II collectively will hold approximately 31.46% of the issued share capital of our Company immediately following completion of the Global Offering (assuming no Convertible Notes are converted into Shares and the Over-allotment Option is not exercised). PAG III, a close associate of PAG I and PAG II, will hold approximately 15.33% of the issued share capital of our Company immediately following completion of the Global Offering (assuming all Convertible Notes are fully converted into Shares) (whether or not the Over-allotment Option is exercised). As such, each of PAG I, PAG II and PAG III will be considered a core connected person of our Company under the Listing Rules, and the Shares held by each of them will not be considered as part of the public float.

Meadowland is an exempted limited partnership established under the laws of the Cayman Islands and will hold approximately 14.89% of the issued share capital of our Company immediately following completion of the Global Offering (assuming no Convertible Notes are converted into Shares) (whether or not the Over-allotment Option is exercised). As such, Meadowland will be considered a core connected person of our Company under the Listing Rules, and the Shares held by Meadowland will not be considered as part of the public float.

Assuming full conversion of Convertible Notes immediately following completion of the Global Offering (but assuming the Over-allotment Option is not exercised), approximately 27.36%, 40.07% and 11.71% of the issued share capital of our Company held by Yili, the PAG Entities and Meadowland, respectively, will not be considered as part of the public float. Approximately 20.86% of the issued share capital of our Company will count towards the public float.

To the best of the Directors' knowledge, the Shares to be held by the other Pre-IPO Investors upon the full conversion of the Convertible Notes will be counted towards the public float.

**Joint Sponsors' Confirmation**

The last round of the Pre-IPO Investments was completed on November 20, 2020. On the basis that (i) the Listing is expected to take place on June 18, 2021 and will be more than 120 clear days after the completion of the last round of the Pre-IPO Investments, and (ii) the Pre-IPO Investors shall have the same information right as the general public after the Listing, the Joint Sponsors have confirmed that, based on the documents provided by our Company relating to the Pre-IPO Investments, the Pre-IPO Investments are in compliance with the Interim Guidance on Pre-IPO Investments issued in October 2010 and updated in March 2017 in the Guidance Letter GL29-12 by the Stock Exchange, Guidance Letter HKEX-GL43-12 issued in October 2012 and updated in July 2013 and March 2017 by the Stock Exchange and the Guidance Letter HKEX-GL44-12 issued in October 2012 and updated in March 2017 by the Stock Exchange.

**Background Information about the Pre-IPO Investors**

The background information of our Pre-IPO Investors is set out below.

***The PAG Entities***

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

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

***Meadowland and Pasture***

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

***Bain***

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

### *ICBC*

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

### *BOC*

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

## CAPITALIZATION TABLE

The following table illustrates the capitalizations of our Company immediately prior to and upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised):

| | Immediately prior to the completion of the Global Offering | | | | Upon completion of the Global Offering | | | |
|---|---|---|---|---|---|---|---|---|
| Shareholders | Aggregate number of Shares (assuming the Convertible Notes are not converted) | Shareholding Percentage | Aggregate number of Shares (assuming the Convertible Notes are fully converted at the conversion price of US$0.44605) | Shareholding Percentage | Aggregate number of Shares (assuming the Convertible Notes are not converted) | Shareholding Percentage | Aggregate number of Shares (assuming the Convertible Notes are fully converted at the conversion price of US$0.44605) | Shareholding Percentage |
| Yili(1) | 1,320,800,000 | 40.00% | 1,320,800,000 | 30.48% | 1,320,800,000 | 34.80% | 1,320,800,000 | 27.36% |
| The PAG Entities(2) | 1,416,217,181 | 42.89% | 2,156,044,555 | 49.76% | 1,194,186,181 | 31.46% | 1,934,013,555 | 40.07% |
| Meadowland | 564,982,819 | 17.11% | 564,982,819 | 13.04% | 564,982,819 | 14.89% | 564,982,819 | 11.71% |
| Public Shareholders | — | — | 291,447,147 | 6.73% | 715,435,000 | 18.85% | 1,006,882,147 | 20.86% |
| Total | 3,302,000,000 | 100.00% | 4,333,274,521 | 100.00% | 3,795,404,000 | 100.00% | 4,826,678,521 | 100.00% |

(1) Yili indirectly holds 800,000,000 Shares through its wholly-owned subsidiary China Youran Dairy Holding Limited and 520,800,000 Shares through its wholly-owned subsidiary Jingang Holding.

(2) Includes 542,376,651 Shares held by PAG I and 873,840,530 Shares held by PAG II immediately prior to the completion of the Global Offering; and 371,583,651 Shares held by PAG I and 822,602,530 Shares held by PAG II upon completion of the Global Offering; and, as applicable, 739,827,374 Shares to be held by PAG III upon full conversion of the Convertible Notes at the conversion price of US$0.44605.

## MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

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

### Acquisition of SKX

On July 9, 2019, Youran Dairy entered into a share purchase agreement with the then shareholders of SKX, who were Independent Third Parties, pursuant to which Youran Dairy agreed to purchase and the then shareholders of SKX agreed to sell 536,066,738 shares of SKX, representing approximately 58.36% of the equity interest of SKX, to Youran Dairy at a consideration of RMB2,278,284,000. Such consideration was determined based on, among other things, the assets and liabilities of SKX after arms' length negotiations between the parties, and taking into account the strategic synergies between our Group and SKX. Approximately 95.0% of the consideration was paid with the available cash of Youran Dairy during the period between January 8, 2020 and September 3, 2020, and the remaining will be paid with cash on January 8, 2021 (one year after the date of the sale of shares).

The Directors, after conducting due diligence of SKX, were of the view that the acquisition of SKX was in line with the overall development strategy of our Company and in the interest of our Company and our Shareholders as a whole due to the following reasons: (i) the acquisition of SKX would provide us with a favorable chance of entering the dairy breeding business; and (ii) we will benefit from such acquisition in respect of the national policy, industry development, as well as our Company and SKX's development strategies. SKX has been listed on the NEEQ since November 12, 2015. To the best of our Directors' knowledge, SKX and its directors had been in compliance with all applicable regulations (including NEEQ listing rules) in connection with its listing on the NEEQ in all material respects and, during the Track Record Period and up to the Latest Practicable Date. Based on the due diligence work performed by the Joint Sponsors, nothing has come to the attention of the Joint Sponsors that would lead them to believe that SKX had not been in material compliance with all applicable PRC securities laws and regulations as well and rules and regulations of the NEEQ during the Track Record Period and up to the Latest Practicable Date.

Out of 536,066,738 shares acquired by Youran Dairy, 124,691,568 shares (the "**Restricted Shares**") were held by the three former management shareholders ("**Management Shareholders**"). In order to comply with the PRC Company Law where the directors, supervisors and senior management of a company shall not transfer the shares they held in such company within six months after their departure from the company, Youran Dairy has entered into share pledge agreements with the Management Shareholders whereby the Management Shareholders have agreed to grant all the shareholder rights, including the voting right, adhered to the Restricted Shares, to Youran Dairy until the Restricted Shares can be transferred. The Restricted Shares were released and transferred to the Youran Dairy on September 2, 2020. Please also see the section headed "Appendix I – Accountants' Report – 43. Business Combination".

Considering that: (i) according to the Administrative Measures for the Acquisition of Non-listed Public Companies (the "**Measures**", 非上市公眾公司收購管理辦法), the acquirer may acquire control of a public company through investment relationships and agreements; (ii) the PRC Company Law, the Measures and other PRC laws and regulations do not prohibit the delegation of shareholders' rights and equity pledge arrangements between the management shareholders and Youran Dairy; (iii) the acquisition has obtained necessary approval from the National Equities Exchange and Quantitation Co., Ltd, which as advised by our PRC Legal Advisors is the competent authority of governing the transfer of shares under the acquisition, and been duly registered with the China Securities Depositary and Clearing Co., Ltd.; and (iv) the acquisition has satisfied all other preconditions to its completion under the relevant share purchase agreement, including obtaining unconditional approval from the Anti-Monopoly Bureau, and has been announced in accordance with the NEEQ rules, our PRC Legal Advisors are of the view that the acquisition has gone through due procedures, does not violate the relevant PRC laws and regulations and is legal and valid. Based on the above, there is no information that had caused the Joint Sponsors to doubt the legality of our Group's acquisition of SKX. As advised by our PRC Legal Advisors, the Company's Listing does not require any approval or clearance from the NEEQ nor the approval of SKX's shareholders.

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

**Fonterra Acquisition**

Youran Dairy entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group, who is an Independent Third Party, on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire the entire equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement including, among others, the deduction of an amount equivalent to certain indebtedness owed, and the addition of an amount equivalent to the amount of cash held, by Fonterra China Farms Group as of the completion date from or to the agreed aggregate consideration of RMB2.31 billion. The Directors are of the view that such adjustments are customary closing adjustments in acquisition transactions which would not have a material impact on the business, financial performance and cash flows of our Group going forward. Such consideration was determined on the basis of, among other things, the net assets of Fonterra China Farms Group, as adjusted by eliminating the impact of the borrowings from the immediate controlling company when converted into additional registered capital before completion. The above acquisition was completed on April 1, 2021 at a consideration of RMB2,530,565,725 which has been applied a purchase price adjustment and is subject to a further adjustment. We funded the consideration by a term loan bearing interest ranging from 4.15% to 4.75% per annum.

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

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

## HISTORICAL DIVIDEND DISTRIBUTION

Pursuant to commercial arrangements among our Company and our existing shareholders, on November 4, 2020, our Company declared a dividend of US$180,348,072 (approximately RMB1,198,748,000) to the shareholders of our Company existing immediately before the completion of the Reorganization out of our Company's share premium, which was fully paid to such shareholders on November 5, 2020.

## PRC REGULATORY REQUIREMENTS

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

### M&A Rules

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

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

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

**SAFE Registration in the PRC**

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

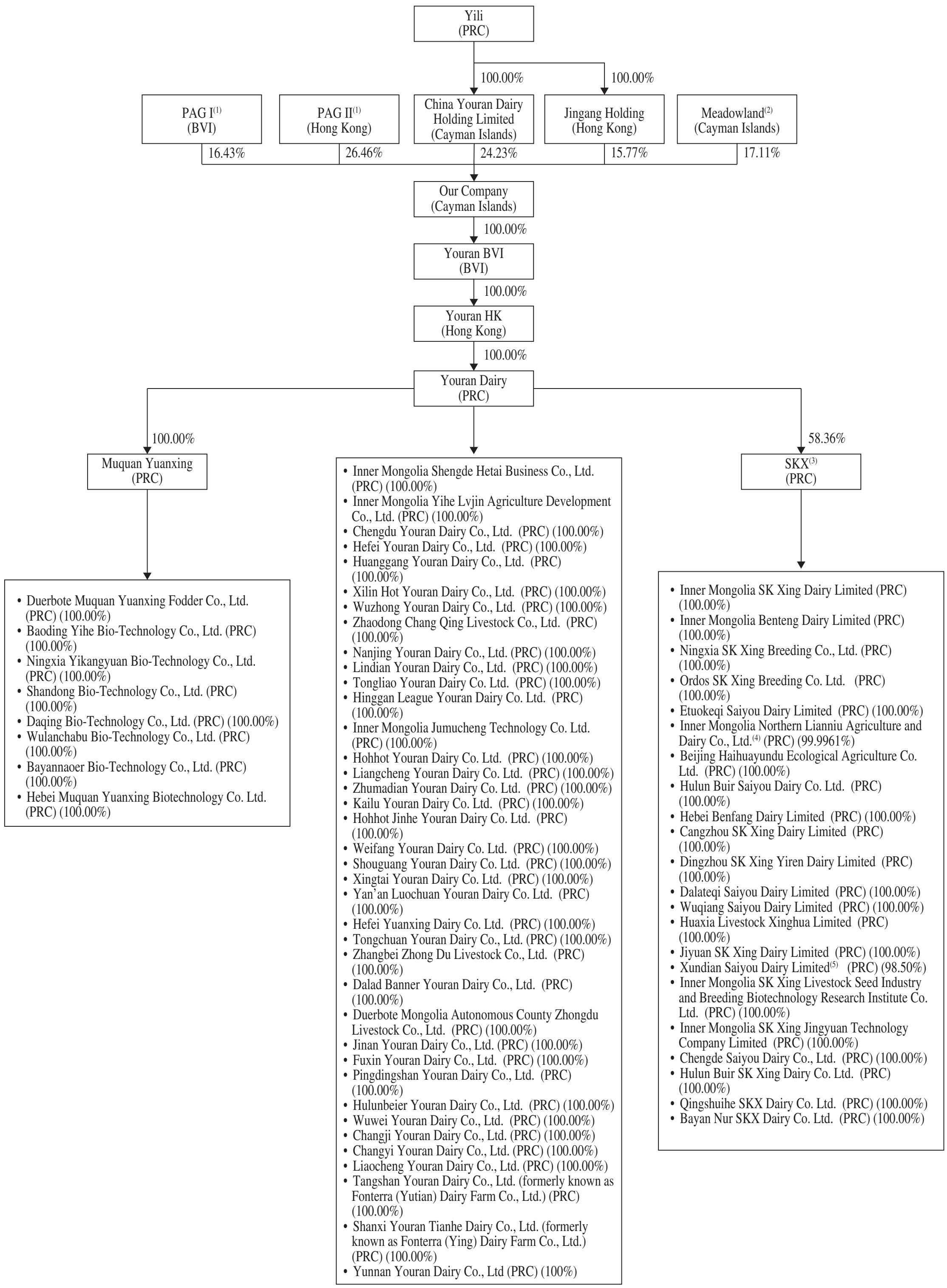
Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**SAFE Circular 13**"), promulgated by SAFE and became effective on June 1, 2015, the power to accept SAFE registration was delegated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

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

## CORPORATE STRUCTURE

### Corporate Chart immediately prior to the completion of the Global Offering

The corporate structure of our Group and our subsidiaries immediately prior to the completion of the Global Offering was as follows:



*Notes:*

(1) For further information about PAG I and PAG II, please refer to the paragraph headed "– The Pre-IPO Investments – Background Information about the Pre-IPO Investors – The PAG Entities" in this section below.

(2) For further information about Meadowland, please refer to the paragraph headed "– The Pre-IPO Investments – Background Information about the Pre-IPO Investors – Meadowland" in this section below.

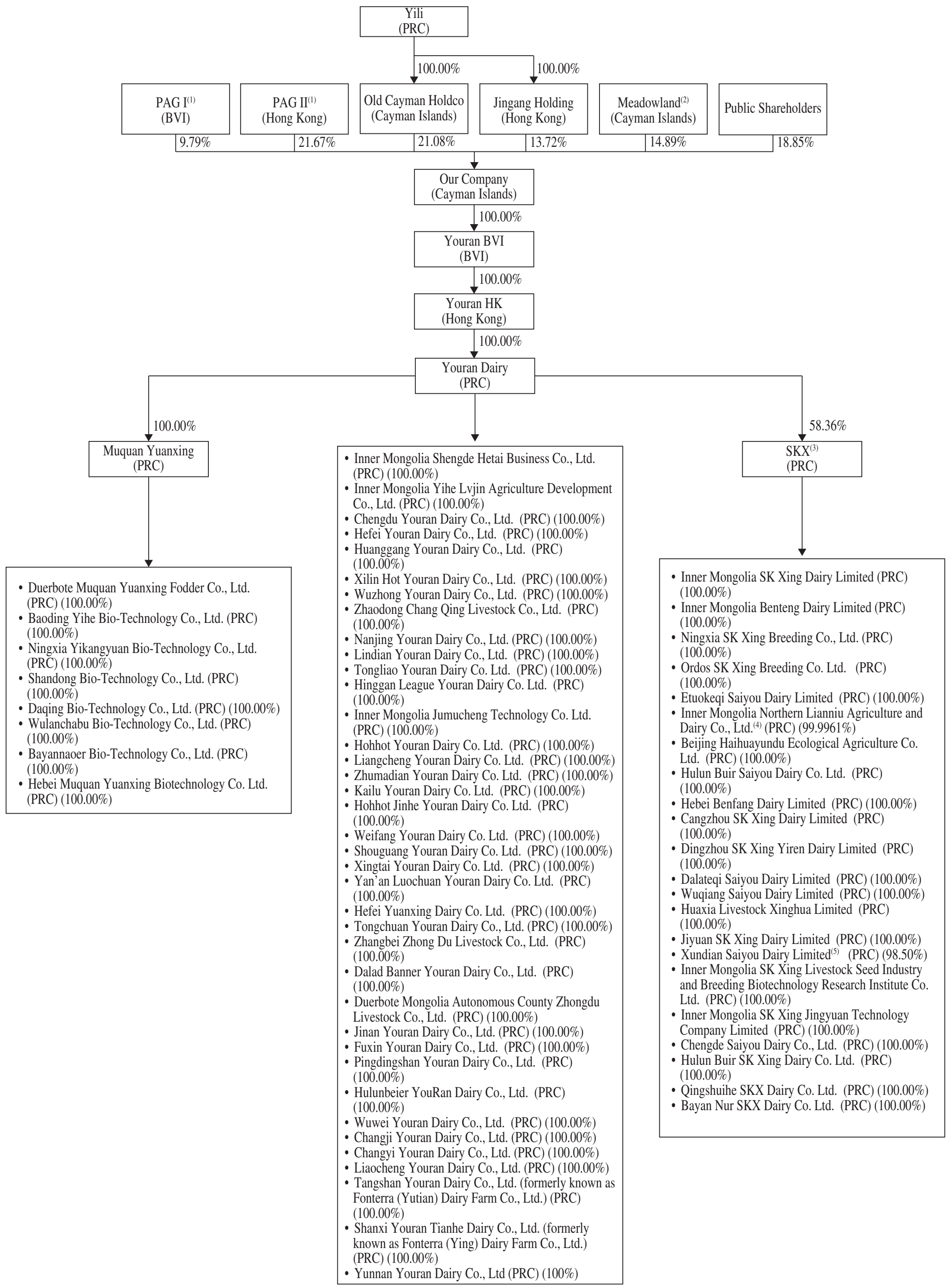
(3) SKX is a company established under the laws of the PRC, whose shares are listed on the NEEQ (stock code: 834179). SKX is held as to 58.36% by Youran Dairy and 41.64% by other minority shareholders.

(4) Inner Mongolia Northern Lianniu Agriculture and Dairy Co., Ltd. (內蒙古北方聯牛農牧業有限公司) is held as to 99.9961% by SKX and 0.0039% by Xu Yun, an Independent Third Party.

(5) Xundian Saiyou Dairy Limited (尋甸賽優牧業有限公司) is held as to 98.5% by SKX and 1.5% by Xundian Tangniu Dairy Limited (尋甸唐牛牧業有限公司), an Independent Third Party.

## Corporate Chart immediately following completion of the Global Offering

The following diagram illustrates the corporate structure of our Group immediately following completion of the Global Offering, assuming that (1) the Over-allotment Option is not exercised and (2) the Convertible Notes are not converted.




*Notes (1) to (5):* Please refer to the chart contained under the paragraph headed "– Corporate Chart immediately prior to the Global Offering" in this section above.

* English name included for identification purposes only.

## OVERVIEW

We are a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

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

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

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

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

**Raw milk business**

We provide raw milk to large-scale dairy manufacturers for further processing into premium dairy products. In the year ended December 31, 2020, revenue from our raw milk business accounted for 59.4% of our total revenue. As of December 31, 2020, we had 67 dairy farms in operation with 308,195 dairy cows, on a consolidated post-SKX Acquisition basis. In addition, as of December 31, 2020, we had eight dairy farms under construction, which are expected to commence operation within the next two years. Most of our dairy farms are located in the Golden Raw Milk Belt, a geographic area spanning from 40 to 50 degrees north latitude, which is an ideal latitudinal zone for dairy farming and quality raw milk production. We also strategically locate our dairy farms to accommodate demands of our downstream customers to ensure freshness of raw milk and convenient transportation.

By adopting the industry-leading management system and technology, we have achieved long-term and stable growth in the raw milk business. During the Track Record Period, our raw milk production volume and average milk yield per milkable cow had continuously improved. Raw milk production volume of Youran increased from 670,196 tons in 2019 to 860,413 tons in 2020. Annualised average milk yield per milkable cow of Youran (excluding Jerseys) increased from 10.4 tons in 2019 to 11.0 tons in 2020. Our advanced management and operating capabilities for raw milk business also enabled us to quickly integrate the raw milk business of SKX and improve its operation. Through dispatching talents and experts, applying advanced management practices and standards such as TPM, feeding SKX's dairy cows with superior feed catering to their specific demands and conditions and upgrading equipment and facilities deployed at SKX's dairy farms to improve cow comfort, we have largely improved raw milk production volume of SKX since the SKX Acquisition. Raw milk production volume of SKX increased from 617,775 tons in 2019 to 714,541 tons in 2020. Annualised average milk yield of milkable cows of SKX increased from 9.0 tons in 2019 to 10.0 tons in 2020.

We offer a variety of raw milk products. Besides our premium raw milk, we also offer specialty raw milk, such as jersey milk, DHA milk, A2 milk and organic milk. We continue to develop and expand our specialty raw milk offerings though a variety of advanced and practical techniques and means to meet customers' growing demand for specialty raw milk. We introduce overseas purebred Jerseys and conduct researches on their scientific breeding methods and nutritional requirements to produce high protein-content, good-tasting Jersey milk; we study the metabolism mechanism of DHA in cows and use coating techniques to make DHA efficiently absorbed and converted into raw milk rich in DHA; we select cows with A2β-casein gene using genetic testing and raise them scientifically to produce A2 milk containing A2β-casein; and we follow the laws of nature during the farming processes, pay attention to animal welfare and health, and adopt raising and farming management practices that meet the natural behavior and living conditions of animals to produce organic milk as certified by China and the EU standards. Our revenue from specialty raw milk has been steadily increasing since we commenced to sell specialty raw milk. In 2020, our sales revenue from specialty raw milk accounted for 30.9% of our total revenue from raw milk business. According to Frost & Sullivan, we are the largest provider of specialty raw milk in China in terms of the production volume of specialty raw milk in 2020.

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

**Feed business**

We have accumulated extensive knowledge of ruminant nutrition from nearly 40 years of business operations and research, which, together with our own dairy farming experience, enables us to obtain deep insights into nutritional needs of ruminants. We strive to provide high-quality and customized comprehensive ruminant farming solutions to dairy farms. In 2020, revenue from our feed business accounted for 37.3% of our total revenue. As one of a select number of companies in the upstream dairy industry in China that have their own proprietary research and development technologies and teams, we evaluate ruminant nutrient requirements and supply based on the identification of specific conditions, such as ruminant species, life cycles, seasonality, specific demands at each stage and overall production performance and life span; we take into consideration customers' requirements on production performance, and we have built a leading ruminant nutrient database in China. We are also one of a select number of companies focusing on both ruminant farming and feed studies in China. Our huge ruminant herd size provided an experimental basis for the development of new feed and allowed us to detect feed performance and conduct the research and development of high-quality and characterized feed products.

We offer a wide selection of high-quality concentrated feed spanning the full life cycle of dairy cows, beef cattle, sheep, dairy goats and other ruminants. As of the Latest Practicable Date, we operated seven feed mills and cooperated with five third-party feed manufacturers. In 2020, we achieved total concentrated feed yield of 1,013,886 tons. As of the end of 2020, we provided leading comprehensive ruminant farming solutions to over 500 dairy farms in China, serving over 1 million ruminants. Our leading systematic dairy farming services include farm planning and design, data analysis, performance analysis, precise nutrition, efficient breeding, milking hall management and epidemic prevention, which can promote and improve the farming performance and efficiency.

We also supply value-for-money forage grass, mainly alfalfa hay and oat grass, to dairy farm customers through large-scale forage grass farming and trading. According to Frost & Sullivan, we had the largest market share of 3.2% in China in 2020 in terms of sales volume of alfalfa hay, our major type of forage grass. In addition, we imported 258,657 tons of alfalfa hay in 2020, which made us the biggest alfalfa hay importer in China.

**Breeding business**

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

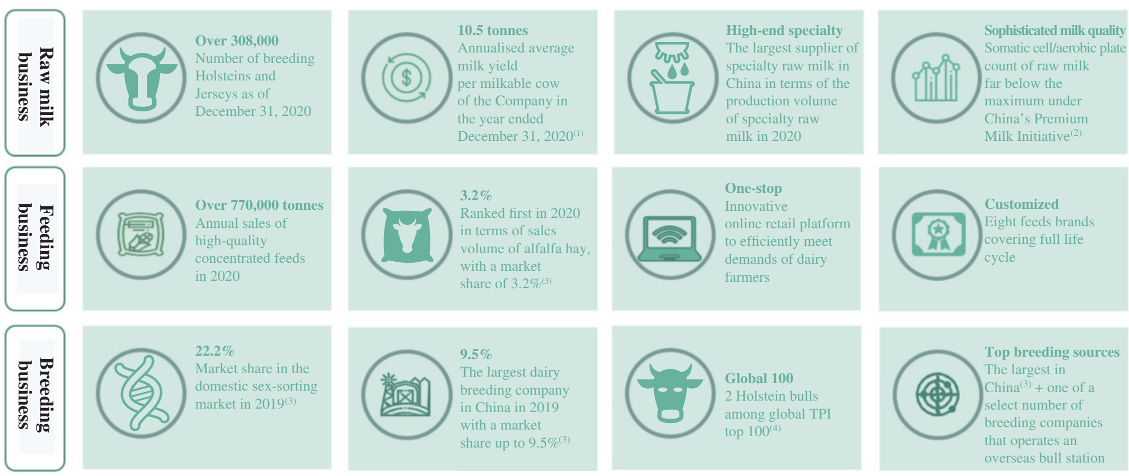
## OUR BUSINESS

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

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

## OUR SCALE

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




*Notes:*

(1) The statistical basis of annualised average milk yield per milkable cow in 2020 is "total production volume / total breeding days of milkable cows for the period * 366 days", on a consolidated post-SKX Acquisition basis, excluding Jerseys.

(2) The average microbe and somatic cell count of raw milk of the Company is based on the test reports issued by SGS, the world's leading inspection, verification, testing and certification company that is independent from our Group, upon sampling test on our raw milk in 2020, which is below the maximum content of 100,000 CFU/ml and 300,000 CFU/ml under China's Premium Milk Initiative.

(3) According to Frost & Sullivan.

(4) Based on the ranking of the Holstein Association USA.

As a leader in China's upstream dairy value chain, we benefit from the rapid growth of the dairy industry in China. The number of our dairy cows grew from 127,345 as of December 31, 2018 to 308,195 as of December 31, 2020 on a consolidated post-SKX Acquisition basis, and our raw milk sales volume increased from 572,093 tons in 2018 to 1,529,835 tons in 2020, with a CAGR of 63.5%. In the meantime, the sales volume of our concentrated feed increased from 684,388 tons in 2018 to 770,512 tons in 2020.

During the Track Record Period, we recorded steady financial growth. Our revenue grew from RMB6,333.9 million in 2018 to RMB7,667.8 million in 2019 and further to RMB11,781.2 million in 2020, with a CAGR of 36.4% from 2018 to 2020 on a consolidated post-SKX Acquisition basis. Our net profit was RMB652.9 million, RMB801.9 million and RMB1,540.6 million for the years ended December 31, 2018, 2019 and 2020, respectively, representing a CAGR of 53.6% from 2018 to 2020 on a consolidated post-SKX Acquisition basis.

## OUR STRENGTHS

### Leading upstream dairy products and services provider

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

- *Raw milk business*. We are the largest raw milk provider globally in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020, according to Frost & Sullivan. As of December 31, 2020, we operated 67 large-scale modern dairy farms across 14 provinces in China. Our revenue from raw milk business accounted for 59.4% of our total revenue in 2020. With scientific management and operation of our dairy farms, we produce a variety of high-quality raw milk products that cater to increasing demands of dairy manufacturers driven by dairy consumption upgrades in China.

- *Feed business*. According to Frost & Sullivan, we are the largest ruminant feed provider in China in terms of sales volume of concentrate ruminant feed in 2020. For the year ended December 31, 2020, we sold over 770 thousand tons of concentrate ruminant feed. In addition, we are also a leading supplier of forage grass, mainly alfalfa hay and oat grass, in China and we ranked first in China in 2020 in terms of sales volume of alfalfa hay, our major type of forage grass, with a market share of 3.2%. We are also the largest alfalfa hay importer in China. Our revenue from our feed business accounted for 37.3% of our total revenue in 2020. We are committed to the research and development of new comprehensive ruminant farming solutions to meet the growing demands of dairy farms and improve raw milk quality in China.

- *Breeding business*. SKX is the largest dairy breeding company in China in terms of sales of frozen bovine semen for dairy cattle in 2019. According to Frost & Sullivan, SKX has market shares of 9.5% in the frozen bovine semen for dairy cattle market in China and 22.2% in the sex-sorted frozen bovine semen for dairy cattle market in 2019. Our acquisition of the controlling interest in SKX in early 2020 has brought us leading cow genetic improvement and sex-sorting technologies, and we have since ventured into the dairy breeding industry in China to capture more market opportunities.

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

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

We are a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. We enjoy compelling synergies across our business lines, which not only help expand our product and service offerings but also improve the standards in the upstream dairy value chain.

Our integrated farming model facilitates the sharing of resources, technology and talent, and drives the growth of our raw milk, feed and breeding businesses. Our breeding business provides modern and scientific breeding techniques that improve reproductive rate of dairy herds and raw milk yields, and our feed business supplies high-quality ruminant feed, crucial for the growth, welfare and maintenance of productivity of our dairy cows. With better feed and breeds, we are able to enhance raw milk quality and yield. In 2020, raw milk production volume of Youran reached 860,413 tons and its annualised average milk yield per milkable cow (excluding Jerseys) amounted to 11.0 tons. During the same periods, raw milk production volume of SKX reached 714,541 tons and its annualised average milk yield per milkable cow amounted to 10.0 tons. In addition, our raw milk outperforms the standards of the United States, the European Union and Japan as well as China's Premium Milk Initiative (中國國家優質乳工程) in terms of protein content, fat content, aerobic plate count and somatic cell count.

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

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

We pioneered to employ scientific dairy farm management principles and adopt the industry-leading management process and techniques to enhance our operational efficiency and product quality. We are the first dairy farming company in the world to adopt the Total Productive Maintenance, or TPM, to establish a sustainable and standardized management model with industrial characteristics. Certified by Japan Association of Plant Engineering (日本設備管理協會), TPM is a holistic approach to equipment maintenance that strives to achieve perfect production. We leverage TPM's eight proactive and preventive techniques, which cover routine maintenance, error detection and prevention into production processes, improvements in equipment operation and employee trainings and education, to standardize our dairy farming operations, secure health and longevity of dairy cows and improve our productivity. In 2020, we passed a health inspection conducted by Japan Association of Plant Engineering (日本設備管理協會), becoming the first worldwide in the ruminant feed and animal husbandry industry. In addition, we rely heavily on our advanced and intelligent management system to monitor and manage our herd and dairy farms, from information collection to activity monitoring, and from breeding to milking. We achieve our long-term and stable development through scientific, standardized and refined management. Average milk yield per milkable cow of Youran (excluding Jerseys) continuously increased and reached 10.0 tons, 10.4 tons and 11.0 tons (annualised average milk yield per milkable cow) in 2018, 2019 and 2020, respectively. Our advanced management and operating abilities also enabled us to quickly integrate the raw milk business of SKX and improve its operations. Raw milk production volume of SKX increased from 617,775 tons in 2019 to 714,541 tons in 2020. Annualised average milk yield per milkable cow of SKX increased from 9.0 tons in 2019 to 10.0 tons in 2020. In addition, the modern and scientific operations and management of our dairy farms also secure the quality of our raw milk products. Certified by the world's leading food safety and quality management system, the SQF Certification, we have demonstrated to our customers that our raw milk is produced in accordance with the highest standards recognized worldwide, which represents our commitment to producing safe and high quality raw milk.

We are devoted to research and development efforts in the upstream dairy industry, including productivity of cows, nutrition value of feed, dairy farms planning and sex-sorting technologies as well as exploration and practice on integrated farming model and eco-farming standards. We are one of a select number of companies in the upstream dairy industry in China with an in-house research and development team. As of December 31, 2020, our research and development team consisted of 183 personnel, including 35 core research and development personnel and 148 technical staff, all of whom have extensive industry experience. We attach great importance to maintaining a talent pool and providing trainings to our employees. We have carried out in-depth cooperation with the Ohio State University in the United States, and we select and dispatch outstanding employees to large-scale farms in the United States for studies. Currently, more than 30 such outstanding employees have returned to China after studying and are holding important positions in our Group. In addition, we have established extensive cooperation with well-known universities and research institutions, including China Agricultural University and the Institute of Animal Sciences of Chinese Academy of

Agricultural Sciences, to promote the transformation and application of advanced farming technology and research and development results. As of the Latest Practicable Date, we have obtained 56 core patented technologies, covering each of our business lines. Leveraging our in-house research and development team, we continue to enrich our comprehensive ruminant farming solutions and have successively launched proprietary products, such as structural calf feed, rumen bypass soybean meal and premixes. Moreover, we have built a leading ruminant nutrient database in China and developed leading genetic improvement technology and sex-sorting technology.

**Strategic location of large-scale dairy farms and feed mills**

The scale and location of dairy farms and feed mills are critical to raw milk production and feed production. As one of the earliest companies operating large-scale dairy farms in China, we have leveraged our first-mover advantage to consistently secure expansive farmland suitable for dairy farming and feed production, including the construction of new large-scale dairy farms and feed mills as well as the expansion of existing dairy farms and feed mills. As of December 31, 2020, we operated 67 large-scale modern dairy farms across 14 provinces in China, including 42 large-scale dairy farms with a planned and designed herd size of over 5,000 each, on a consolidated post-SKX Acquisition basis. As of December 31, 2020, we operated seven feed mills across China and cooperated with five third-party feed manufacturers.

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

**High-quality customer base**

We supply raw milk to large-scale dairy manufacturers, including Yili, Bright and other large-scale dairy manufacturers, for further processing into premium dairy products. Specifically, we ceased to be a subsidiary of Yili in 2015 and have entered into a long-term strategic framework agreement with Yili. As Yili's strategic partner and largest raw milk supplier, we provided Yili with a stable supply of high-quality raw milk during the Track Record Period. For the years ended December 31, 2018 and 2019, the raw milk supplied by us to Yili accounted for no more than 10% of its purchase of raw milk, and for the year ended December 31, 2020, the raw milk supplied by us to Yili accounted for no more than 25% of its purchase of raw milk. Our various high-quality raw milk is widely used in Yili's popular products, such as *Satine*, *Ambrosial* and *QQ Star*. According to Frost & Sullivan, China's dairy market is expected to reach RMB738.5 billion in terms of retail sales in 2025, with a CAGR of 8.5% from 2020 to 2025. We believe, as a leader in China's dairy industry, Yili has the potential to continuously expand its large market share, and increase its demand for raw milk. By virtue of our strategic relationship with Yili, we believe we will remain Yili's trusted partner and are well-positioned to seize business opportunities brought by the development of the downstream dairy market. For details on our strategic relationship with Yili, see the section headed "– Our Customers – Our Relationship with Yili".

As of the end of 2020, we provided leading and comprehensive ruminant farming solutions to over 500 dairy farms in China, serving over 1 million ruminants. Leveraging our rich experience in dairy farming and big data analysis, we have obtained insights into the needs of large-scale dairy farms. We offer dairy farms with high-quality feed products and comprehensive ruminant farming support services. In 2019, we established 22 demonstration dairy farms in China. Through offering ruminant farming support services, such as ruminant nutrition, breeding technique and ruminant healthcare, we have successfully improved herd management and economic returns of such farms. In 2020, annualised average milk yield of such demonstration dairy farms was improved by 6.2% as compared with 2019 and the feed cost per kilogram of milk decreased by 2.3%.

**Visionary and experienced management team with strong shareholder support**

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

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

## OUR STRATEGIES

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

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

Driven by the strong support of various national policies on revitalization of the dairy industry and raising consumer health awareness, China's dairy industry has witnessed rapid growth, which has further stimulated the increasing demand in the upstream dairy value chain for integrated products and services. On the one hand, we believe that our Group can benefit from the business expansion and rapid growth of our existing downstream customers to sustain profit growth. We will take advantage of existing resources to raise the number of cattle and the proportion of milkable cows, and strive to obtain scare farming land resources by virtue of the change of the national revitalization policy for dairy industry. On the other hand, we will also continue to strategically expand the scale and coverage of our raw milk business and leverage our established brand reputation among our downstream customers to consistently broaden our customer base and attract more large customers. In terms of our feed business, we will expand our footprints in markets with huge growth potentials. By replicating our standardized feed mill construction and operations, we will improve the product quality and expand our market share.

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

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

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

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

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

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

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

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

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

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

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

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

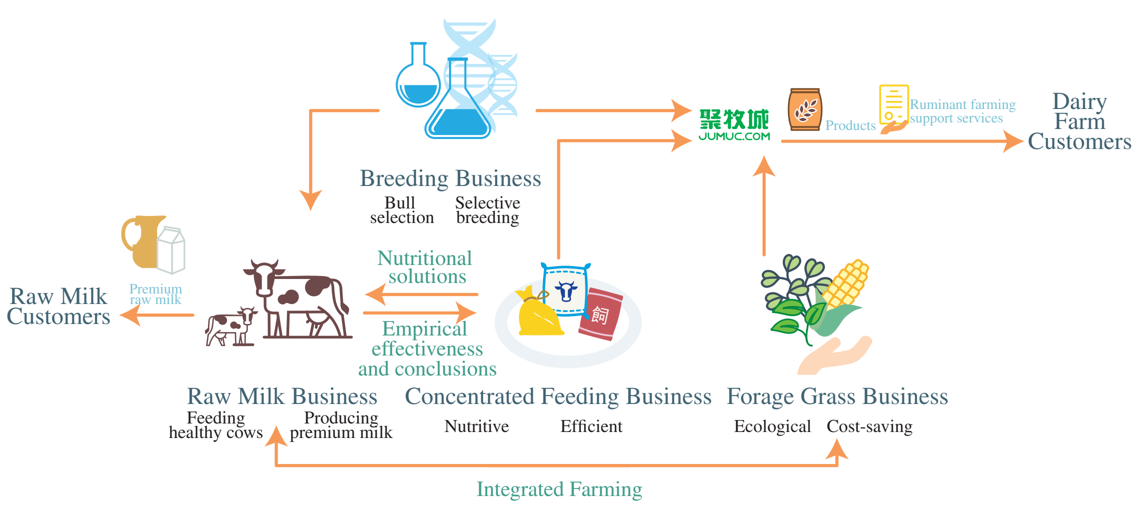
Through acquiring the controlling interest in SKX in early 2020, we enhanced our size and position in the cow farming industry. We have ventured into dairy breeding business, which has enabled us to realize synergies with our raw milk business. Leveraging SKX's competitive edges in genetic improvement technology and sex-sorting technology, we are able to improve the genetic merits of our dairy herds, which in turn enhances the quality and yield of our raw milk production. We will continue to use frozen semen from world-leading Holstein bulls and leverage our leading breeding techniques to produce high-quality frozen bovine semen for dairy cattle to improve the genetic traits and productivity of dairy herds in China. In addition, we will expand the breeding business for beef cattle, dairy goats and other herds to further lead the breeding upgrade and development in China's dairy farming industry.

## OUR BUSINESS MODEL

We are a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. We have adopted an integrated farming model, covering forage grass growing and trading, feed processing, cow breeding and raw milk production. Our breeding business provides modern and scientific breeding techniques which increase our cow fertility and milk yields, and our feed business supplies ruminant feed with balanced nutrients, crucial for the growth and welfare of our dairy herds. Additionally, leveraging economies of scale and our strong bargaining power over external feed suppliers, we are able to reduce operating costs of our breeding business and feeding business, and therefore improve the overall profitability of our business.

Meanwhile, leveraging our profound experience in dairy farming and our relentless research in the field of dairy farming and nutrition, we are committed to continuously optimizing our feed formulations. With better feed and breeding techniques, we are able to continuously enhance raw milk quality and yield, achieving the positive cycle with "outstanding breeding brings outstanding cows, fine feed for fine cows and excellent cows producing excellent milk".

Our integrated farming model facilitates the sharing of resources, technology and talents, and it not only contributes to our business growth, but also promotes the development of the upstream dairy industry in China. We select semen from high-quality Holstein bulls and leverage our leading sex-sorting technology to improve the genetic traits of dairy herds in China. Through our advanced proprietary research and development techniques and strong data collection and analysis capabilities, we have established a leading ruminant nutrient database in China. By offering high-quality and customized comprehensive ruminant farming solutions to dairy farms, we enhance the welfare and productivity of dairy cattle in China.



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

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | | % | | % | | % |
| | (RMB'000, except for percentages) | | | | | |
| Raw milk | 2,610,333 | 41.2 | 3,063,615 | 40.0 | 6,994,592 | 59.4 |
| Comprehensive ruminant farming solutions | 3,723,587 | 58.8 | 4,604,203 | 60.0 | 4,786,603 | 40.6 |
| **Total** | 6,333,920 | 100.0 | 7,667,818 | 100.0 | 11,781,195 | 100.0 |

## RAW MILK BUSINESS

We are the largest raw milk provider in the world in terms of herd size of dairy cows as of June 30, 2020 and raw milk production volume in the first half of 2020, according to Frost & Sullivan. We are dedicated to the production and sales of premium raw milk to leading dairy manufacturers, such as Yili and Bright, for further processing into high-end dairy products. Our premium raw milk is widely used in a variety of popular dairy products in China, including *Satine*, *Ambrosial* and *QQ Star*. As of December 31, 2020, we operated 67 modern dairy farms primarily located in the Golden Raw Milk Belt, with 308,195 dairy cows on a consolidated post-SKX Acquisition basis.

Leveraging our economies of scale, superior breeding technologies, nutritious feed and scientific feeding techniques, modern dairy farming equipment and strict quality control, we are able to produce high-quality raw milk and achieve high yields. During the Track Record Period, our raw milk production volume and average milk yield per milkable cow had continuously improved. Our average milk yield per milkable cow (excluding Jerseys) reached 10.0 tons, 10.4 tons and 10.5 tons in 2018, 2019 and 2020, respectively, which were higher than the industry average, according to Frost & Sullivan. In 2018 and 2019, our raw milk production volume approximated 588,558 tons and 670,196 tons, respectively. During the same periods, SKX's raw milk production volume approximated 571,426 tons and 617,775 tons, respectively. In 2020, our raw milk production volume was 1,562,409 tons on a consolidated post-SKX Acquisition basis.

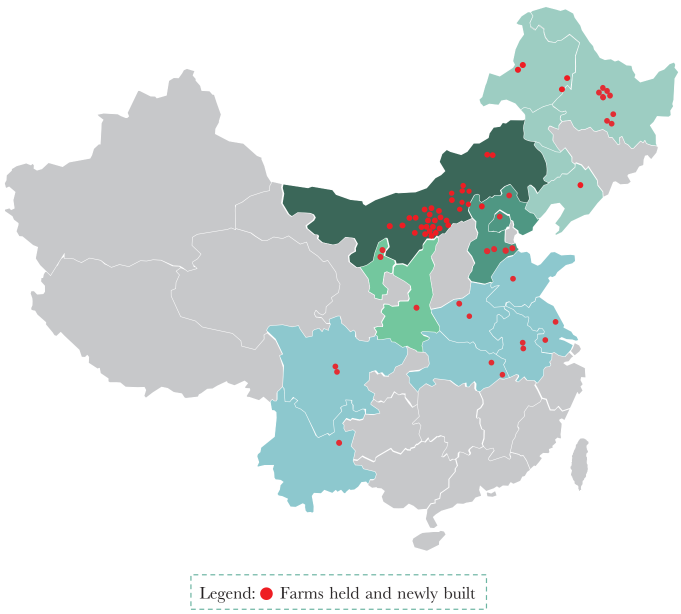
Youran's revenues from sales of raw milk were RMB2,610.3 million and RMB3,063.6 million for the years ended December 31, 2018 and 2019, respectively, accounting for 41.2% and 40.0% of its total revenues for the same periods. Among Youran's revenues from sales of raw milk, 50.3% and 49.0% were derived from sales of specialty raw milk. SKX's revenues from sales of raw milk were RMB2,037.5 million and RMB2,347.6 million for the years ended December 31, 2018 and 2019, respectively, accounting for 96.8% and 97.5% of its total revenues for the same periods. In 2020, our revenue from sales of raw milk was RMB6,994.6 million on a consolidated post-SKX Acquisition basis.

**Our Dairy Farms**

During the Track Record Period, we continued to scale our business by adding new dairy farms. The number of our dairy farms in operation increased from 38 as of December 31, 2018 to 40 as of December 31, 2019. As of December 31, 2020, we operated 67 modern dairy farms across 14 provinces in China on a consolidated post-SKX Acquisition basis, with an aggregate gross land area of approximately 32,238,628 sq.m. With the support of policies issued by the Chinese government, we vigorously developed large-scale dairy farms to improve our economies of scales and operational efficiency. As of December 31, 2020, we had a total of 42 large-scale dairy farms with a designed herd size of over 5,000 heads, accounting for approximately 62.7% of our dairy farms. As of December 31, 2020, 62 of our 67 farms were owned by us whereas the other five were leased from third parties.

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

The following map shows the locations of our dairy farms in operation as of December 31, 2020.




| Location of farms held and newly built | Quantity |
|---|---|
| Inner Mongolia Region | 32 |
| Northeastern Region | 13 |
| Northern Region | 7 |
| Central Region | 12 |
| Northwestern Region | 3 |
| **Total** | **67** |

The following table sets forth certain details of our major operating farms as of December 31, 2020:

| Region | Number of dairy farms | Size | Designed capacity (number of dairy cows) | Number of milkable cows(1) | Number of calves and heifers(1) |
|---|---|---|---|---|---|
| | | *(sq.m.)* | | | |
| Inner Mongolia Region | 32 | 13,415,149 | 155,500 | 77,706 | 67,752 |
| Northeastern Region | 13 | 7,375,026 | 66,000 | 27,173 | 31,175 |
| Central Region | 12 | 5,881,660 | 63,400 | 25,789 | 25,132 |
| Northern Region | 7 | 3,974,071 | 37,800 | 17,715 | 14,422 |
| Northwestern Region | 3 | 1,592,721 | 21,000 | 8,933 | 12,398 |
| **Total** | 67 | **32,238,628** | **343,700** | **157,316** | **150,879** |

*Note:*

(1) Including 6,877 heads of dairy cows that we purchased in advance for newly-constructed dairy farms under construction and to commence commercial production.

The following table sets forth the locations of our dairy farms in operation as of December 31, 2020:

| Region | Geographic Location | Number of Dairy Farms |
|---|---|---|
| **Inner Mongolia Region** | Hohhot, Inner Mongolia | 24 |
| | Ordos, Inner Mongolia | 5 |
| | Bayan Nur, Inner Mongolia | 1 |
| | Xilinhot, Inner Mongolia | 2 |
| **Northeastern Region** | Zhaodong, Heilongjiang | 3 |
| | Daqing, Heilongjiang | 5 |
| | Fuxin City, Liaoning | 1 |
| | Hulun Buir, Inner Mongolia | 4 |
| **Northern Region** | Zhangjiakou, Hebei | 1 |
| | Miyun District, Beijing Municipality | 1 |
| | Huanghua, Hebei | 1 |
| | Hengshui, Hebei | 1 |
| | Chengde, Hebei | 1 |
| | Dingzhou, Hebei | 1 |
| | Cangzhou, Hebei | 1 |
| **Central Region** | Qionglai, Sichuan | 2 |
| | Macheng, Hubei | 1 |
| | Wuxue, Hubei | 1 |
| | Hefei, Anhui | 2 |
| | Nanjing, Jiangsu | 1 |
| | Jinan, Shandong | 1 |
| | Taizhou, Jiangsu | 1 |
| | Kunming, Yunnan | 1 |
| | Jiyuan, Henan | 1 |
| | Pingdingshan, Henan | 1 |
| **Northwestern Region** | Wuzhong, Ningxia | 1 |
| | Tongchuan, Shaanxi | 1 |
| | Yinchuan, Ningxia | 1 |

As of December 31, 2020, the utilization rate of our 67 dairy farms, calculating by dividing the number of dairy cows with the designated capacity, was 87.7%.

We will continue to increase our overall production capacity and increase profitability through economies of scale by building new dairy farms. As of December 31, 2020, we had commenced the construction of eight new dairy farms in Inner Mongolia, Henan and Gansu, and we expect each farm to have a capacity of 6,000 to 24,000 dairy cows and achieve raw milk production volume of 90 tons to 350 tons per day. Except for the construction of Hulun Buir Farm II, Hinggan League Farm, Tongliao Farm, Hohhot Farm I and Henan Farm that we plan to use a portion of the net proceeds from the Global Offering to fund, we finance the construction of these new dairy farms primarily through our cash flow from operations and bank loans. For details, see the section headed "Future Plans and Use of Proceeds" of this prospectus.

The table below summarizes the details of our dairy farms under construction as of December 31, 2020:

| Farm | Location | Commencement of construction | Expected commencement/ commencement of commercial production | Designed capacity (number of dairy cows) | Expected size (square meters) | Estimated total investment costs* (RMB in thousands) | Total costs incurred as of December 31, 2020 (RMB in thousands) |
|---|---|---|---|---|---|---|---|
| Wuwei Farm | Wuwei, Gansu | March 2020 | September 2021 | 12,000 | 1,234,115 | 380,000 | 111,660 |
| Hulun Buir Farm II | Hulun Buir, Inner Mongolia | June 2020 | February 2022 | 10,000 | 1,028,429 | 360,000 | 57,902 |
| Hinggan League Farm | Hinggan League, Inner Mongolia | June 2020 | February 2022 | 12,000 | 1,197,223 | 370,000 | 49,390 |
| Hulun Buir Farm III | Hulun Buir, Inner Mongolia | June 2020 | October 2021 | 12,000 | 875,991 | 330,000 | 49,542 |
| Tongliao Farm | Tongliao, Inner Mongolia | August 2020 | April 2022 | 12,000 | 1,194,351 | 370,000 | 52,592 |
| Hohhot Farm I | Hohhot, Inner Mongolia | September 2020 | May 2022 | 12,000 | 1,066,667 | 400,000 | 55,922 |
| Hohhot Farm III | Hohhot, Inner Mongolia | October 2020 | January 2022 | 6,000 | 607,336 | 230,000 | 1,565 |
| Henan Farm | Zhumadian, Henan | November 2020 | May 2022 | 24,000 | 1,884,676 | 805,000 | 81,420 |

* *Note:* Costs incurred in connection with investment in biological assets are not included.

As of the Latest Practicable Date, all dairy farms listed above were still under construction, and nothing had come to our Directors' attention that would delay the estimated time for completion of construction or commencement of commercial production with respect to any of such dairy farms.

Furthermore, we will continue to optimize the structure of our dairy farms, and we may from time to time decide to dispose of certain dairy farms. During the Track Record Period, we disposed of one dairy farm for pasture tours and one small-scaled dairy farm, both located in Inner Mongolia, in 2019 mainly to optimize the structure of our dairy farms and enhance operational efficiency through establishing and developing large-scale, modern dairy farms and eliminating inefficient dairy farms. We recorded a loss on disposal of property, plant and equipment of RMB2.4 million in connection with the disposal of the small-scaled dairy farm in 2019. In addition, we recorded an impairment provision of approximately RMB13.2 million in 2018 arising from the planned disposal of the dairy farm for pasture tours in 2019.

In addition, we may from time to time explore attractive opportunities to strategically acquire dairy farms to meet our growing business demands. For example, we entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020, pursuant to which we agreed to acquire the 100% equity interest of Fonterra China

Farms Group collectively. Upon completion of the acquisition on April 1, 2021, we acquired the six dairy farms previously under operations of Fonterra China Farms Group and effectively consolidated such dairy farms into our raw milk business, which we believe will enable us to achieve significant economies of scale and synergies of our Group as a whole. The following table sets forth certain details of operating farms of Fonterra China Farms Group as of December 31, 2020:

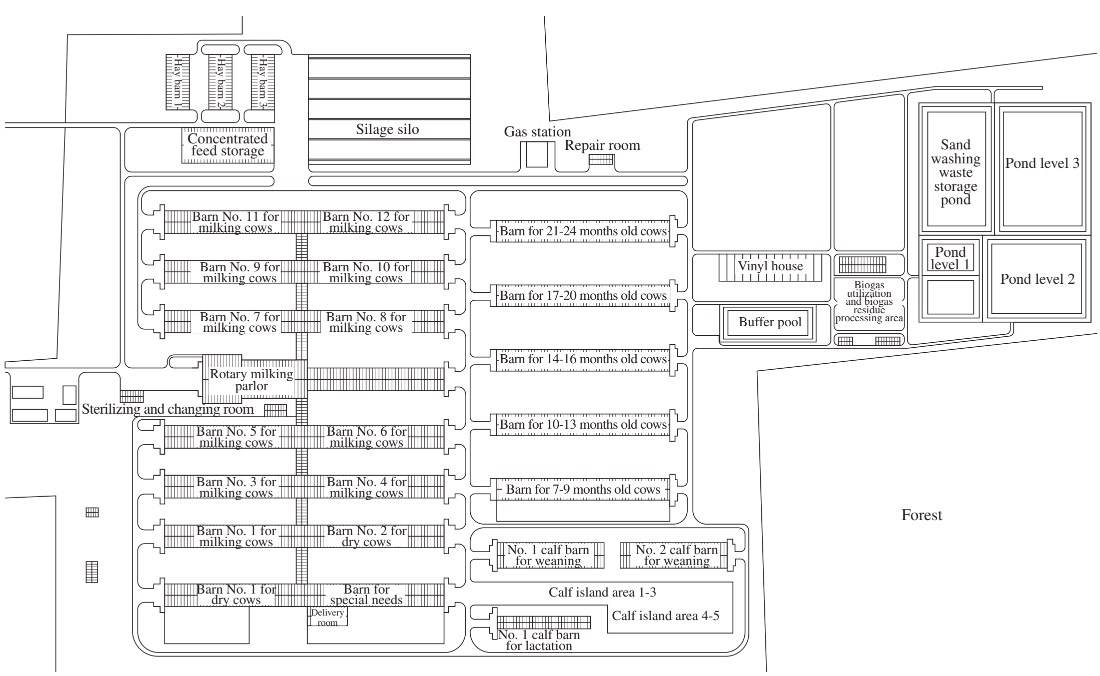
| Region | Number of dairy farms | Approximately size (sq.m.) | Number of milkable cows | Number of calves and heifers |
|---|---|---|---|---|
| Yutian, Hebei | 3 | 1,621,361 | 13,682 | 10,845 |
| Yingxian, Shanxi | 3 | 2,133,161 | 15,820 | 11,949 |
| **Total** | **6** | **3,754,522** | **29,502** | **22,794** |

For details, see the section headed "Summary—Recent Developments—Fonterra Acquisition".

***Farm Layout***

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

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



**Our Organic Dairy Farms**

As production of organic raw milk requires a heightened level of scientific management of dairy farms, we have established dedicated certified organic dairy farms where we strictly follow the laws of nature to raise dairy cows, ensuring natural taste and high quality of our organic milk. As of December 31, 2018, 2019 and 2020, we had 10, 10 and 16 organic dairy farms, respectively, which are located in Inner Mongolia and Heilongjiang. As of the same dates, we had 36,216, 38,524 and 64,154 heads of dairy cows in these organic dairy farms, respectively. The following table sets forth the details of our 16 organic dairy farms as of December 31, 2020:

| **Region** | **Farms** | **Geographic Location** | **Size** | **Number of dairy cows** |
|---|---|---|---|---|
| | | | *(square meters)* | *(heads)* |
| Inner Mongolia Region | Hohhot Farm 1 | Hohhot, Inner Mongolia | 200,001 | 2,950 |
| | Hohhot Farm 2 | Hohhot, Inner Mongolia | 480,136 | 4,295 |
| | Hohhot Farm 3 | Hohhot, Inner Mongolia | 497,683 | 5,977 |
| | Hohhot Farm 4 | Hohhot, Inner Mongolia | 823,507 | 6,611 |
| | Hohhot Farm 5 | Hohhot, Inner Mongolia | 551,243 | 5,698 |
| | Hohhot Farm 6 | Hohhot, Inner Mongolia | 79,667 | 940 |
| | Hohhot Farm 7 | Hohhot, Inner Mongolia | 67,333 | 711 |
| | Hohhot Farm 8 | Hohhot, Inner Mongolia | 70,915 | 767 |
| | Hohhot Farm 9 | Hohhot, Inner Mongolia | 86,409 | 674 |
| | Hohhot Farm 10 | Hohhot, Inner Mongolia | 505,336 | 4,823 |
| | Hohhot Farm 11 | Hohhot, Inner Mongolia | 65,976 | 802 |
| | Ordos Farm 1 | Ordos, Inner Mongolia | 505,067 | 5,737 |
| | Ordos Farm 2 | Ordos, Inner Mongolia | 648,162 | 5,844 |
| Northeastern Region | Daqing Farm 1 | Daqing, Heilongjiang | 787,843 | 4,344 |
| | Daqing Farm 2 | Daqing, Heilongjiang | 753,047 | 4,812 |
| | Hulun Buir Farm I | Hulun Buir, Inner Mongolia | 1,176,819 | 9,169 |

In addition, we had one organic dairy farm under construction in Hulun Buir, Inner Mongolia as of the Latest Practicable Date, with a goal to improve our production capacity of organic milk. For additional details, see the section headed "Future Plans and Use of Proceeds" of this prospectus.

As of the Latest Practicable Date, all of our organic dairy farms had been certified according to both China National Organic Product Standard and EU Equivalent Organic Standard. The organic certificates under China National Organic Product Standard were granted by Organic Food Development and Certification Center of China (南京國環有機產品認證中心) (the "**OFDC**"), which, founded in 1994, was among the first batch of specialized certification bodies for food and agricultural products registered with the Certification and Accreditation Administration of the PRC. Our organic certificates under EU Equivalent Organic Standard were granted by Bioagricert srl, which was established in 1984 and became a partner of International Federation of Organic Agriculture Movements in 1985. Bioagricert srl was recognized by the Ministry of Agricultural Politics as Authorized National Body for the Control and Certification of Organic Productions. Apart from OFDC, there were over 90 certification bodies approved by the Certification and Accreditation Administration of the PRC as of the Latest Practicable Date, which are eligible for issuing organic certificates under China National Organic Product Standard or other organic standards. Similarly, Bioagricert srl is not the only certification body that is qualified to issue organic certificates under the EU Equivalent Organic Standard in China. Other certification bodies such as ECOCERT S.A. BCS OEKO-GARANTIE GmbH and IBD have also established strong presence in China. The criteria that these certification bodies audit a dairy farm depend on the particular PRC and/or EU organic standard under which the dairy farm elects to be certified. Once determined, different organic certification bodies apply the same criteria in auditing the dairy farm according to the particular PRC and/or EU organic standard. For details of the PRC and EU organic standards, see the section headed "Industry Overview" of this prospectus.

The following table sets forth details of the organic certificates that our organic dairy farms held as of the Latest Practicable Date:

| Certified farm | Certification system | Certificate No. | Certification body | Valid period of certificates | Type of certification | Certificated product |
|---|---|---|---|---|---|---|
| Hohhot Farm 1 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1201072 | OFDC | December 9, 2021 | | |
| Hohhot Farm 2 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1201089 | OFDC | December 17, 2021 | | |
| Hohhot Farm 3 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1400382 | OFDC | December 31, 2021 | | |
| Hohhot Farm 4 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1800076 | OFDC | April 30, 2022 | | |

| Certified farm | Certification system | Certificate No. | Certification body | Valid period of certificates | Type of certification | Certificated product |
|---|---|---|---|---|---|---|
| Hohhot Farm 5 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1800075 | OFDC | April 30, 2022 | | |
| Hohhot Farm 6 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1800076 | OFDC | April 30, 2022 | | |
| Hohhot Farm 7 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1201072 | OFDC | December 9, 2021 | | |
| Hohhot Farm 8 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1800076 | OFDC | April 30, 2022 | | |
| Hohhot Farm 9 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1201072 | OFDC | December 9, 2021 | | |
| Hohhot Farm 10 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP2000063 | OFDC | April 14, 2022 | | |
| Hohhot Farm 11 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1800076 | OFDC | April 30, 2022 | | |
| Ordos Farm 1 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1600301 | OFDC | October 28, 2021 | | |

| Certified farm | Certification system | Certificate No. | Certification body | Valid period of certificates | Type of certification | Certificated product |
|---|---|---|---|---|---|---|
| Ordos Farm 2 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP1700441 | OFDC | October 31, 2021 | | |
| Daqing Farm 1 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP2000062 | OFDC | March 31, 2022 | | |
| Daqing Farm 2 | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 134OP2000061 | OFDC | March 31, 2022 | | |
| Hulun Buir Farm I | EU Equivalent Organic Standard | EUR77RCC | Bioagricert srl | April 1, 2022 | Production (livestock and poultry breeding) | Milk |
| | China National Organic Product Standard | 1134OP2000189 | OFDC | September 21, 2021 | | |

On the bases that (i) the Joint Sponsors have reviewed the above-mentioned certificates; (ii) the Group's PRC Legal Advisor is of the view that OFDC is qualified to issue such certificates; (iii) Frost & Sullivan confirmed that the above-mentioned certification bodies are approved by competent authorities; and (iv) Internet search results have indicated that the above-mentioned certification bodies are approved by competent authorities, the Joint Sponsors believe that the above-mentioned certification bodies are qualified to grant such organic certificates.

The organic certificates granted by the OFDC and Bioagricert srl typically have a term of one year and annual review is required for subsequent extension of the effective term within three months before the expiry. Upon application for extension, dedicated audit teams from the OFDC and/or Bioagricert srl will conduct an on-site inspection of the applicant's ongoing compliance with the relevant organic standards. To ensure our business operations comply with the relevant organic standards, we have adopted the following effective measures:

- *Meticulous site selection*: We conduct meticulous site selection for our organic dairy farms in compliance with the requirements of China National Organic Product Standard and EU Equivalent Organic Standard on environment for organic dairy farming to ensure that the surrounding environment of our organic dairy farms is optimal, meeting the requirements of relevant organic standards.

- *Complete policies and procedures*: To effectively implement the relevant organic standards, we formulated a complete set of policies and procedures including our Quality Management Manual on Organic Dairy Cows to regulate our day-to-day production and operational activities. Specifically, we adopted a unified supplier access system and centralized procurement for organic feed to ensure the quality of organic feed while maintaining the procurement cost. In addition, we conduct unified feed formula management. The feed formulas for our dairy cows on organic dairy farms are developed, adjusted and monitored by our dedicated technical staff to ensure that our dairy cows are provided with well-balanced nutrition and the raw milk produced meet the relevant organic standards. Furthermore, we adopted unified dairy farming practices. The dairy farming operation standards and procedures are formulated, implemented and recorded based on the relevant organic standards to ensure traceability during the entire raw milk production process.

- *Professional team*: We have a dedicated team consisting of professional management and technical staff with extensive experience, who are responsible for supervising our day-to-day organic management and ensuring the effective implementation of our organic management system.

- *Regular trainings*: We require relevant employees to participate in meetings and trainings organized by third parties on a regular basis on the interpretation of organic standards, new technologies and industry trends to have an accurate and real-time understanding of changes in organic standards and the latest industry developments. We also provide trainings on organic standards for employees at all levels through various online and offline channels to deepen their understanding of the relevant organic standards.

- *Effective review systems*: From time to time, we conduct inspections and reviews on the implementation of the relevant organic standards in our organic dairy farms, covering various links including dairy farming practices and delivery of raw milk, to ensure continuing compliance with the relevant organic standards. In addition, in order to meet the strict procurement standards for organic raw milk by downstream customers such as Yili, we also monitor the entire business process from feed planting to raw milk production, through on-site supervision by dedicated personnel, GPS monitoring of transportation vehicles, and installing camera to monitor the work site, which ensures that the entire process for raw milk production and processing can be traced, and our raw milk meets the relevant organic standards, free of cross-contamination.

On the bases that the Joint Sponsors have (i) reviewed above-mentioned policies; (ii) reviewed the Group's training materials; (iii) discussed with Frost & Sullivan to understand the relevant organic certification standards; and (iv) discussed with the Group to understand the implementation of relevant measures, the Joint Sponsors believe the above-mentioned measures are appropriate and sufficient.

On the basis that we were able to renew all of our organic certificates historically during the Track Record Period and up to the Latest Practicable Date, and also in light of our efforts in complying with the relevant organic standards as mentioned, we do not expect any material impediment or difficulty for us to renew our organic certificates in the future when necessary. In addition, as obtaining and maintaining such organic certificates are crucial to our production and sales of organic milk, we have adopted the following measures to ensure that we can continuously maintain such organic certificates:

- We have a specialized team responsible for planning and organizing the certification of our organic dairy farms, and supervising the implementation of and ensuring the compliance with the relevant organic standards. The specialized team closely monitors the expiry dates of our organic certificates and makes certification plans on such basis to maintain the continuity of organic certification;

- We conduct self-inspections according to the relevant organic standards before certification and rectify incompliances in a timely manner. Upon certified, our organic dairy farms conduct internal inspections from time to time to ensure the continuing compliance with the relevant organic standards; and

- We pay close attention to changes in applicable domestic and overseas organic standards and adjust our management practices and invest resources based on such changes in a timely manner to reduce the risk relating to loss of relevant organic certificates due to inaccurate interpretations of the relevant organic standards.

In addition, we plan to apply for the same for our Hulun Buir Farm II that is under construction. In view of the past certification experience and the conditions of our Hulun Buir Farm II, we believe that there is no material impediment for us to obtain the relevant organic certificates.

We carefully select high-quality feed for dairy cows on our organic dairy farms. The feed for dairy cows on our organic dairy farms is mainly sourced from our own feed business and other reliable third-party suppliers. As of the Latest Practicable Date, our two concentrated feed mills in Hohhot and Chifeng, Inner Mongolia, had been granted the organic certificates from the OFDC and Bioagricert srl, under both the PRC and EU organic standards. As of the Latest Practicable Date, we had a total of three ancillary feed planting bases that provide organic forage grass to our organic dairy farms. These three ancillary feed planting bases are qualified to grow and provide such organic forage grass under the same organic certificates that OFDC and Bioagricert srl issued to the dairy farms where these three ancillary feed planting bases are located respectively, namely Hohhot Farm 1, Hohhot Farm 2 and Hulun Buir Farm I. During the Track Record Period, the organic concentrated feed and organic forage grass produced by the above-mentioned concentrated feed mills and ancillary feed planting bases were all supplied to our organic dairy farms.

In addition to the organic concentrated feed and organic forage grass sourced from our own feed business, we also purchase various organic feed including feed ingredients and forage grass from third-party suppliers to meet our increasing demands for organic feed. We adopt a unified supplier access system to ensure that organic feed meet our stringent requirements. For details of our supplier selection and feed procurement, see the section headed "– Our Suppliers". In addition, we have taken the following measures to control the quality of the organic feed we outsource from third parties:

- we proactively monitor our organic feed ingredients and forage grass suppliers throughout the entire process, from feed planting to feed processing. From time to time, we conduct on-site inspections and process reviews on suppliers to ensure they continue to improve their internal quality control of organic feed. For example, we inspect on an irregular basis whether suppliers use organic fertilizers to grow organic feed and conduct random inspections on plants;

- our organic feed ingredients and forage grass suppliers shall provide effective organic certificates under the PRC and/or EU organic standards that are granted by certification bodies;

- our organic feed ingredients and forage grass suppliers are contractually required to provide transaction certificates issued by the relevant certification bodies to certify that the feed involved in a particular transaction is organic; and

- we require our organic feed ingredients and forage grass suppliers to provide inspection reports issued by independent third parties, and we from time to time sample inspect such organic feed and send the samples to other independent third-party inspectors for examination.

To ensure sufficient supply of organic feed, we have established long-term and stable partnerships with over 60 quality suppliers across China, the United States, Canada and Spain. The major raw material suppliers, which in aggregate account for 50% of our total purchase, have maintained business relationship with us since the commencement of our organic milk business. As a result, we did not experience any suspension or shortage in the supply of organic feed during the Track Record Period and up to the Latest Practicable Date.

**Our Dairy Cows**

We are committed to nourishing healthy cows and producing premium raw milk. Inspired by such belief, we continue to improve our productivity and operational efficiency by optimizing the genetic traits and herd structure. We use artificial insemination technology for dairy breeding and we select suitable semen to optimize the genetic mix of our dairy cows. We mainly source high-quality frozen bovine semen for dairy cattle from our own breeding business. For more details regarding our breeding business and our breeding products, see the section headed "– Comprehensive Ruminant Farming Solutions – Breeding". When selecting the semen, we primarily refer to the Total Performance Index, or TPI, published by Holstein

Association USA, Inc. The TPI identifies sires which excel in production, health and conformation, and selects elite sires which represent the best combination of desired traits. We only use frozen semen from top sires with high TPI scores. We also take into account factors such as the yield and nutritional content of the raw milk of a sire's previous offsprings, and the age and fertility of the sire. We selectively use sex-sorted frozen semen to achieve significantly higher female birth rates, thereby growing outperforming dairy herds. In the meantime, we have selected high-quality pure-bred heifers from Australia and New Zealand that are healthy and productive to expand our herds and comprehensively improve the genetic traits of herds.

As of December 31, 2020, we had a herd size of 308,195 dairy cows, including 297,138 Holsteins and 11,057 Jerseys, on a consolidated post-SKX Acquisition basis. Holsteins are generally larger in size and have the world's highest milk yield per milkable cow, while Jerseys are smaller with better feed conversion ratio and higher fat and protein content in their milk. The diagram below illustrates certain information of Holsteins and Jerseys, and the relevant data were derived from our Company.

| | **Holsteins** | **Jerseys** |
|---|---|---|
| Annual Yield (kg/cow/year)(1) | 10,504 | 6,923 |
| Protein content (%)(2) | 3.31 | 3.88 |
| Fat content (%)(2) | 3.87 | 5.44 |

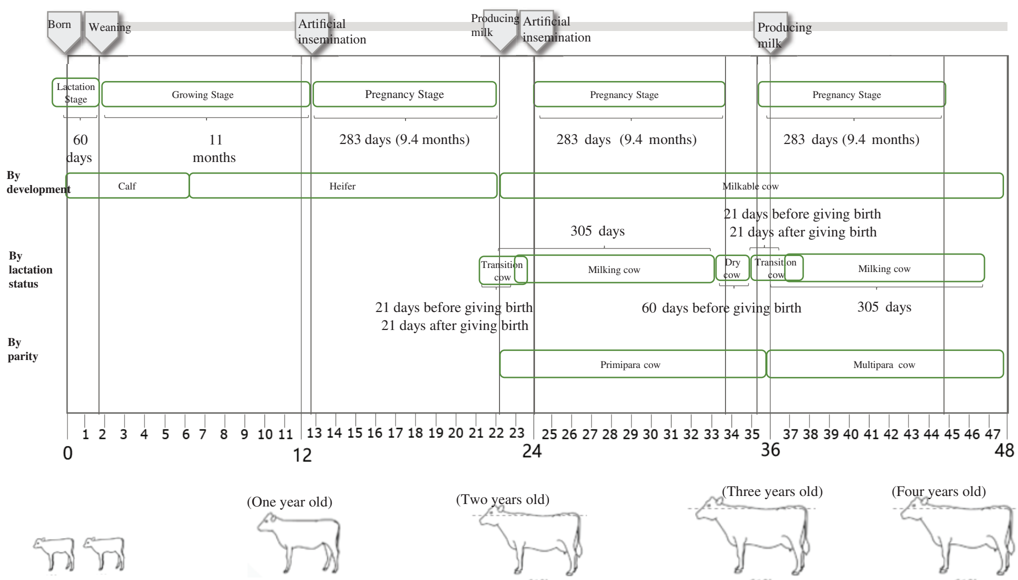
*Notes:*

(1) Calculated based on our total milk yield in 2020.

(2) Our Company's weighted average annualized data in 2020.

We first introduced Jerseys in 2018. Our average milk yield per milkable cow with respect to our Jerseys was 7.5 tons, 7.3 tons and 6.9 tons in 2018, 2019 and 2020, respectively. The average milk yield per milkable cow with respect to our Jerseys decreased over the Track Record Period primarily because one dairy farm for our Jerseys herd came into commercial operation in each of 2018 and 2019, in both of which the proportion of dry cows was relatively low and accordingly the average milk yield per milkable cow went up.

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




As of December 31, 2020, on a consolidated post-SKX Acquisition basis, we had 157,316 milkable cows and 150,879 calves and heifers, accounting for 51.0% and 49.0% of the total heads of our dairy cows, respectively. The following table presents a breakdown of our dairy cows as of the dates indicated below:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *(heads)* | |
| Calves and heifers | 65,488 | 74,082 | 150,879 |
| Milkable cows | 61,857 | 77,955 | 157,316 |
| **Total** | **127,345** | **152,037** | **308,195** |

We entered into a biological assets lease agreement with an independent third party in January 2018, pursuant to which we leased 2,191 heads of dairy cows with a carrying value of RMB40.6 million from such independent third party. Subsequently, the biological assets lease agreement was terminated by the parties and we purchased all these 2,191 heads of dairy cows previously under lease in December 2019.

We have adopted a culling program on our dairy herds to maintain the quality and yield of our raw milk. Culling refers to the removal of cows from a herd through sale and other means when they no longer meet our criteria for milk yield or fertility to optimize the dairy herds. The number of dairy cows that were culled through the culling program in 2018 and 2019 was 21,971 and 24,832, respectively, representing a culling rate of 19.6% and 18.5%. The number of dairy cows that were culled through the culling program in 2020 was 61,305 on a consolidated post-SKX Acquisition basis, representing a culling rate of 21.1%. As a complement to our controlled breeding efforts, our culling program improves the genetic quality, fertility and raw milk yield of our herds.

We assign different herds of dairy cows to produce our premium raw milk and specialty raw milk, respectively. As of December 31, 2018, 2019 and 2020, we had a total heads of 80,066, 95,105 and 228,409 dairy cows that are assigned to produce premium raw milk, while those numbers for the production of specialty raw milk as of the same dates were 47,279, 56,932 and 79,786, respectively. The following table sets forth the movement in the number of our dairy cows designed for the production of specialty raw milk during the Track Record Period.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| Number of dairy cows for specialty raw milk at the beginning of the period | 27,013 | 47,279 | 56,932 |
| Number of dairy cows for specialty raw milk converted from those for premium raw milk during the period | 10,982 | – | 13,979 |
| Number of calves and heifers produced by dairy cows for specialty raw milk during the period | 11,752 | 14,274 | 17,003 |
| Number of dairy cows for specialty raw milk purchased during the period | 4,547 | 5,821 | 2,929 |
| Number of culls and deaths during the period | 7,015 | 10,442 | 11,057 |
| Number of dairy cows for specialty raw milk at the end of the period | 47,279 | 56,932 | 79,786 |

On April 14, 2021, the government of New Zealand announced that the export of livestock by sea would cease following a transition period of up to two years, with a view to upholding New Zealand's reputation for high standards of animal welfare. Our Directors, upon due inquiry and consideration, are of the view that such livestock export ban by the New Zealand government would not be expected to have a material adverse impact on our business operations, expansion plan or financial condition on the following grounds:

- *Historical limited contribution.* We imported 20,012, 9,013 and 15,459 heads of dairy cows from overseas countries in 2018, 2019 and 2020, respectively. During the Track Record Period, we only in 2018 imported 2,164 heads of dairy cows from New Zealand, accounting for merely 10.8% of the total heads of imported dairy cows during the same year. We did not import any dairy cows from New Zealand in 2019 or 2020. We expect dairy cows imported from New Zealand would continue to account for a minority, if at all, of our total imported dairy cows in the near future before such livestock export ban comes into effect.

- *Adequate alternative sources.* We have maintained long-standing and stable relationships with a number of overseas suppliers, through which we believe we can import sufficient numbers of dairy cows to support our continuous expansion. In addition, there are plenty of alternative countries from which we may select to import dairy cows, including Australia, Uruguay and Chile. We believe, as concurred by Frost & Sullivan, that quality of dairy cows from such countries are no inferior than those from New Zealand.

- *Strong breeding techniques in support of rapid herd expansion.* Leveraging SKX's strong breeding techniques, and particularly its advanced sex-sorting technologies, we believe that we are able to continue to rapidly expand our herds to support part of our future growth.

**Intelligent Herd Management**

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

- *Real-time herd management system*: our real-time herd management system allows us to monitor each cow, including its health indicators, genetic information and medical history. The system generates various types of reminders, such as dry period reminders, insemination reminders, and weaning reminders, to refine our herd management.

- *Feeding system*: our feeding system keeps the details of our feed formulas customized for different groups of dairy cows. By tracking every step of the entire feeding process, we are able to monitor the application of our feed formulas and secure sufficient, well-balanced feed for our dairy cows.

- *Production information management system*: our production information management system generally keeps detailed records of each dairy cow's milk yield. Such data provide us with insights into the overall milk yields at our dairy farms and the productivity of each dairy cow.

- *Intelligent environment control system:* through our intelligent environment control system, we achieved real-time monitoring on the farm environment, including the temperature and humidity, to ensure an excellent habitat environment for our cows.

To further streamline our herd management, we are building a comprehensive herd management program, which will integrate the above intelligent management systems and consolidate all data from our 67 dairy farms into a single network. Such comprehensive herd management program allows for centralized data monitoring, collection and analysis, which helps standardize dairy farm management.

**Our Superior Feed**

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

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

**Our Premium Raw Milk**

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

In 2018 and 2019, Youran sold 572,093 tons and 655,786 tons of raw milk, respectively. In the same periods, SKX sold 554,995 tons and 605,020 tons of raw milk, respectively. In 2020, we sold 1,529,835 tons of raw milk on a consolidated post-SKX Acquisition basis, among which 1,133,671 tons are premium raw milk and 396,164 tons are specialty raw milk, accounting for 74.1% and 25.9% of our total sales volume, respectively.

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

| **Products** | **Type** | **Key Features and Benefits** |
|---|---|---|
| **Premium Raw Milk** | | raw milk above the industry standards of both the PRC and the European Union |
| **Specialty Raw Milk** | Jersey Milk | raw milk from imported pure-bred Jersey cows with silky smooth and creamy texture, and an average protein content of 3.8% |
| | DHA Milk | specialty raw milk rich in DHA, which is a valuable nutrient essential for brain and eye health |
| | A2 Milk | raw milk with A2β-casein, which is more suitable for the digestive system of human body, easier to digest and absorb, and can relieve the discomfort caused by lactose intolerance |
| | Organic Milk | raw milk that meets the organic standards of both the PRC and the European Union |

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

We assess the quality of our raw milk primarily with four indicators commonly recognized in the industry, namely protein content, fat content, aerobic plate count and somatic cell count. Based on the data in 2020, our raw milk has average aerobic plate count and somatic cell count as low as 13,000 CFU/ml and 170,000 CFU/ml, significantly lower than the EU Standards, which is among the highest industry standards for raw milk safety in the world. In addition, our raw milk has high nutritional value, with average protein content and fat content as high as 3.3% and 3.9%, respectively, exceeding the standards set forth in China's Premium Milk Initiative (中國國家優質乳工程) and the United States, Japan and the European Union standards.

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

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

*Notes:*

(1) Information on indicators is based on the test reports issued by SGS, the world's leading inspection, verification, testing and certification company that is independent from our Group, upon sampling test on our raw milk in 2020.

(2) As set forth in China's Premium Milk Initiative in 2017.

(3) Representing the average data in 2019 of 230 large-scale dairy farms with over 1,000 heads of dairy cows selected by the PRC National Dairy Cow Industry and Technology System (中國國家奶牛產業技術體系) for demonstration purposes, which are representatives of largescale dairy farms in China having comparable size and dairy farming practices to our dairy farms. The PRC National Dairy Cow Industry

and Technology System is a joint initiative led by the Ministry of Agriculture and Rural Affairs and the Ministry of Finance of the PRC, which aims to promote technology innovations and propel the development of China's dairy farming operations through research and development and demonstration in the fields of dairy breeding, feed and disease control, among other things.

(4) As set forth in China Standard published in 2010.

(5) As set forth in "A" Pasteurized Milk Ordinance issued by U.S. Department of Health and Human Services in 2011.

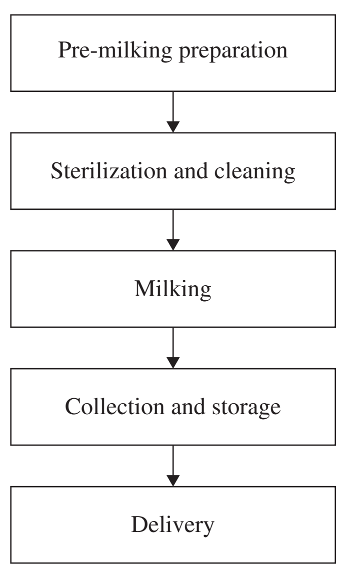
(6) As set forth in Standard Table of Food Composition issued by Ministry of Education, Culture, Sports, Science and Technology in 2015. Data of Japan is the standard of Holstein raw milk, in which the fat content refers to the fatty acid, triacyl-glycerol equivalents.

(7) Fat content and protein content are two major indicators used to determine the nutritional value of raw milk. Generally, a higher fat and protein content indicates higher quality.

(8) Aerobic plate count and somatic cell count are two of the major indicators used to determine safety quality of raw milk. Generally, a lower somatic cell count indicates better animal health, while a lower aerobic plate count indicates improved sanitation. The PRC national Standard does not impose a maximum somatic cell count requirement.

*Production Process*

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




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

- *Sterilization and cleaning*. We require our dairy workers to perform sterilization and cleaning to minimize risk of infection. We first clean and sterilize the udders and teats of our milking cows and the teat cups. Immediately after sterilization, we then wipe dry the udders and teats with dry towels. The pre-milking sterilization and cleaning process helps us secure the safety and pureness of our raw milk and maintain the health of our dairy cows.

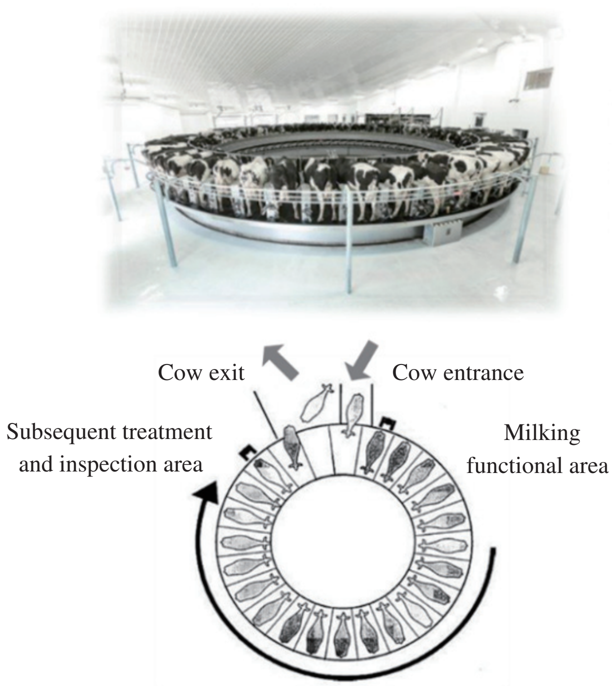
- *Milking*. Upon sterilization and cleaning, our dairy workers commence the milking process by attaching the silicon teat cups to our milking cows' udders. We leverage our automated milking system to monitor milk flow and record milk yield. Our automated milking system helps prevent overmilking for the benefit of health and welfare of our dairy cows. The milking process automatically ends when our milking system identifies that the milk yield has reached a certain level.

- *Collection and storage*. Fresh raw milk is immediately cooled to between 2°C and 4°C, the ideal temperature for raw milk storage, and is automatically transported through pipes directly to our central milk tank. We stir the raw milk stored in our milk tank on time to make sure that nutrients are evenly distributed. We carry out rigorous testing and inspection before the raw milk leaves our dairy farms, including a sensory test, boiling test, tasting test, alcohol test, acidity test and antibiotics residual test. These tests are designed to ensure that our raw milk meet our high standards and national standards and that the raw milk does not contain any prohibited substances such as antibiotics.

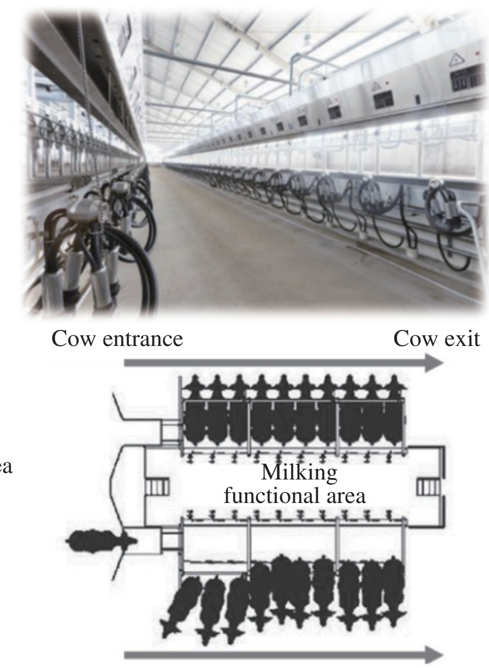
- *Delivery*. We transfer the raw milk through closed pipes from our central milk tank to the delivery trucks of our customers (in the event our customers choose to receive raw milk at our dairy farms) or the delivery trucks of third-party logistics services providers, then deliver the raw milk to our customers. We strive to deliver our raw milk to our customers within 24 hours from milking to maintain the freshness of raw milk.

### *Milking Parlors*

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




Rotary milking parlors and their operation model

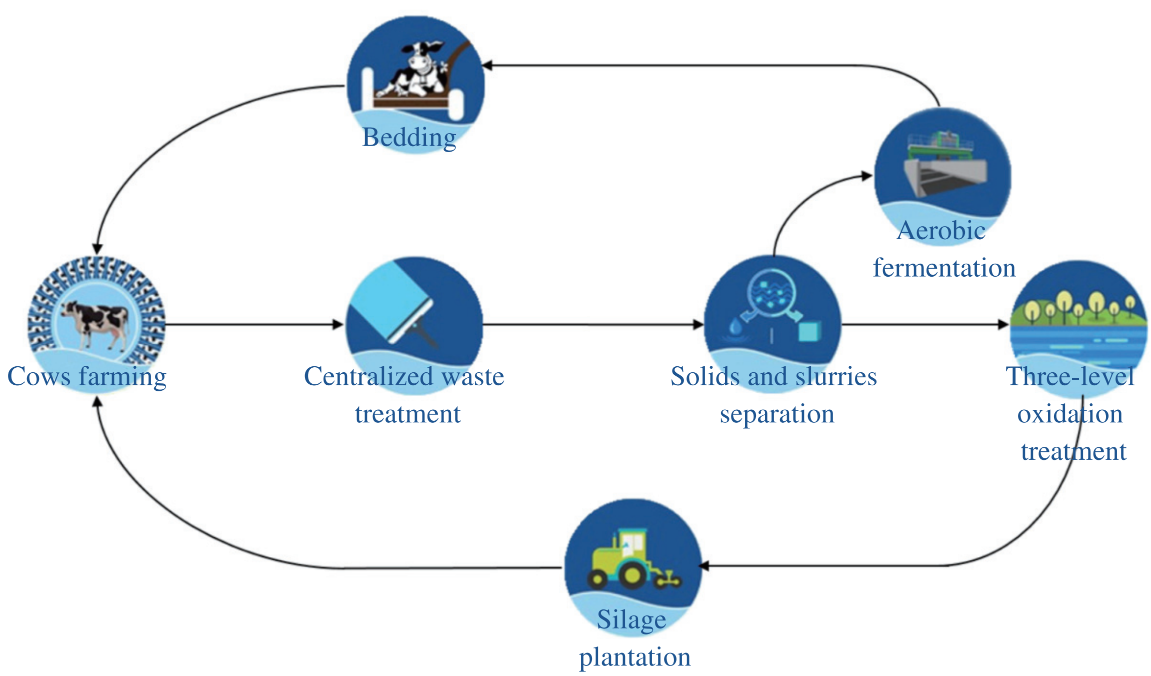



Parallel milking parlors and their operation model

**Eco-dairy Farming**

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

The following diagram illustrates our eco-dairy farming practices:



## COMPREHENSIVE RUMINANT FARMING SOLUTIONS

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

- *Site selection and design of dairy farms*. We provide advisory services to dairy farms with respect to site selection and design of dairy farms to help them achieve operational efficiency and enhance profitability.

- *Ruminant nutrition*. We assist dairy farms in improving milk yield and quality through scientific feeding techniques. Our ruminant nutrition services are tailored for dairy cows at different growth stages to tackle their specific needs. We also help increase feed intake of dry cows and transition cows to ensure they obtain abundant nutrition for growth and milking.

- *Breeding techniques*. We leverage our advanced breeding techniques and know-how to help dairy farms improve fertility rate of dairy cows and female calf rate. We tailor our breeding services according to health conditions, and conformation traits of the dairy cows and the breeds of the sire.

- *Ruminant fitness*. By virtue of our extensive dairy farming experience, our professional team assists dairy farms in preventing and treating diseases, such as mastitis and laminitis that are common to dairy cows.

- *Milk production*. We help dairy farms optimize their milking process to enhance milk quality and improve milking efficiency. With our modern management techniques and operating procedures, we offer insights and know-how on inspection of milking equipment and facilities, detection of mastitis and milk quality control, among others.

In addition, we also help dairy farms establish standard operational procedures to improve their production and management levels. Consistent with the industry norm, we did not charge customers for our ruminant farming support services or generate any revenues from our ruminant farming support services during the Track Record Period and up to the Latest Practicable Date. We leverage our ruminant farming support services to obtain insights into our customers' demand and attract the customers to purchase our diverse ruminant farming products. Through providing free and professional comprehensive ruminant farming solutions and offering ruminant farming support services after they purchase our ruminant farming products according to the solutions, we increase our customers' willingness to purchase and drive the sales of our ruminant farming products. On the other hand, we believe offering free, after-sales ruminant farming support services enables us to enhance customer retention and improve brand reputation. We tailor comprehensive ruminant farming solutions for our customers based on their actual operational demands and pain points and match the sales of our ruminant farming products accordingly. Currently, we are principally engaged in the following businesses and offer customers relevant ruminant farming products:

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

- *Breeding business*. Our breeding business consists primarily of the production, import and sale of breeding products such as frozen semen and embryos of cattle and other ruminants. We provide quality frozen semen and embryos to dairy farms, including our own dairy farms, to improve genetic quality and productivity of herds.

- *Ruminant farming products marketplace business*. Through our online retail platform, *Jumuc.com*, and an extensive network of 27 offline pick-up stores across China, we are mainly engaged in the sales of ruminant farming products, including veterinary drugs, husbandry equipment and other ruminant farming products. Our customers can place orders of our ruminant farming products at any time and any place on our online retail platform, and we will arrange delivery for them at the nearest offline pick-up stores based on the orders received. Customers may also pick up their products in the nearest offline pick-up stores. For details of our online retail platform and offline pick-up stores, see the section headed "– Sales and Marketing."

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

Our revenues derived from comprehensive ruminant farming solutions were RMB3,723.6 million, RMB4,604.2 million and RMB4,786.6 million for the years ended December 31, 2018, 2019 and 2020, respectively, accounting for 58.8%, 60.0% and 40.6% of our total revenues for the same periods.

**Feed Business**

According to Frost & Sullivan, we are a leading player in China's ruminant feed market, driving the research and development of nutrient feed in China. We primarily engage in the processing and distribution of concentrated feed, large-scale forage grass growing and trading. We provide dairy farms with a diverse selection of concentrated feed and forage grass tailored to ruminants of different varieties, breeds and growth stages. Our large-scale dairy farming operation enables us to obtain a wealth of data for our strong nutrition database. Leveraging our database, we have obtained valuable data on the nutritional requirements of ruminants of different breeds at different growth stages and on the nutritional content of feed, whereby achieving ideal feed formula and precision feeding. With our safe and high-quality feed products, profound industry insights and know-how, we have built strong brand reputation among our customers. As of December 31, 2020, we had supplied a variety of feed products to over 1,000 customers across 25 provinces in China.

**Concentrated Feed**

According to Frost & Sullivan, we had the largest market share of 5.8% in China in 2020 in terms of sales volume of concentrated feed for ruminants. We commenced to process and distribute concentrated feed in 1988. While we process concentrated feed based on quality formulas, we also mobilize our strong supply chain resources to distribute concentrated feed ingredients, thereby addressing our customers' demands for diversified, differentiated and various farming methods. We offer a variety of concentrated feed under eight brands, which are customized for different ruminants, including dairy cows, beef cattle, sheep and dairy goats. Set forth below is a summary of our concentrated feed brands and features.

| Brand | Breed | Applicable Herds | Brand Positioning |
|---|---|---|---|
| Rubeiyou (乳倍優) | Dairy cows, beef cattle and sheep | Full lifecycle other than calves and lambs | One of a select number of China's first premix brand that adopts high manufacturing standards |
| Dute (犢特) | Dairy cows | Calves | Pioneering brand in China that caters to the specific needs of calves |
| Kangshunbao (康順寶) | Dairy cows | Dry cows and transition cows | Pioneering brand that improves dairy cows' overall health and lifespan |
| Airuite (艾瑞特) | Dairy cows, beef cattle and sheep | Primarily milking cows, dry cows, transition cows and fattening cattle and sheep | Preeminent brand that enhances ruminants' overall health and milk yield |
| Yuanxing (元興) | Dairy cows | Heifers and milking cows | Leading brand that has served one of the most heads of dairy cows in China |

| Brand | Breed | Applicable Herds | Brand Positioning |
|---|---|---|---|
| Dairuite (戴瑞特) | Dairy cows | Full lifecycle | Customized brand favored by Chinese large-scale dairy manufacturers |
| Xiletege (喜樂特格) | Beef cattle and sheep | Full lifecycle | Healthy and effective green brand |
| Daruike (達瑞科) | Dairy goats | Full lifecycle | Healthy and effective green brand |

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

We endeavor to research and develop proprietary formulas of concentrated feed that effectively address customers' pain points and challenges, and we have a strong research and development team dedicated to formula development. For example, to tackle the issue of increasing the weight of calves by 1 kg per day, which is a shared concern among our customers, our research and development team conducted numerous studies, and successfully introduced structural calf feed under the brand of Dute (犢特) in December 2017. Such structural calf feed increases the weight of calves by 1 kg each day and significantly enhances the overall health of calves. Leveraging our extensive industry expertise and deep understanding of the demands of different ruminants, we have introduced more than 50 proprietary formulas for concentrated feed, covering the full lifecycle of ruminants. In particular, our proprietary feed formulas for dairy cows provide well-balanced nutrition that support different stages of cow growth and improve their overall health conditions. For example, our proprietary *Kangshunbao 13/13X*, an anti-heat stress product exclusively designed for dairy cows, takes into consideration of seasonal characteristics and can effectively protect transition cows against heat stress, and help them maintain health conditions and improve fertility. We typically market our concentrated feed only after trials at our own dairy farms to ensure its safety and effectiveness.

As of December 31, 2020, we operated seven feed mills across China and cooperated with five third-party feed manufacturers. We primarily market and sell our products across the Golden Raw Milk Belt in China. During the Track Record Period, we collaborated with certain third-party feed manufacturers across China to expand geographic reach and broaden customer coverage. Pursuant to the agreements we entered into with such third-party feed manufacturers, they are required to manufacture and process concentrated feed, catering to our standards and specifications set forth in the agreements. We may reject the relevant concentrated feed products if the third-party feed manufacturer fails to produce and process in accordance with our formulas or the packaging does not meet our requirements. In addition, we are entitled to claim the losses arisen from such reasons, if any, against the third-party feed manufacturer. We are entitled to dispatch dedicated staff to the third-party feed manufacturers, who shall be responsible for overseeing the entire production process, to ensure the final products meet our heightened standards. The third-party feed manufacturers are contractually required to keep confidential of our intellectual properties, trade secrets and other proprietary information, including our formulas for concentrated feed. Price for such manufacturing services is set forth in the agreement and we typically settle the payments with the third-party feed manufacturers twice a month.

The following table sets forth the information of our feed mills as of December 31, 2020.

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

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

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

| | |
|---|---|
| Ingredient procurement | • We procure ingredients for our concentrated feed, primarily corn, soybean meals and cottonseed meals, from third-party suppliers in China. |
| ↓ Ingredient inspection and storage | • Our inspection centers at our feed mill are responsible for inspecting the feed ingredients upon delivery. In particular, our advanced near infrared technique allows us to inspect and analyze the nutritional content of the feed ingredients in a few minutes. We store those feed ingredients that passed all our inspections in our large-sized silos, which maintain an ideal environment for ingredient storage. |
| ↓ Compounding and packaging | • We grind the feed ingredients and mix them according to different formulas. For the concentrated feed that is sold in pellets, we feed the feed ingredients into feed pellet mills once mixed and press them into pellets. The compounded feed will then be packaged. |
| ↓ Outgoing quality control | • We will conduct inspections according to our inspection plans before the final products are distributed to our customers to make sure our concentrated feed meets the relevant quality standards. |
| ↓ Product delivery | • Upon being inspected, the qualified products will be distributed to our customers. To ensure more efficient delivery of our products, we provide our customers with free feed storage silos, exclusively designed and customized for our tank trucks. We are able to quickly unload our feed products directly into the feed storage silos upon arrival of delivery trucks. With these storage silos, it typically takes less than half an hour to complete the entire unloading process, which largely streamlines the delivery process, improves efficiency and ensures the delivery of fresh feed. |

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

In 2018, 2019 and 2020, we produced 754,279 tons, 797,932 tons and 1,013,886 tons of concentrated feed, respectively, among which the concentrated feed produced in our self-operated feed mills reached 642,338 tons, 646,148 tons and 795,471 tons, accounting for 86.7%, 85.2%, 81.0% and 78.5% of the total output of our concentrated feed for the same period, respectively. In 2018, 2019 and 2020, the external sales volume of our concentrated feed reached 684,388 tons, 709,221 tons and 770,512 tons, respectively. The following table sets forth the capacity, actual output and utilization rate of production facilities in our seven self-operated feed mills for the relevant periods.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Capacity(1) | Actual output | Utilization rate (%)(2) | Capacity(1) | Actual output | Utilization rate (%)(2) | Capacity(1) | Actual output | Utilization rate (%)(2) |
| | *(in tons, except for percentage)* | | | | | | | | |
| Concentrated feed | 813,000 | 642,338 | 79.0 | 813,000 | 646,148 | 79.5 | 957,000 | 795,471 | 83.1 |

*Notes:*

(1) During a given period, capacity is calculated based on the mixed capacity of the mixing machine, and the calculation formula is as follows: capacity per hour * 20 hours a day * 300 days.

(2) During a given period, utilization rate is calculated as the actual output for the relevant period divided by the maximum capacity for such period.

The capacity of production facilities in our self-operated feed mills increased from 813,000 tons in 2019 to 957,000 tons in 2020, primarily because we made technical improvements to our feed production machines and equipment at our feed mills in Ulanqab, Inner Mongolia and Bayannur, Inner Mongolia, which largely improved production efficiency.

### Forage Grass

Forage grass, which accounts for approximately 50% to 60% of an average dairy cow's daily feed consumption, is the primary source of fiber for dairy cows, and helps maintain the health of dairy cows. High fiber content in forage grass also improves milk yield of dairy cows. To secure high-quality feed for our dairy cows and capitalize on tremendous market potential along the upstream dairy value chain, we commenced forage grass trading business since 2013 and began to grow and process forage grass at large scale in 2014. Through years of operation, we have become a leading forage grass supplier in China. Leveraging our reliable sources of forage grass in China and overseas accumulated through our years of operations, and our advanced growing and processing techniques, we provide forage grass products, such as quality alfalfa hay, for dairy farms in China to meet their increasing demand for high-quality forage grass as the dairy farming standards and milk quality and yield requirements continue to be enhanced.

In 2018, 2019 and 2020, revenues derived from our forage grass growing business totaled RMB40.7 million, RMB36.0 million and RMB40.3 million, respectively. During the same periods, revenues derived from our forage grass trading business totaled RMB385.8 million, RMB442.2 million and RMB422.7 million, respectively.

**Forage Grass Growing**

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

As of December 31, 2020, we operated two core forage grass plantation fields in China, with an aggregate land area of 55,530 mu. In addition, to fully leverage the synergies across our dairy farming practice and forage grass growing, we also established eight ancillary forage grass plantation bases in proximity to our dairy farms with an aggregate land area of 75,035 mu to achieve the long-term sustainable development of our integrated farming model. We take advantage of the scientific layout of our core plantation fields to improve the quality and production volume of our forage grass and achieve operational efficiency. Key factors affecting the production volume and operational efficiency of a plantation field include climate, location, equipment, harvest method and preservation techniques. According to Frost & Sullivan, our core plantation fields are located in the climatic zone generally considered one of the most ideal for forage grass growth with favorable soil conditions.

The table below sets forth certain details of our two core forage grass plantation fields as of December 31, 2020.

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

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

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

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

In 2018, 2019 and 2020 we harvested 48,724 tons, 99,670 tons and 141,655 tons of forage grass, respectively.

**Forage Grass Trading**

In order to cater to the diversified needs of our customers, we select well-known domestic and overseas suppliers of forage grass and source high quality forage grass produced domestically and overseas from them. According to Frost & Sullivan, we were one of the largest forage grass importers in China in terms of import volume in 2020. We mainly imported forage grass such as alfalfa hay and oat grass from the United States and Australia due to the premium quality and resell them in China. We also feed our own herds with imported forage grass.

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

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

In 2018, 2019 and 2020, we imported 165,655 tons, 188,173 tons and 258,657 tons of alfalfa hay.

During the Track Record Period, we sold most of high-quality forage grass grown by ourselves and purchased from domestic and overseas suppliers to our external customers, and the remaining portion was internally sold to our own dairy farms. In 2018, 2019 and 2020, sales volume of forage grass sold to our external customers accounted for approximately 67.3%, 59.1% and 48.3% of our total sales volume of forage grass (including internal and external sales), respectively, during the same periods. The proportion of internal and external sales of forage grass during the Track Record Period depends on a series of factors, such as the market condition, our business scale and customer demand, and also affected by other factors. For example, upon our acquisition of the controlling interest in SKX in January 2020, part of external sales became internal sales. We sought to continuously achieve business growth while meeting the requirements of our increasingly expanding dairy farming scale and the booming customer demand.

**Breeding**

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

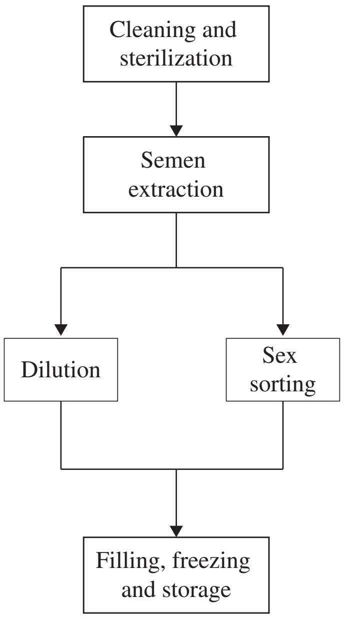
We conduct our breeding business mainly through our subsidiary SKX. Founded in 2006, SKX is the only breeding company in China that has a certificate for commercial production of sex-sorted frozen semen, and enjoys a predominant market position after years of technique development and improvement and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

We operate two bull stations in Inner Mongolia, China and Wisconsin, the United States. At our bull station in Inner Mongolia, we raise sires and collect semen from top sires to meet the growing market demands for quality frozen semen. We constantly improve the genetic traits of our sires in order to enhance quality of our frozen bovine semen products. As of the Latest Practicable Date, we had 134 sires with high Genomic Total Performance Index, or GTPI, scores at our bull station in Inner Mongolia, China that are registered with the National Association of Animal Breeders of the United States. In the meantime, our bull station in Wisconsin, the United States allows us to access top foreign breeds and enhance the diversity of our bovine gene pool. Leveraging the abundant sources of quality sires across the world at our bull station in Wisconsin, the United States, we strive to nourish world-class Holsteins and provide imported frozen bovine semen of top quality to our domestic customers. Through our ongoing efforts and the development and application of core technologies, we have bred two sires that are among the Top 100 TPI International Bulls, which we believe has significantly enhanced our brand reputation.

We have 14 advanced sperm sorters that were sourced from the United States. With the support of 19 patented technologies with respect to production, research and development of sex-sorted frozen semen, we significantly improve productivity and the accuracy of sex sorting, and in turn enhance the quality of our sex-sorted frozen bovine semen. Leveraging our industry-leading equipment and techniques, we continue to improve the quality of breeding products for dairy cattle and other ruminants and expand product offerings.

The key breeding products we provide primarily include frozen bovine semen and embryos. We offer both regular frozen bovine semen and sex-sorted frozen bovine semen, which are primarily used for artificial insemination to produce calves. Our sex-sorted frozen bovine semen for dairy cattle can achieve a birth rate of gender-specific calves of 93% and are widely used by our customers to aggressively produce female calves and expand herds. In 2020, SKX sold a total of approximately 806,792 straws of frozen bovine semen to external third parties, among which 482,044 straws were frozen bovine semen for dairy cattle. In the same year, the external sales volume of sex-sorted frozen bovine semen was approximately 200,964 straws, representing 24.9% of the total sales of frozen bovine semen. In addition to the frozen bovine semen products, we also provide cow embryos, which are primarily used for embryo transplants to produce female calves of high fertility and sires.

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




- The extraction process begins with our workers cleaning and disinfecting sires, sites, equipment and facilities.

- We collect semen with a collection receptacle and analyze the sperm density and motility of the semen and screen for contaminants in our laboratories. If the sperm collected does not meet our quality standards, it will be discarded immediately.

- For ordinary frozen semen products, we dilute the sperm that meet our quality standards in a special solution to improve the survival rate of the sperm and extend their lifespan during the cooling process; for sex-sorted frozen semen products, we use our proprietary technique to dye X- and Y-chromosome-bearing sperm while enhancing energy replenishment. Subsequently, we use a sperm sorter to accurately and efficiently separate the dyed bovine sperm, and adjust the density of the sperm separated and cryopreserve them. During the entire sex-sorting process, we also rely on our proprietary technique to significantly improve sperm survival time.

- Afterwards, the bovine semen is filled into plastic straws and labelled simultaneously. The bovine semen filled into straws will then be placed in a freezing machine for programmed cooling. Our freezing machine can gradually cools the straws filled with bovine semen from around 5 ºC to about around -130 ºC within a few minutes, after which the frozen straws are transferred to liquid nitrogen containers at around -196 ºC for long-term storage.

We place strong emphasis on technology innovation to enhance the quality and competitiveness of our breeding products. As of the Latest Practicable Date, we held 19 patents and were licensed to use one patent through SKX and were entitled to use one patent therein with permission, and we also participated in the formulation of two national standards and one local standard with respect to sex-sorted frozen bovine semen. For details, please see the section headed "– Intellectual Property" of this prospectus. Supported by seven patents, SKX proprietary *Super Sex-sorting Technique (超級性控技術)* launched in 2014 largely increases sperm survival rate by 30% and extends sperm life from the previous four to six hours to six to eight hours. Through our cutting-edge, proprietary *Super Sex-sorting Technique (超級性控技術)*, SKX have applied sex-sorted frozen semen from heifers to dairy cows that have given two to three births.

In addition, we cooperate with governments, universities and research institutions to achieve significant integration and synergies. During the Track Record Period, SKX worked closely with several universities and research institutions to participate in the technology innovation initiatives and campaigns of the local government of Inner Mongolia. For example, SKX led a dedicated team joined by Inner Mongolia University and Inner Mongolia Agricultural University and took the initiative in a government-funded research on industrialization of sex-sorting techniques and technology innovations and applications. In addition, with the support from the local government of Inner Mongolia, SKX established Inner Mongolia SKX Breeding Bio-tech Research Institute, the national and local joint engineering center on herd sex-sorting technologies, the research center of herd sex-sorting and biological engineering technology and the post-doctoral and academician scientific research working station in Inner Mongolia Autonomous Region in 2015 and appointed industry experts and professors from the Chinese Academy of Sciences, China Agricultural University, Inner Mongolia University and other universities and research institutions for the research institutes in 2017. Furthermore, SKX has established various internship programs with the School of Life Sciences of Inner Mongolia University to expand talent pool and improve technology capabilities. Through the deep integration of industries, universities and research institutions, we further consolidated our scientific research and technical strength, making us a leader widely recognized in dairy breeding technology innovation.

**Ruminant Farming Products Marketplace Business**

To diversify our offerings and further address our customers' business needs, we set out selling ruminant farming products purchased from different selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms. We leverage our deep understanding of our customers' challenges and pain points to continuously expand our product offerings. As of December 31, 2020, we offered more than 1,000 ruminant farming products, covering core business operations of dairy farms. As an integral part of our comprehensive ruminant farming solutions, our ruminant farming products marketplace business has further enhanced our brand image and improved customer loyalty. Our customers can place orders for our ruminant farming products at any time and any place on our online platform *Jumuc.com*, and we will arrange delivery for them at the nearest offline pick-up stores based on the orders received. For details of our online retail platform as well as our offline pick-up stores, see the section headed "– Sales and Marketing."

## QUALITY CONTROL

Quality control is one of our core values and is vital to our business. We have obtained the SQF certification, which is one of the world's leading food safety and quality management systems. The SQF certification establishes a rigorous and credible product safety management system. With respect to our raw milk business, the SQF certification sets detailed standards and procedures for our raw milk production. It covers each phase of our core dairy farming operations, spanning the location and design of our dairy farms, dairy farming practices, water and waste management, purchase and use of medications, feed and agricultural chemicals, dairy cow identification and traceability and storage and transport. Through the SQF certification, we have demonstrated to our customers that our raw milk has been produced, prepared and handled according to the high standards that are well accepted worldwide. In addition, we are also one of a select number of feed producers in China that is certified to the SQF certification, which represents our commitment to producing safe and high-quality feed products. The SQF certification sets forth a series of stringent requirements over construction and control of product handling and storage areas, personnel processing practices, quality control and separation of responsibilities during the process flow and storage and transport, among others, leading to the same high standards as food production. An SQF certificate initially has an effective term of one year, and annual review is required for subsequent extension of the effective term. After a company applies for extension of an SQF certificate, a dedicated audit team from the SQF institution will conduct an on-site inspection of the company's ongoing compliance with the standards and requirements set forth in the SQF certification. Once the company passes the on-site annual review, the SQF certificate will be renewed by the SQF institute. As of the Latest Practicable Date, all of our SQF certificates had been renewed for the year of 2021.

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

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

We maintain a dedicated quality control department at each of our business lines, which is responsible for designing, managing and supervising the implementation of our quality control system. As of the Latest Practicable Date, we had 244 quality control specialists, substantially all of whom have professional qualifications with respect to food inspection, dairy product inspection and disease inspection. Our quality control specialists closely monitor our production process. As of the Latest Practicable Date, we had not received any complaints about the quality of our product nor have we been subject to any product dispute or recall that could have a material adverse effect on our financial condition or results of operations.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

### Governance

We acknowledge our responsibilities on environmental protection, social responsibilities and are aware of the climate-related issues that may have impact on our business. We are committed to comply with environmental, social and governance ("**ESG**") reporting requirements upon Listing. We have established an ESG policy (the "**ESG Policy**") in accordance with the standards of Appendix 27 to the Listing Rules, which outlined, among others, (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governing structure, (iv) ESG strategy formation procedures; (v) ESG risk management and monitoring; and (vi) the identification of key performance indicators ("**KPIs**"), the relevant measurements and mitigating measures.

Our ESG policy also sets out the respective responsibility and authority of different parties in the above processes. Our Board has the overall responsibility for overseeing and determining our Group's environmental-related, climate-related and social-related risks and opportunities impacting the Group, establishing and adopting the ESG policy, strategies and targets of our Group, and reviewing our Group's performance annually against ESG-related targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

Our Board has established an ESG Committee that comprises of heads of relevant functional departments, including business units, quality control, engineering management, financial management, human resources, audit control, corporate affairs, technical departments, etc. The ESG Committee serves as a supportive role to our Board in implementing the agreed ESG policy, targets and strategies, conducting materiality assessments of environmental-related, climate-related, social-related risks and assess how the Group adapts its business in light of climate change, collecting ESG data from the relevant interested parties while preparing for the ESG report, and continuous monitoring of the implementation of measures to address our Group's ESG-related risks and responsibilities. The ESG Committee is also responsible for the investigation of deviation from targets and liaise with the functional department to take prompt rectification actions. The ESG Committee has to report to our Board on a half-year basis via board meeting on the ESG performance of our Group, the effectiveness of these ESG systems and any applicable recommendations. While the Audit Committee remains responsible for reviewing our risk management systems, including climate-related risks.

**Potential Financial Impact of ESG-Related Risks**

Our business operations are subject to environmental protection laws and regulations promulgated by the PRC government. For example, we are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing new dairy farms and feed mills to minimize the impact of our business operation on the environment. For details, see the section headed "Regulations." Maintaining compliance with applicable environmental rules and regulations is costly. During the Track Record Period, we incurred costs of compliance with applicable environmental rules and regulations of RMB47.0 million, RMB87.3 million and RMB125.7 million in 2018, 2019 and 2020, respectively. Such costs were incurred during the Track Record Period in connection with our tireless efforts to install and upgrade our cow waste recycling and treatment facilities at our dairy farms to improve the economic benefits of our production and operation while promoting environmental protection, thereby achieving sustainable growth of our business. If we breach any environmental-related laws and regulations, or faces any accusation of negligence in environmental protection, in addition to the potential fines and penalties, such incidents may also adversely affect our reputation and creditability. Our business opportunities may be negatively impacted, for instance, our suppliers may be less willing to grant us a longer credit term because of our reputational damage and loss of creditability.

In addition, we have identified the potential acute and chronic physical risks from climate change, especially extreme weather conditions, which may have potential financial implications for us:

- *Decrease in raw milk yield*. Substantially all of our dairy farms are located in northern part of China, including Inner Mongolia and Northeastern Region, which are subject to the risk of bad weather condition of icing and snowing that could potentially lower raw milk yield. Furthermore, extreme heat across China could also have an adverse impact on the health condition of our dairy cows, which may result in lower production volume. The decrease in our raw milk yield caused by extreme weather conditions may have an adverse effect on our ability to fulfill our existing contractual obligations or capture new business opportunities, which in turn, may impact our business, results of operation and financial condition; and

- *Disruptions to our supply chain*. We may experience indirect impacts from supply chain disruption if we and/or our suppliers, especially our feed ingredients and forage grass suppliers, suffered from extreme weather conditions such as snowing, icing and flooding. The disruptions to our supply chain management may impact our production as well as our ability to fulfill our contractual obligations, which, in turn, may cause monetary damages and loss of existing and potential customers.

Notwithstanding the above, due to our effective internal control and risk management measures as outlined in details below, our business, results of operation and financial condition had not been materially adversely impacted by any climate-related incident during the Track Record Period and up to the Latest Practicable Date.

Furthermore, potential transition risk may result from the transitioning to a lower-carbon economy which entails change in climate-related regulations and policy. Tightened environmental regulations may require significant investment to be made in transforming our business and operations. On the other hand, in the face of the potential transition risks, leading dairy farming companies like us with modern management techniques and operating procedures may be able to adapt to the new environmental rules in a swifter manner, thereby capturing more business opportunities.

**Our Strategies in Addressing ESG-Related Risks and Opportunities**

Climate-related issues are among our key agenda. Supervised by our Board and the ESG Committee, we actively identify and monitor the climate-related risks and opportunities over the short, medium and long term and we seek to incorporate such climate-related issues into our businesses, strategy and financial planning. Set forth below is a summary of the climate-related risks and opportunities we identified over the short, medium and long term.

| | Risks | Potential Impacts |
|---|---|---|
| **Short term (current annual reporting period)** | • Extreme weather conditions such as extreme cold or heat | • Decreased production volume and reduced revenues, disruptions to supply chain |
| | • Environmental regulatory compliance risks | • Increased operating costs of environmental regulatory compliance |
| **Medium term (one to three years)** | • Heightened pollutant discharge policies | • Higher operating costs due to increased costs for pollutant discharge, fines and penalties as a result of non-compliance and higher operating costs incurred in connection with investment in new equipment |
| | • Risks relating to shortage of natural resources (such as dairy farm lands, lands for our ancillary feed planting bases and water resources) | • Impacting expansion of dairy farming operations and feed business |
| **Long term (four to ten years)** | • Worldwide initiatives for reducing carbon emissions | • Higher operating costs or tax burdens due to increased costs of raw materials |

Our Board and ESG Committee will evaluate the likelihood of occurrence and the estimated magnitude of resulting impacts over short, medium and long term horizons. The decision of mitigate, transfer, accept or control a risk is influenced by various factors such as the dairy farms' geographic location, transportation network and policy change. We will incorporate physical and transition risk analysis into risk assessment processes and risk appetite setting. If the risks and opportunities are considered to be material, we will incorporate them into the strategy and financial planning process. It is expected that the extreme weather conditions for potential physical risks, and change in climate-related regulations and policy for potential transition risks would not have a material impact on our operation in the short and medium terms. We also aim to minimize the transition risk in the long term through enhanced energy efficiency, adoption of green supply chain and environmentally friendly feed ingredients and consumption of renewable energy, and we are committed to our emission reduction targets. This does not only reduce our exposure to transition risk but also improved the environmental performance of our products. Upon annual review of the progress against our targets for addressing climate-related issues, we may revise the ESG strategies as appropriate.

**Risk Management and Mitigating Measures**

Under the leadership of our Board and the ESG Committee, we have adopted a series of comprehensive and effective measures to identify, assess, manage and reduce the risk relating to ESG. For example, we have established a robust set of risk management policies and procedures to identify potential risks including those relating to ESG in the ordinary course of our business. For details of our risk management policies and procedures, including the risk management processes for identifying and assessing risks, see the section headed "– Risk Management and Internal Control." Furthermore, we maintain an environmental factor identification and risk assessment list, through which we monitor and control the risks concerning the ESG issues in our all aspects of our business operations. We require our business functions to identify all factors at each link that may have potential environmental impacts and update our environmental factor identification and risk assessment list on an annual basis, so that we have a better understanding of the potential environmental impacts of our business as a whole and manage the risks we may be exposed to effectively. Moreover, with a goal to minimize the damages of our business operation on environment, we developed our environmental protection management and control procedures, which provide guidance on managing and handling ESG-related matters.

In particular, we have adopted several mitigating measures to address the aforementioned climate-related risks including the risks associated with extreme weather conditions. In cold weather, rolling shutters are installed to maintain the ventilation of barns which keeps the barn warm and ensures air quality, and water tanks for cows are heated to ensure the temperature of water above 15°C for milkable cows and 20°C for calves. Additionally, in the summer, the barn beds and neck clamps are installed with livestock fans at intervals of 6 meters, the stances in the milking hall and milking parlor are spaced at 50 centimeters from the left and right, and six meters from the front to the back to cover two thirds of standard poultry fans in cows' waiting room to ensure the comfort of dairy cows when milking. In addition, we also install infrared precision sprinkler facilities and set centralized sprinkling area to help cooling our dairy cows to ensure average milk yield will not be adversely affected by raising temperature. We meticulously tailor our feed for dairy cows in the winter to ensure they have sufficient energy intake and report to our ESG Committee on a regular basis.

In the meantime, in light of the potential risks that could cause disruptions to our supply network, we have maintained a diverse pool of quality feed ingredients and forage grass suppliers in China and overseas, which enables us to source from alternative qualified suppliers if any of them are affected by extreme weather conditions. Therefore, the risks of potential supply chain disruption that we are exposed to are relatively remote. In addition, we have laid in safe stores of forage grass in preparation for any shortage of supplies under extreme weather conditions, which also help mitigate the risks of potential supply chain disruption.

Our Board and ESG Committee will also continuously monitor climate-related matters and governmental developments around actions to combat climate change and act to minimize the impact on our operations.

**Metrics and Targets**

Historically, we mainly tracked the KPIs for air pollutants emissions, greenhouse gas (the "**GHG**") emissions, water usage and power usage in relation to our principal business. Set forth below are our major KPIs during the Track Record Period, which are consistent with the average level of leading enterprises in the industry according to Frost & Sullivan:

- Air pollutants emissions: During the Track Record Period, our $SO_2$ emissions totaled 0.0061 tons, 0.0039 tons and 0.0052 tons per million revenue, respectively, in 2018, 2019 and 2020. During the Track Record Period, our NOx emissions totaled 0.0034 tons, 0.0026 tons and 0.0028 tons per million revenue, respectively, in 2018, 2019 and 2020.

- GHG emissions: According to the Task Force on Climate-related Financial Disclosures, GHG emissions can be categorized into three scope levels. Scope 1 refers to all direct GHG emissions, Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam, and Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of a company, including both upstream and downstream emissions. Based on such categorization, GHG emissions from our ordinary course of business, such as the GHGs emitted by dairy cows, boilers and vehicles, fall in the Scope 1 GHG emissions, those indirectly come from the electricity and heat we purchase to support our business operation are Scope 2 GHG emissions and those in connection with water and paper consumption and business travels fall in the Scope 3 GHG emissions.

During the Track Record Period, our GHG emissions totaled 63.4 tons, 63.3 tons and 86.0 tons per million revenue in 2018, 2019 and 2020, respectively. During the same periods, our Scope 1 GHG emissions were 50.6 tons, 49.9 tons and 67.9 tons per million revenue, respectively, and our Scope 2 GHG emissions were 12.8 tons, 13.4 tons and 18.1 tons per million revenue, respectively.

A majority portion of GHGs directly emitted by dairy cows is methane, which is generated by dairy cows through their exhaled breaths and waste. As currently China's dairy farming industry does not have the ability to accurately trace and collect data for methane emissions from dairy cows, we estimated the amount of the methane emitted by our dairy cows during the Track Record Period by multiplying the number of our dairy cows by a fixed methane emission factor of 88.1 kg per head dairy cow per year, according to the Guidance on Compiling the List of GHGs at the Provincial Level (Trial) (省級溫室氣體編製清單指南(試行)) published by the PRC government.

In addition, consistent with the industry norm, we do not trace carbon dioxide emissions from dairy cows, and instead we convert the methane emissions into carbon dioxide emissions according to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories published by The Intergovernmental Panel on Climate Change, or IPCC, to thoroughly assess the impact of dairy cows' activities on the environment. The amount of methane emitted by our dairy cows totaled 3.8 tons, 3.9 tons and 3.6 tons per million revenue generated from dairy farming business in 2018, 2019 and 2020, respectively, which represent carbon dioxide emissions of 106.0 tons, 109.4 tons and 102.1 tons per million revenue generated from dairy farming business, or 44.0 tons, 43.9 tons and 61.2 tons per million revenue of the Group as a whole, in the same periods, as converted in accordance with guidelines published by IPCC.

Our GHG emissions increased from 63.3 tons per million revenue in 2019 to 86.0 tons per million revenue for the year ended December 31, 2020, primarily due to the acquisition of SKX and consolidation of GHG emissions generated from SKX's business operation. GHG emissions generated by dairy farming business as a result of dairy cows' metabolism typically are larger in amount as compared to those from feed and dairy breeding businesses. Unlike Youran that has diverse businesses alongside the upstream dairy value chain, substantially all of SKX's revenues are derived from its dairy farming business, which resulted in more GHG emissions per million revenue than Youran. For the year ended December 31, 2020, SKX's GHG emissions were 145.4 tons per million value, among which Scope 1 GHG emissions were 121.4 tons per million revenue and Scope 2 GHG emissions were 24.0 tons per million value, respectively. Therefore, upon consolidation of SKX's GHG emissions, our total GHG emissions experienced a significant increase in the year ended December 31, 2020.

- Water usage: During the Track Record Period, our water usage totaled 0.8 thousand tons, 0.7 thousand tons and 0.9 thousand tons per million revenue, respectively, in 2018, 2019 and 2020.

- Power usage: During the Track Record Period, our power usage totaled 19.0 thousand kWh, 19.7 thousand kWh and 26.0 thousand kWh per million revenue, respectively, in 2018, 2019 and 2020.

Through devising our ESG policy, we have established a comprehensive set of KPIs in relation to environmental protection to restrain and guide our business operation. In setting targets for each KPIs, we have taken into account their respective historical levels during the Track Record Period, and have considered our business expansion through recent acquisitions in a thorough and prudent manner with a view to balancing business growth and environmental protection to achieve sustainable development.

***Air Pollutants Emissions***

*Metrics and Targets*. We are expected to achieve the targets in the next five years that SO2 emissions reduce to 0.0040 tons per million revenue and NOx emissions to 0.0023 tons per million revenue.

*Measures leading to the Targets*. We have taken steps to reduce our air pollutants. For example, we have upgraded the boilers used at 17 of our dairy farms, converting the original coal-fired boilers to air source heat pump systems, which completely eliminate SO2 and NOx emissions.

***GHG Emissions***

*Metrics and Targets*. We are expected to achieve the target in the next five years that GHG emissions reduce to 85.00 tons per million revenue.

*Measures leading to the Targets*. Since our dairy farming operation contributes a substantial portion of our total GHG emissions and GHGs emitted by dairy cows primarily come from their manure and exhaled breaths, we strive to continue to reduce the level of GHGs emitted by our dairy cows going forward through the following measures: first, we use cow manure to generate power through biogas, which significantly lowers methane emissions. Second, we feed our dairy cows with natural additives, which are combinations of active substances naturally occurring aromatic plants and spices. Such additives significantly help lower the methane concentration in dairy cows' exhaled breath. Third, we continue to optimize conformation traits of dairy cows through improvement of their genetic quality, thereby lowering dairy cows' GHG emissions during the course of metabolism while maintaining raw milk yield.

***Water Usage***

*Metrics and Targets*. We are expected to achieve the target in the next five years that water usage reduces to 900 tons per million revenue.

*Measures leading to the Targets*. We have devised a detailed plan on managing and controlling water usage per head, which provides standards for water usage in the ordinary course of business and also establishes a holistic evaluation system to monitor and manage performance against our targets. We seek to maximize the use of recycled water. In compliance with national regulations and environmental impact assessment approvals, we collect all production wastewater from our dairy farms, including waste at the farms, waste water after washing milking halls and composting or fermentation leachate and discharge it into oxidation ponds. Through microbial degradation treatment, it will be converted into fertilizers, and supplied to our ancillary feed planting bases for the plantation of forage grass, thus achieving cyclic utilization of water resources with no waste water discharged to the outside. In addition, we also constantly maintain and upgrade our equipment and facilities to improve the efficiency in water usage. For example, we have attained source control by using precision spraying techniques based on automatic infrared target-detecting, and we have replaced water-cooled plate heat exchangers for milk cooling with air-cooled ones to reduce the usage of fresh water.

***Power Usage***

*Metrics and Targets*. We are expected to achieve the target in the next five years that power usage reduces to 25.0 thousand kWh per million revenue.

*Measures leading to the Targets*. We have taken measures to reduce energy consumption, including replacing high energy-consuming equipment to reduce energy consumption; using LED lights and light sensor control resolution, ancillary solar water heaters for heat water supply; gravity flow mode for manure treatment to eliminate pumps and reduce electricity consumption in response of national policies.

**Herd Health and Welfare**

We stand for living in harmony with the nature and animals. As such, we place particular emphasis on herd health and welfare in the course of our business expansion and the improvement of production capacity. We have in place a comprehensive set of internal management procedures, which combined with our sound ancillary facilities, helps maintain the overall health of our herds and the cleanness of the farm environment. Our effective internal management procedures and our regular evaluation and assessment ensure that potential risks are under control during the entire process. Based on our internal management procedures, we have adopted the following measures to ensure the health of our cows:

- *Disinfection of equipment and facilities*. We have established stringent procedures for disinfecting facilities and equipment. We disinfect our employee dormitories, milking halls, machines and equipment, and our veterinary hospitals on a regular basis. Employees are required to wear masks, hats and gloves when handling dairy cows or milk.

- *Quarantine and treatment of sick and dead cows*. We have established stringent procedures for the disposal of sick and dead cows. We promptly quarantine any sick dairy cows in separate barns and our veterinary specialists inspect them on a regular basis. We collect biopsy samples and carry out testing in our laboratories to determine the cause and severity of the disease. Where medical treatment is not feasible or cost-effective, dairy cows that died from illness will be harmlessly treated, and the affected areas will be thoroughly disinfected. Dairy cows that have been cured of any disease are milked in a separate milking hall until their milk passes all of our tests and examinations.

- *Disease control measures*. Diseases like mastitis are the major threats to herds and dairy farms. We have adopted several disease control measures, including testing on causes of mastitis and symptomatic treatment based on testing results and the use of qualified dry milk medicines during the dry period to reduce pathogen violation to breasts during the dry period.

- *Disease control training for new staff*. We require all of our new staff to complete mandatory disease control training before they begin working at our dairy farms. Continuing disease control trainings are given to all employees at our dairy farms on a quarterly basis.

In addition, we believe that a comfortable environment leads to healthier dairy cows and higher raw milk yield and quality. We are devoted to building a comfortable and pleasant living environment for our dairy cows during the course of site selection of dairy farms and through our thoughtful barn design. For example, barns for milkable cows are designed at an area of 12 square meters per cow in our newly built dairy farms. We increase the height of the eaves and ceiling of barns, and switch to rolling shutters to improve physical ventilation and light transmission, simulating the same natural environment as outside the barn. We created the living environment to meet the needs of dairy cows based on the stringent standards, including (i) illumination intensity of 200Lux, (ii) the content of ammonia gas of barns not above 0.5PPM, (iii) the thickness of dry and soft bedding of above 15cm, (iv) clean drinking water, (v) installing non-slip grooves to prevent cows accidentally slipping, (vi) adopting automated scrapers to automatically clean up cow manure and reduce stress, and (vii) installing the cattle grooming machine in the barns to relax the muscles and stimulate the blood circulation of cows. According to Frost & Sullivan, the living environment for our dairy cows is consistent with the prevailing practice adopted by the leading players in our industry.

## OUR SUPPLIERS

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

**Feed Ingredients and Forage Grass Suppliers**

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

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

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

- *Term*. For most of the feed ingredients and forage grass, we forecast the purchase price and determine the purchase cycle based on market conditions, and enter into short-term supply agreements with selected suppliers. We also enter into one-year supply agreements with our suppliers.

- *Quality*. Our supply agreements specify a set of quality criteria in respect of different feed, such as the applicable national standards and specifications stated in the supply agreements.

- *Quantity*. Quantity is typically agreed in the supply agreements.

- *Minimum Purchase Commitment.* There is no minimum purchase commitment in our supply agreements.

- *Pricing*. The prices of feed ingredients and forage grass are usually predetermined and set out in the supply agreements.

- *Payment terms*. Payment is typically made on a one-off basis after delivery and our inspection of the feed. For imported forage grass, we settle the payment through a sight letter of credit. We arrange for payment under the sight letter of credit once we receive the shipping and the title documents from our foreign suppliers.

- *Inspection*. Upon delivery, we inspect different ingredients according to our inspection plans to ensure that their quality meets the relevant requirements.

## Major Suppliers

The following table sets forth a breakdown of the top five suppliers of our Group during the Track Record Period.

| Rank | Suppliers | Categories of products/services purchased | Principal business | Year of commencement of the business relationship | Payment method | Credit terms | Amount of purchases | As a percentage of our total purchase |
|---|---|---|---|---|---|---|---|---|
| **For the year ended December 31, 2018** | | | | | | | | |
| 1 | Supplier A | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Prepayment, bank transfer | Advance payment | 195,384 | 3.0 |
| 2 | Supplier B | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Prepayment, bank transfer | Advance payment | 190,021 | 2.9 |
| 3 | Supplier C | Imported cattle | Importing and trading of livestock | 2018 | Letter of credit, bank transfer | 7-10 days | 125,798 | 1.9 |
| 4 | Supplier D | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Bank transfer | Advance payment | 113,964 | 1.7 |
| 5 | Supplier E | Feed ingredients | Sales of feed ingredients | 2013 | Bank transfer | 30 days | 111,153 | 1.7 |
| **For the year ended December 31, 2019** | | | | | | | | |
| 1 | Supplier F | Imported alfalfa | Planting, processing and exporting of alfalfa | 2015 | Letter of credit | 0 | 115,979 | 1.4 |
| 2 | Supplier G | Imported cattle | Importing and trading of livestock | 2017 | Letter of credit, bank transfer | 8-10 days | 110,307 | 1.4 |
| 3 | Supplier H | Feed ingredients | Manufacturing and sales of feed ingredients | 2017 | Payment on delivery, bank transfer | 15 days | 109,131 | 1.4 |
| 4 | Supplier I | Construction services | Construction services | 2018 | Bank transfer | Progress payment | 108,842 | 1.4 |
| 5 | Supplier J | Construction services | Construction services | 2017 | Bank transfer | Progress payment | 100,919 | 1.3 |

| Rank | Suppliers | Categories of products/services purchased | Principal business | Year of commencement of the business relationship | Payment method | Credit terms | Amount of purchases | As a percentage of our total purchase |
|---|---|---|---|---|---|---|---|---|
| **For the year ended December 31, 2020** | | | | | | | | |
| 1 | Supplier A | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Prepayment, bank transfer | Advance payment | 222,451 | 1.8 |
| 2 | Supplier K | Feed ingredients | Manufacturing and sales of feed ingredients | 2018 | Prepayment, bank transfer | Advance payment | 193,263 | 1.6 |
| 3 | Supplier L | Imported alfalfa | Planting, processing and sales of alfalfa | 2013 | Letter of credit | nil | 176,575 | 1.4 |
| 4 | Supplier M | Feed ingredients | Manufacturing and sales of feed ingredients | 2020 | Bank transfer | Payment after receipt of goods, passing inspection and receipt of invoices | 152,164 | 1.2 |
| 5 | Supplier I | Construction services | Construction services | 2018 | Bank transfer | Progress payment | 150,319 | 1.2 |

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

| Rank | Suppliers | Categories of products/services purchased | Principal business | Year of commencement of the business relationship | Payment method | Credit terms | Amount of purchases | As a percentage of our total purchase |
|---|---|---|---|---|---|---|---|---|
| **For the year ended December 31, 2018** | | | | | | | | |
| 1 | Supplier A | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Prepayment, bank transfer | 30-90 days | 195,384 | 2.7 |
| 2 | Supplier B | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Prepayment, bank transfer | 30-90 days | 190,021 | 2.6 |
| 3 | Supplier C | Imported cattle | Importing and trading of livestock | 2018 | Letter of credit, bank transfer | 30-90 days | 125,798 | 1.7 |
| 4 | Supplier D | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Bank transfer | 30-90 days | 113,964 | 1.6 |
| 5 | Supplier E | Feed ingredients | Sales of feed ingredients | 2013 | Bank transfer | 30-90 days | 111,153 | 1.5 |
| **For the year ended December 31, 2019** | | | | | | | | |
| 1 | Supplier F | Imported alfalfa | Planting, processing and exporting of alfalfa | 2015 | Letter of credit | 30-90 days | 115,979 | 1.3 |
| 2 | Supplier G | Imported cattle | Importing and trading of livestock | 2017 | Letter of credit, bank transfer | 30-90 days | 110,307 | 1.2 |
| 3 | Supplier H | Feed ingredients | Manufacturing and sales of feed ingredients | 2017 | Payment on delivery, bank transfer | 30-90 days | 109,131 | 1.2 |
| 4 | Supplier I | Construction services | Construction services | 2018 | Bank transfer | 30-90 days | 108,842 | 1.2 |
| 5 | Supplier J | Construction services | Construction services | 2017 | Bank transfer | 30-90 days | 100,919 | 1.1 |

| Rank | Suppliers | Categories of products/services purchased | Principal business | Year of commencement of the business relationship | Payment method | Credit terms | Amount of purchases | As a percentage of our total purchase |
|---|---|---|---|---|---|---|---|---|
| **For the year ended December 31, 2020** | | | | | | | | |
| 1 | Supplier A | Feed ingredients | Manufacturing and sales of feed ingredients | 2014 | Prepayment, bank transfer | Advance payment | 222,451 | 1.7 |
| 2 | Supplier K | Feed ingredients | Manufacturing and sales of feed ingredients | 2018 | Prepayment, bank transfer | Advance payment | 193,263 | 1.5 |
| 3 | Supplier L | Imported alfalfa | Planting, processing and sales of alfalfa | 2013 | Letter of credit | nil | 176,575 | 1.4 |
| 4 | Supplier M | Feed ingredients | Manufacturing and sales of feed ingredients | 2020 | Bank transfer | Payment after receipt of goods, passing inspection and receipt of invoices | 152,164 | 1.2 |
| 5 | Supplier I | Construction services | Construction services | 2018 | Bank transfer | Progress payment | 150,319 | 1.1 |

As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers. During the Track Record Period, we have not experienced any significant fluctuation in prices set by our suppliers, material breach of contract on the part of our suppliers, delay in delivery of our orders from our suppliers.

## OUR CUSTOMERS

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

The following table sets forth certain information about our customers:

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

The top five customers of our Group contributed to 47.6%, 50.4% and 62.6% of our total revenue in 2018, 2019 and 2020, respectively. Yili, our Controlling Shareholder and largest customer, contributed to 37.8%, 37.1% and 56.9% of our total revenue for the years ended December 31, 2018, 2019 and 2020, respectively. See the section headed "Risk Factors – Risk Relating to Our Business and Industry – We rely on our largest customer for the sale of our raw milk."

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

| Ranking | Customers | Categories of products/services purchased | Principal business | Year of commencement of business relationship | Amount of revenue | As a percentage of our total revenue |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | *(%)* |
| **For the year ended December 31, 2018** | | | | | | |
| 1 | Yili | Raw milk and consumables | Production and sales of dairy products | 2007 | 2,393,175 | 37.8 |
| 2 | SKX | Comprehensive ruminant farming solutions | Dairy breeding, manufacture and sales of breeding products | 2016 | 206,262 | 3.3 |
| 3 | Customer C | Raw milk | Production and sales of dairy products | 2016 | 176,612 | 2.8 |
| 4 | Customer D | Comprehensive ruminant farming solutions | Dairy breeding and imports of cattle | 2015 | 124,503 | 2.0 |
| 5 | Customer E | Comprehensive ruminant farming solutions | Dairy breeding | 2016 | 111,824 | 1.8 |

| Ranking | Customers | Categories of products/services purchased | Principal business | Year of commencement of business relationship | Amount of revenue | As a percentage of our total revenue |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | *(%)* |
| **For the year ended December 31, 2019** | | | | | | |
| 1 | Yili | Raw milk | Production and sales of dairy products | 2007 | 2,845,380 | 37.1 |
| 2 | SKX | Comprehensive ruminant farming solutions | Dairy breeding, manufacture and sales of breeding products | 2016 | 504,737 | 6.6 |
| 3 | Customer C | Raw milk | Production and sales of dairy products | 2016 | 192,967 | 2.5 |
| 4 | Customer D | Comprehensive ruminant farming solutions | Dairy breeding and imports of cattle | 2015 | 189,582 | 2.5 |
| 5 | Customer E | Comprehensive ruminant farming solutions | Dairy breeding | 2016 | 131,381 | 1.7 |

| Ranking | Customers | Categories of products/services purchased | Principal business | Year of commencement of business relationship | Amount of revenue | As a percentage of our total revenue |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | *(%)* |
| **For the year ended December 31, 2020** | | | | | | |
| 1 | Yili | Raw milk | Production and sales of dairy products | 2007 | 6,701,468 | 56.9% |
| 2 | Customer C | Raw milk | Production and sales of dairy products | 2016 | 220,435 | 1.9% |
| 3 | Customer E | Comprehensive ruminant farming solutions | Dairy breeding | 2016 | 174,491 | 1.5% |
| 4 | Customer F | Comprehensive ruminant farming solutions | Dairy breeding | 2018 | 142,600 | 1.2% |
| 5 | Customer D | Comprehensive ruminant farming solutions | Dairy breeding and imports of cattle | 2015 | 130,833 | 1.1% |

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

| Rank | Customers | Categories of products/services purchased | Principal business | Year of commencement of the business relationship | Amount of revenue | As a percentage of our total revenue |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | |
| **For the year ended December 31, 2018** | | | | | | |
| 1 | Yili | Raw milk and consumables | Production and sales of dairy products | 2007 | 2,655,968 | 41.9 |
| 2 | Customer C | Raw milk | Production and sales of dairy products | 2016 | 225,364 | 3.6 |
| 3 | SKX | Comprehensive ruminant farming solutions | Dairy breeding, manufacture and sales of breeding products | 2016 | 206,262 | 3.3 |
| 4 | Customer G | Raw milk | Production and sales of dairy products | 2013 | 139,842 | 2.2 |
| 5 | Customer D | Comprehensive ruminant farming solutions | Dairy breeding and imports of cattle | 2015 | 124,503 | 2.0 |

| Rank | Customers | Categories of products/services purchased | Principal business | Year of commencement of the business relationship | Amount of revenue | As a percentage of our total revenue |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | |
| **For the year ended December 31, 2019** | | | | | | |
| 1 | Yili | Raw milk | Production and sales of dairy products | 2007 | 2,967,646 | 38.7 |
| 2 | SKX | Comprehensive ruminant farming solutions | Dairy breeding, manufacture and sales of breeding products | 2016 | 504,737 | 6.6 |
| 3 | Customer C | Raw milk | Production and sales of dairy products | 2016 | 251,059 | 3.3 |
| 4 | Customer D | Comprehensive ruminant farming solutions | Dairy breeding and imports of cattle | 2015 | 189,582 | 2.5 |
| 5 | Customer G | Raw milk | Production and sales of dairy products | 2013 | 163,194 | 2.1 |

| Rank | Customers | Categories of products/services purchased | Principal business | Year of commencement of the business relationship | Amount of revenue | As a percentage of our total revenue |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | |
| **For the year ended December 31, 2020** | | | | | | |
| 1 | Yili | Raw milk | Production and sales of dairy products | 2007 | 6,856,465 | 52.9 |
| 2 | Customer C | Raw milk | Production and sales of dairy products | 2016 | 367,013 | 2.8 |
| 3 | Customer E | Comprehensive ruminant farming solutions | Dairy breeding | 2016 | 174,491 | 1.3 |
| 4 | Customer F | Comprehensive ruminant farming solutions | Dairy breeding | 2018 | 142,600 | 1.1 |
| 5 | Customer D | Comprehensive ruminant farming solutions | Dairy breeding and imports of cattle | 2015 | 130,833 | 1.1 |

Other than Yili, as further discussed in the below section headed "– Our Relationship with Yili," none of the above major customers were our suppliers at the same time during the Track Record Period. In addition, our Directors confirm that except as disclosed above, as of the Latest Practicable Date, none of the above major customers were connected persons and none of our Directors or their associates or our existing Shareholders who, to the knowledge of our directors, owned more than 5% of our issued share capital, had any interest in any of our five largest customers.

### Our Relationship with Yili

Founded in 1984, we were a subsidiary of Yili, the world's fifth largest* and fast-growing dairy manufacturer, until PAG invested in us in 2015, which constituted a deemed disposal by Yili. We have maintained a long-term and stable relationship with Yili which has remained as one of our Controlling Shareholders since our inception. For further details on our relationship with Yili, please refer to the section headed "History, Reorganization and Group Structure – History and Development" in this prospectus.

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

During the Track Record Period, we had 20, 37 and 49 customers for our raw milk business in 2018, 2019 and 2020, respectively, among which Yili was our largest customer during all these relevant periods. In 2018, 2019 and 2020, we derived revenue of RMB2,393.1 million, RMB2,845.4 million and RMB6,701.4 million from sales of raw milk to Yili, respectively, accounting for 91.7%, 92.9% and 95.8% of our raw milk revenue during the same periods, whereas substantially all of the remaining portion of such revenues were contributed by our top five customers for raw milk business (excluding Yili). During the Track Record Period, substantially all of our revenue from raw milk business was generated from Yili, which was consistent with the industry norm of the dairy industry in China. According to Frost & Sullivan, the upstream and downstream industry players in China's dairy industry are highly interdependent. On the one hand, as the competitive landscape in China's downstream market has been increasingly concentrated, raw milk suppliers mainly sell their products to a limited number of top dairy manufacturers in the downstream. On the other hand, large-scale dairy manufacturers typically incline to establish long-term, stable relationships with trustful raw milk suppliers in the upstream to secure stable supply and product safety and quality.

Furthermore, we believe that as our Controlling Shareholder, Yili has a deep understanding of and strong confidence on the qualifications, operational capabilities and quality control of our Group. Therefore, Yili has purchased raw milk from us since the Group commenced its raw milk business, which propelled the rapid development of our Group since its inception. In the meantime, we had witnessed a continuous growth momentum for Yili's purchase volume of our raw milk due to its vast business scale and strong demand for high quality raw milk during the Track Record Period.

Our Company has entered into long-term framework agreement with Yili, pursuant to which our Group (including our subsidiaries from time to time) supplies raw milk to Yili and its associates on a long-term basis (the "**Raw Milk Purchase and Sale Framework Agreement**"). We shall supply 70% of our raw milk production to Yili each year under the Raw Milk Purchase and Sale Framework Agreement. In addition, Yili also agrees to buy all of the remaining 30% of our raw milk production volume so long as our Group is willing and able to supply raw milk to Yili. For details, see the section headed "Continuing Connected Transactions" of this prospectus. Whilst we will continue to reach out to new customers, our Directors are of the view that a strong partnership with an industry leader such as Yili is beneficial to our business development. We will continue to strengthen our business relationship with Yili, and it is expected that in the future we will continue to sell the majority of our raw milk to Yili. Accordingly, we expect that raw milk sales to Yili will continue to represent a significant portion of our annual sales of raw milk produced in the foreseeable future.

At the same time, Yili has been relying on us as a stable supplier of high-quality raw milk due to our strong raw milk supply capacity, robust product innovation capabilities, superior quality of our raw milk, strategic locations of dairy farms as well as our long-standing, stable relationship with Yili. Among approximately a thousand of raw milk suppliers of Yili that are mostly small- and mid-sized dairy farms, we were the largest raw milk supplier in 2020, and the raw milk supplied by us accounted for not more than 25% of the total amount of raw milk purchased by Yili. In contrast, other raw milk suppliers have smaller scales of operations than our Group and account for significantly smaller proportions of the raw milk purchased by Yili. In 2020, the aggregate amount of raw milk supplied by the top 10 suppliers of Yili (excluding our Group) only accounted for less than 20% of the total amount of raw milk purchased by Yili. From Yili's perspective, it is far more efficient to purchase raw milk from large-scale suppliers, such as our Group, than to purchase the same quantity from a large number of small-scale suppliers. In addition, the specialty raw milk that we supplied to Yili accounted for more than 90% of the total amount of the specialty raw milk purchased by Yili in 2020. For details of our mutually beneficial relationship with Yili, see the section headed "Relationship with Controlling Shareholders – Yili" of this prospectus.

During the Track Record Period, Yili was also one of our suppliers, from which we procured dairy products such as milk powder to feed our newly-born calves at our dairy farms. We purchased such dairy products from Yili and its associates primarily because leveraging Yili's global footprint and strong bargaining power by virtue of its business scale, we are able to obtain fresh, quality dairy products catering to our newly-born calves' nutritional needs at competitive prices as compared to the prevailing market prices, thereby reducing our procurement and operational costs. During the Track Record Period, procurement amounts of such dairy products from Yili accounted for less than 0.5% of our total purchases. For details, see the section headed "Continuing Connected Transactions – Summary of Our Continuing Connected Transactions – A. Partially-exempt Continuing Connected Transactions – Dairy Products Purchase Framework Agreement." During the Track Record Period, Yili was not among our top five suppliers.

In respect of the comprehensive ruminant farming solutions business segment of our Group, a number of customers who make purchases from our Group are also raw milk suppliers of Yili (the "**Overlapping Parties**"). In 2013, the relevant subsidiaries of our Company, members of the Yili group and the Overlapping Parties entered into an entrusted payment arrangement (the "**Entrusted Payment Arrangement**"), pursuant to which Yili would deduct the amount payable to our Group by the Overlapping Parties from the payments made to the Overlapping Parties by Yili, and make the relevant payments to our Group directly. For further details, please refer to the section headed "Relationships with Controlling Shareholders – Entrusted Payment Arrangement" in this prospectus.

We believe that our mutually beneficial, stable and long-term business relationship with Yili has been driving and will continue to drive our business growth. Having considered Yili's business scale and its strong, growing demand for premium raw milk as well as our leading market position, our Directors believe that Yili's expanding business operations also depend on our steady supply of raw milk, which represents a stable revenue stream and an enormous growth opportunity for us. In addition, we have benefited significantly and expect to continue to benefit from Yili's strong brand recognition, which can further enhance our brand image.

***Raw Milk Purchase and Sale Framework Agreement***

- *Term*. The Raw Milk Purchase and Sale Framework Agreement has a term of three years commencing from the Listing Date.

- *Minimum quantity requirement*. We are committed to a minimum supply of 70% of our annual production volume of raw milk to Yili, and Yili agrees to buy all of the remaining 30% of our raw milk production volume so long as we are willing and able to supply raw milk to Yili.

- *Quality*. The raw milk sold to Yili must meet all applicable national quality standards and specifications stated in the supply agreements. We are also required to meet Yili's policies relating to raw milk procurement, including sanitary and quality control requirements. During the contract period, Yili has the right to conduct periodic on-site inspections on our premises and request us to rectify any quality control deficiencies or defects. We will be held responsible for any substandard raw milk if we fail to rectify such deficiencies or defects. In addition, we are subject to liquidated damages for contamination in the raw milk as a result of our negligence or misconduct.

- *Pricing*. The minimum price of raw milk provided by us to Yili shall not be lower than the price that Yili offers to other dairy farms of similar scale in nearby locations, or in the absence of such nearby dairy farms, comparable dairy farms in other regions with price adjustments reflecting the different price levels across regions.

- *Payment terms*. (i) the payment of milk purchased for the first 20 days in the month shall be settled by the end of the month; and (ii) the payment of milk purchased for other dates in the month shall be settled by the 10th day of the next month.

- *Inspection and return policy*. Upon our delivery, Yili has the right to inspect and sample our products before accepting them, and reject any spoiled raw milk or substandard raw milk that failed the various inspections. Both Yili and us may submit samples to third-party laboratories for additional inspections to resolve any quality disputes.

**Customer Support and Services**

We are committed to providing first-class customer support and services along with our high-quality products to our customers. We offer a wide array of ruminant farming support services, spanning ruminant nutrition, breeding technique and ruminant healthcare. The organic integration of our ruminant farming products and support services further addresses customers' business needs and improve their overall business operations, while also promoting the sales of ruminant farming products. Meanwhile, we attach great importance to after-sales service to provide our customers with a complete customer experience.

## SALES AND MARKETING

We primarily leverage our large customers, who are the major industry players in various business segments along the dairy value chain in China, to drive our sales. With broadened geographic reach, expanded business operations and evolving customer relationships, our major customers have a growing demand for quality upstream products, such as specialty raw milk and safe feed, representing significant market potential for us to achieve sustainable growth.

We continuously seek to develop our brand and product portfolio to meet evolving customer preferences and target key growth markets. Our dedicated sales teams are regularly in contact with our customers to understand our customers' needs and market changes. Also, given that customers of our ruminant farming products, especially large animal-husbandry companies and large-scale farms, are a relatively specialized community, we believe that word-of-mouth referral is another powerful tool to increase our repeat customers and attract new customers for our ruminant farming products. Our integrated business model, comprehensive product offerings and one-stop customer services, combined with our leadership in the industry, translates into a highly effective and efficient sales process that leads to a growing, loyal and nationwide customer base with attractive cross-selling opportunities across all of our products.

We dedicate sales teams to establishing and maintaining long-standing relationships with downstream customers. As of December 31, 2020, our sales teams consisted of 250 employees with substantial knowledge about our products, technology and the industry, and an average five years of professional experience working with us. We provide sales services by geographic locations and customer size to maximize sales efficiency.

In addition, we continued to drive the sales of our products through online retail platform *Jumuc.com* and offline *ruminant farming products marketplace*. We opened our first offline pick-up store in Tangshan, Hebei in June 2014, and have since then expanded our store network. As of December 31, 2020, we had 27 offline pick-up stores in operation, spanning across 26 cities in 15 provinces and municipalities. We strategically locate our offline pick-up stores close to our customers for the convenience of delivery and pick-up. To conform to the emerging, technology-driven new retail model in China, we established our online retail platform *Jumuc.com*, in 2016. We have obtained the ICP license with respect to our online retail platform *Jumuc.com*, and as advised by our PRC Legal Advisor, our Group is allowed to hold the ICP license through Youran Dairy, our major PRC subsidiary, without any contractual arrangement, pursuant to the Notice on Removing the Restrictions on Foreign Equity Ratios in Online Data Processing and Transaction Processing (Operating E-commerce) Business (關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告) promulgated by the Ministry of Industry and Information Technology of the PRC in June 2015 (the "**Notice**"). The Notice, which is applicable to all companies engaging in online data processing and transaction processing business (for-profit e-commerce business) regardless of the particular industry in which such companies operate, removes the previous restrictions on foreign investment and allows foreign investors to hold up to 100% of equity interest in such companies. Our online retail platform offers feed, breeding products and various ruminant farming products. We also sell our own products through the online retail platform. As of December 31, 2020, we offered more than 1,000 products on our online retail platform. Our customers can place orders at any time and any place on our online retail platform *Jumuc.com*, and we will arrange delivery for them at the nearest offline pick-up stores based on the orders received. Customers may also pick up their products in the nearest offline pick-up stores.

We engage in a variety of marketing and promotional campaigns to promote brand recognition of our products, including the following:

- Organizing and attending dairy and breeding industry conferences, including dairy expos, agricultural expos and dairy farming seminars;

- Engaging online marketing;

- Organizing open-house events at our dairy farms and production facilities to demonstrate our stringent safety control and advanced production processes; and

- Participating in philanthropic and public interest activities to further develop trust in our brand.

## RESEARCH AND DEVELOPMENT

Our focus on research and development has fueled our growth and enabled us to continuously improve our existing offerings and develop new products to develop product offerings to keep up with rapid development in the dairy industry in China.

Since our establishment, we have focused on improving the comfort of dairy cows and other animal benefits. We cater to the specific nutrition needs of dairy cows at different growth stages and are devoted to providing full lifecycle care to dairy cows. With respect to calves, we focus our research and development efforts mainly on improving the immune system, enhancing survival rates and promoting growth of calves. We believe maintaining good health of calves can help improve their survival rates and subsequent productivity. With respect to milking cows, we have been optimizing our feed formulas and leveraging advanced feed production techniques to lower the morbidity of milking cows and improve milk yield and quality. For dry cows and transition cows, we place an emphasis on developing products that effectively address potential postpartum diseases and improve the immune system. We have established a research and development center in Hohhot, Inner Mongolia, focusing on the research and development of feed products that can enhance overall health and extend the lifespan of dairy cows.

We have also devoted substantial resources and efforts in developing our nutrient database. With the growing adoption of cutting-edge technologies such as the near infrared technique in inspection and evaluation of feed products, we have obtained valuable data insights into the nutritional content of feed and established a large-sized nutrient database. Our nutrient database allows us to effectively monitor the quality of our feed products and ensure our product delivery at a consistent level of safety and quality. It also enables us to analyze and trace our feed products, which significantly lower quality risks. Leveraging the numerous nutritional content data accumulated in our nutrient database, we are able to optimize our feed formulas and achieve cost efficiency.

In addition, we have been focusing on the research and development of cutting-edge technologies for our breeding business segment to improve the genetic level of the Chinese herd. We continue to deepen the development of sex-sorting technology to expand the suitable population of dairy cows and increase the fertility rate of sex-sorted frozen bovine semen for dairy cattle. In addition, we adopted the "superovulation and embryo transfer" comprehensive breeding program (MOET technology) to explore and utilize high-quality provenance, and quickly cultivated high-quality bulls and core seed cows. In addition, we adopted the high-efficiency "ovum pick-up-in vitro fertilization-embryo transfer" technology (OPU-IVF-ET technology) for dairy cows and combined it with the whole-genome detection of dairy cows to improve the selection intensity of bulls and quickly establish the core herd of cows.

As of December 31, 2020, our technical research and development team consisted of 183 staff, including 35 core research and development personnel and 148 ordinary technicians, who have extensive industry-related experience.

## COMPETITION

The dairy industry in China is highly competitive and the competitive landscape varies in various business areas of the value chain of the dairy industry. The raw milk supply market in China is highly fragmented. We mainly compete with other large-scale dairy farms in China. According to Frost & Sullivan, the top five players in the industry accounted for only 8.1% of the market share in terms of herd size of dairy cows as of December 31, 2020. For more details, see the section headed "Industry Overview – Raw Milk Supply Market in China – Competitive Landscape of Raw Milk Supply Market in China." According to Frost & Sullivan, large-scale dairy farms with over 1,000 head of dairy cows generally have a higher milk yield and produce raw milk of better quality than those of the smaller dairy farms. The proportion of large-scale dairy farms in China is expected to grow in the future, despite the relatively high entry barrier of the investment in large-scale dairy farms such as substantial capital investment, management experience and government support. Nevertheless, we believe our operating scale, complete value chain layout, premium quality of our raw milk, strategically located network of dairy farms, long-term strategic cooperation with Yili, and strong research and development capabilities allow us to effectively compete with other dairy farms in China.

With respect to the ruminant feed market in China, most of the market participants focus their business on a single local market, which makes China's ruminant feed market relatively fragmented. We face direct competition from domestic and foreign-invested feed producers in terms of concentrated feed and from other forage grass suppliers in terms of forage grass products. According to Frost & Sullivan, we were the largest player in the ruminant concentrated feed market in China, and we occupied the largest market share, accounting for

5.8%, in China in 2020 in terms of the sales volume of concentrated feed for ruminants. We are also a leading supplier of forage grass, mainly representing alfalfa hay and oat grass, in China and ranked first in China in terms of sales volume of alfalfa hay, our major type of forage grass, in 2020 with a market share of 3.2%. We believe our robust technological capabilities, powerful data analytics and deep understanding of ruminants of different breeds and ages enable us to compete effectively in China's ruminant feed market.

The frozen bovine semen for dairy cattle market is relatively concentrated in China, with the top five players in terms of sales volume accounting for approximately 42.9% of the market shares in 2019. SKX is the largest dairy breeding company in China in terms of the sales volume of frozen bovine semen for dairy cattle in 2019, according to Frost & Sullivan. We believe our extensive global footprint and strong research and development capabilities will continue to help us maintain our competitive edge over other frozen bovine semen for dairy cattle providers in China.

## SAFETY AND ENVIRONMENTAL COMPLIANCE MATTERS

### Workplace Safety

We attach great importance to the health and safety of our employees, and always regard caring for the lives of employees and related parties as one of our core concepts. To this end, we have compiled a set of safety management manuals to guide our daily business operations and prevent potential safety risks. We have identified a series of safety red lines and required all employees to comply with relevant requirements. For example, we require employees to take measures to prevent falling when working at heights. We also require employees to obtain approval before canceling or closing safety facilities. Our safety management manual covers the core production and operation links of our business lines, including construction project management, production operation, construction operations, facility and equipment management, management of related parties, occupational health and emergency response. Meanwhile, we also have detailed regulations on the investigation of potential safety risks and hidden dangers, and the reporting and management procedures after the occurrence of safety incidents. We are subject to the PRC laws and regulations regarding labor, safety and work-related incidents. We provide safety protection to our employees working in our production facilities, which includes providing them with adequate safety equipment and ensuring that our production facilities have adequate precautionary measures. We inspect all equipment and facilities and arrange necessary maintenance on a routine basis. We also provide safety-related trainings according to the requirements of our safety management manual to relevant employees on a regular basis to increase their awareness of work safety. We examine and evaluate our safety management system on a regular basis, and continuously improve and perfect our safety management system based on the examination and evaluation results. As of the Latest Practicable Date, we have complied with the PRC workplace safety regulatory requirements in all material respects and have not had any incidents which have materially and adversely affected our operations.

### Environmental Protection

We shall comply with environmental protection laws and regulations promulgated by the PRC government. We are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing new dairy farms and feed mills. Upon completion of the construction of our dairy farms and feed mills, we are required to go through and pass an environmental completion acceptance inspection from environmental supervision agencies or conduct the acceptance inspection by forming a written report and making it public for each of our dairy farms and feed mills prior to starting formal production (the "**Inspection**"). Depending on the requirements of government authorities, we may commence trial production before the Inspection. As advised by our PRC Legal Advisors, our operations are currently conducted in compliance with the PRC environmental protection laws and regulations in all material respects, except as disclosed in "– License, Regulatory Approvals, Certificates and Compliance Records" below.

As of the Latest Practicable Date, we had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially adversely affected our production.

## INTELLECTUAL PROPERTY

We regard our copyrights, trademarks, trade secrets and other intellectual property rights as critical to our business operations. In this regard, we rely primarily on a combination of patents, copyrights, trademarks, trade secret and anti-unfair competition laws and contractual rights, such as confidentially agreement, to protect our intellectual property rights.

As of the Latest Practicable Date, we had obtained 309 registered trademarks and 56 patents in China. In addition, we had registered 18 domain names and eight copyrights in China. For detailed information about our material intellectual property, see the section headed "Appendix V – Statutory and General Information – Further Information about our Business – Intellectual Property Rights of our Group" in this prospectus.

With respect to proprietary know-how which is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality arrangements to safeguard our interests. Please see the section headed "Risk Factors – Risks Relating to Our Business and Industry – Our failure to protect our intellectual property rights may undermine our competitive position, and legal action to protect our intellectual property rights may be costly and divert our management resources" for more information on risks relating to our intellectual property.

As of the Latest Practicable Date, we had not been subject to any material disputes or claims for infringement upon third parties' intellectual property rights in the PRC.

## PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our dairy farms, plantation fields for forage grass, production facilities, offices, warehouses and employee dormitories.

As of December 31, 2020, each of our properties had a carrying amount below 15% of our combined total assets. On this basis, no property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by Rule 5.01A of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Therefore, this prospectus is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

### Owned Properties

As of the Latest Practicable Date, we had obtained the state-owned land use right for 19 parcels of land with a total site area of 771,491.22 square meters, and building ownership right for buildings and units with a total gross floor area of 132,379.63 square meters. As of the Latest Practicable Date, we had obtained the land use right or building ownership right for all of our land or buildings and units.

As of the Latest Practicable Date, we had four projects under development on construction land, including integrated service facilities on one dairy farms and three projects related to feed mills. Our PRC Legal Advisors has advised that, as of the Latest Practicable Date, we have obtained the relevant approvals and permits as required at the current stage for all of these properties under development.

### Leased Properties

#### *Dairy farms and forage grass plantation fields*

As of the Latest Practicable Date, we contractually leased or contracted 21 parcels of state-owned land with a total area of approximately 115,528,453 square meters and 163 parcels of collectively owned land with a total area of approximately 157,673,718 square meters, which were mainly used as our dairy farms, related feed crops and forage grass plantation fields. As of the Latest Practicable Date, among all the contractually leased or contracted land, an aggregate gross land area of approximately 42,836,383 square meters are used for our dairy farms we operate or plan to operate, and the rest are used for ancillary forage grass plantation bases, forage grass plantation fields and other purposes, and in terms of area ratio, there were defects in land lease or contract procedures for 3.997% of the land used for the dairy farms and

1.845% of the land used for forage grass or feed plantation and others. Such defects are mainly due to the failure of the lessors or the contractees to provide the procedural documents, including consents from not less than two-thirds of the members of the villagers committees or of the representatives of the villagers or the authorization documents from the farmer-households concerned, evidencing the procedure of leasing or contracting of the collectively owned agricultural land was completed. If the lessors or the contractees did not fulfill such procedures and failed to rectify, the relevant contractor or lease agreements may not be enforceable under PRC laws. Given that (i) as of the Latest Practicable Date, we have not received any complaints or claims regarding the lease and use of the above-mentioned land, (ii) we have received written confirmations from the lessors or contractees confirming that as of the date of the written confirmations, the requisite land lease of contract procedures had been completed, and there had been no assertation or disputes in relation to the lease, contract and use of the relevant lands used by us; and (iii) the relevant properties represent a minor portion of the total area of our properties, our Directors and our PRC legal Advisors are of the view that such defects are unlikely to have a material and adverse effect on the Group's operations.

**Feed mills**

As of the Latest Practicable Date, we have leased two properties totaling 24,972.24 sq.m. in Hebei and Inner Mongolia from third parties, which were mainly used for production facilities of concentrated feed and offices. In respect of the properties leased by us in Hebei, the lessor had not obtained the construction project planning permit for the properties constructed on construction land with a total gross floor area of approximately 7,640.98 sq.m., and the properties with a total gross floor area of approximately 6,051 sq.m. was constructed on non-constructive land collectively owned by farmers. As advised by our PRC Legal Advisors, we, as the lessee, are not subject to administrative penalties for the lessors' failure to fulfill its obligation to rectify aforementioned title defects, however, if the lessors fail or decline to rectify the title defects, we may not be able to enforce our rights to lease such properties under the lease agreements, and we may be required to find alternatives. Our Directors are of the view that we are able to find alternatives, if required, on the relevant terms within a reasonable period of time, and such defects are highly unlikely to have a material and adverse effect on the Group's operations.

## EMPLOYEES

As of December 31, 2020, we had 7,992 full-time employees, and approximately 35.7% of our full-time employees were based in Hohhot, Inner Mongolia, while the remaining 64.3% were based in various other cities in the PRC. The following table sets forth the number of our full-time employees by function as of December 31, 2020.

| Function | Number of Employees | % of Total Number of Full-time Employees |
|---|---|---|
| Management personnel | 975 | 12.2 |
| Administrative personnel(1) | 1,112 | 13.9 |
| Technicians | 1,744 | 21.8 |
| Salespersons | 250 | 3.1 |
| Skilled workers(2) | 3,238 | 40.5 |
| Housekeepers(3) | 673 | 8.4 |
| **Total** | 7,992 | 100.0 |

*Notes:*

(1) Administrative personnel primarily include staff who are responsible for human resources, finance and other administrative corporate functions.

(2) Skilled workers primarily include electricians, maintenance workers, vehicle drivers in connection with our dairy farming activities and chefs that support our daily operations.

(3) Housekeepers primarily include cleaning operatives.

Our success depends on our ability to attract, retain and motivate qualified employees. To this end, as part of our human resource strategy, we are committed to building the most competitive talent team in our industry. In addition to offering employees competitive salaries, performance-based bonuses and other incentives, we also cultivate elite employees through a variety of forms such as job rotation, online classes, offline professional courses, talent cooperation and overseas study and other forms on the basis of the Company's well-established talent cultivating system. Moreover, we also provide our employees with a multi-dimensional and comprehensive promotion path. Therefore, we are able to attract and retain qualified employees and maintain stable core management and technical teams.

We primarily recruit our employees through on-campus job fairs, recruitment agencies and online channels. We are devoted to fostering our expert team to continuously improve modern production levels and keep up with the industry trends. We provide regular training and reviews to our employees to enhance their performance. Every year we select and dispatch outstanding employees to modern, large-scale dairy farms in the United States for advanced studies, which we believe has contributed to the overall improvement of our dairy farm management and productivity.

We enter into standard confidentiality and employment agreements with our key personnel. The contracts with our key personnel typically include a standard non-compete agreement that prohibits the employee from competing with us, directly or indirectly, during the non-compete agreement period. For further details regarding the terms of confidentiality and employment agreements with our key management, please refer to the section headed "Directors and Senior Management" in this prospectus.

As required by PRC laws and regulations, we participate in housing provident fund and various employee social insurance plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans. We or agents engaged by us are required under PRC laws and regulations to contribute to employee social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees.

Our employees did not negotiate their employment terms through labor unions or collective bargaining agreements. We believe that we maintain a good working relationship with our employees and we have not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

## LEGAL PROCEEDINGS

We are subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. Most of the legal proceedings involve disputes over sale and purchase contracts.

Except as disclosed below and elsewhere in this prospectus, no member of our Group or Fonterra China Farms Group had been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation and compliance, as a whole, during the Track Record Period and up to the Latest Practicable Date.

### Litigations between SKX and Guangming

On September 5, 2019, SKX brought a contractual claim against Guangming Dairy Company Limited (光明乳業股份有限公司), Zhengzhou Guangming Dairy Company Limited (鄭州光明乳業有限公司), Wuhan Guangming Dairy Company Limited (武漢光明乳品有限公司), Heilongjiang Guangming Songhe Dairy Company Limited (黑龍江省光明松鶴乳品有限責任公司), Beijing Guangming Jianneng Dairy Company Limited (北京光明健能乳業有限公司),

Tianjin Guangming Mengde Dairy Company Limited (天津光明夢得乳品有限公司) and Guangming Dairy (Dezhou) Company Limited (光明乳業(德州)有限公司) (collectively, "**Guangming Group**"), claiming damages for late payment and price difference in relation to a raw milk purchase and sale agreement and seeking termination of such agreement pursuant to the terms therein. Guangming Group is a group of companies comprising Bright, which was among our top five customers during the Track Record Period with revenue contributions of less than 4.0% throughout the Track Record Period. Guangming Group primarily engages in production and sales of dairy products in China. On September 25, 2019 Guangming Group in turn brought a counterclaim for continued performance of the agreement under dispute, and to freeze assets of SKX of approximately RMB20,000,000 as liquidated damages for breach of contract. With the support of SKX's in-house legal team, our Company is of the view that the continuous contract fulfillment as required by such counterclaim was a result of the default of performing the payment obligation for milk price difference on part of Guangming Group pursuant to the contract. The dispute between both parties eventually led to the failure to continue to discharge the contract, and the contract has expired and terminated, so it is difficult for the court to support the claim to continue to perform the contract. With regard to the amount of default damages as required by the counterclaim, the Company believes that any default damages exceeding the actual loss amount of Guangming Group constitutes an excessive situation, which is likely not supported by the court. The trial of this lawsuit was held on May 12, 2021 and no judgment has been rendered as of the Latest Practicable Date.

With respect to the aforementioned litigations with Guangming Group, our Group has recorded a provision of RMB13.3 million in 2019, which was prudently determined based on the contract terms of the raw milk purchase and sale agreement. Pursuant to the agreement, SKX is required to pay default damages of RMB1,000 per ton of raw milk that SKX fails to provide for Guangming Group in the second half of 2019. Our Directors believe that the provision of RMB13.3 million is adequate, on the ground that such amount represents the default damages as agreed under the raw milk purchase and sale agreement that SKX would be required to pay in the worst scenario for the raw milk of approximately 13.3 thousand tons that SKX failed to provide for Guangming Group during the second half of 2019, without considering the merits of Guangming Group's counterclaim and the losses SKX claimed against Guangming Group.

Having considered that (i) the underlying disputes of the litigations between SKX and Guangming Group happened before the SKX Acquisition, in which Youran was not involved, (ii) the liquidated damages for breach of contract claimed by Guangming Group was approximately RMB20,000,000, which accounted for no more than 1% of the revenue of SKX in 2019, (iii) we maintain a close, stable relationship with Bright and both parties have renewed the raw milk supply agreement for year of 2021, and (iv) our Group has recorded a provision of RMB13.3 million with respect to the litigations with Guangming Group, our Company is of the view that such litigation will not have a material adverse impact on the business and financial condition of our Group, as a whole, or our customer relationship with Bright.

**Litigations between SKX and Yanhua**

On December 23, 2016, Shanghai Yanhua Feed Limited (上海延華飼料有限公司) ("**Yanhua**"), a company primarily engaged in production and sales of feed and feed additive, brought a contractual claim against Beijing Haihuayundu Ecological Agricultural Co., Ltd. (北京海華雲都生態農業有限公司) ("**Haihuayundu**") and Huaxia Livestock Xinghua Limited (華夏畜牧興化有限公司) ("**Huaxia**"), both being wholly-owned subsidiaries of SKX, in Beijing and Jiangsu respectively, claiming Haihuayundu and Huaxia to pay the feed procurement amount past due under the relevant feed purchase and sale agreements. Haihuayundu and Huaxia subsequently settled all the then outstanding late payments confirmed by the parties involved, and accordingly Yanhua withdrew the claims.

On January 16, 2017, Yanhua brought another claim in relation to the same matters against both Haihuayundu and Huaxia in Shanghai, claiming termination of the relevant feed purchase and sale agreements and damages for loss of prospective profits approximating RMB11.1 million and the accumulated interest, among other things. The court held that Yanhua was entitled to rescind the relevant feed purchase and sale agreements but rejected all other claims of Yanhua. The judgement was later reversed and remanded by a higher court in Shanghai upon Yanhua's appeal on July 1, 2019. Upon revisiting the case, the original court entered into another judgement, in which the original court held the relevant feed purchase and sale agreements were terminated on October 31, 2017 and awarded an RMB2.7 million and RMB2.5 million damages for loss of prospective profits to Yanhua from Haihuayundu and Huaxia, respectively. All of Yanhua, Haihuayundu and Huaxia filed an appeal and the higher court of second instance held a hearing on November 10, 2020. On February 25, 2021, the second-instance court upheld the original judgment, which is the final judgment. As of the Latest Practicable Date, both Haihuayundu and Huaxia had paid the amount of damages in full to Yanhua in accordance with the final judgment.

Having considered that (i) the aggregate amount of damages paid by Haihuayundu and Huaxia was RMB5.2 million in 2021, which accounts for no more than 0.2% of the revenue of the SKX in 2020, (ii) no member of our Group and/or SKX had entered into any transactions with Yanhua or generated any revenue from Yanhua during the Track Record Period and up to the Latest Practicable Date, and (iii) our Group has recorded a provision of RMB5.2 million with respect to the litigations with Yanhua, which covers in full the aggregate amount of damages paid by Haihuayundu and Huaxia to Yunhua, our Company is of the view that such litigations will not have a material adverse impact on the business and financial condition of our Group, as a whole.

For details of our provisions made with respect to the litigations discussed above, see the section headed "Financial Information."

**Arbitration in relation to the Acquisition of SKX**

On December 7, 2020, we received a notice of defense issued by the Beijing Arbitration Commission (the "**Arbitration**") (the "**Arbitration Commission**"), notifying Youran Dairy that 29 former shareholders of SKX, as the arbitration claimants (the "**Claimants**"), requested the Arbitration Commission for a ruling that Youran Dairy to pay the Claimants the outstanding consideration for the share transfer pursuant to the relevant share purchase agreement (the "**Share Purchase Agreement**") in an aggregate amount of RMB44,909,459.44.

The Share Purchase Agreement was entered into between Youran Dairy on one hand, and 79 former shareholders of SKX (the "**Sellers**", among which 29 are the Claimants) on the other hand, on July 9, 2019, pursuant to which Youran Dairy agreed to purchase and the Sellers agreed to sell to Youran Dairy approximately 58.36% of the equity interest of SKX at a consideration of approximately RMB2.28 billion (the "**Consideration**"), subject to a post-completion downward adjustment (the "**Adjustment**"). Based on the comparison of the assets value as recorded in the audited financial statements of SKX on the last day of the month before completion (the "**Completion Accounts**") and the assets value as recorded in the audited financial statements of SKX of December 31, 2018 ("**2018 Accounts**"), in the event that the impairment to a single asset item in the Completion Accounts exceeded RMB100 million, or in the event that the accumulated impairment to total assets in the Completion Accounts exceeded 10%, the Consideration shall be downward adjusted by the amount of impairment proportionately according to the terms of the Share Purchase Agreement. Subsequent to the completion of the acquisition of SKX on January 8, 2020, Youran Dairy engaged the accountants previously agreed in the Share Purchase Agreement to prepare the Completion Accounts. Based on the Completion Accounts issued on June 19, 2020, the assets value of a single asset held by SKX was impaired by more than RMB100 million as compared to the 2018 Account. Adjustment was therefore made to the Consideration and the Consideration was downward adjusted by RMB69,040,867.85 (the "**Downward Adjusted Amount**") according to the terms of the Share Purchase Agreement. Youran Dairy subsequently settled all outstanding Consideration payable after deducting the Downward Adjusted Amount, in June and September 2020, in accordance with the terms of the Share Purchase Agreement. The Claimants, being 29 of the Sellers of the Share Purchase Agreement, disputed that (i) Youran Dairy's request to downward adjust the Consideration did not comply with the terms of the Share Purchase Agreement; and (ii) the Completion Accounts contain errors and shall not be used as the basis of Adjustment, and requested Youran Dairy to pay the outstanding Consideration, being the respective Claimants' portion of the Downward Adjusted Amount. Arbitral hearing took place on March 12, 2021 which requested the supplement of further evidence. As of the Latest Practicable Date, such arbitral proceedings are still in progress and no judgement has been rendered.

Our Company is of the view, and the Joint Sponsors concur, that, based on the advice of our PRC legal advisor to the Arbitration, Beijing Zhong Wen Law Firm (the "**Arbitration Legal Advisor**"), the procedures and calculation of the Adjustment were clearly stated in the Share Purchase Agreement and the Adjustment was made by Youran Dairy in accordance with the terms the Share Purchase Agreement and that it is not necessary to obtain any prior approval or consent from the Sellers before the making the Adjustment in accordance with the

Share Purchase Agreement. As advised by the Arbitration Legal Advisor, on the bases that (i) the methodology and procedure for the Adjustment made by Youran Dairy comply with the Share Purchase Agreement; (ii) the accounting standards adopted by the accountants engaged by Youran Dairy to prepare the Completion Accounts comply with the financial standards and regulatory requirements; and (iii) the Adjustment to the Consideration brought the transaction price closer in line with the actual transaction target, and therefore, there is no violation of the principle of good faith as proposed by the Claimants, the Claimants' arbitration claim lacks factual and legal basis and the likelihood of the Claimant obtaining a favorable ruling from Arbitration Commission is relatively low.

Having considered that (i) the damages claimed by the Claimants amounted to approximately RMB45,000,000, which accounted for approximately 2.9% of the net profit of our Group for the year ended December 31, 2020, (ii) SKX has become one of our Company's non-wholly-owned subsidiaries upon completion of the acquisition of SKX and as advised by the PRC Legal Advisor, the acquisition of SKX was legally and properly completed on January 8, 2020 in accordance with the relevant PRC laws and regulations, including the rules and regulations of the NEEQ, (iii) as advised by the Arbitration Legal Advisor, and concurred by our PRC Legal Advisor, the Arbitration will not affect the effectiveness and validity of the share transfer under the Share Purchase Agreement, and (iv) it is unlikely that an outflow of resources embodying economic benefits will be required to settle the obligation as the Arbitration Legal Advisor is of the view that the likelihood of the Claimants obtaining a favorable ruling from Arbitration Commission is relatively low on the bases aforementioned, no provision has been made in relation to this Arbitration, and the Company is of the view, and the Joint Sponsors concur, that such Arbitration will not have a material adverse impact on the business and financial condition of the Group, as a whole or on SKX.

**Dissolution petition in relation to SKX**

On April 30, 2021, SKX received a statement of civil complaint (the "**Statement of Complaint**") filed by certain of the existing shareholders of SKX (the "**Plaintiffs**") requesting the Hohhot Intermediate People's Court to order for the dissolution of SKX (the "**Litigation**"), with Youran Dairy being joined as a third party to the Litigation, on the grounds that (i) the Plaintiffs are shareholders of SKX who in aggregate hold 22.05% of its voting interests; (ii) the Plaintiffs, as shareholders of SKX, could not participate in the decision-making and management control of SKX and thus the existence of SKX as a corporate entity has lost its meaning to the Plaintiffs, in particular, it was alleged that SKX has: (a) convened the shareholders' meeting in February 2020 to amend its articles of association and elect members of the board of the directors without given due notice to the shareholders; (b) conducted external investment in the sum of RMB370 million without convening shareholders' meeting; (c) conducted related-party transactions with Youran Dairy and Yili without convening shareholders' meeting; (d) certain resolutions proposed by the Plaintiffs to the board of directors were not submitted to the second shareholders' meeting in 2020 and the director candidate nominated by the Plaintiffs failed to be elected at such shareholders' meeting; and (e) denied certain Plaintiffs' request for the inspection of SKX's records; and (iii) the Plaintiffs could not resolve the management conflict with Youran Dairy through other means. To the best knowledge of the Directors after due inquiries and as confirmed by Tian Yuan Law Firm, the PRC legal advisor to SKX, (a) SKX has made all necessary announcements on the NEEQ system in relation to the amendments of its articles of association, change of directors and convening of the shareholders' meeting in accordance with the rules of the NEEQ rules, SKX's articles of association and other relevant laws and regulations where the shareholders are properly informed of the shareholders' meeting in February 2020 and were able to exercise their voting rights at such shareholders' meeting properly; (b) shareholders' meeting is not required for approving investment in the sum of RMB370 million under the rules of the NEEQ, SKX's articles of association and other relevant laws and regulations; (c) SKX's related-party transactions have been conducted in accordance with the NEEQ rules, SKX's articles of association and other relevant laws and regulations; (d) SKX has convened the second shareholders' meeting in 2020 and the election of directors in compliance with relevant rules of the NEEQ, SKX's articles of association and other relevant laws and regulations where certain resolutions proposed by the Plaintiffs was not submitted to the such shareholders' meeting owing to such proposals being unable to fulfill the relevant requirements of the applicable laws, administrative regulations or SKX's articles of association; and (e) the denial of Plaintiffs' request for inspection of certain SKX's records is rightful and legal as such request exceeded the scope of information right of shareholders under SKX's articles of association and the PRC Company Law. On that basis that (i) the allegations made by the Plaintiffs in the Statement of Complaint lack legal and factual basis abovementioned; and (ii) the bases of the Plaintiffs' allegations do not satisfy the statutory requirements for a dissolution petition under the PRC laws and in particular do not substantiate that there are "serious difficulties in operation and management" of SKX, Tian Yuan Law Firm, the PRC legal advisor to SKX, is of the view that it is extremely unlikely that the Plaintiffs' request will be supported by the court. Having considered (i) the view of Tian Yuan Law Firm, the PRC legal advisor to SKX, abovementioned; and (ii) that none of the Plaintiffs' allegations in the Statement of Complaint being true nor accurate, the Company is of the view, and the Joint Sponsors concur, that the Litigation will not have a material adverse impact on the business and financial condition of the Group as a whole, or on SKX. As of the Latest Practicable Date, NEEQ did not raise any regulatory inquiries in relation to the Litigation.

## LICENSE, REGULATORY APPROVALS, CERTIFICATES AND COMPLIANCE RECORD

Save for the non-compliance incidents disclosed below, as advised by our PRC legal advisors, our Group has been in compliance with all relevant PRC laws and regulations in all material respects and has obtained all necessary material license, approvals and permits from the relevant regulatory authorities in respect of our operations in the PRC as of the Latest Practicable Date, including a permit for the production and business operation of breeding livestock and poultry, certificates for meeting animal epidemic prevention conditions, raw fresh milk purchase permits, a grain purchase license and feed production license which are material to our operations in the PRC, and we have also obtained an ICP license for Jumuc.com (聚牧城), our online platform.

**Matters on failure to obtain environmental protection assessment approval or complete the environmental protection acceptance examination procedure before commencement of production**

As of the Latest Practicable Date, among our 67 dairy farms in operation, we failed to obtain environmental protection assessment approval and complete the environmental protection acceptance examination procedure for expanded or reconstructed facilities in one dairy farm in Hebei ("Environmental Protection Incident A"), and failed to complete the environmental protection acceptance examination procedure before commencement of production for one dairy farms located in Hebei ("Environmental Protection Incident B"), all of which were operated by SKX before we acquired the controlling interest in SKX in January 2020.

***Reasons for Non-compliance***

The reason for Environmental Protection Incident A was mainly due to the relevant staff's (i) misunderstandings of the provisions of laws, and (ii) lack of timely or smooth communication with local government authorities.

With respect to the Environmental Protection Incident B, the reasons for such non-compliance is that the biogas facilities as part of the environmental protection facilities of the dairy farm in Hebei was constructed by a third party construction team who delayed the construction of such biogas facilities and affected our progress of the environmental protection acceptance examination of the dairy farm as a whole.

***Potential Legal Consequence***

As advised by our PRC Legal Advisors, in accordance with the Regulations on the Administration of Construction Project Environmental Protection and other relevant laws, where a construction unit commences construction without environmental protection assessment approval, the competent ecological environment government authority may order the construction unit to cease construction, and shall, according to the circumstances of the illegalities committed and the harmful consequences thereof, impose a fine of not less than 1% but not more than 5% of the total investment of the construction project on the construction unit, and may order the construction unit to make restitution; and where the environmental protection facilities have not undergone acceptance inspection before commencement of production, the competent ecological environment government authority may order the construction unit to make correction within a stipulated period and impose a fine ranging from RMB0.2 million to RMB1 million; where correction is not made within the stipulated period, a fine ranging from RMB1 million to RMB2 million shall be imposed; where the construction project causes significant environmental pollution or ecological damage, the production or use shall be suspended, or the project shall be closed down upon approval by the relevant government authorities. Our Directors undertake that we will make rectification within the prescribed period upon demand by the competent authority, and therefore the aggregate amount of potential maximum monetary penalty with respect to Environmental Protection Incident A would be approximately RMB1.1 million, and the amount of the potential maximum monetary penalty with respect to the Environmental Protection Incident B would be RMB1 million.

Our Directors confirm that (i) during the Track Record Period and as of the Latest Practicable Date, we had not received any rectification notice or any administrative penalties by the competent governmental authorities in connection with such non-compliance incidents; and (ii) we have initiated the process of application to the competent authorities for the pending procedures. In addition, we have obtained writing confirmation letter issued by or conducted interview or consultation with the respective competent government authorities, confirming that we will not be subject to administrative penalties for such non-compliance incidents. Based on the foregoing, our PRC Legal Advisors advised that, the likelihood that we would be imposed any administrative penalties which will have a material and adverse effect on the Group's operation in connection with such non-compliance incidents is low. As such, our Directors believe that the non-compliance incidents will not have a material and adverse effect on our business or operating performance. Therefore, we have also not made any provision for potential economic losses that may arise from the non-compliance incidents.

***Latest Status and Rectification Measures***

We have initiated the application of relevant environmental assessment or acceptance procedures for the non-compliance of relevant farms. Environmental Protection Incident B, we expect to complete the environmental acceptance examination procedure by June 2021, and that of the Environmental Protection Incident A is expected to be completed by September 2021, both to our best knowledge based on our latest communications with the competent government authorities and the current information available.

**Matters on Non-compliance in Making Social Insurance and Housing Provident Funds Contributions for Employees**

During the Track Record Period and up to the Latest Practicable Date, we failed to make social insurance and housing provident funds contributions with the full amount for our employees in strict compliance with relevant laws and regulations. During the Track Record Period, we failed to make sufficient social insurance contributions with a total amount of RMB7.2 million and failed to make sufficient housing provident fund contributions with a total amount of RMB9.5 million.

***Reasons for Non-compliance***

During the Track Record Period, we failed to make social insurance and housing provident funds contributions with the full amount for our employees in strict compliance with relevant laws and regulations, which was mainly because (i) employees at the positions involved have a higher turnover, and (ii) relevant employees are reluctant to afford their parts of social insurance and housing provident funds as they have contributed to other medical insurance programs.

***Potential Legal Consequence***

As advised by our PRC Legal Advisors, in accordance with relevant provisions of the Social Insurance Law of the PRC, if we fail to make the full contribution of social insurance premiums on time, the local social insurance administration department may require us to pay the overdue amount within a prescribed period and may impose an overdue fine equivalent to 0.05% of the overdue payment per day from the date on which the payment is payable. If such payment is not made within the prescribed period, the competent authority may further impose a fine from one to three times the amount of the overdue payment. Accordingly, the potential maximum monetary penalty that may be imposed on us is RMB22.1 million as of December 31, 2020, if we fail to make required payment within the prescribed period as required by the local social insurance administration department.

As advised by our PRC legal advisors, in accordance with the Regulations on the Administration of Housing Provident Fund, if we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the overdue payment within a prescribed period, and if the payment is not made within such period, an application may be made to the PRC courts for compulsory enforcement.

Our Directors confirm that (i) during the Track Record Period and as of the Latest Practicable Date, we had not received any notice from the competent government authority requesting us to make up the difference or impose a fine or other major administrative penalties in connection with such non-compliance incidents; (ii) we are also not aware of any employees who filed complaints against the Group about social insurance and housing provident funds or had labor disputes with the Group; (iii) we undertake to make full contributions or to pay the shortfall within a prescribed time period if and when requested by the competent government authorities; and (iv) we had commenced to rectify these non-compliance incidents. In addition, pursuant to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilizing the Levy of Social Insurance Payment (關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知) promulgated on September 21, 2018 by the Ministry of Human Resources & Social Security, administrative enforcement authorities are prohibited from organizing and conducting centralized collection of enterprises' historical social insurance arrears. Based on the foregoing and considering relevant regulatory policies and telephone enquiries with the relevant competent government authorities, our PRC Legal Advisors advised that the likelihood that we would be ordered by the competent government authorities to comprehensively make up the shortfall for social insurance and housing provident contributions and be imposed any material administrative penalties which will have a material and adverse effect on the Group's operation in connection with such non-compliance incidents is low. As such, our Directors believe that the non-compliance incidents will not have a material and adverse effect on our business or operating performance. Therefore, we have also not made any provision for potential economic losses that may arise from the non-compliance incidents.

***Latest Status and Rectification Measures***

We have issued an internal notice, pursuant to which our human resources department shall strictly follow and promote our employee benefit policies and relevant laws and regulations on social insurance and housing provident fund contributions. We have strengthened our internal policies, which include (i) strengthen the learning and comprehension of the laws and regulations on social insurance and housing provident funds by our human resources department; and (ii) regular monitor of payments and prepare monthly detailed statements of social insurance and housing provident fund. Despite our efforts, we had not yet made full contributions of social insurance and housing provident fund for our employees as of the Latest Practicable Date because some employees did not cooperate and chose to participate in local rural social security systems offered in their place of residency. We are in the process of communicating with such employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees.

We have obtained confirmation from competent local government authorities on matters related to the contribution of social insurance that there was no penalty imposed by the competent government authorities arising from violations of social security-related regulations. Our Directors confirmed that as of the Latest Practicable Date, we have not received any written notices from social insurance authorities requiring us to make contribution or supplement social insurance for a prescribed period. We undertake that if the competent social insurance authorities require us to make contribution or supplement due social insurance for a prescribed period, we will follow and implement the requirements in a timely manner.

We have also obtained confirmation from competent local government authorities on matters related to the contribution of housing provident funds that there was no penalty imposed by the competent government authorities arising from violations of housing fund-related regulations. Our Directors confirmed that as of the Latest Practicable Date, we have not received any written notices from the housing provident fund management center requiring us to make contribution or supplement housing provident funds for a prescribed period. We commit that if the competent housing provident fund management center requires us to make contribution or supplement due housing provident funds for a prescribed period, we will follow and implement the requirements in a timely manner.

## RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operation. For more details, see the section headed "Risk Factors." We have devoted ourselves to establishing and maintaining risk management systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems. Our risk management measures include:

- Our Board is responsible for monitoring our internal control system and for reviewing its effectiveness, and maintaining the Company's risk management at an appropriate and effective level;

- As the responsible department for risk management, our audit department evaluates the risks faced by the Company every year, and prepares a risk assessment report based on the evaluation results and submits it to the audit committee and the Board for compliance and approval. We will refer to the approved risk assessment report when formulating or revising the Company's development plan and targets for the coming year;

- We require all departments to proactively identify the risks they face and various internal and external factors that affect the occurrence of the risks, and make a summary according to the risk classification;

- In addition, we also require the person in charge of the audit department to formulate a complete set of monitoring procedures and plans to achieve effective risk monitoring; and

- We will engage external professional advisors, where necessary, and work with our internal audit and legal team to conduct regular review to ensure the effectiveness of all registrations, licenses, permits, filings and approvals and timely renew the same.

Our Directors were not aware of any material internal control weaknesses or incidents during the Track Record Period and up to the Latest Practicable Date. In addition, in view of (i) the nature of the non-compliance incidents disclosed in the section headed "– Licenses, Regulatory Approvals, Certificates and Compliance Records", (ii) the remedial measures taken by us in respect of such non-compliance incidents, and (iii) that our Directors consider such past non-compliance incidents have not had any material adverse impact on our over business operation and financial performance, our Directors consider, and the Joint Sponsors also concur, that such non-compliance incidents will not affect the suitability of our Directors and our Company's listing under the Listing Rules.

## INSURANCE

With respect to the dairy cows raised at our dairy farms, our insurance policies generally cover, among other things, death caused by certain diseases, accidents or natural disasters, and losses incurred as a result of government orders of mass slaughters of farm animals in the relevant region. The insurance premiums payable by us are subject to a series of factors such as age and lactation periods of the heifers or milkable cows. Upon the occurrence of an insurable event, the maximum compensation under the insurance policies would generally cover some of our costs to purchase a replacement heifer.

When we engage third-party logistics service providers for delivery of our products to our customers in China, we typically require logistics service providers to obtain insurance. Such insurance generally covers product contamination and damages occurring during the course of transportation.

Since it is not required by PRC law, and doing so would not be consistent with the usual industry practice in the PRC, we do not carry any product liability insurance. Please refer to the section headed "Risk Factors – Risks Relating to Our Business and Industry – Our insurance coverage and government compensation may not be sufficient to cover all of our potential losses" in this prospectus for more details.

We also maintain insurance coverage for our main production facilities, equipment and inventories. Some of our subsidiaries are insured from damages caused by boiler pressure and robbery and theft. As of the Latest Practicable Date, no incident has occurred as a result of which we would have to make any significant claims under these insurance policies. Meanwhile, we maintain mandatory social security insurance policies for our employees in China pursuant to PRC laws and make contributions to mandatory social security funds for our employees.

## AWARDS AND RECOGNITION

During the Track Record Period, we have received awards and recognition for the quality and popularity of our products and brands. Some of the significant awards and recognition we have received are set forth below.

| Award/Recognition | Award Year | Awarding Institution/Authority |
|---|---|---|
| List of 2020 Dairy Industry of China "Rongzhi Chuangyou" Brand Enterprises (2020年中國奶業"融智創優"品牌企業名錄) | 2020 | Dairy Association of China (中國奶業協會) |
| Ranked 13th among the Top 100 Private Enterprises of Inner Mongolia Autonomous Region (內蒙古自治區民營企業100強第13名) | 2020 | Industrial and Commercial Federation of Inner Mongolia Autonomous Region (內蒙古自治區工商業聯合會) |

| Award/Recognition | Award Year | Awarding Institution/Authority |
|---|---|---|
| High-Tech Enterprise in Autonomous Region (自治區高新技術企業) | 2020 | Department of Science and Technology of Inner Mongolia Autonomous Region (內蒙古自治區科學技術廳), Department of Finance of Inner Mongolia Autonomous Region (內蒙古自治區財政廳), State Taxation Administration of the People's Republic of China (國家税務總局), and Department of Taxation of Inner Mongolia Autonomous Region (內蒙古自治區人民政府) |
| Key Leading Enterprise (重點龍頭企業) | 2020 | People's Government of Inner Mongolia Autonomous Region (內蒙古自治區人民政府) |
| Standardized Demonstration Ranch for Livestock Breeding (畜禽類養殖標準化示範牧場) | 2019 | Ministry of Agriculture and Rural Affairs of the People's Republic of China (中國國家農業農村部) |
| Leading Enterprise in Autonomous Region (自治區龍頭企業) | 2019 | People's Government of Inner Mongolia Autonomous Region (內蒙古自治區人民政府) |
| Key Leading Enterprise (重點龍頭企業) | 2019 | People's Government of Hohhot (呼和浩特人民政府) |
| Pillar Enterprise in Dairy Industry (奶業脊樑企業) | 2018 | Dairy Association of China (中國奶業協會) |

## OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, the equity interest of our Company was controlled as to 42.89% by the PAG Entities and 40.0% by Yili. Immediately following the completion of the Global Offering, the PAG Entities and Yili will be interested in approximately 31.46% and 34.80% of our issued share capital, respectively, assuming the Over-allotment Option is not exercised and the Convertible Notes are not converted. Therefore, the PAG Entities and Yili are our Controlling Shareholder as defined under the Listing Rules upon Listing.

Assuming full conversion of Convertible Notes immediately following completion of the Global Offering, the PAG Entities will be interested in approximately 40.07% (assuming the Over-allotment Option is not exercised) and 37.85% (assuming the Over-allotment Option is fully exercised) of the issued share capital of our Company, respectively; and Yili will be interested in approximately 27.36% (whether or not the Over-allotment Option is exercised) of the issued share capital of our Company. Therefore, the PAG Entities will remain to be our Controlling Shareholders as defined under the Listing Rules upon Listing; while Yili will cease to be one of our Controlling Shareholders upon Listing, assuming the Convertible Notes are fully converted. Such change of composition of our Controlling Shareholders is not expected to have a material adverse impact on our Group as our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders after the Listing. Each of the PAG Entities is a connected person of our Company. To the best knowledge of our Directors after making reasonable enquiries, PAG III will exercise its conversion right under the relevant Convertible Note in compliance with the Listing Rules and the Takeovers Code.

Yili is principally engaged in the production and sales of dairy products, whereas PAG is one of Asia's largest independent alternative investment managers, focusing on private equity, real estate and absolute returns.

## YILI

During the Track Record Period and as of the Latest Practicable Date, one of our Controlling Shareholders, Yili, holds interests in a diverse range of businesses through various companies in which it is interested. Such businesses include sale of animals and by-products, production and sale of organic fertilizers. As such businesses are different from our main businesses, we consider that there are clear delineation between our businesses and such investments of Yili.

As of the Latest Practicable Date, Yili, together with its subsidiaries and their respective associates also have 19.5% interest in Ningxia Liken Dairy Limited (寧夏利墾牧業有限責任公司) ("**Ningxia Liken**"), 19.5% interest in Zhongli (Xing'an Meng) Dairy Limited (中利(興安盟)牧業有限公司) ("**Zhongli Dairy**") and approximately 99.14% interest in China ZhongDi Dairy Holdings Limited (中國中地乳業控股有限公司) ("**ZhongDi Dairy**"), each of which is involved in the production of raw milk (the "**Excluded Business**"). Yili decided not to include the Excluded Business in our Group after considering its group strategic development plan at the material time, and that any competition between us and the Excluded Business would be very limited.

As at the Latest Practicable Date, Yili is not the single largest shareholder in each of Ningxia Liken and Zhongli Dairy.

**Delineation of Our Business from the Excluded Business**

Set out below are details of each of Ningxia Liken, Zhongli Dairy and ZhongDi Dairy:

***Ningxia Liken***

- Ningxia Liken, established in March 2020, has commenced building two dairy farms in Shizuishan City, the Ningxia Hui Autonomous Region, each with a designed capacity of 12,500 dairy cows, which aggregately represents approximately 8.1% of our total herd size of dairy cows as of December 31, 2020. As of the Latest Practicable Date, it has not yet commenced commercial operations and does not currently record income. To the best knowledge of our Company, the two dairy farms are expected to commence operation in October 2021 and October 2022, respectively, and these two dairy farms are expected to have an aggregated annual raw milk production volume of approximately 129,800 tons after reaching their full designed capacity of dairy cows upon commence meet of operation, which represents approximately 8.3% of our Group's raw milk production volume for the year ended December 31, 2020 respectively. To the best knowledge of the Company, save for the two dairy farms under construction, Ningxia Liken does not currently have plans for new dairy farms, nor has the plan nor capability to develop ruminant farming solution business. There is no overlap of directors or members of the senior management team between Ningxia Liken and our Company.

***Zhongli Dairy***

- Zhongli Dairy, established in April 2020, Zhongli Dairy's only dairy farm in the Huhe Horse Ranch, Horqin Right Front Banner, Hinggan League with a designed capacity of 25,000 dairy cows, which represents approximately 8.1% of our total herd size of dairy cows as of December 31, 2020, has just commenced operation in December 2020. To the best knowledge of the Company, Zhongli Dairy's dairy farm is expected to have an annual raw milk production volume of approximately 127,800 tons after reaching their full designed capacity of dairy cows upon commence meet of operation, which represents approximately 8.2% of our Group's raw milk production volume for the year ended

December 31, 2020 respectively. To the best knowledge of the Company, save for the existing dairy farm which has just commenced operation, Zhongli Dairy does not currently have plans for new dairy farms, nor has the plan nor capability to develop ruminant farming solution business. There is no overlap of directors or members of the senior management team between Zhongli Dairy and our Company.

***ZhongDi Dairy***

- ZhongDi Dairy was established in 2014 and is principally engaged in dairy farming in China, participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, producing and selling premium raw milk, importing and selling dairy cows of quality breeds and breeding stock, as well as conducting import trading business in alfalfa hay and other animal husbandry-related products. Its shares are listed on the Stock Exchange (stock code: 1492). There is no overlap of directors or members of the senior management team between ZhongDi Dairy and our Company. According to the 2020 annual report of ZhongDi Dairy, it intended to continue expanding its operation scale and producing premium and safe raw milk.

- According to the 2020 annual report of ZhongDi Dairy, as of December 31, 2020, ZhongDi Dairy operated nine dairy farms which had 38,277 milkable cows; the number of calves and heifers was 30,790 as of December 31, 2020, which aggregately represents approximately 22.4% of our total herd size of dairy cows as of December 31, 2020; and for the year ended December 31, 2020, ZhongDi Dairy generated revenue of RMB1,883.2 million and RMB44.1 million from sales of raw milk and rendering of import trading business, which represented 97.71% and 2.29% of its total revenue, respectively, and its raw milk sales volume amounted to 430,561 tonnes, which represents approximately 28.1% of our raw milk sales volume for the year ended December 31, 2020.

- According to the 2019 annual report of ZhongDi Dairy, for the year ended December 31, 2019, ZhongDi Dairy generated revenue of RMB1.5 billion and RMB0.7 million from its dairy farming business (which was made up of sales of raw milk) and import trading business (which mainly involved the import of dairy cows, alfalfa hay and other animal husbandry-related products), which represented 99.96% and 0.04% of its total revenue, respectively, and its raw milk sales volume amounted to 373,713 tonnes. ZhongDi Dairy places heavy reliance on a limited number of customers for sales of raw milk, with the top customer accounting for approximately 90.9% of its total revenue, and the top five customers accounting for approximately 99.2% of its total revenue for the year ended December 31, 2019.

- According to the 2018 annual report of ZhongDi Dairy, for the year ended December 31, 2018, ZhongDi Dairy generated revenue of RMB1.3 billion and RMB89.1 million from its dairy farming business and import trading business, which represented 93.74% and 6.26% of its total revenue, respectively, and its raw milk sales volume amounted to 354,141 tonnes.

Although the Excluded Business might compete with the raw milk business segment of our Group, we believe that any competition would be very limited:

*Limited competition*

(1) There is only limited competition between our Group and the Excluded Business since the combined supply of raw milk by our Group and the Excluded Business is relatively small compared to the total demand of Yili. In 2018 and 2019, the raw milk supplied by us to Yili accounted for less than 10% of its raw milk purchased, and for the year ended December 31, 2020, raw milk supplied by us to Yili accounted for less than 25% of its raw milk purchased. The significant increase in the proportion of raw milk supplied by our Group to the total raw milk purchased by Yili during the year ended December 31, 2020 as compared to the two years ended 31 December 2018 and 2019 was principally due to (i) the consolidation of capacity and total raw milk supplied to Yili by SKX upon the completion of the acquisition of the controlling interest of which since January 8, 2020; (ii) the increase in our production volume as a result of our new dairy farms put into production; and (iii) the increase in our average milk yield per milkable cow. On the other hand, the sales volume of raw milk of the companies involved in the Excluded Business accounted for less than 7% of the raw milk purchase amount of Yili in the year ended December 31, 2020. Such supply by our Group and the Excluded Business are still insufficient to fully meet Yili's demand for raw milk and therefore there is little competition between our Group and the Excluded Business for customers.

(2) Although raw milk business is one of our principal businesses, the Excluded Business is only peripheral to Yili. For the two years ended December 31, 2018 and 2019 and the six months ended June 30, 2020, Yili's operating revenue amounted to approximately RMB78,976 million, RMB90,009 million and RMB47,344 million, respectively, and the revenue of the Excluded Business only represented approximately 1.7%, 1.7% and 1.8% of Yili's operating revenue for the same periods, respectively. To our best knowledge, Yili does not intend to actively engage in the management or operations of the Excluded Business, nor does it intend to substantially expand the current scope of the Excluded Business. Yili's principal business has been and will always be the manufacture of dairy products, rather than the sale of raw milk. Yili holds interests in the Excluded Business as part of its short-term strategy to secure additional supply of raw milk to satisfy its growing demand for the production of dairy products, rather than to compete with our Group.

(3) Other than ZhongDi Dairy, neither Ningxia Liken nor Zhongli Dairy has commenced scalable commercial operations as of the Latest Practicable Date. The scale of the proposed business operations of both Ningxia Liken and Zhongli Dairy is also immaterial as compared to that of our Group. Finally, the dairy farms of Ningxia Liken are located in Shizuishan City, Ningxia Hui Autonomous Region. As of the Latest Practicable Date, our Group does not operate any dairy farms in Shizuishan City, Ningxia Hui Autonomous Region.

(4) Our Group operates a more diversified range of businesses compared with the Excluded Business, which mainly focuses on the sale of raw milk. In addition to raw milk, we also have the comprehensive ruminant farming solutions business segment, which includes the feed and breeding business lines, accounting for approximately 58.8%, 60.0% and 40.6% of our total revenue for the three years ended December 31, 2018, 2019 and 2020, respectively. Any competition between our comprehensive ruminant farming solutions business and the import trading business in alfalfa hay and other animal husbandry-related products of ZhongDi Dairy would be very limited because, according to the 2020 annual report of ZhongDi Dairy, it only generated a revenue of RMB44.1 million from its import trading business in the year ended December 31, 2020, which accounted for less than 2.3% of its total revenue generated in the same period, and the import trading business is not a focus of the business development strategy of ZhongDi Dairy. Hence, any competition between our comprehensive ruminant farming solutions business and the Excluded Business would be very limited.

*Industry norm*

(6) According to Frost & Sullivan, it is common and within industry norm for large conglomerates, such as Yili, to hold interests in raw milk suppliers in the PRC. Most of Yili's competitors hold interests (including controlling interests) in multiple raw milk suppliers, and some of these raw milk suppliers are also listed on the Stock Exchange.

Based on the above, our Directors are of the view that there is no material business competition between the Excluded Business and our Group.

We also believe that we are able to maintain a mutually beneficial and complementary relationship with Yili:

*Mutually beneficial relationship*

(1) **Our strong raw milk supply capacity**: according to Frost & Sullivan, we were the world's largest raw milk supplier both in terms of herd size of dairy cows and raw milk production volume (for details, see the section headed "Industry Overview"). As of December 31, 2020, we had 67 dairy farms in operation with 308,195 dairy cows, and for the year ended December 31, 2020, the raw milk production volumes of Youran and SKX were 860,413 and 714,541 tons, respectively;

(2) **Our strong product innovation capability**: we are one of the few dairy farming companies in China that possess research and development capabilities in developing new dairy products. We have a strong product innovation capability which is able to assist Yili to effectively and efficiently respond to changes in consumer preferences over dairy products. For instance, driven by increasing urbanization and consumption upgrades, the dairy market in China has witnessed

increasing consumer demand, especially for premium and specialty dairy products. In light of this, through years of research and development, we have successfully launched a series of specialty raw milk products which are currently supplied to our largest customer, Yili. During the Track Record Period, Yili purchased substantially all of its specialty raw milk from us, making us the largest specialty raw milk supplier of Yili and our specialty milk is important to Yili's strategy of expanding its market share in the high-end consumer dairy product market;

(3) **The high quality of our raw milk**: with our modern and scientific operations and management, we are able to produce high-quality raw milk to satisfy the growing requirement of dairy manufacturers over the quality of raw milk driven by the consumption upgrades in the dairy market in China. Our raw milk outperforms the standards of the United States, the European Union and Japan as well as China's Premium Milk Initiative (中國國家優質乳工程) in terms of protein content, fat content, aerobic plate count and somatic cell count. Hence, we are valued by Yili as a valuable business partner which is able to provide a stable supply of high quality raw milk in a large scale;

(4) **Strategic locations of our business operations**: as one of the earliest companies operating large-scale dairy farms in China, we have leveraged our first-mover advantage to consistently secure expansive land suitable for dairy farming, including the construction of new large-scale dairy farms as well the expansion of existing dairy farms. As of December 31, 2020, we operated 67 large-scale modern dairy farms across 14 provinces in the Inner Mongolia Region, the Northeastern Region, the Central Region and the Northwestern Region of China. These dairy farms were primarily strategically located within the Golden Raw Milk Belt (the latitude zone ideal for dairy farming) and included 42 large-scale dairy farms with a planned and designed herd size of over 5,000 each, on a consolidated post-SKX Acquisition basis. In particular, among these 67 dairy farms, 12 (with an aggregate designed capacity of 63,400 dairy cows) were located in the Central Region of China, a region where there were relatively less dairy farms. According to Frost & Sullivan, in general the geographical coverage of the dairy farms of the other suppliers of Yili is less extensive than that of ours. The wide geographical coverage of our dairy farms enables us to efficiently allocate our fresh raw milk to satisfy customers' demands in various parts of China, which is a valuable strength from the perspective of large and fast-growing dairy manufacturers such as Yili;

(5) **Our long-standing and stable relationship with Yili**: we have developed a long-standing and stable business relationship with Yili. Since we ceased to be a subsidiary of Yili in 2015, Yili has entered into a long-term raw milk sale and purchase framework agreement with our Group (the "**Original Agreement**") in order to secure a stable supply of high-quality raw milk. Pursuant to the Original Agreement, until it is terminated with both parties' consent, our Group will sell at least 70% of its annual raw milk production to Yili, and Yili agrees to buy all the remaining 30% raw milk supply so long as our Group is willing and able to supply,

while our Group can freely decide to supply such remaining raw milk to any other customers it sees fit. The Original Agreement has not been amended, interrupted nor terminated since it became effective in 2015.

Upon the Listing, the Raw Milk Purchase and Sale Framework Agreement will be effective, pursuant to which (a) Yili and its associates agree to purchase from our Group raw milk that meets the relevant national standards as applicable and quality requirements of Yili and its associates from our Group, (b) our Group agrees to sell at least 70% of our annual production of raw milk to Yili and its associates if the raw milk meets the relevant national standards as applicable from time to time and the quality requirements of Yili and its associates, and (c) Yili and its associates agree to buy all of the remaining 30% raw milk production volume of our Group so long as our Group is willing and able to supply such amount. The agreement term will also be changed from an indefinite period until termination with the consent of both parties under the Original Agreement to a period of three years commencing on the date of the Listing as stipulated in the Raw Milk Purchase and Sale Framework Agreement in order to comply with the requirement under Rule 14A.52 of the Listing Rules. Yili cannot unilaterally terminate the Raw Milk Purchase and Sale Framework Agreement during the three-year period as any amendment to or the termination of the agreement shall be made in writing by both parties;

(6) **Mutual reliance**: During the Track Record Period, Yili was the largest customer of our raw milk supply business segment, and our sale of raw milk to Yili accounted for approximately 91.7%, 92.9% and 95.8% of the total revenue generated from our raw milk supply segment for 2018, 2019 and 2020, respectively. At the same time, Yili has been relying on us as a stable supplier of high-quality raw milk. For the year ended December 31, 2020, we are the largest raw milk supplier of Yili, and the raw milk supplied by us accounted for not more than 25% of the total amount of raw milk purchased by Yili, while the second largest raw milk supplier of Yili only accounted for less than 7% of the total raw milk purchased by Yili. In contrast, other raw milk suppliers of Yili have smaller scales of operations than the Group and account for significantly smaller proportions of the raw milk purchased by Yili. For the year ended December 31, 2020, the aggregate amount of raw milk supplied by the top 10 suppliers of Yili (excluding our Group) only accounted for less than 20% of the total amount of raw milk purchased by Yili. From Yili's perspective, it is far more efficient to purchase raw milk from large-scale suppliers, such as our Group, than to purchase the same quantity from a large number of small-scale suppliers. Yili's reliance on us is further highlighted by the importance of the premium and specialty raw milk supplied by us. For the year ended December 31, 2020, the specialty raw milk that we supplied to Yili accounted for more than 90% of the total amounts of premium raw milk and specialty raw milk purchased by Yili, respectively. In contrast, other raw milk suppliers of Yili mainly focus on offering regular raw milk to Yili. Furthermore, as explained in the section headed "Industry

Overview" in this prospectus, China's raw milk demand has surpassed the raw milk supply for many years, so it is relatively easy for the Company to find alternative customers than it is for Yili to find alternative suppliers.

Based on the above reasons, the Directors are of the view, and the Joint Sponsors concur, that it is unlikely that the relationship between Yili and our Group will materially adversely change or terminate;

## THE PAG ENTITIES

Save for their interests in our Company, the PAG Entities have no interests in any other companies that compete or are likely to compete, either directly or indirectly, with the business of our Group during the Track Record Period and as at the Latest Practicable Date.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders after the Listing.

### Management Independence

Our management and operational decisions are made by our Board and senior management. Upon Listing, our Board will consist of nine Directors comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. Our senior management team comprises Mr. Zhang Xiaodong (張小東), our executive Director and president, Mr. Jiang Guangjun (姜廣軍), our vice president, Mr. Dong Jiping (董計平), our executive Director and vice president, Mr. Xu Yanfei (許燕飛), our vice president and Mr. Yang Ming (楊明), our vice president.

Mr. Zhang Yujun (張玉軍), the chairman of the Board and a non-executive Director, serves as an assistant to the president of Yili and a president of the liquid milk division of Yili. Mr. Xu Jun (徐軍), our non-executive Director, serves as an assistant to the president of Yili. None of our Directors or senior management team members hold directorship or senior management position in Yili.

Our Directors are of the view that our Board and senior management team are able to manage our business independently from the Controlling Shareholders and their respective close associates for the following reasons:

(a) our Board of Directors consists of nine Directors, seven of whom do not hold any management positions in Yili, and there is no overlap between the Board and the board of directors of Yili. As of the Latest Practicable Date, except for Mr. Zhang Yujun and Mr. Xu Jun (both being the non-executive Directors without involving in the daily operation and management of our Company), our Company and Yili were managed by different management members;

(b) each Director is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his or her personal interests;

(c) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;

(d) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;

(e) according to the Articles of Association, in respect of any contract or arrangement or any other proposal whatsoever in which a Director or any of his or her close associates (or, if required by the Listing Rules, his or her other associates) has any material interest, such Director shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting;

(f) where a Shareholders' meeting is held to consider a proposed transaction in which any Controlling Shareholder has a material interest, the Controlling Shareholder shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting; and

(g) our Company has appointed Lego Corporate Finance Limited as our compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and corporate governance.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team is able to perform the managerial role in our Group independently.

**Operational Independence**

Our Group (through our subsidiaries) holds all relevant licenses that are material in relation to our business operations in their own names. We have sufficient operational capacity in terms of capital, plants and machinery equipment, facilities, premises and employees to operate our business independently from our Controlling Shareholders. We also adopted a set of internal control procedures to maintain effective and independent operation of our business.

**Raw Milk Purchase and Sale Framework Agreement**

During the Track Record Period, Yili was the largest customer of our raw milk supply business segment, and our sales of raw milk to Yili amounted to approximately RMB2,393.1 million, RMB2,845.4 million and RMB6,701.4 million, respectively for the three years ended December 31, 2018, 2019 and 2020, representing approximately 91.7%, 92.9% and 95.8% of the revenue generated from our raw milk supply segment in total, respectively, and 37.8%, 37.1% and 56.9% of our total revenue, respectively. We have also entered into the Raw Milk Purchase and Sale Framework Agreement with Yili, pursuant to which we will provide long-term supply of raw milk to Yili. For details, please see the section headed "Continuing Connected Transactions – Summary of Our Continuing Connected Transactions – B. Non-exempt continuing connected transactions" to this prospectus.

We believe that our relationship with Yili is in line with industry practice and may be properly managed because of the following:

- *Market concentration*. According to Frost & Sullivan, the PRC dairy retail market is dominated by a handful of conglomerates, with Yili having a market share of approximately 30.4% in terms of retail sales for the full year ended December 31, 2020. As these conglomerates are the major customers of raw milk suppliers (including our Company) in the PRC, according to Frost & Sullivan, it is the industry norm in the PRC for a raw milk supplier, for example, our Company, to derive a majority of its raw milk sales revenue from a single customer. According to Frost & Sullivan, the terms of the Raw Milk Purchase and Sale Framework Agreement, including the agreement to sell at least 70% of our Group's raw milk production volume to Yili, are on normal commercial terms and on arm's length basis. Yili also agrees to buy all of the remaining 30% of our raw milk production volume so long as our Group is willing and able to supply such amount to Yili. In addition, due to high entry barriers of the dairy milk retail industry, these conglomerates (including Yili) dominate the dairy milk retail market in the PRC, and it is extremely hard for a raw milk supplier in the PRC such as our Group to diversify or reduce our reliance on our major customer.

- *Mutual reliance*. We believe the roles of our Group as the largest integrated provider of products and services in the upstream dairy industry in terms of revenue in 2020 and of Yili as the world's fifth largest* and fast-growing dairy manufacturer are complementary to each other and mutually beneficial. In 2018 and 2019, raw milk supplied by us to Yili accounted for less than 10% of its raw milk purchased, and for the year ended December 31, 2020, raw milk supplied by us to Yili accounted for less than 25% of its raw milk purchased, making us Yili's largest raw milk supplier during the same period. As it is important for us to maintain a stable demand for our product, it is equally important for Yili to secure a stable supply of raw milk with

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

high quality to support its own business operation. As a result, the relationship between Yili and us under the Raw Milk Purchase and Sale Framework Agreement is mutually dependent and stable, and not subject to any material adverse changes in the foreseeable future.

- *No unilateral termination*. Pursuant to the terms of the Raw Milk Purchase and Sale Framework Agreement, it could only be amended or terminated with both parties' consent and cannot be amended or terminated unilaterally by Yili. Accordingly, the business relationship between our Group and Yili as contemplated under the Raw Milk Purchase and Sale Framework Agreement is unlikely to be terminated or otherwise materially or adversely change.

***Entrusted Payment Arrangement***

In respect of the comprehensive ruminant farming solutions business segment of our Group, a number of customers who make purchase from our Group are also raw milk suppliers of Yili (the "**Overlapping Parties**"). Since 2013, the relevant subsidiaries of our Company, members of the Yili group and the Overlapping Parties have been entering into entrusted payment arrangement (the "**Entrusted Payment Arrangement**") pursuant to which, the Overlapping Parties would generally enter into a tripartite agreement with Yili and us and entrust Yili to pay to our Group the amount payable by such Overlapping Parties to our Group, after which Yili shall deduct the relevant amount from the balance of the amount owed by Yili to such Overlapping Parties. According to Frost & Sullivan, such entrusted payment arrangement is an industry norm in dairy farming products industry in the PRC. During the Track Record Period, our Group has made substantial efforts to unwind the Entrusted Payment Arrangement and collect payments directly from these Overlapping Parties. The Entrusted Payment Arrangement simplifies the payment procedure, which provides conveniences to some of the Overlapping Parities in respect of payment made to our Group. Our Directors consider that there may be an adverse impact on our business relationship with such Overlapping Parties if the Entrusted Payment Arrangement is completely unwound immediately, which may also cause the Overlapping Parties to explore business opportunities with our competitors. As a result, it is not commercially feasible to terminate the Entrusted Payment Arrangement before Listing.

The Overlapping Parties, Yili and our Group would generally enter into a tripartite agreement to give effect to the Entrusted Payment Arrangement, the major terms of which are as follow:

| | |
|---|---|
| Parties: | the Overlapping Party, Yili and our Group |
| Term: | Generally one to two years |
| Entrusted payment: | The Overlapping Party entrusts Yili to deduct (a) the amount payable by the Overlapping Party to our Group for the comprehensive ruminant farming solutions (the "**Entrusted Amount**") from (b) the amount receivable from Yili for the raw milk supplied by the Overlapping Party to Yili in every corresponding month, and Yili shall then pay such Entrusted Amount to our Group in lieu of settlement of the Entrusted Amount with the Overlapping Party. |
| Payment of Entrusted Amount: | Payment of Entrusted Amount shall be made by Yili on behalf of the Overlapping Parties upon our Group's provision of a detailed statement. Any dispute between our Group and the Overlapping Party over the Entrusted Amount paid by Yili to our Group should be made by our Group or the Overlapping Party to Yili within 30 days after such payment by Yili. |
| Settlement of any shortfall: | In case where the amount receivable from Yili by the Overlapping Party is not enough to cover the Entrusted Amount payable to our Group by the Overlapping Parties, the Overlapping Party shall settle such shortfall with our Group the next day after Yili's payment to us. Liquidated damages of a specified percentage of the outstanding shortfall shall be payable by the Overlapping Party to our Group by days of delay. |
| Protection of our receivables from Overlapping Parties: | Upon the occurrence of certain situations which in our Group's opinion may possibly cause delay or default in settlement of our receivables from the Overlapping Party, including suspension or termination of raw milk supply to Yili by the Overlapping Party, and transfer of assets and withdrawal of funds by the Overlapping Party, our Group shall have the right to request Yili to make an one-off deduction of all the outstanding amount due to our Group from the Overlapping Party against any amount payable by Yili to the Overlapping Party for raw milk supplied. |
| Dispute resolution: | Any dispute over the tripartite agreement shall be resolved through arbitration. |

During the three years ended December 31, 2018, 2019 and 2020, our Group had significantly reduced our reliance on the Entrusted Payment Arrangement and had significantly improved our ability to collect payments from the relevant customers directly and independently from Yili. For the years ended December 31, 2018, 2019 and 2020, approximately RMB0.9 billion, RMB0.7 billion and RMB0.4 billion, representing approximately 25%, 15% and 9% of our Group's revenue from the comprehensive ruminant farming solutions business segment, was settled by way of the Entrusted Payment Arrangement, respectively, and the bad debt ratio for the comprehensive ruminant farming solutions business segment of our Group remained relatively stable and was no more than 0.01%, which was in line with industry average. Please refer to the section headed "Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position Items of Our Group – Current Assets and Liabilities – Trade and Bills Receivables" in this prospectus for further details of the past due analysis of our trade and bills receivables from customers with and without Entrusted Payment Arrangement and the impact on our liquidity. Based on the best estimate of our Directors, the revenue contribution from the Overlapping Parties to our total revenue during the year ending December 31, 2021 would amount to less than 1.9%. Our Company will disclose such revenue contribution for the relevant reporting year in our annual reports after listing.

Our Directors confirm that there are valid and enforceable contractual relationship between each of the Overlapping Parties and the relevant subsidiaries of our Company for the sale of dairy farming products by our Group to the Overlapping Parties. The arrangement of making payment by each Overlapping Parties to our Group through Yili is consistent with that of other customary entrusted payment arrangements. Yili does not assume any legal responsibility and risk under the Entrusted Payment Arrangement in the event it fails to complete the payment of the entrusted amounts. Our Directors, as advised by our PRC legal advisors, are of the view that our Company will have recourse against the Overlapping Parties in the event that Yili fails to make payments under the Entrusted Payment Arrangement. In addition, the payments received from Yili on behalf of the Overlapping Parties will not be recognized by us as revenue from Yili. Instead, the amounts will be recognized as revenue from, and accounts receivables due from, the Overlapping Parties upon the sales of goods to the Overlapping Parties by our Group.

The Entrusted Payment Arrangement is operational and administrative in nature and does not constitute "financial assistance" as defined under Chapter 14A of the Listing Rules, as Yili does not provide any amount, guarantee, indemnity or other type of financial assistance to the Group under this arrangement.

Although, in general, we consider that the Entrusted Payment Arrangement is conducive to our trade and bills receivables management with respect to the Overlapping Parties as receivables from the Overlapping Parties settled through the Entrusted Payment Arrangement were deducted from Yili's payables to the Overlapping Parties, as evidenced by comparing our Group's past due analysis of trade and bills receivables from customers with and without the Entrusted Payment Arrangement, we have implemented the following internal control measures to effectively assess the credit worthiness of the Overlapping Parties and to ensure the collectability of the amounts due from them:

- Account reconciliations and settlements of entrusted payments under the Entrusted Payment Arrangement are performed on a monthly basis to minimize our credit risk exposure. Entrusted payments would only be made after account reconciliations where the amounts payable or receivable are confirmed by each of the Overlapping Party, Yili and us.

- We regularly communicate with Yili directly to understand the amount of raw milk supplied by each of the Overlapping Parties over time to ensure that there are enough amounts due from Yili by the Overlapping Parties from which payment of the Entrusted Amount may be made or otherwise we can seek protection of our receivables from Overlapping Parties pursuant to the terms of the tripartite agreement with the Overlapping Parties and Yili.

- We conduct regular credit evaluation on all of our customers (including the Overlapping Parties) in every March and September (i.e. twice a year). Based on the results of the credit evaluation, we will take additional credit risk control measures with respect to those Overlapping Parties with relatively low credit ratings or in business difficulties, such as closely monitoring the outstanding Entrusted Amount with respect to those Overlapping Parties to ensure that it would not exceed any amount payable by Yili to the Overlapping Parties for raw milk supplied. Our technical support and sales teams would also visit and provide technical support services to the Overlapping Parties regularly to understand their business operations in order to ensure that they would be able to perform their contractual obligations. The level of trade receivables collectability would directly affect the performance ratings and the salary packages of management and sales personnel of our Group. We have also engaged law firms to commence litigation against defaulting customers promptly so as to secure required assets to secure payments owed to our Group. Moreover, after an Overlapping Party unwinds its Entrusted Payment Arrangement with us, depending on the result of our credit assessment, we may modify the settlement cycle with respect to its account with us (e.g. requiring prepayments, offering shorter credit periods, etc.) and/or require it to provide security to ensure collectability of the amounts due from it.

- We will only enter into new tripartite agreement for Entrusted Payment Arrangement with an existing or new Overlapping Party, after performing careful assessment of its business relationship with Yili, its actual business needs and the operational conveniences it can obtain from the Entrusted Payment Arrangement and credit assessments to ensure that its credit rating conforms to our requirements. When performing credit assessments on our customers (including the Overlapping Parties), we would take into account their credit worthiness indicators (including the sizes of their bank credit lines, the duration of their business relationships with us, their sincerity of maintaining business partnerships with us, their liquidity and working capital sufficiency, any records of default, etc.) and business competence indicators (including their sizes of operation, their business profitability, their purchasing powers, etc.). The credit periods that we offer to them are also determined based on the results of our credit assessments. For new Overlapping Parties who are also new customers, we would perform business due diligence such as obtaining their business licenses and performing enterprise credit inquiries.

Our Directors are of the view that such Entrusted Payment Arrangement is an industry norm to simplify the payment procedures in dairy farming products industry in the PRC and there may be an adverse impact on our business relationship with such Overlapping Parties if we request the Entrusted Payment Arrangement to be unwound immediately. If the Entrusted Payment Arrangement were terminated, our Group may require the Overlapping Parties to open accounts at designated banks in order to monitor their account balance, which may be time consuming and cause inconvenience for such Overlapping Parties. This may have an adverse effect on our Group's business relationship with the Overlapping Parties and may cause them to explore business opportunities with other suppliers. During the Track Record Period and as of the Latest Practicable Date, there has been no adverse financial or operational impact on our Group due to the partial unwinding of the Entrusted Payment Arrangement and our Group expects to further reduce the payment amount collected through the Entrusted Payment Arrangement going forward. As a result, our Directors believe that we are capable of managing the credit risks in the comprehensive ruminant farming solutions business segment independently.

To further reduce the impact of the Entrusted Payment Arrangement on our operations and minimize the amount of the Entrusted Payment Arrangement, for Overlapping Parties with low credit risk and no overdue payments, we will gradually reduce the number and proportion revenue to be settled by way of Entrusted Payment Arrangement by negotiating with them a change in repayment methods based on their requirements for operational convenience and providing them with incentives for choosing direct settlement with us by offering discounts. Upon Listing and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, we will appoint Lego Corporate Finance Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules to oversee compliance matters, including, inter alia, the Entrusted Payment Arrangements. Moreover, given that we have sufficient measures to manage and control our credit risks with respect to customers without the Entrusted Payment Arrangements, our Directors are of the view that gradual and further reduction of the Entrusted Payment Arrangements would not have any material adverse impact on the financial condition or operation of our Group.

Our Group currently has and will maintain a separate management team and separate functional departments including accounting, internal audit, administration, human resources, legal and company secretarial departments from our Controlling Shareholders. Save as disclosed above, during the Track Record Period, our Group has been operating independently, without sharing any administrative functions with our Controlling Shareholders, and all administration and operations of our Group have been, and will continue to be, carried out by a team of staff employed by our Group independently from our Controlling Shareholders. Accordingly, we believe we are able to operate independently of our Controlling Shareholders.

### Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date and after the Listing Date, there is, and will be, no borrowing arrangement, loan arrangement, guarantee, or any other financial assistance arrangement between our Group and our Controlling Shareholders. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders and/or their respective associates.

Based on the above, our Directors believe that we have the ability to operate independently of our Controlling Shareholders and their respective associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their respective associates.

## DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Save as disclosed above, each of our Controlling Shareholders and Directors confirms that as of the Latest Practicable Date, he or she or it did not have any interest in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business and which would require disclosure under Rule 8.10 of the Listing Rules.

We have entered into certain agreements with party that will be considered as our connected person (as defined under Chapter 14A of the Listing Rules). Following the Listing, the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

For the purpose of this section, all references to "**we**", "**us**" or "**our Group**" include both our Group and SKX and all the transaction amounts include that of our Group, SKX and Fonterra China Farms Group, as applicable.

## SUMMARY OF OUR CONNECTED PERSONS

Upon the Listing, the following parties, which has entered into certain written agreements with our Group, will be connected person of our Group:

| Name | Connected Relationship |
|---|---|
| Yili | our Controlling Shareholder |
| ZhongDi Dairy Holdings Limited (1) | an associate of our Controlling Shareholder |

*Note:*

(1) On September 27, 2020, (i) Wholesome Harvest Limited (the "**Offeror**"), a wholly-owned subsidiary of Jingang Holding, (ii) Jingang Holding and (iii) certain other then shareholders of ZhongDi Dairy Holdings Limited (中國中地乳業控股有限公司) ("**ZhongDi Dairy**", together with its subsidiaries and associates, the "**ZhongDi Group**") (the "**ZhongDi Selling Shareholders**") entered into a share subscription agreement (the "**Share Subscription Agreement**"), pursuant to which (i) Jingang Holding and ZhongDi Selling Shareholders have conditionally agreed to transfer their respective shares in ZhongDi Dairy to the Offeror; and (ii) Jingang Holding has conditionally agreed to contribute a capital injection to the Offeror, in exchange for 1,898,841,522 ordinary shares to be issued by the Offeror. Upon completion of the share subscription in accordance with the terms and conditions of the Share Subscription Agreement on January 11, 2021, Yili indirectly held approximately 43.75% of the total issued share capital of ZhongDi Dairy through Jingang Holding and the Offeror. Pursuant Rule 26.1 of the Takeovers Code, the Offeror made a mandatory conditional cash offer for all the issued shares of ZhongDi Dairy (other than those already owned and/or agreed to be acquired by the Offeror) (the "**Offer**") and upon the closing of the Offer on February 8, 2021 and up till the Latest Practicable Date, Yili interested in approximately 99.14% of the total issued share capital of ZhongDi Dairy through Jingang Holding and the Offeror. For further details about the results of Offer, please refer to the joint announcement dated February 8, 2021 published by the Offeror and ZhongDi Dairy. ZhongDi Dairy is thus a subsidiary of Yili, our Controlling Shareholder, and a connected person of our Group.

## SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

| Transaction | Applicable Listing Rule | Waiver sought | Proposed annual cap for the year ending December 31, 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| | | | | (in RMB'000) | |
| *A. Partially-exempt continuing connected transactions* | | | | | |
| 1. Feed and Other Materials Supply Framework Agreement | 14A.35, 14A.53, 14A.76(2) and 14A.105 | Requirements as to announcement under Chapter 14A of the Listing Rules | 300,000 | 350,000 | – |
| 2. Dairy Products Purchase Framework Agreement | 14A.35, 14A.53, 14A.76(2) and 14A.105 | Requirements as to announcement under Chapter 14A of the Listing Rules | 31,200 | 40,500 | 55,240 |
| *B. Non-exempt continuing connected transactions* | | | | | |
| 3. Raw Milk Purchase and Sale Framework Agreement | 14A.35, 14A.36, 14A.53 and 14A.105 | Requirements as to announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules | 10,100,000 | 12,500,000 | 15,000,000 |

### A. Partially-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to the reporting, annual review and announcement requirements but will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

### *1. Feed and Other Materials Supply Framework Agreement*

*Principal Terms*

Our Group has been supplying ZhongDi Group with various types of feed and ruminant farming materials in the past. In view of the continuous demand for feed and ruminant farming materials from ZhongDi Group, on September 4, 2020, Youran Dairy, a wholly-owned subsidiary of the Company, entered into a materials supply framework agreement with ZhongDi Dairy, pursuant to which Youran Dairy and its subsidiaries and associates would supply materials (including but not limited to feed, veterinary drugs and bath fluid) to ZhongDi Group (the "**Feed and Other Materials Supply Framework Agreement**"). The term of the Feed and Other Materials Supply Framework Agreement is for the period from the date ZhongDi Dairy obtained approval from its independent shareholders at its extraordinary general meeting (i.e. December 2, 2020) to December 31, 2022.

In compliance with the principles, terms and conditions of the Feed and Other Materials Supply Framework Agreement and relevant laws (including the Listing Rules), the two parties shall further enter into specific agreements in respect of the supply of each type of the materials so as to agree the specific transaction terms. The terms and conditions (including but not limited to the price) for the purchase of materials by ZhongDi Group from our Group under the Feed and Other Materials Supply Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis.

*Historical Amount, Annual Cap and Basis for Annual Cap*

The transaction amount of the feed and ruminant farming materials supplied to ZhongDi Group by our Group for the three years ended December 31, 2018, 2019 and 2020 amounted to approximately RMB124.5 million, RMB189.6 million and RMB130.8 million, respectively.

Our Directors estimate that the total annual purchase amount by ZhongDi Group from our Group under the Feed and Other Materials Supply Framework Agreement will not exceed RMB300 million and RMB350 million for the two years ending December 31, 2021 and 2022, respectively. In determining such annual caps, our Directors have considered the following factors: (1) the historical and prevailing market price for the materials, as well as the potential fluctuations in the market price for the materials in the future; (2) the historical transaction volume of different types of materials during the Track Record Period; and (3) the estimated demand for relevant materials in the future two years. In particular, the expected increase in the demand of the relevant materials from ZhongDi Group.

*Pricing Policy*

The price and other payment terms for the purchase of materials by ZhongDi Group from our Group under the Feed and Other Materials Supply Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis. The price charged for the supply for feed and other ruminant materials shall be determined after arm's length negotiations between the parties with reference to the prevailing industry market price obtained through Independent Third Parties, such as industry associations, and if no comparable industry market prices for the specific type of materials can be obtained, the parties shall make reference to the price of similar materials in transactions with Independent Third Parties after taking into account the cost, technology, quality and procurement volume of the materials and the historical transaction prices of the relevant materials. If tender is required by ZhongDi Group for the procurement of certain materials, our Group shall make sure that the tender price shall not be lower than the price of the materials sold to Independent Third Parties.

Specific payment will be made pursuant to the specific agreements to be further entered into between our Group and ZhongDi Group pursuant to the Feed and Other Materials Supply Framework Agreement.

*Reason for the Transactions*

The Directors believe that the Feed and Other Materials Supply Framework Agreement with ZhongDi Dairy helps our Group in establishing a long-term relationship with our customer in relation to the supply of feed and other ruminant farming products in our ordinary course of business. Pursuant to the terms of the Feed and Other Materials Supply Framework Agreement, it is not obligatory for our Group to enter into specific purchase agreement with ZhongDi Group if the terms cannot be agreed between the parties. Given the pricing mechanism of the Feed and Other Materials Supply Framework Agreement, our Group will only supply materials to ZhongDi Group on terms which are no less favorable to our Group than terms available from independent third-party agents, hence fulfilling the definition of "normal commercial terms or better" under Rule 14A.06(26) of the Listing Rules.

*Listing Rule Implications*

The Feed and Other Materials Supply Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, the transactions will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

*Reasons for the Waiver Application*

Our Directors (including our independent non-executive Directors) are of the view that the Feed and Other Materials Supply Framework Agreement is beneficial to our business operation as it helps establishing long term relationship with our customers. In addition, given the Feed and Other Materials Supply Framework Agreement was entered into prior to the Listing and are disclosed in this prospectus, and our potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the Listing would be impractical and unduly burdensome, and would add unnecessary administrative cost to us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement in respect of the Feed and Other Materials Supply Framework Agreement.

## 2. *Dairy Products Purchase Framework Agreement*

*Principal Terms*

Yili is one of our Controlling Shareholders and was the world's fifth largest* and fast-growing dairy manufacturer in terms of retail sales value, according to Frost & Sullivan. In order to ensure business operations in the foreseeable future, our Company entered into a dairy products purchase framework agreement on May 17, 2021, pursuant to which Yili and its subsidiaries and associates would supply dairy products, such as milk powder, feed-grade milk powder, etc. to our Group on a long-term basis (the "**Dairy Products Purchase Framework Agreement**"). The Dairy Products Purchase Framework Agreement has a term of three years commencing from the Listing Date.

*Historical Amount, Annual Cap and Basis for Annual Cap*

During the Track Record Period, the purchases of our Group from Yili and its associates amounted to approximately RMB8.9 million, RMB14.7 million and RMB30.1 million, respectively for the three years ended December 31, 2018, 2019 and 2020.

Our Directors estimate that the total annual purchase amount by our Group and its associates from Yili under the Dairy Products Purchase Framework Agreement will not exceed RMB31.2 million, RMB40.5 million and RMB55.2 million for each of the three years ending December 31, 2021, 2022 and 2023, respectively. In determining such annual caps, our Directors have considered (i) the historical and prevailing market price for the goods, as well as the potential fluctuations in the market price for the goods in the future; (ii) the historical transaction volume during the Track Record Period; (iii) the estimated demand for our Group's production in the future three years. In particular, the quantity of the relevant products to be purchased by our Group is expected to increase by at least 27% and 30% in 2022 and 2023, respectively, due to the expected significant increase in our herd size in each of the two years based on our expansion plans for dairy farms and, hence, the expected increase in our demand for milk powder from Yili to feed the new-born dairy cows; and (iv) the possible future inflation in the PRC dairy industry.

*Reason for the Transactions*

As compared with the purchase of dairy products by our Group on our own or through an independent third-party agent, the dairy products provided to our Group, by virtue of Yili's economies of scale and bargaining power, make it possible for our Group to obtain the dairy products required for our operations at a lower cost, thus enabling our Group to maintain our competitiveness. In other words, the terms which our Group can obtain from Yili are no less favorable to our Group than terms available from independent third-party agents, hence fulfilling the definition of "normal commercial terms or better" under Rule 14A.06(26) of the Listing Rules.

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

*Pricing Policies*

Payment terms shall be determined from time to time by the parties on an arm's length basis. Fees charged for the purchase of dairy products shall be determined after arm's length negotiation between the parties with reference to the market prices of those sold to independent third parties. Specific payment will be made according to the dairy products purchase contract further entered into between Yili and its subsidiaries and associates on the one hand, and our Group on the other hand, under the Dairy Products Purchase Framework Agreement.

*Listing Rule Implications*

The Dairy Products Purchase Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, the transactions will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

*Reasons for the Waiver Application*

Our Directors (including our independent non-executive Directors) are of the view that the Dairy Products Purchase Framework Agreement is necessary to our business operations, given the importance of stable supply of dairy products required for our operations.

In addition, given the Dairy Products Purchase Framework Agreement was entered into prior to the Listing and are disclosed in this prospectus, and our potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the Listing would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement in respect of the Dairy Products Purchase Framework Agreement.

## B. Non-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Raw Milk Purchase and Sale Framework Agreement***

*Background and Historical Transaction Amount*

In order to secure uninterrupted supply of high quality raw milk in the foreseeable future, Yili sought to enter a raw milk supply agreement with our Group in 2015 for long-term supply of raw milk. During the Track Record Period, the sales of raw milk by our Group to Yili and its subsidiaries and associates amounted to approximately RMB2,393.2 million, RMB2,845.4 million and RMB6,701.4 million for the three years ended December 31, 2018, 2019 and 2020, respectively.

*Principal Terms and Pricing Policies*

On May 17, 2021, our Company and Yili entered into a legally-binding raw milk purchase and sale framework agreement ("**Raw Milk Purchase and Sale Framework Agreement**"), pursuant to which our Group (including its subsidiaries from time to time) will provide long-term supply of raw milk to Yili and its associates. Major terms of such agreement are summarized below:

| | |
|---|---|
| Term: | The Raw Milk Purchase and Sale Framework Agreement shall have a term of three years commencing from the Listing Date. |
| Long-term supply of raw milk: | (a) Yili and its subsidiaries and associates agree to purchase raw milk that meets the relevant national standards and the quality requirements of Yili and its subsidiaries and associates from our Group (including our subsidiaries from time to time); and<br><br>(b) our Group (including our subsidiaries from time to time) agrees to sell at least 70% of our annual production of raw milk to Yili and its subsidiaries and associates on the terms and subject to the conditions of the Raw Milk Purchase and Sale Framework Agreement. Yili also agrees to buy all of the remaining 30% of our raw milk production volume so long as our Group is willing and able to supply raw milk to Yili. |

| | |
|---|---|
| Pricing: | The minimum price and terms of raw milk to be supplied by our Group (including our subsidiaries from time to time) to Yili and its subsidiaries and associates shall in principle not be lower than the price of and comparable to the terms of raw milk to be supplied to Yili by dairy farms of similar scale located in the same geographical location with our Group or nearby, or in the absence of such dairy farms in such region, by similar dairy farms in other regions, and/or shall be negotiated on an arm's length basis between both parties based on the type, quality, purchase volume and historical transaction price of raw milk. The purchase price of raw milk is determined and adjusted based on market conditions and seasonal factors. As agreed between both parties, the final purchase price of raw milk varies depending on the quality grade. The quality of raw milk supplied by our Group must satisfy the standards set by the government and the requirements of Yili and its subsidiaries and associates. |
| Payment terms: | Payment for milk purchased (i) during the first twenty days in the current month shall be settled by the end of the current month; and (ii) in the remaining days of the current month shall be settled before the tenth day of the following month. |
| Amendment and termination: | The raw milk supply agreements having been executed and being performed by Yili and its subsidiaries and associates on the one hand, and our Group (including our subsidiaries from time to time) on the other hand, when the Raw Milk Purchase and Sale Framework Agreement comes into force shall continue to be in full force, subject to the terms and conditions of the Raw Milk Purchase and Sale Framework Agreement. In the event of any inconsistency between such specific raw milk supply agreements and the Raw Milk Purchase and Sale Framework Agreement in the validity period, pricing principles and other terms, such inconsistency shall be implemented in accordance with the Raw Milk Purchase and Sale Framework Agreement, and other terms shall continue to be implemented in accordance with the specific raw milk supply agreements. Any amendment to or the termination of the agreement shall be made in writing by both parties. The agreement cannot be terminated by Yili unilaterally. |
| Contract renewal: | Yili has granted us a unilateral priority contract renewal right to renew the contract upon the expiration of its term. |

*Reasons for the Transactions*

This procurement arrangement is an indication of Yili's recognition of the importance of our Group as Yili relies on our Group's output of raw milk for Yili's own operation and future growth. On the other hand, Yili is one of the dominant dairy conglomerates in the PRC and a long-term procurement arrangement with Yili ensures a stable demand of our Group's raw milk, which provides a great level of certainty in our business growth and future strategic and operational planning.

*Estimated Annual Caps*

Our Directors estimate that the total annual purchase amount by Yili and its subsidiaries and associates from our Group (including our subsidiaries from time to time) under the Raw Milk Purchase and Sale Framework Agreement will not exceed RMB10,100 million, RMB12,500 million and RMB15,000 million for each of the three years ending December 31, 2021, 2022 and 2023, respectively. In determining such annual caps, our Directors have considered the following factors:

(a) the historical and prevailing market price for raw milk, and potential fluctuations in the market price for raw milk in the future;

(b) the historical transaction volume of raw milk purchased by Yili, its subsidiaries and associates from our Group (including SKX acquired by our Group on January 8, 2020, and its subsidiaries from time to time) during the Track Record Period;

(c) the historical revenue of the raw milk business segment of SKX of RMB2,037.5 million and RMB2,347.6 million for each of the two years ended December 31, 2018 and 2019, respectively, which has been taken into account in determining the annual caps because, given that SKX has become our subsidiary, and hence part of our Group, since January 2020, and at least 70% of the annual raw milk production of our Group will be purchased by Yili and its subsidiaries and associates under the agreement;

(d) the historical revenue in relation to the raw milk sales in the dairy farming business of Fonterra China Farms Group of RMB930.2 million, RMB1,080.5 million and RMB1,148.5 million for each of the three years ended December 31, 2018, 2019 and 2020, respectively, which has been taken into account in determining the annual caps because upon completion of the acquisition on April 1, 2021, members of the Fonterra China Farms Group have become our subsidiaries, and hence part of our Group, and at least 70% of the annual raw milk production of our Group will be purchased by Yili and its subsidiaries and associates under the agreement;

(e) the historical average milk yield per milkable cow (excluding Jerseys) of our Group of 10.0 tons, 10.4 tons and 11.0 tons for the years ended December 31, 2018, 2019 and 2020, respectively, and the historical average milk yield per milkable cow of SKX of 8.6 tons, 9.0 tons and 10.0 tons for the years ended December 31, 2018, 2019 and 2020, respectively;

(f) the anticipated significant growth in the production of raw milk of our Group for the three years ending December 31, 2021, 2022 and 2023, having taken into account (i) the increase in our revenue from the business segment of raw milk from RMB2,610.3 million for the year ended December 31, 2018 to RMB3,063.6 million for the year ended December 31, 2019, representing an increase of approximately 17.4%; (ii) the increase in production caused by the acquisition and integration of SKX and the Fonterra China Farms Group. Hence, the quantity of raw milk to be sold under this agreement is expected to increase by at least 20% in each of 2022 and 2023; and (iii) the expected increase in production due to the commencement of commercial production of the ten new dairy farms which were under construction as of December 31, 2020; and

(g) the possible sustained growth of the PRC dairy industry.

*Listing Rule Implications*

The transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that one or more applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will be more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

*Reasons for the Waiver Application*

Our Directors (including our independent non-executive Directors) are of the view that the Raw Milk Purchase and Sale Framework Agreement is fundamental to our businesses' development, given there are limited number of dominant dairy conglomerates in the PRC.

In addition, given the Raw Milk Purchase and Sale Framework Agreement was entered into prior to the Listing and are disclosed in this prospectus, and our potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the announcement and the independent Shareholders' approval requirements in respect thereof immediately after the Listing would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement and independent shareholders' approval requirements in respect of the Raw Milk Purchase and Sale Framework Agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Raw Milk Purchase and Sale Framework Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

## JOINT SPONSORS' AND DIRECTORS' VIEWS

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described in this section, including but not limited to terms and annual caps thereof, have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Based on the relevant documents and information provided by our Group and reviewed by the Joint Sponsors, the necessary representations and confirmations provided by our Company and the Directors to the Joint Sponsors and the Joint Sponsors' participation in the due diligence and discussions with the management of our Company and our PRC legal advisor, the Joint Sponsors are of the view that the non-exempt continuing connected transactions described above, and for which the waivers have been sought, including but not limited to terms and annual caps thereof and the agreement to sell at least 70% of the Group's raw milk production to Yili, have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better and are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

## DIRECTORS

Our Board of Directors currently consists of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. The following table sets forth certain information regarding the Directors.

| Name | Age | Position with our Company | Description of role | Time of joining our Group | Date of Appointment as Director |
|---|---|---|---|---|---|
| Mr. Zhang Yujun (張玉軍) | 51 | Chairman of the Board and non-executive Director | Responsible for strategic planning of our Group and the management of the Board | January 2019 | August 24, 2020 |
| Mr. Zhang Xiaodong* (張小東) | 42 | Executive Director and president | Responsible for our Group's overall operation and management | March 2017 | August 24, 2020 |
| Mr. Dong Jiping* (董計平) | 40 | Executive Director and vice president | Responsible for the management of our Group's legal compliance and external relations | November 2015 | August 24, 2020 |
| Mr. Xu Jun (徐軍) | 49 | Non-executive Director | Providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions | November 2015 | August 24, 2020 |

* Indicates members of our core management team

| Name | Age | Position with our Company | Description of role | Time of joining our Group | Date of Appointment as Director |
|---|---|---|---|---|---|
| Mr. Xu, Zhan Kevin (許湛) | 39 | Non-executive Director | Providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions | March 2015 | August 24, 2020 |
| Mr. Qiu Zhongwei (邱中偉) | 52 | Non-executive Director | Providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions | November 2015 | August 24, 2020 |
| Ms. Xie Xiaoyan (謝曉燕) | 50 | Independent non-executive Director | Supervising and providing independent judgment to our Board | June 7, 2021 | June 7, 2021 |
| Mr. Yao Feng (姚峰) | 60 | Independent non-executive Director | Supervising and providing independent judgment to our Board | June 7, 2021 | June 7, 2021 |
| Mr. Shen Jianzhong (沈建忠) | 58 | Independent non-executive Director | Supervising and providing independent judgment to our Board | June 7, 2021 | June 7, 2021 |

For the table that sets forth certain information regarding the senior management, please refer to the section headed "– Senior Management" in this prospectus.

**Executive Directors**

**Mr. Zhang Xiaodong (張小東)**, aged 42, joined our Group since March 2017, and was appointed as a director of our Company on August 24, 2020 and designated as an executive Director and appointed as the president on November 15, 2020. Mr. Zhang has over 22 years of experience in dairy industry and is responsible for our Group's overall operation and management.

Mr. Zhang joined Yili in 1998. He started his career at the production department of Jinchuan Factory (金川廠) under the powdered milk division (奶粉事業部) of Yili, and served as a chief of production from August 1998 to June 2001. He worked as the production manager of Zhaodong Yili Dairy Co., Ltd (肇東伊利乳品公司) under liquid milk division (液態奶事業部) of Yili from July 2001 to June 2003, and the production manager of Langfang Yili Dairy Co., Ltd (廊坊伊利乳製品公司) under liquid milk division (液態奶事業部) of Yili from July 2003 to March 2004. He then served as the general manager of Bayannaoer branch (巴彥淖爾分公司) under liquid milk division (液態奶事業部) of Yili from April 2004 to May 2006, and the general manager of Ulan Qab Dairy Factory (烏蘭察布乳製品廠) under liquid milk division (液態奶事業部) of Yili from May 2006 to November 2007. He worked at Jinchuan branch (金川廠) and Jinchuan Yili Dairy Co., Ltd. (金川伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from December 2007 to October 2011. He then worked at the liquid milk division (液態奶事業部) of Yili for various positions, including the deputy director of the supply department from October 2011 to September 2012, the deputy director of the production management department from September 2012 to March 2013, the director of production management department from March 2013 to October 2014. He was the assistant to the president of milk powder division (奶粉事業部) of Yili from October 2014 to April 2015 and the vice president of milk powder division (奶粉事業部) of Yili from April 2015 to March 2017. Mr. Zhang has served as a non-executive director of SKX, a subsidiary of our Company in the PRC, since February 2020.

Mr. Zhang graduated from Tianjin University of Science & Technology (天津科技大學), majoring in food science and engineering in January 2010.

**Mr. Dong Jiping (董計平)**, aged 40, joined our Group since November 2015, and was appointed as a director of our Company on August 24, 2020 and designated as an executive Director and appointed as vice president on November 15, 2020. Mr. Dong has over 15 years of experience in dairy industry and is primarily responsible for the management of our Group's legal compliance and external relations. He is also a director and the vice president of Youran Dairy, our principal operating subsidiary in the PRC.

Mr. Dong joined Yili in July 2004. He started his career at the liquid milk division (液態奶事業部) of Yili responsible for the procurement business and worked as the secretary to the president's office of Yili from June 2005 to April 2012. Subsequently, he worked as the planning director (企劃總監) of strategy management department of Yili from April 2012 to November 2015.

Mr. Dong obtained his bachelor's degree in biotechnology from Northeast Forestry University (東北林業大學) in July 2004.

**Non-executive Directors**

**Mr. Zhang Yujun (張玉軍)**, aged 51, was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director and appointed as the chairman of the Board on November 15, 2020. Mr. Zhang has over 25 years of experience in dairy industry and is primarily responsible for strategic planning of our Group and the management of the Board.

Mr. Zhang joined Yili in July 1995. He started his career in the frozen products division (冷凍公司) of Yili and served as a squad leader from July 1995 to September 1996. He served as the department head of production department at the mineral drink division (礦飲公司) of Yili from October 1996 to December 1999. He further served as the general manager of mineral drinking division (礦飲公司) of Yili from January 2000 to September 2001. Subsequently, he worked at the powdered milk division (奶粉事業部) of Yili, served as the assistant to general manager from October 2001 to December 2005 and the vice general manager of milk powder sales and marketing division (奶粉事業部) from December 2005 to June 2007. Mr. Zhang worked as the vice general manager in sales and marketing department directly under the liquid milk division (液態奶事業部) from July 2007 to June 2016. He further served as the vice general manager in sales and marketing department at yogurt division (酸奶事業部) of Yili from June 2016 to July 2017. From July 2017 to August 2019, he served as the general manager of liquid milk division (液態奶事業部) of Yili. Since August 2019, Mr. Zhang has worked as the assistant to the president of Yili and the general manager of liquid milk division (液態奶事業部) of Yili.

Mr. Zhang is also a director and the chairman of Youran Dairy, our principal operating subsidiary in the PRC. He has also served as the chairman of SKX, a subsidiary of our Company in the PRC, since February 2020.

Mr. Zhang obtained his bachelor's degree in philosophy from Inner Mongolia University (內蒙古大學) in July 1995. Mr. Zhang was awarded the qualification as an intermediate economist (中級經濟師) in December 2003.

**Mr. Xu Jun (徐軍)**, aged 49, joined our Group since November 2015, and was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Xu joined Yili in August 1996. He worked as a director of the corporate management division of the dairy food limited (奶食品有限責任公司) from February 1998 to May 2000, as a director of the corporate management division of the department and a human resource director of the human resource division of liquid milk division (液態奶事業部) from June 2000 to March 2005, as the vice general manager of the strategic sourcing department (戰略採購部) from April 2005 to December 2005, as the general manager of the cold drink department (冷飲事業部) from January 2006 to September 2012, as the president of the milk powder department (奶粉事業部) from September 2012 to December 2016, as the general manager of the human resource department (人力資源部) from December 2016 to July 2017. Subsequently, he has been the assistant to the president (總裁助理) of Yili since August 2017. Mr. Xu is also a director of Youran Dairy, our principal operating subsidiary in the PRC.

Mr. Xu obtained his bachelor's degree in economic management from the University of Inner Mongolia (內蒙古大學) in July 1996.

**Mr. Xu, Zhan Kevin (許湛)**, aged 39, was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr Xu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Xu served at Morgan Stanley Asia Limited from January 2006 to August 2007. He served as an associate at TPG Capital Limited from August 2007 to June 2009, a senior associate at Apax Partners Hong Kong Limited from November 2009 to August 2011, and a managing director at PAG Asia Capital since September 2011. Mr. Xu serves as a non-executive director of Alphamab Oncology (康寧傑瑞生物製藥), a company listed on the Stock Exchange (stock code: 9966) since November 2018. Mr. Xu is also a director of Youran Dairy, our principal operating subsidiary in the PRC.

Mr. Xu obtained his bachelor's degree in electronic engineering from Zhejiang University (浙江大學) in June 2003 and his master's degree of management science and engineering from Stanford University in January 2006.

**Mr. Qiu Zhongwei (邱中偉)**, aged 52, was appointed as a director of our Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Qiu is primarily responsible for providing strategic advice on corporate development, and making recommendations on our Company's major operational and management decisions.

Mr. Qiu started his career at China Huaneng Group Corporation (中國華能集團公司), a company listed on the Shanghai Stock Exchange (stock code: 600011). From March 2000 to October 2004, he served as the vice president and chairman of Yintai Holdings Limited (銀泰控股公司), from January 2005 to March 2015, he served as the managing director of the management committee and general manager of the strategic research and business development department of Beijing Hony Yuanfang Investment Consultant (北京弘毅遠方投資顧問). He has been the president and managing director of PAG Asia Capital since April 2015. Mr. Qiu has served as a director of Beijing Investment Development Co. (京投發展股份有限公司) a company listed on the Shanghai Stock Exchange (stock code: 600683) since December 2017. Mr. Qiu is also a director of Youran Dairy, our principal operating subsidiary in the PRC.

Mr. Qiu obtained his bachelor's degree in engineering from Xi'an Jiaotong University (西安交通大學) in July 1990 and his master's degree in business administration from Northwestern University and Hong Kong University of Science and Technology in November 2003.

**Independent Non-executive Directors**

**Ms. Xie Xiaoyan (謝曉燕)**, aged 50, has been an independent non-executive Director since June 7, 2021. Ms. Xie is primarily responsible for supervising and providing independent judgment to our Board.

Ms. Xie worked at Inner Mongolia Dahua Certified Public Accountant (內蒙古大華會計師事務所, previously known as Inner Mongolia Certified Public Accountant (內蒙古會計師事務所)) as auditor, project manager, principal accountant and senior accounting manager from January 1997 to July 2006. Ms. Xie has been working at Inner Mongolia University of Technology (內蒙古工業大學) responsible for the teaching and research works for undergraduate and graduate students since August 2006 and is currently a professor of the Department of Accounting of School of Economic and Management of Inner Mongolia University of Technology (內蒙古工業大學).

Ms. Xie has served as an independent director of Inner Mongolia Junzheng Energy & Chemical Group Co. Ltd. (內蒙古君正能源化工集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601216.SH)) from June 2014 to June 2020; and an independent director of Inner Mongolia Jinyu Group Co., Ltd. (內蒙古金宇集團股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600201.SH)) from May 2007 to May 2013. She has also served as an independent director of Inner Mongolia Datang Pharmaceutical Co. (內蒙古大唐藥業股份有限公司) (a company quoted on National Equities

Exchange and Quotations System in the PRC, also commonly known as The New Third Board (新三板) (stock code: 836433)) since April 14, 2020, and Jinhe Biotechnology CO., LTD. (金河生物科技股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002688.SZ)) since April 2020.

Ms. Xie is a national advanced accountant (全國先進會計工作者), and obtained the Second Prize of Government Award for Outstanding Achievements in Philosophy and Social Sciences (哲學社會科學優秀成果政府獎二等獎) presented by the government of Inner Mongolia Autonomous Region. Ms. Xie is currently a Chinese certified public accountant, certified tax agent, senior accountant and qualified with a certificate of independent directorship.

Ms. Xie graduated from the University of Inner Mongolia (內蒙古大學) in 2003, and obtained a master degree in political economics from the Normal University of Inner Mongolia (內蒙古師範大學) in 2006 and a doctor degree of agricultural economic management from the Agricultural University of Inner Mongolia (內蒙古農業大學) in 2010.

**Mr. Yao Feng (姚峰)**, aged 60, has been an independent non-executive Director since June 7, 2021. Mr. Yao is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Yao held the position of deputy director at the integrated planning department of the Ministry of Finance of the PRC, a vice president of the securities department and general manager of enterprise management department of China Economic Development Trust & Investment Corporation (中國經濟開發信託投資公司) from March 1993 to April 1997, a vice president of the financial and securities department of China National Travel Service (HK) Group Corporation (香港中旅(集團)有限公司) from April 1997 to July 1998, and a vice general manager of China Travel Financial Investment Holdings Co., Limited (香港中旅金融投資有限公司) from July 1998 to June 1999.

Mr. Yao successively served in various positions of the China Securities Regulatory Commission from June 1999 to May 2013, including the director of institution regulatory department, a party committee member and deputy officer of Guangzhou Securities Regulatory Office, a party committee member and deputy director of Guangzhou Regulatory Bureau, a deputy officer of the risk management office for securities companies, and an inspector and deputy officer of the accounting department from January 2001 to September 2011, and a commissioner of Shanghai Supervision Office of the Commissioner from September 2011 to May 2013. Mr. Yao successively served in China Association of Public Companies (中國上市公司協會) from May 2013 to April 2016 as the secretary of the party committee, the executive vice-chairman and legal representative. Mr. Yao served as the vice-chairman and legal representative of China Association of Public Companies from April 2016 to April 2017. Mr. Yao served as the deputy mayor of Hangzhou Municipal People's Government from June 2017 to October 2019. Mr. Yao served as the deputy secretary of the party committee and the head of supervisors of China Association of Public Companies from June 2019 to September 2019.

Mr. Yao has served as an independent non-executive director of Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) (a company listed on the Stock Exchange (stock code: 1905)) from March 2020.

Mr. Yao was a member of the first session of self-regulatory committee of the Shenzhen Stock Exchange from December 2014 to December 2017 and an adjunct professor of China University of Political Science and Law (中國政法大學) from June 2015 to June 2018. Mr. Yao has been a council member of the Business School of China University of Political Science and Law since May 2017.

Mr. Yao obtained a bachelor's degree in national economic planning from Hubei Institute of Finance and Economics (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1983 and a masters' degree in economics from Zhongnan University of Finance and Economics (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1997.

**Mr. Shen Jianzhong (沈建忠)**, aged 58, has been an independent non-executive Director since June 7, 2021. Mr. Shen is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Shen has been working at China Agricultural University since 1988 and is currently the dean of the school of veterinary medicine (動物醫學院) of China Agricultural University (中國農業大學), a director of the national assessment center for safety of animal drugs (國家獸藥安全評價中心), a director of the national laboratory on standards of residual veterinary drugs (國家獸藥殘留基準實驗室), and an expert of the Joint FAO and WHO Expert Committee on Food Additives (世界糧農組織和世衛組織食品添加劑聯合專家委員會會議).

Mr. Shen was awarded the second prize of the National Award for Progress in Science and Technology (國家科技進步二等獎) in 2006 and the second prize of the National Award for Technological Invention (國家技術發明二等獎) in 2015 and was elected as an academician of the Chinese Academy of Engineering (中國工程院院士) in 2015.

Mr. Shen obtained a master's degree of agriculture from Beijing Agricultural University (北京農業大學) in 1988 and a doctorate degree of science from China Agricultural University (中國農業大學) in 1997.

## SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of our Group, who are all members of our core management team:

| Name | Age | Time of joining our Group | Position with our Company | Description of role |
|---|---|---|---|---|
| Mr. Zhang Xiaodong (張小東) | 42 | March 2017 | Executive Director and president | Responsible for our Group's overall operation and management |
| Mr. Dong Jiping (董計平) | 40 | November 2015 | Executive Director and vice president | Responsible for the management of our Group's legal, compliance and external relations |
| Mr. Jiang Guangjun (姜廣軍) | 47 | December 2019 | Vice president | Assisting the president in our Group's operation and management |
| Mr. Xu Yanfei (許燕飛) | 40 | August 2008 | Vice president | Responsible for the operation and management of raw milk business |
| Mr. Yang Ming (楊明) | 41 | July 2002 | Vice president | Responsible for the operation and management of feed business |

**Mr. Zhang Xiaodong (張小東)**, aged 42, is the executive Director and president of our Company. For further details, please see the section headed "– Directors – Executive Directors" in this section.

**Mr. Dong Jiping (董計平)**, aged 40, is the executive Director and vice president of our Company. For further details, please see the section headed "– Directors – Executive Directors" in this section.

**Mr. Jiang Guangjun (姜廣軍)**, aged 47, joined our Group in December 2019, and was appointed as the vice president of our Company on November 15, 2020. Mr. Jiang has over 22 years of experience in dairy industry and is primarily responsible for assisting the president in full charge of the operation and management of our Group. He has also been serving as vice president of Youran Dairy, a principal operating subsidiary of our Company in the PRC, since December 2019.

He started his career at the cold drink division (冷飲事業部) of Yili in July 1998 and served as a quality inspector at the chocolate egg roll workshop (巧克力蛋捲車間) from July 1998 to January 2000. He then worked at the No.2 workshop of Jinchuan Factory (金川廠) under liquid milk division (液態奶事業部) of Yili for various positions, including as section chief from January 2000 to January 2001, as production manager from January 2001 to September 2002, and as the assistant to the factory head from September 2002 to February 2004. He then served as the general manager at Xilinhot Branch of liquid milk division (液態奶事業部) of Yili from February 2004 to September 2004, the general manager at Qiqihar Branch of liquid milk division (液態奶事業部) of Yili from October 2004 to September 2005, the general manager at Baotou Yili Dairy Co., Ltd. (包頭伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from October 2005 to November 2010. He was the president of Ningxia Yili Dairy Co., Ltd. (寧夏伊利乳業有限責任公司) under liquid milk division (液態奶事業部) of Yili from November 2010 to August 2012, and was then promoted and worked as its senior president from August 2012 to August 2013. He served at the supply department in liquid milk division (液態奶事業部) of Yili, as the deputy supervisor in supply (person in charge) from August 2013 to February 2018, and as the supervisor in supply from February 2018 to December 2018. He worked as the vice president at the liquid milk division (液態奶事業部) of Yili from December 2018 to December 2019.

Mr. Jiang obtained his bachelor of engineering degree, majoring in food science and engineering from Inner Mongolia Agriculture University (內蒙古農業大學) in July 1998.

**Mr. Xu Yanfei (許燕飛)**, aged 40, joined our Group in August 2008 and was appointed as a vice president of our Company on November 15, 2020. Mr. Xu has over 14 years of experience in farm management, and is responsible for overseeing and managing the overall operations of our Group's farms.

Mr. Xu started his career in Yili's raw milk division and served as the quality controller and system operator of the raw milk division from 2006 to 2007; and as the general manager of project management department of the raw milk division from 2007 to 2008. From 2008 to 2017, he served as a veterinarian, the group leader of the milking department, the deputy manager of the milking department, the manager of the milking department, the manager of the feeding department, the assistant to dairy farm manager and the dairy farm manager, during which he was assigned to study for one year at a farm of 10,000 cows in Florida, U.S. from 2011 to 2012. From July 2017 to December 2018, he served as the assistant general manager of the husbandry unit of Youran Dairy, a principal operating subsidiary in China; the vice president of Youran Dairy and was responsible for husbandry business from December 2018 till now; and a director of Youran Dairy from December 2019 till now.

Mr. Xu obtained his bachelor's degree in agriculture from the Agricultural University of Inner Mongolia (內蒙古農業大學) in June 2006, majoring in animal medicine. He was awarded May 1 Labour Medal in the Inner Mongolia Autonomous Region (內蒙古自治區五一勞動獎章) in April 2016.

**Mr. Yang Ming (楊明)**, aged 41, joined our Group in 2002 and was appointed as the vice president of our Company on November 15, 2020. Mr. Yang has over 18 years of experience in the ruminant feed industry, and is responsible for overseeing and managing overall operation of our Group's feed business.

Mr. Yang started his career in Muquan Yuanxing in 2002 and worked on procurement business. From 2002 to 2008, he served at multiple positions including production director, production manager, the manager of marketing department, regional manager and other positions in Muquan Yuanxing. He was promoted as the deputy manager of Muquan Yuanxing in 2008 and in charge of its operations in 2014. Since July 2015, he has served as the vice president of Youran Dairy, our principal subsidiary in the PRC and is in charge in feed business.

Mr. Yang completed his junior college education in the Agricultural University of Inner Mongolia (內蒙古農業大學) in July 2002, majoring in animal husbandry and medicine and completed undergraduate study in the Agricultural University of Inner Mongolia in July 2005, majoring in animal medicine.

## DIRECTORS' AND SENIOR MANAGEMENT'S INTERESTS

Save as disclosed above, none of our Directors or senior management members has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this Prospectus.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

As of the Latest Practicable Date, none of our Directors held any interest in the securities within the meaning of Part XV of the SFO.

As of the Latest Practicable Date, none of our Directors or senior management are related to other Directors or senior management of our Company.

As of the Latest Practicable Date, none of our Directors have any interests in any businesses, other than our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business that would require disclosure under Rule 8.10 of the Listing Rules.

## COMPANY SECRETARY

**Ms. Yu Wing Sze (余詠詩)**, has been appointed as our company secretary with effect from November 15, 2020. She is primarily responsible for the overall company secretarial matters of our Group.

Ms. Yu is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She holds a bachelor degree in professional accountancy from the Chinese University of Hong Kong. She has over 10 years of working experience in company secretarial profession. She is now working in TMF Hong Kong Limited, a global professional firm.

## BOARD COMMITTEES

### Audit committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of our Group.

The audit committee comprises Ms. Xie Xiaoyan (謝曉燕) as the chairman who has the appropriate professional qualifications or accounting or related financial management expertise, Mr. Yao Feng (姚峰), one of our independent non-executive Directors, and Mr. Qiu Zhongwei (邱中偉), one of our non-executive Directors.

### Remuneration committee

We have established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee include, without limitation, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management, or alternatively, making recommendations to the Board on such remuneration packages; and (iii) reviewing performance-related elements of the total remuneration package for executive Directors to align their interests with those of Shareholders.

The Remuneration Committee consists of one non-executive Director, Mr. Xu Jun (徐軍) and two independent non-executive Directors, Mr. Shen Jianzhong (沈建忠) and Ms. Xie Xiaoyan (謝曉燕). Mr. Shen Jianzhong (沈建忠) is the chairman of the Remuneration Committee.

**Nomination committee**

We have established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession.

The Nomination Committee consists of one non-executive Director, Mr. Xu Zhan Kevin (許湛), and two independent non-executive Directors, Mr. Yao Feng (姚峰) and Mr. Shen Jianzhong (沈建忠). Mr. Yao Feng (姚峰) is the chairman of the Nomination Committee.

## CORPORATE GOVERNANCE CODE

Our Directors recognize the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. To accomplish this, we expect to comply with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules after the Listing. Our Directors will review our corporate governance policy and compliance with the Corporate Governance Code in Appendix 14 to the Listing Rules in each financial year.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses, which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonus) for the five highest paid individuals for the years ended December 31, 2018, 2019 and 2020 was approximately RMB4.9 million, RMB6.1 million and RMB6.2 million, respectively.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonus) for our Directors for the years ended December 31, 2018, 2019 and 2020 was approximately RMB2.4 million, RMB2.9 million and RMB2.4 million, respectively.

Under the arrangements currently in force, we estimate the aggregate amount of remuneration payable to our Directors for the year ending December 31, 2021 to be approximately RMB2.4 million.

No remuneration was paid to our Directors or the five highest paid individuals of our Group as an inducement to join or upon joining our Group or as a compensation for loss of office for the three years ended December 31, 2018, 2019 and 2020. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of the three years ended December 31, 2018, 2019 and 2020 by our Group to the Directors.

## BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution that the selected candidates will bring to our Board.

Our Board currently consists of one female Director and eight male Directors with a balanced mix of knowledge and skills, including but not limited to business management, veterinary medicine, biotechnology and financial management. They obtained degrees in various majors including economics, engineering and management. The Board of Directors are of the view that our Board satisfies the board diversity policy.

Our nomination committee is responsible for ensuring the diversity of our Board members. After Listing, our nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

## COMPLIANCE ADVISOR

We have appointed Lego Corporate Finance Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;

- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

- where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and

- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the Listing Date and end on the date when we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

The following is a description of the authorized share capital and share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of Global Offering.

| | | Nominal Value |
|---|---|---|
| | | *US$* |
| *Authorized share capital:* | | |
| 10,000,000,000 | Shares | 100,000 |
| *Issued share capital*: | | |
| 3,302,000,000 | Shares in issue as of the date of this prospectus | 33,020 |
| *Shares to be issued assuming no conversion of any Convertible Notes:* | | |
| 493,404,000 | Shares to be issued pursuant to the Global Offering assuming no exercise of the Over-allotment Option | 4,934.04 |
| *Total issued share capital upon completion of the Global Offering and no conversion of any Convertible Notes:* | | |
| 3,795,404,000 | Shares | 37,954.04 |
| *Shares to be issued upon the full conversion of the Convertible Notes at the initial conversion price:* | | |
| 1,031,274,521 | Shares | 10,313 |
| *Total issued share capital upon completion of the Global Offering and full conversion of the Convertible Notes:* | | |
| 4,826,678,521 | Shares | 48,266.78521 |

## ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased pursuant to the general conditional mandate granted to our Directors to issue or repurchase Shares as described below.

## RANKINGS

The Shares are ordinary shares in the share capital of our Company and will rank *pari passu* with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

## CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its share capital; (ii) consolidate its share capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken or agreed to be taken. In addition, our Company may, subject to the provisions of the Cayman Companies Act, reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. See the section headed "Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (iii) Alteration of capital" in Appendix IV in this prospectus for further details.

## GENERAL CONDITIONAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general conditional mandate to issue, allot and deal with Shares or securities convertible into Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by our Company's Shareholders) which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares issued, allotted or dealt with or agreed to be issued, allotted or dealt with by our Directors shall not exceed the aggregate of:

(i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and

(ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general conditional mandate to repurchase Shares referred to in the section headed "– General Conditional Mandate to Repurchase Shares" below.

This general conditional mandate to issue Shares will expire at the earliest of:

- the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting before then, either unconditionally or subject to conditions; or

- the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or

- the time when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general conditional mandate, please see the section headed "Statutory and General Information – A. Further Information About Our Group – 3. Resolutions in Writing of the Shareholders of Our Company Passed on May 17, 2021" in Appendix V to this prospectus.

## GENERAL CONDITIONAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general conditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This general conditional mandate relates only to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section "Statutory and General Information – A. Further Information About our Group – 6. Repurchases of Our Own Shares" in Appendix V to this prospectus.

This general conditional mandate to repurchase Shares will expire at the earliest of:

- the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting before then, either unconditionally or subject to conditions; or
- the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- the time when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general conditional mandate, please see the section headed "Statutory and General Information – A. Further Information About Our Group – 3. Resolutions in Writing of the Shareholders of Our Company Passed on May 17, 2021" in Appendix V to this prospectus.

So far as our Directors are aware, immediately following the completion of the Global Offering and without taking into account any exercise of the Over-allotment Option, the following persons will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

| Name | Capacity/nature of interest | Number of Shares held immediately before the Global Offering (assuming the Convertible Notes are not converted) | Approximate percentage of shareholding in the total issued share capital of our Company immediately before the Global Offering (assuming the Convertible Notes are not converted) | Number of Shares held immediately following the completion of the Global Offering (assuming the Convertible Notes are not converted) | Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the Global Offering (assuming the Convertible Notes are not converted) | Number of Shares held immediately following completion of the Global Offering (assuming the Convertible Notes are fully converted at the conversion price of US$0.44605) | Approximate percentage of shareholding in the total issued share capital of our Company immediately following completion of the Global Offering (assuming the Convertible Notes are fully converted) |
|---|---|---|---|---|---|---|---|
| PAG(1) | Interest in controlled corporations | 1,416,217,181 | 42.89% | 1,194,186,181 | 31.46% | 1,934,013,555 | 40.07% |
| PAG I(1) | Beneficial interest | 542,376,651 | 16.43% | 371,583,651 | 9.79% | 371,583,651 | 7.70% |
| PAG II(1) | Beneficial interest | 873,840,530 | 26.46% | 822,602,530 | 21.67% | 822,602,530 | 17.04% |
| PAG III(1) | Beneficial interest | – | – | – | – | 739,827,374 | 15.33% |
| Yili(2)(3) | Interest in controlled corporations | 1,320,800,000 | 40.00% | 1,320,800,000 | 34.80% | 1,320,800,000 | 27.36% |
| China Youran Dairy Holding Limited(2) | Beneficial interest | 800,000,000 | 24.23% | 800,000,000 | 21.08% | 800,000,000 | 16.57% |
| Jingang Holding(3) | Beneficial interest | 520,800,000 | 15.77% | 520,800,000 | 13.72% | 520,800,000 | 10.79% |
| Meadowland(4) | Beneficial interest | 564,982,819 | 17.11% | 564,982,819 | 14.89% | 564,982,819 | 11.71% |

*Notes:*

(1) 371,583,651 Shares are held by PAG I and 822,602,530 Shares will be held by PAG II immediately following completion of the Global Offering. PAG III subscribed for Convertible Notes in the principal amount of US$330 million. In the event of full conversion of such Convertible Notes, PAG III shall hold 739,827,374 Shares, at a conversion price of US$0.44605. As PAG I, PAG II and PAG III are each wholly-owned subsidiaries of funds managed by PAG Capital Limited ("PAG"), PAG is deemed to be interested in an aggregate of 1,194,186,181 Shares, assuming the Convertible Notes are not converted, and an aggregate of 1,934,013,555 Shares, assuming the Convertible Notes are fully converted without taking into account any exercise of the Over-allotment Option.

(2) China Youran Dairy Holding Limited is wholly owned by Yili. Therefore, Yili is deemed to be interested in 800,000,000 Shares held by China Youran Dairy Holding Limited.

(3) Jingang Holding is wholly owned by Yili. Therefore, Yili is deemed to be interested in 520,800,000 Shares held by Jingang Holding.

(4) Meadowland is an exempted limited partnership established under the laws of the Cayman Islands, with Cloud Up Development Company Limited serving as its general partner, which is in turn wholly-owned by Ms. Hao Meirong, an Independent Third Party.

## THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (each a "**Cornerstone Investment Agreement**", and together the "**Cornerstone Investment Agreements**") with the cornerstone investors set out below (each a "**Cornerstone Investor**", and together the "**Cornerstone Investors**"), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe at the Offer Price for a certain number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) that may be purchased for an aggregate amount of US$50 million (or approximately HK$388.09 million) (calculated based on the conversion rate of HK$7.7617 to US$1.00) (the "**Cornerstone Placing**").

Assuming an Offer Price of HK$6.98, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares to be subscribed by the Cornerstone Investors would be 55,598,000 Offer Shares, representing approximately (i) 7.77% of the Offer Shares (assuming Over-allotment is not exercised); (ii) 6.76% of the Offer Shares (assuming Over-allotment is exercised in full); (iii) 1.46% of our total issued share capital immediately upon completion of the Global Offering (assuming no Convertible Notes are converted into Shares and whether or not the Over-allotment Option is exercised); and (iv) 1.15% of our total issued share capital immediately upon completion of the Global Offering (assuming all Convertible Notes are fully converted into Shares and whether or not the Over-allotment Option is exercised).

Assuming an Offer Price of HK$7.82, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares to be subscribed by the Cornerstone Investors would be 49,626,000 Offer Shares, representing approximately (i) 6.94% of the Offer Shares (assuming Over-allotment is not exercised); (ii) 6.03% of the Offer Shares (assuming Over-allotment is exercised in full); (iii) 1.31% of our total issued share capital immediately upon completion of the Global Offering (assuming no Convertible Notes are converted into Shares and whether or not the Over-allotment Option is exercised); and (iv) 1.03% of our total issued share capital immediately upon completion of the Global Offering (assuming all Convertible Notes are fully converted into Shares and whether or not the Over-allotment Option is exercised).

Assuming an Offer Price of HK$8.66, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares to be subscribed by the Cornerstone Investors would be 44,813,000 Offer Shares, representing approximately (i) 6.26% of the Offer Shares (assuming Over-allotment is not exercised); (ii) 5.45% of the Offer Shares (assuming Over-allotment is exercised in full); (iii) 1.18% of our total issued share capital immediately upon completion of the Global Offering (assuming no Convertible Notes are converted into Shares and whether or not the Over-allotment Option is exercised); and (iv) 0.93% of our total issued share capital immediately upon completion of the Global Offering (assuming all Convertible Notes are fully converted into Shares and whether or not the Over-allotment Option is exercised).

Our Company is of the view that, leveraging on the Cornerstone Investors' investment experience, the Cornerstone Placing will help to raise the profile of our Company and to signify that such investors have confidence in our business and prospects. Our Company became acquainted with each of the Cornerstone Investors through introduction by the Joint Sponsors and the Joint Global Coordinators in the Global Offering.

The Cornerstone Placing will form part of the International Offering and the Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be subscribed by the Cornerstone Investors will rank *pari passu* in all respect with the Shares then in issue and to be listed on the Stock Exchange, and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will become a substantial shareholder of our Company, and the Cornerstone Investors will not have any Board representation in our Company.

To the best knowledge of our Company having made all reasonable enquiry, (i) each of the Cornerstone Investors is an Independent Third Party and is not our connected person (as defined in the Listing Rules), and is independent of the other Cornerstone Investor; (ii) none of the Cornerstone Investors is accustomed to take instructions from our Company, its subsidiaries, directors, chief executive, Controlling Shareholders, substantial Shareholders, existing Shareholders or any of their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Offer Shares; (iii) none of the subscription of the relevant Offer Shares by any of the Cornerstone Investors is financed by our Company, its subsidiaries, directors, chief executive, Controlling Shareholders, substantial Shareholders, existing Shareholders or any of their respective close associates; and (iv) there are no side agreements/arrangements between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares following the principles set out in Guidance Letter HKEx-GL51-13 at the final Offer Price. Other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price, the Cornerstone Investors do not have any preferential rights in the Cornerstone Investment Agreements compared with other public Shareholders. As confirmed by each of the Cornerstone Investors, their subscription under the Cornerstone Placing would be financed by their own internal resources.

The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation" in this prospectus, the number of Offer Shares under the International Offering may be deducted to satisfy public demand under the Hong Kong Public Offering. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement of our Company to be published on or around June 17, 2021.

Each of the Cornerstone Investors have agreed that the Joint Global Coordinators may defer the delivery of all or any part of the Offer Shares they have subscribed for to a date later than the Listing Date, under the Cornerstone Investment Agreements. The deferred delivery arrangement was in place to facilitate the over-allocation in the International Offering. Each Cornerstone Investor has agreed that it shall pay for the relevant Offer Shares before dealings in the Shares on the Stock Exchange commences, even where delayed delivery takes place. There will be no delayed settlement of payment by the Cornerstone Investors.

## OUR CORNERSTONE INVESTORS

### Based on the Offer Price of HK$6.98 (being the low-end of the indicative Offer Price range)

| Cornerstone Investor (each as defined below) | Investment Amount | | Total number of Offer Shares to be subscribed by the Cornerstone Investor (rounded down to nearest whole board lot of 1,000 Shares) | Approximate % of total number of Offer Shares | | Approximate % of total issued share capital of the Company immediately following the completion of the Global Offering whether or not the Over-allotment Option is exercised(3) | |
|---|---|---|---|---|---|---|---|
| | | | | Assuming the Over-allotment Option is not exercised | Assuming the Over-allotment Option is exercised in full | Assuming no Convertible Notes are converted into Shares | Assuming all Convertible Notes are fully converted into Shares |
| | *(US$ in million)* | *(HK$ in million)(1)* | | | | | |
| CITIC-Prudential(2) | 30.00 | 232.85 | 33,359,000 | 4.66% | 4.05% | 0.88% | 0.69% |
| Harvest Private Wealth | 20.00 | 155.23 | 22,239,000 | 3.11% | 2.70% | 0.59% | 0.46% |
| **Total** | 50.00 | 388.09 | 55,598,000 | 7.77% | 6.76% | 1.46% | 1.15% |

*Notes:*

(1) Calculated based on an exchange rate of HK$7.7617 to US$1.00 as described in the section headed "Information about this Prospectus and the Global Offering – Exchange Rate Conversion" in this prospectus.

(2) According to the Cornerstone Investment Agreement, CITIC-Prudential may elect to subscribe for Offer Shares through a qualified domestic institutional investor as approved by relevant PRC governmental authority ("**QDII**") and that it guarantees and shall procure the due and punctual performance and observance by the QDII of all of the agreements, obligations, undertakings, representations, warranties, indemnities, consents, acknowledgment, confirmations and covenants of CITIC-Prudential under the Cornerstone Investment Agreement.

(3) Since the exercise of the Over-allotment Option would not involve issuance of new Shares, the percentage of total issued share capital of the Company would not change whether or not the Over-allotment Option is exercised.

**Based on the Offer Price of HK$7.82 (being the mid-point of the indicative Offer Price range)**

| Cornerstone Investor (each as defined below) | Investment Amount | | Total number of Offer Shares to be subscribed by the Cornerstone Investor (rounded down to nearest whole board lot of 1,000 Shares) | Approximate % of total number of Offer Shares | | Approximate % of total issued share capital of the Company immediately following the completion of the Global Offering whether or not the Over-allotment Option is exercised(3) | |
|---|---|---|---|---|---|---|---|
| | | | | Assuming the Over-allotment Option is not exercised | Assuming the Over-allotment Option is exercised in full | Assuming no Convertible Notes are converted into Shares | Assuming all Convertible Notes are fully converted into Shares |
| | *(US$ in million)* | *(HK$ in million)(1)* | | | | | |
| CITIC-Prudential(2) | 30.00 | 232.85 | 29,776,000 | 4.16% | 3.62% | 0.78% | 0.62% |
| Harvest Private Wealth | 20.00 | 155.23 | 19,850,000 | 2.77% | 2.41% | 0.52% | 0.41% |
| **Total** | 50.00 | 388.09 | 49,626,000 | 6.94% | 6.03% | 1.31% | 1.03% |

*Notes:*

(1) Calculated based on an exchange rate of HK$7.7617 to US$1.00 as described in the section headed "Information about this Prospectus and the Global Offering – Exchange Rate Conversion" in this prospectus.

(2) According to the Cornerstone Investment Agreement, CITIC-Prudential may elect to subscribe for Offer Shares through a qualified domestic institutional investor as approved by relevant PRC governmental authority ("**QDII**") and that it guarantees and shall procure the due and punctual performance and observance by the QDII of all of the agreements, obligations, undertakings, representations, warranties, indemnities, consents, acknowledgment, confirmations and covenants of CITIC-Prudential under the Cornerstone Investment Agreement.

(3) Since the exercise of the Over-allotment Option would not involve issuance of new Shares, the percentage of total issued share capital of the Company would not change whether or not the Over-allotment Option is exercised.

**Based on the Offer Price of HK$8.66 (being the high-end of the indicative Offer Price range)**

| Cornerstone Investor (each as defined below) | Investment Amount | | Total number of Offer Shares to be subscribed by the Cornerstone Investor (rounded down to nearest whole board lot of 1,000 Shares) | Approximate % of total number of Offer Shares | | Approximate % of total issued share capital of the Company immediately following the completion of the Global Offering whether or not the Over-allotment Option is exercised[3] | |
|---|---|---|---|---|---|---|---|
| | | | | Assuming the Over-allotment Option is not exercised | Assuming the Over-allotment Option is exercised in full | Assuming no Convertible Notes are converted into Shares | Assuming all Convertible Notes are fully converted into Shares |
| | *(US$ in million)* | *(HK$ in million)*[1] | | | | | |
| CITIC-Prudential[2] | 30.00 | 232.85 | 26,888,000 | 3.76% | 3.27% | 0.71% | 0.56% |
| Harvest Private Wealth | 20.00 | 155.23 | 17,925,000 | 2.51% | 2.18% | 0.47% | 0.37% |
| **Total** | 50.00 | 388.09 | 44,813,000 | 6.26% | 5.45% | 1.18% | 0.93% |

*Notes:*

(1) Calculated based on an exchange rate of HK$7.7617 to US$1.00 as described in the section headed "Information about this Prospectus and the Global Offering – Exchange Rate Conversion" in this prospectus.

(2) According to the Cornerstone Investment Agreement, CITIC-Prudential may elect to subscribe for Offer Shares through a qualified domestic institutional investor as approved by relevant PRC governmental authority ("**QDII**") and that it guarantees and shall procure the due and punctual performance and observance by the QDII of all of the agreements, obligations, undertakings, representations, warranties, indemnities, consents, acknowledgment, confirmations and covenants of CITIC-Prudential under the Cornerstone Investment Agreement.

(3) Since the exercise of the Over-allotment Option would not involve issuance of new Shares, the percentage of total issued share capital of the Company would not change whether or not the Over-allotment Option is exercised.

The following information about the Cornerstone Investors were provided to the Company by the Cornerstone Investors in relation to the Cornerstone Placing.

### 1. *CITIC-Prudential Life Insurance Company Limited ("**CITIC-Prudential**")*

CITIC-Prudential Life Insurance Company Limited is a limited liability company incorporated in the PRC, with approximately 50.00% of its equity interests held by CITIC Corporation Limited (中國中信有限公司) which is in turn wholly-owned by CITIC Limited (a company listed on the Main Board of the Stock Exchange with stock code 267); and the remaining 50.00% of its equity interests held by Prudential Corporation Holdings Limited (英國保誠集團股份有限公司) which is a subsidiary of Prudential PLC (a company listed on the London Stock Exchange (PRU:LN) and Main Board of the Stock Exchange with stock code 2378). CITIC-Prudential is mainly engaged in (i) life insurance, health insurance, accident insurance and other insurance businesses; and (ii) the re-insurance of the above businesses.

To the best knowledge of our Company having made all reasonable enquiry, no approval from the Stock Exchange or the London Stock Exchange is required for CITIC-Prudential to subscribe for the relevant Offer Shares.

### 2. *Harvest Private Wealth Thematic Fund SPC ("**Harvest Private Wealth**")*

Harvest Private Wealth Thematic Fund SPC is a segregated portfolio company incorporated in the Cayman Islands and operates as an investment fund with an investment objective of achieving absolute returns through thematic investment strategies. Harvest Private Wealth is managed by H Partners Private Wealth Management (Singapore) Pte. Ltd. ("**H Partners**"). According to the confirmation of Harvest Fund Management (as defined below), the Harvest Private Wealth has over 50 investors comprising mainly Asian and South East Asian high net worth individuals, corporates and institutions. As of the end of April 2021, the assets under management of Harvest Private Wealth was estimated to be US$140 million.

H Partners, holder of the Capital Markets Services license, is regulated by the Monetary Authority of Singapore and principally engages in investment management and investment advisory. Its investors include institutions, corporates, high-net-worth individuals and family offices. H Partners is ultimately controlled by Harvest Fund Management Co., Ltd (嘉實基金管理有限公司) ("**Harvest Fund Management**"). Founded in March 1999, Harvest Fund Management is one of the ten earliest established fund management companies in the PRC. As of the end of 2019, the scale of assets under management of Harvest Fund Management exceeded RMB1 trillion. Over the past 21 years since its establishment, Harvest Fund Management has been operating in good faith and adhering to the concept of "With Vision Comes Steady Progress". It is now conducting full-license (under the relevant regulation system of the PRC) businesses, including public fund, specific account investment, insurance investment, pension business, overseas investment, alternative investment and wealth management. It has provided professional and efficient financial management services to over 100 million individual investors and over 7000 institutional clients.

## CLOSING CONDITIONS

The obligation of each Cornerstone Investor to subscribe for the Offer Shares under the respective Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

(i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement, and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;

(ii) the Offer Price having been agreed upon between the Company and the Joint Global Coordinators (on behalf of the Underwriters);

(iii) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Shares (including the Shares under the Cornerstone Placing) as well as other applicable waivers and approvals and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(iv) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or the Cornerstone Investment Agreements, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

(v) the representations, warranties, undertakings and confirmations of the relevant Cornerstone Investor under the Cornerstone Investment Agreements are and will be (as of the closing of the Cornerstone Investment Agreements) accurate and true in all respects and not misleading and that there is no material breach of the Cornerstone Investment Agreements on the part of the relevant Cornerstone Investors.

## RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without prior written consent of each of the Company, the Joint Global Coordinators and the Joint Sponsors, it will not, whether directly or indirectly, at any time during the period of six months from the Listing Date (the "**Lock-up Period**"), dispose of any of the Offer Shares it has purchased pursuant to the relevant Cornerstone Investment Agreement, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

*You should note that the acquisition of SKX was completed on January 8, 2020. As a result, the historical operating results and financial conditions of our Group for the years ended December 31, 2018 and 2019 do not include the information of SKX. In addition, the consolidated financial information of our Group for the years ended December 31, 2018 and 2019 only includes the information of Youran. But the consolidated financial data of our Group for the year ended December 31, 2020 includes the financial information of Youran and SKX for the period from January 8, 2020 to December 31, 2020. Please refer to the section headed "– Acquisition of SKX" in this prospectus for more information on the acquisition of SKX. To follow applicable regulations and disclosure requirements and for the purpose of presenting necessary key data to assess the financial impacts of the acquisition of SKX, this prospectus includes the audited historical financial information of SKX for the years ended December 31, 2018 and 2019 and for the seven days ended January 7, 2020 (see the section headed "Appendix I – Accountants' Report – III. Pre-acquisition Financial Information" in this prospectus) and the discussion and analysis on the historical financial information of SKX for the years ended December 31, 2018 and 2019 in this section. On October 3, 2020, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group. The Fonterra Acquisition was completed on April 1, 2021. As a result, the historical operating results and financial conditions of our Group for the years ended December 31, 2018, 2019 and 2020 do not include the information of Fonterra China Farms Group. Please refer to the section headed "– Fonterra Acquisition" in this prospectus for more information on the Fonterra Acquisition. To follow applicable regulations and disclosure requirements and for the purpose of presenting necessary key data to assess the financial impacts of the Fonterra Acquisition, this prospectus includes the audited historical financial information of Fonterra China Farms Group for the years ended December 31, 2018, 2019 and 2020 (see the section headed "Appendix II – Accountants' Report – Fonterra China Farms Group" in this prospectus) and the discussion and analysis on the historical financial information of Fonterra China Farms Group for the years ended December 31, 2018, 2019 and 2020 in this section. Please refer to the section headed "– Financial Information of Fonterra China Farms Group" in this prospectus. The prospectus also includes the unaudited pro forma consolidated statements of comprehensive income of the Enlarged Group with Fonterra China Farms Group (see the section headed "Appendix III – Unaudited Pro Forma Financial Information" in this prospectus).*

*You should read the following discussion and analysis together with the audited consolidated financial data of our Group (including the notes) set out in Appendix I Accountants' Report of the prospectus and the audited combined financial data of Fonterra China Farms Group (including the notes) set out in Appendix II Accountants' Report of the prospectus. The audited consolidated financial data of our Group, the audited consolidated financial data of SKX and the audited combined financial information of Fonterra China Farms Group are prepared in accordance with the IFRSs.*

*The discussion and analysis of financial information in this section may contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this prospectus, including the sections headed "Risk Factors" and "Business."*

*For the purpose of this section, unless the context otherwise requires or unless otherwise indicated, references to 2018, 2019 and 2020 refer to the financial years ended December 31 of such years.*

## OVERVIEW

We are a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. According to Frost & Sullivan, we are the largest integrated provider of products and services in the upstream dairy industry in China in terms of revenue in 2020. Through our two business segments, namely, raw milk and comprehensive ruminant farming solutions, we provide premium raw milk to large-scale dairy manufacturers and offer ruminant farming products and services to dairy farms.

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

During the Track Record Period, the financial performance of each business segment was satisfactory. Our revenue increased from RMB6,333.9 million for the year ended December 31, 2018 to RMB7,667.8 million for the year ended December 31, 2019 and further to RMB11,781.2 million for the year ended December 31, 2020 on a consolidated post-SKX Acquisition basis, at a CAGR of 36.4% from 2018 to 2020. We recorded net profit of RMB652.9 million, RMB801.9 million and RMB1,540.6 million for the years ended December 31, 2018, 2019 and 2020, respectively, at a CAGR of 53.6% from 2018 to 2020 (on a consolidated post-SKX Acquisition basis).

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

## BASIS OF PREPARATION

The historical financial information has been prepared in accordance with the accounting policies set out in note 4 to the Accountants' Report in Appendix I to this prospectus, which are in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (the "**IASB**"). In addition, the historical financial information contains applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

Following the incorporation of our Company and the completion of the corporate reorganisation as mentioned below, our Group' s principal business is mainly operated by Youran Dairy and its subsidiaries, which was incorporated in the PRC as a company with limited liability on August 1, 2007.

In order to streamline the corporate structure in preparation for the listing of our Company's shares on the main board of the Stock Exchange, our Group underwent the Reorganization, details of which are set out in the section headed "History, Reorganization and Group Structure" in this prospectus.

Upon completion of the Corporate Reorganization, our Company became the holding company of existing members of our Group. The Corporate Reorganization only involved the inclusion of our Company, Youran BVI (incorporated in the British Virgin Islands on March 18, 2015) and Yogurt HK (incorporated in Hong Kong on April 9, 2015), and all these companies are newly-established entities with no substantial operations and are the holding companies of Old Cayman Holdco and its subsidiaries. Prior to and after the Corporate Reorganization, there was no change in the business carried out by Old Cayman Holdco and its subsidiaries.

## ACQUISITION OF SKX

On July 9, 2019, our Company entered into a share purchase agreement with certain shareholders of SKX (NEEQ: 834179), pursuant to which our Company agreed to acquire approximately 58.36% of the equity interest of SKX (the "**SKX Acquisition**"). SKX is a company incorporated in the PRC on July 31, 2006, which primarily engages in dairy farming and dairy breeding and is currently listed on the NEEQ. The SKX Acquisition was completed on January 8, 2020, which constitutes a major acquisition of our Group within the Track Record Period. After the completion of the SKX Acquisition, SKX became our non-wholly owned subsidiary. For details, see the section headed "History, Reorganization and Group Structure" in this prospectus.

To comply with the requirements of Rule 4.05A of the Listing Rules, the pre-acquisition consolidated financial information of SKX for the period from January 1, 2018 to January 7, 2020, which was drawn up in conformity with accounting policies adopted by our Group, has been disclosed (see the section headed Section III of the Accountants' Report included in Appendix I to this prospectus).

## FONTERRA ACQUISITION

Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement including, among other things, the deduction of an amount equivalent to certain indebtedness owed, and the addition of an amount equivalent to the amount of cash held, by Fonterra China Farms Group as of the completion date from/to the agreed aggregate consideration of RMB2.31 billion. Such consideration was determined on the basis of, among other things, the net assets of Fonterra China Farms Group, as adjusted by eliminating the impact of the borrowings from the immediate controlling company of Fonterra China Farms Group when converted into additional registered capital prior to the completion. The above acquisition was completed on April 1, 2021 at a consideration of RMB2,530,565,725 which has been applied a purchase price adjustment and is subject to a further adjustment. We funded the consideration by a term loan bearing interest ranging from 4.15% to 4.75% per annum. The Fonterra Acquisition constitutes a major acquisition of our Group after Track Record Period. Please see the section headed "History, Reorganization and Group Structure – Major Acquisitions, Disposals and Mergers – Fonterra Acquisition" for further details.

To comply with the requirements of Rule 4.04 and Rule 4.28 of the Listing Rules, as well as to present material information necessary for investors to assess the impact of the Fonterra China Farms Group Acquisition on our Group, this prospectus includes (i) audited historical financial information of Fonterra China Farms Group for the years ended December 31, 2018, 2019 and 2020 (see the section headed Appendix II – Accountants' Report – Fonterra China Farms Group set out in this prospectus); (ii) a discussion and analysis of the historical financial information of Fonterra China Farms Group for the years ended December 31, 2018, 2019 and 2020 (see the section headed "– Financial Information of Fonterra China Farms Group"); and (iii) unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group with Fonterra China Farms Group for the years ended December 31, 2020, and unaudited pro forma consolidated statement of financial position as of December 31, 2020 (prepared by reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants), assuming that the Fonterra Acquisition was completed on January 1, 2020 and December 31, 2020, respectively (see the section headed "Appendix III – Unaudited Pro Forma Financial Information" and "Summary – Summary of Pro Forma Financial Information of the Enlarged Group with Fonterra China Farms Group" in this prospectus).

## MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### Our Ability to Optimize Our Raw Milk Product Mix

Our ability to optimize our raw milk product mix is crucial to our revenue and profit growth with respect to our raw milk business. We offer a variety of raw milk products, including premium raw milk and specialty raw milk, such as jersey milk, DHA milk, A2 milk and organic milk. With increasing disposable income, continuous consumption upgrade and rising health awareness of consumers in China, quality specialty dairy products are becoming increasingly popular among Chinese dairy consumers, which further lead to the ever-growing demand for specialty raw milk from dairy manufacturers. In order to promptly respond to the changing consumption structure in the downstream dairy products market and to seize tremendous market opportunities, we have focused on developing a diverse range of specialty raw milk and expanding our product offerings. The sales volume of our specialty raw milk increased at a CAGR of 29.5% from 236,264 tons for the year ended December 31, 2018 to 396,164 tons for the year ended December 31, 2020. Correspondingly, the contribution of specialty raw milk to our revenue has increased steadily since 2018. For the years ended December 31, 2018, 2019 and 2020, revenue generated from the sales of specialty raw milk was RMB1,312.5 million, RMB1,502.0 million and RMB2,163.0 million, respectively, representing a CAGR of 28.4% from 2018 to 2020. We will continue to diversify and optimize our raw milk product portfolio to cater to our customers' evolving needs and effectively respond to the dynamic changes in supply and demand in the downstream dairy products market. See the section headed "Business – Our Strategies – Optimizing structure: optimize our product and service portfolio and enhance our core competitiveness."

### Our Ability to Increase Our Average Milk Yield per Milkable Cow

Our operating results are directly affected by our average milk yield per milkable cow. As the average milk yield per milkable cow increases, the amount of feed needed to produce a certain amount of raw milk decreases, indicating an improvement in raw milk production efficiency. Milk yield is affected by a number of factors, including a cow's stage of lactation, breed, gene, feed and health, as well as the geographic location, climatic conditions and the management of the dairy farms. Our dairy farms are primarily located in the Golden Raw Milk Belt, and enjoy favorable climates and abundant natural resources. We have also taken a number of steps to improve our average milk yield per milkable cow, including:

- improving the genetic quality of our herds with leading cow genetic improvement and sex-sorting technologies;
- selecting quality heifers based on physical attributes and pedigree;

- optimizing the nutrition intake for our dairy cows through precision feeding and by leveraging our massive ruminant nutrient database and strong agri-science capabilities;
- scientific management of our modern dairy farms with advanced equipment and systems;
- dairy farms that provide dairy cows with better living environments;
- regular and systematic culling of milkable cows with low yields to improve our herds; and
- implementing strict disease control measures.

Benefiting from the foregoing measures, we have achieved an industry-leading average milk yield per milkable cow. The average milk yield per milkable cow (excluding Jerseys) of Youran was 10.0 tons, 10.4 tons and 11.0 tons (annualised average milk yield per milkable cow) for the years ended December 31, 2018, 2019 and 2020, respectively. During the same periods, the average milk yield per milkable cow of SKX was 8.6 tons, 9.0 tons and 10.0 tons, respectively. The industry average was 8.0 tons per annum in 2020, according to Frost & Sullivan. We will continue to optimize our dairy farm operations, which is expected to further improve the average milk yield per milkable cow.

**Our Ability to Provide Comprehensive Ruminant Farming Solutions to Match Our Ability to Sell Ruminant Farming Products**

We continue to drive sales of ruminant farming products by offering a wide range of customized comprehensive ruminant farming solutions. With our abundant experience and in-depth insights accumulated through years of exploration in the dairy industry, we are able to freely tailor-make various ruminant farming support services for our customers based on their demands, including ruminant nutrition, breeding technique and ruminant healthcare. We combine our ruminant farming support services with our ruminant farming products together, and sell our ruminant farming products while providing our customized services for our customers. Through our integrated sales programs, we can enhance the overall profitability and productivity for our dairy farm customers. Meanwhile, by offering them attractive customer experience, we are able to build up customer loyalty.

External revenue from comprehensive ruminant farming solutions increased from RMB3,723.6 million for the year ended December 31, 2018 to RMB4,604.2 million for the year ended December 31, 2019 further to RMB4,786.6 million for the year ended December 31, 2020, at a CAGR of 13.4% from 2018 to 2020. To further improve customer stickiness and drive their spending on our ruminant farming products, we will continue to identify their diverse and evolving needs for our business, accordingly enhance our customized comprehensive ruminant farming solutions and expand our ruminant farming product offerings.

**Our Ability to Expand Dairy Herd Size and Optimize Dairy Herd Structure**

We believe our long-term profit growth depends largely on our ability to expand our dairy herd size and optimize our dairy herd structure. By virtue of our advanced breeding technology and import of quality heifers, our dairy herd size expanded significantly during the Track Record Period. Our dairy herd size grew from 127,345 dairy cows as of December 31, 2018, and 152,037 dairy cows as of December 31, 2019, to 308,195 dairy cows as of December 31, 2020 (on a consolidated post-SKX Acquisition basis). Among our dairy cows, during the same periods, we had 61,857, 77,955 and 157,316 milkable cows (on a consolidated post-SKX Acquisition basis), accounting for 48.6%, 51.3% and 51.0% of our dairy herds, respectively. The increase in the number of milkable cows has contributed to the increase of the raw milk production volume that drives our raw milk sales. Based on the foregoing reasons, our raw milk business has achieved significant growth during the Track Record Period. For the years ended December 31, 2018, 2019 and 2020, our revenues generated from sales of our raw milk amounted to RMB2,610.3 million, RMB3,063.6 million and RMB6,994.6 million, respectively.

In addition, we have been driving the sustainable growth of our raw milk business as we continue optimizing our dairy herd structure. As of December 31, 2020, we had 150,879 calves and heifers, which accounted for approximately 49.0% of our total dairy cows. We expect our raw milk yield to grow steadily as our reserve cows become milkable cows.

**Our Ability to Increase the Bargain Power of Our Products through Improving the Quality of our Products**

Our growth in revenues and profitability during the Track Record Period was partially attributable to the increase in average selling prices of our products.

- Raw milk. The prices at which we sell our raw milk are affected by a number of factors, including the raw milk quality, market price and feed costs. In particular, raw milk producers are typically rewarded for high protein and fat content. During the Track Record Period, our raw milk was typically sold at a premium to the market average selling prices primarily due to the higher quality of our raw milk. We have also been driving the rise in selling price of our raw milk by optimizing our product mix. To capture the growing market value of specialty dairy products in the downstream market, we also successively introduced specialty raw milk including Jersey milk, DHA milk, A2 milk and organic milk, and have since focused on specialty raw milk offerings. Consistent with industry practice, our specialty raw milk enjoys a premium compared to our regular raw milk products, which has allowed us to achieve higher profit margins and returns. As we continue expanding our specialty raw milk offerings, we believe we will continue to grow our revenues while increasing the average selling price of our raw milk and improving our overall profitability.

- Comprehensive ruminant farming solutions. For our ruminant farming products, we implement a strategy of driving sales with customized comprehensive ruminant farming solutions. We design tailor-made comprehensive ruminant farming solutions for our customers by pinpointing the challenges and pain points that they are facing in their operations and, on such basis, sell our ruminant farming products. Our integrated sales model of combining products and services has greatly improved our bargaining power and customer satisfaction. Going forward, we will continue to expand and improve our comprehensive ruminant farming solutions based on our deep industry experience and technical strength, and increase selling prices of our ruminant farming products while providing professional consulting services for our customers.

**Our Ability to Manage Costs and Improve Operational Efficiency**

The profitability of our business depends largely on our ability to effectively control costs and enhance operational efficiency. Forage grass fed to our dairy herds and ingredients for concentrated feed account for a significant portion of our cost of sales. For example, the cost of raw materials (mainly feed fed to our dairy herd) of our raw milk segment was RMB1,237.6 million, RMB1,437.6 million and RMB3,227.9 million for the years ended December 31, 2018, 2019 and 2020, respectively, representing 79.8%, 80.6% and 80.7% of the cost of sales of our raw milk business (before raw milk fair value adjustments), respectively. Our feed costs are affected by fluctuations in the market prices of forage grass and raw materials. We have adopted diverse means to mitigate the impact of fluctuations in feed prices, including flexibly adjusting feed formula while adhering to nutritional standards, diversifying our feed ingredients so that the price fluctuation of one ingredient would not exert material impact on our feed price, maintaining diversified supply channels and conducting raw material procurement with commodity futures. We have been sourcing feed from a number of suppliers who offer diverse and high-quality forage grass in China and overseas. In the meantime, our own feed business also provides support to our feed supply.

In addition, alongside our dual capacity and synergies to operate both raw milk supply and comprehensive ruminant farming solutions business, we have been leveraging our economies of scale and integrated farming model to increase productivity, enhance bargaining power over our source suppliers, reduce operating costs, and thus achieve higher operation efficiency. We have proactively developed large-scale dairy farms, aiming to improve production efficiency and reduce unit production cost through highly automated production processes, and to ensure consistent product quality through real-time monitoring and precise control of the entire production process. As of December 31, 2020, we have a total of 42 large-scale dairy farms with a planned and designed herd size of more than 5,000 heads, representing approximately 62.7% of our total dairy farms. Our large-scale standardized dairy farms, modern and scientific operations, and advanced technologies and facilities contribute to our long-term profit growth. Our integrated farming model facilitates the sharing of resources, technologies and talents and helps us achieve significant synergies across different business lines.

**Our Ability to Continuously Benefit From Government Support**

The PRC government has been a key advocate in promoting the development of the dairy industry in China. We have in the past significantly benefited from various forms of government support and favorable government policies implemented by the PRC government at the national and local level. For example, the State Council of the PRC promulgated the Opinions on Revitalization of the Dairy Industry and Ensuring Quality and Safety of Dairy Products (關於推進奶業振興保障乳製品質量安全的意見) in 2018, to promote the development of large-scale, standardized dairy farms and the self-sufficiency of milk products supply in China. The State Council of the PRC further issued Certain Guidelines on Prioritizing the Development of Agriculture and Rural Areas and Accomplishing the Work Relating to **Agriculture**, **Rural Areas and Rural Residents** (關於堅持農業農村優先發展做好"**三農**"工作的若干意見) in 2019, which calls for the revitalization of the dairy industry in China and the large-scale planting and production of high-quality forage grass, including alfalfa hay. For further information about such government support and favorable government policies, see the section headed "Regulatory Overview". These government support and favorable government policies in the form of government grants, credit services, insurance premium subsidies, preferential tax policies and land use rights have provided strong support for our business operations, especially the construction of large-scale dairy farms. With such government support, we have continued to expand our business. In addition, we have benefited from preferential tax policies during the Track Record Period. For example, certain of our PRC subsidiaries are exempted from enterprise income tax for the operation of agricultural business or enjoy a preferential tax rate of 15% under China's Western Development policies. We expect to continue to benefit from favorable government policies in the foreseeable future.

**Changes in Fair Value of Biological Assets**

In light of the nature of our raw milk business, our net profit has been, and we expect will continue to be, affected by changes in fair value less costs to sell of biological assets in respect of our dairy cows. We are required under IFRS to recognize such changes under "Gain/(loss) arising from changes in fair value less costs to sell of biological assets". This line item represents fair value changes of our biological assets due to the changes in physical attributes and market prices of our biological assets and the changes in discounted future cash flow to be generated from our biological assets, in particular dairy cows. The fair value is measured by reference to local market selling prices or by projecting future cash flows to be generated from those cows and discounting them to a present day value. For example, when a heifer becomes a milkable cow, its value usually increases as the discounted cash flow from milking is generally higher than the selling price of heifer. On the contrary, when a milkable cow is culled or sold, its value decreases and a loss is recorded in the results of operations for the respective period because the proceeds from the disposal of culled and dead cows are generally lower than their carrying value. During the Track Record Period, our biological assets were revalued at each reporting date. For the years ended December 31, 2018, 2019 and 2020, we recorded losses arising from changes in fair value less costs to sell of biological assets of RMB87.3 million, RMB133.3 million and RMB413.8 million, respectively. The fair value of the calves and heifers is determined with reference to their market prices and breeding costs, while the fair value of milkable cows represents the present value of the expected net cash flows from such milkable cows discounted at a current market rate. In applying these valuation methods, our independent qualified professional valuer has relied on a number of assumptions related to, among other things, raw milk prices, milk yield, culling rates, feed costs and discount rates. Therefore, the fair value of our dairy cows could be affected by, among other things, the accuracy of such assumptions, and any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and our management review the assumptions and estimates periodically to identify any significant changes in fair value of dairy cows. For more information about the valuation methods applied in valuing our dairy cows, see Note 22 of the Accountants' Report included as Appendix I to this prospectus. On the other hand, the nature of our comprehensive ruminant farming solutions business had less exposure with biological assets, the substantial portion of revenue and profit derived from which during the Track Record Period was therefore less impacted by the changes in fair value of biological assets.

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. For details of these accounting policies, please refer to Note 4 to the Accountants' Report in Appendix I to this prospectus.

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, we have consistently applied the accounting policies which conform with the IFRSs, which are effective for our accounting period beginning on January 1, 2020 throughout the Track Record Period.

### Revenue from contracts with customers

Our Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs;
- our Group's performance creates and enhances an asset that the customer controls as our Group performs; or

- our Group's performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents our Group's right to consideration in exchange for goods or services that our Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents our Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents our Group's obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

**Contracts with multiple performance obligations (including allocation of transaction price)**

For contracts that contain more than one performance obligations, our Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which our Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, our Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which our Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

**Principal versus agent**

When another party is involved in providing goods or services to a customer, our Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. our Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. our Group is an agent).

Our Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

Our Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, our Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When our Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

**Property, plant and equipment**

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with our Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Impairment on property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill**

At the end of the reporting period, our Group reviews the carrying amounts of its property, plant and equipment, investment properties, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, investment properties, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, our Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. Our Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, our Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of our group of cash-generating units.

In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or our group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the assets is allocated pro rata to the other assets of the unit or our group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Biological assets**

Our Group's biological assets mainly include dairy cows, feeder cattle and breeding stock. Dairy cows, including milkable cows and calves and heifers, are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair values of dairy cows and breeding stock are determined based on their present locations and conditions and are determined independently by a professional valuer.

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

**Agricultural produce**

Agricultural produce represents raw milk, forage grass, and frozen bovine semen which are recognised at the point of harvest at fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

**Impairment of financial assets**

Our Group performs impairment assessment under ECL model on financial assets (including trade receivables, deposits, other receivables, amounts due from related parties, pledged and restricted bank deposits, and bank balances) and other items (including contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Our Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, our Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, our Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, our Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, our Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increase significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, our Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless our Group has reasonable and supportable information that demonstrates otherwise.

Our Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, our Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including our Group, in full (without taking into account any collaterals held by our Group).

Irrespective of the above, our Group considers that default has occurred when a financial asset is more than 90 days past due unless our Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

Our Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade and other receivables are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under our Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to our Group in accordance with the contract and the cash flows that our Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The ECL on trade receivables and contract assets, except for those assessed individually for debtors with significant balances, is measured on a collective basis and those financial instruments are grouped under a provision matrix based on shared credit risk characteristics by reference to aging for the debtors.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial assets.

Except for investments in debt instruments that are measured at FVTOCI, our Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments.

## SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF OUR GROUP

The table below sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the periods indicated:

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 6,333,920 | – | 6,333,920 | 7,667,818 | – | 7,667,818 | 11,781,195 | – | 11,781,195 |
| Cost of sales | (5,810,627) | – | (5,810,627) | (7,014,226) | – | (7,014,226) | (11,048,726) | – | (11,048,726) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 1,022,398 | | 1,022,398 | 1,232,668 | | 1,232,668 | 2,870,723 | – | 2,870,723 |
| Gross profit | 1,545,691 | – | 1,545,691 | 1,886,260 | – | 1,886,260 | 3,603,192 | – | 3,603,192 |
| Loss arising from changes in fair value less costs to sell of biological assets | – | (87,271) | (87,271) | – | (133,255) | (133,255) | – | (413,784) | (413,784) |
| Other income | 51,469 | – | 51,469 | 55,396 | – | 55,396 | 76,979 | – | 76,979 |
| Impairment loss under expected credit loss model, net of reversal | (1,453) | – | (1,453) | (24,761) | – | (24,761) | (45,083) | – | (45,083) |
| Other gains and losses | (35,613) | – | (35,613) | (16,046) | – | (16,046) | (54,273) | – | (54,273) |
| Fair value loss on convertible notes | – | – | – | – | – | – | (10,769) | – | (10,769) |
| Selling and distribution expenses | (271,932) | – | (271,932) | (340,687) | – | (340,687) | (453,116) | – | (453,116) |
| Administrative expenses | (421,298) | – | (421,298) | (445,453) | – | (445,453) | (744,516) | – | (744,516) |
| Other expenses | (2,311) | – | (2,311) | (26,528) | – | (26,528) | (20,030) | – | (20,030) |
| Listing expenses | – | – | – | – | – | – | (34,365) | – | (34,365) |
| Share of profit of a joint venture | – | – | – | – | – | – | 25 | – | 25 |
| Finance costs | (80,081) | – | (80,081) | (104,071) | – | (104,071) | (309,825) | – | (309,825) |
| Profit before tax | 784,472 | (87,271) | 697,201 | 984,110 | (133,255) | 850,855 | 2,008,219 | (413,784) | 1,594,435 |
| Income tax expense | (44,334) | – | (44,334) | (48,973) | – | (48,973) | (53,805) | – | (53,805) |
| Profit for the year | 740,138 | (87,271) | 652,867 | 935,137 | (133,255) | 801,882 | 1,954,414 | (413,784) | 1,540,630 |

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Other comprehensive income, net of income tax** | | | | | | | | | |
| *Items that will not be reclassified to profit or loss* | | | | | | | | | |
| Fair value gain on investments in equity instruments at fair value though other comprehensive income | – | – | – | – | – | – | 25,352 | – | 25,352 |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | – | 49 | – | 49 |
| Other comprehensive income for the year/period, net of income tax | – | | | – | | | 25,401 | – | 25,401 |
| Total comprehensive income for the year/period | 740,138 | (87,271) | 652,867 | 935,137 | (133,255) | 801,882 | 1,979,815 | (413,784) | 1,566,031 |
| Profit for the year/period attributable to: | | | | | | | | | |
| Owners of the Company | | | 652,867 | | | 801,882 | | | 1,340,735 |
| Non-controlling interests | | | – | | | – | | | 199,895 |
| | | | 652,867 | | | 801,882 | | | 1,540,630 |
| Total comprehensive income for the year/period attributable to: | | | | | | | | | |
| Owners of the Company | | | 652,867 | | | 801,882 | | | 1,355,559 |
| Non-controlling interests | | | – | | | – | | | 210,472 |
| | | | 652,867 | | | 801,882 | | | 1,566,031 |
| Earning per share | | | | | | | | | |
| Basis | | | 0.33 | | | 0.4 | | | 0.41 |
| Diluted | | | N/A | | | N/A | | | 0.40 |

**PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP**

The unaudited pro forma financial information is presented to illustrate the impact on the financial performance and financial position of our Group as if the Fonterra Acquisition was completed at January 1, 2020 and December 31, 2020, which comprise the unaudited pro forma consolidated statement of profit or loss for the year ended December 31, 2020, and the unaudited pro forma consolidated statement of financial position at December 31, 2020 of our Group and Fonterra China Farms Group (collectively as the "Enlarged Group with Fonterra China Farms Group"). The unaudited pro forma financial information has been prepared in accordance with paragraph 4.29 of the Listing Rules. The unaudited pro forma consolidated statements of profit or loss of the Enlarged Group with Fonterra China Farms Group are prepared based on the audited consolidated statement of profit or loss of our Group for the year ended December 31, 2020 as set out in Appendix I to the prospectus and the unaudited pro forma consolidated statement of financial position of the Enlarged Group with Fonterra China Farms Group is prepared based on the audited consolidated statement of financial position of our Group at December 31, 2020 as set out in Appendix I to the prospectus. The unaudited pro forma consolidated statement of profit or loss of the Enlarged Group with Fonterra China Farms Group has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial performance of the Enlarged Group for the year ended December 31, 2020, or for any future period.

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP FOR THE YEAR ENDED DECEMBER 31, 2020**

| | The Group | Fonterra China Farms Group | Pro forma adjustments | | | | | The Enlarged Group with Fonterra China Farms Group |
|---|---|---|---|---|---|---|---|---|
| | *Note 1* *RMB'000* | *Note 2* *RMB'000* | *Note 3* *RMB'000* | *Note 4* *RMB'000* | *Note 5* *RMB'000* | *Note 6* *RMB'000* | *Note 7* *RMB'000* | *RMB'000* |
| Revenue | 11,781,195 | 1,186,518 | – | (97,295) | – | – | – | 12,870,418 |
| Cost of sales | (11,048,726) | (1,097,599) | – | 97,295 | (62,628) | – | – | (12,111,658) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 2,870,723 | 181,832 | – | – | – | – | – | 3,052,555 |
| **Gross profit** | 3,603,192 | 270,751 | – | – | (62,628) | – | – | 3,811,315 |
| Loss arising from changes in fair value less costs to sell of biological assets | (413,784) | (104,400) | – | – | – | – | – | (518,184) |
| Other income | 76,979 | 15,196 | – | – | – | – | – | 92,175 |
| Impairment loss under expected credit loss model, net of reversal | (45,083) | – | – | – | – | – | – | (45,083) |
| Other gains and losses | (54,273) | 10,916 | 226,401 | – | – | – | – | 183,044 |
| Fair value loss on convertible notes | (10,769) | – | – | – | – | – | – | (10,769) |
| Selling and distribution expenses | (453,116) | (50,763) | – | – | – | – | – | (503,879) |
| Administrative expenses | (744,516) | (60,409) | – | – | (3,680) | – | – | (808,605) |
| Other expenses | (20,030) | – | – | – | – | – | – | (20,030) |
| Listing expenses | (34,365) | – | – | – | – | – | – | (34,365) |
| Share of profit of a joint venture | 25 | – | – | – | – | – | – | 25 |
| Finance costs | (309,825) | (48,201) | – | – | – | 41,716 | (105,023) | (421,333) |
| **Profit/(loss) before tax** | 1,594,435 | 33,090 | 226,401 | – | (66,308) | 41,716 | (105,023) | 1,724,311 |
| Income tax expense | (53,805) | – | – | – | – | – | 15,753 | (38,052) |
| **Profit/(loss) for the year** | 1,540,630 | 33,090 | 226,401 | – | (66,308) | 41,716 | (89,270) | 1,686,259 |
| Attributable to: | | | | | | | | |
| Owners of the Company | 1,340,735 | 33,090 | 226,401 | – | (66,308) | 41,716 | (89,270) | 1,486,364 |
| Non-controlling interests | 199,895 | – | – | – | – | – | – | 199,895 |
| Profit for the year | 1,540,630 | 33,090 | 226,401 | – | (66,308) | 41,716 | (89,270) | 1,686,259 |

Notes to the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group with Fonterra China Farms Group for the year ended December 31, 2020:

1 The amounts are extracted from our audited consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2020 as set out in Appendix I to this Prospectus.

2 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of Fonterra China Farms Group for the year ended December 31, 2020 as set out in Appendix II to the Prospectus.

3 The adjustments represent the effect of bargain purchase from the Fonterra Acquisition, which has no continuing effect, as set out below.

| | *Notes* | *RMB'000* |
|---|---|---|
| Fair value of net identifiable assets of Fonterra China Farms Group at January 1, 2020 | *(a)* | 2,484,966 |
| Purchase consideration | *(b)* | 2,310,000 |
| Adjustment to purchase consideration | *(b)* | (51,435) |
| Adjusted purchase consideration | | 2,258,565 |
| Bargain purchase gain | | 226,401 |

*Notes:*

(a) The fair value is based on the valuation report of Jones Lang La Salle performed for the net identifiable assets of Fonterra China Farms Group at January 1, 2020. Jones Lang La Salle is independent qualified professional valuers which are not connected to us. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

The fair value of the property are based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

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

The fair value of the right-of-use assets are based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the fair value at an appropriate capitalization rate.

(b) The purchase consideration and adjustment thereto are based on the share purchase agreement dated October 3, 2020. The purchase consideration adjustment is determined by a formula set out in the share purchase agreement, which is calculated as (1) the net debt amount which is the difference between cash amount and certain debt amounts at completion date; and (2) the difference between the net working capital at completion date and the target net working capital; and (3) certain devaluation adjustments (where applicable) based on the number of biological assets at completion date and capital expenditures incurred from the date of share purchase agreement to completion date. The above adjustment is preliminarily determined based on the management accounts as of January 1, 2020 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

4 The adjustment represents the elimination of intercompany transactions, which is expected to have continuing effect.

5 The adjustments represent additional depreciation and amortisation charges based on the fair value of property, plant and equipment and right of use assets acquired at January 1, 2020. This is expected to have continuing effect.

6 The adjustment represents the reversal of interest expense on the Fonterra China Farms Group's debt due to the original shareholder converted to equity in accordance with the share purchase agreement dated October 3, 2020 as if the acquisition was completed on January 1, 2020. This is expected to have no continuing effect.

7 The directors of our Company intend to fund the adjusted purchase consideration of RMB2,258,565,000 by a term loan, and estimate an interest rate of 4.65% per annum based on our existing loans with similar terms and tax effect. Total interest expenses on the aforesaid loan is estimated to be RMB105,023,000 for the year ended December 31, 2020. This is expected to have continuing effect.

8 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of our Group and Fonterra China Farms Group entered into subsequent to December 31, 2020.

## UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP AS AT DECEMBER 31, 2020

| | The Group | Fonterra China Farms Group | Pro forma adjustments | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | *Note 5* | *Note 6* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 6,183,940 | 1,019,349 | – | 80,198 | – | – | 7,283,487 |
| Investment properties | 29,853 | – | – | – | – | – | 29,853 |
| Right-of-use assets | 1,321,296 | 83,816 | – | 14,327 | – | – | 1,419,439 |
| Goodwill | 762,741 | – | – | – | – | – | 762,741 |
| Intangible assets | 4,934 | 103 | – | – | – | – | 5,037 |
| Biological assets | 7,038,112 | 1,090,983 | – | – | – | – | 8,129,095 |
| Deferred tax assets | 11,382 | – | – | – | – | – | 11,382 |
| Interest in a joint venture | 808 | – | – | – | – | – | 808 |
| Equity instrument at fair value through other comprehensive income | 72,040 | – | – | – | – | – | 72,040 |
| Pledged and restricted bank deposits | 21,282 | – | – | – | – | – | 21,282 |
| Prepayment for purchase of property, plant and equipment | 140,352 | – | – | – | – | – | 140,352 |
| Deposits for biological assets | 208,907 | – | – | – | – | – | 208,907 |
| | 15,795,647 | 2,194,251 | – | 94,525 | – | – | 18,084,423 |
| **Current assets** | | | | | | | |
| Inventories | 1,972,145 | 197,351 | – | – | – | – | 2,169,496 |
| Trade receivables | 834,521 | 122,359 | – | – | – | (28,073) | 928,807 |
| Bill receivables at fair value through other comprehensive income | 27,080 | – | – | – | – | – | 27,080 |
| Contract assets | 12,139 | – | – | – | – | – | 12,139 |
| Biological assets | 9,564 | – | – | – | – | – | 9,564 |
| Prepayments, deposits and other receivables | 246,691 | 11,042 | – | – | – | – | 257,733 |
| Amounts due from related parties | 555,676 | 168,795 | – | – | – | – | 724,471 |
| Pledged and restricted bank deposits | 128,367 | – | – | – | – | – | 128,367 |
| Bank balances and cash | 2,619,113 | 67,621 | – | – | – | – | 2,686,734 |
| | 6,405,296 | 567,168 | – | – | – | (28,073) | 6,944,391 |

| | The Group | Fonterra China Farms Group | Pro forma adjustments | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | *Note 5* | *Note 6* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current liabilities** | | | | | | | |
| Trade and bills payables | 1,438,505 | 159,460 | – | – | – | (28,073) | 1,569,892 |
| Other payables and accruals | 1,149,490 | 60,203 | – | – | – | – | 1,209,693 |
| Contract liabilities | 34,770 | 1,757 | – | – | – | – | 36,527 |
| Amounts due to related parties | 14,257 | 30,762 | – | – | – | – | 45,019 |
| Bank and other borrowings | 4,224,527 | 95,936 | – | – | – | – | 4,320,463 |
| Non-current borrowings from immediate controlling company due within one year | – | 430,403 | (430,403) | – | – | – | – |
| Lease liabilities | 38,684 | 299 | – | – | – | – | 38,983 |
| Other liabilities | 6,261 | – | – | – | – | – | 6,261 |
| Other provisions | 18,546 | – | – | – | – | – | 18,546 |
| Income tax payable | 19,068 | – | – | – | – | – | 19,068 |
| | 6,944,108 | 778,820 | (430,403) | – | – | (28,073) | 7,264,452 |
| **Net current liabilities** | (538,812) | (211,652) | 430,403 | – | – | – | (320,061) |
| **Total assets less current liabilities** | 15,256,835 | 1,982,599 | 430,403 | 94,525 | – | – | 17,764,362 |
| **Non-current liabilities** | | | | | | | |
| Bank and other borrowings | 1,971,606 | – | – | – | 2,463,177 | – | 4,434,783 |
| Borrowings from immediate controlling company | – | 702,333 | (702,333) | – | – | – | – |
| Convertible notes | 3,043,648 | – | – | – | – | – | 3,043,648 |
| Deferred tax liabilities | 6,667 | – | – | – | – | – | 6,667 |
| Deferred income | 216,968 | 800 | – | (800) | – | – | 216,968 |
| Lease liabilities | 928,805 | 39,778 | – | – | – | – | 968,583 |
| Other liabilities | 20,845 | – | – | – | – | – | 20,845 |
| Other provision | 6,760 | – | – | – | – | – | 6,760 |
| | 6,195,299 | 742,911 | (702,333) | (800) | 2,463,177 | – | 8,698,254 |
| **Net assets** | 9,061,536 | 1,239,688 | 1,132,736 | 95,325 | (2,463,177) | – | 9,066,108 |
| **Capital and reserves** | | | | | | | |
| Share capital | 219 | 2,827,927 | 760 | – | (2,828,687) | – | 219 |
| Reserves | 7,819,989 | (1,588,239) | 1,131,976 | 95,325 | 365,510 | – | 7,824,561 |
| Equity attributable to owners of the Company | 7,820,208 | 1,239,688 | 1,132,736 | 95,325 | (2,463,177) | – | 7,824,780 |
| Non-controlling interests | 1,241,328 | – | – | – | – | – | 1,241,328 |
| **Total equity** | 9,061,536 | 1,239,688 | 1,132,736 | 95,325 | (2,463,177) | – | 9,066,108 |

*Notes:*

1 The amounts are extracted from our audited consolidated statement of financial position as at December 31, 2020 as set out in Appendix I to the Prospectus.

2 The amounts are extracted from the audited combined statement of financial position of Fonterra China Farms Group as at December 31, 2020 as set out in Appendix II to the Prospectus.

3 The adjustments represent the Fonterra China Farms Group's debt of RMB1,132,736 due to the original shareholder converted to equity in accordance with the share purchase agreement dated October 3, 2020 as if the acquisition was completed at December 31, 2020.

4 The adjustments represent the fair value adjustments on net identifiable assets of Fonterra China Farms Group at December 31, 2020.

We have applied the acquisition method in accordance with IFRS 3 "Business Combinations" to account for the Fonterra Acquisition as if the acquisition had been completed on December 31, 2020 and the calculation of pro forma bargain purchase gain is as follows:

| | *Notes* | *RMB'000* |
|---|---|---|
| Fair value of net identifiable assets of Fonterra China Farms Group at December 31, 2020 | *(a)* | 2,467,749 |
| Purchase consideration | *(b)* | 2,310,000 |
| Adjustment to purchase consideration | *(b)* | 153,177 |
| Adjusted purchase consideration | | 2,463,177 |
| Bargain purchase gain | | 4,572 |

*Notes:*

(a) The fair value of the net identifiable assets is based on the carrying amount of identifiable net assets of Fonterra China Farms Group as at December 31, 2020 and the fair value adjustment.

The carrying amount of identifiable net assets acquired is extracted from the audited combined statement of financial position of Fonterra China Farms Group as at December 31, 2020 as set out in Appendix II to the Prospectus, and adjusted for the debt conversion in note 3 above.

The pro forma fair value adjustment is based on the valuation report of Jones Lang LaSalle on the net identifiable assets of Fonterra China Farms Group at December 31, 2020. Jones Lang La Salle is independent qualified professional valuers which are not connected to us. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

The fair value of the property are based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

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

The fair value of the right of use assets are based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the fair value at an appropriate capitalization rate.

(b) The adjusted purchase consideration is calculated according to the share purchase agreement dated October 3, 2020. The purchase consideration adjustment is determined by a formula set out in the share purchase agreement, which is calculated as (1) the net debt amount which is the difference between cash amount and certain debt amounts at completion date; and (2) the difference between the net working capital at completion date and the target net working capital; and (3) certain devaluation adjustments (where applicable) based on the number of biological assets at completion date and capital expenditures incurred from the date of share purchase agreement to completion date. The above adjustment is preliminarily determined based on the management accounts as of December 31, 2020 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

5 The directors of our Company intend to fund the consideration of RMB2,463,177,000 by a non-current term loan. The adjustments to share capital and reserves represent the elimination of pre-acquisition reserves of Fonterra China Farms Group at December 31, 2020 and recognition of the pro forma bargain purchase gain of RMB4,572,000 as set out in note 4 above.

6 The adjustments represent the elimination of intercompany balances.

7 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of our Group and Fonterra China Farms Group entered into subsequent to December 31, 2020.

## DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

### Revenue

We offer a broad selection of raw milk products and a variety of comprehensive ruminant farming solutions primarily covering feed, frozen semen and ruminant farming products. We generate revenue primarily from sales of our products to our customers. During the Track Record Period, we recorded revenue of RMB6,333.9 million, RMB7,667.8 million, and RMB11,781.2 million for the years ended December 31, 2018, 2019 and 2020, respectively.

We classified our businesses into two segments: (i) raw milk, which includes sales of premium raw milk and specialty raw milk; and (ii) comprehensive ruminant farming solutions, which mainly includes production and sales of feed, frozen semen and ruminant farming products. The following table sets forth a breakdown of our revenue by business segment for the periods indicated:

| | Segment revenue | Inter-segment revenue | External revenue | External revenue as % of segment revenue |
|---|---|---|---|---|
| | *(RMB'000, except for percentage)* | | | |
| **Year ended December 31, 2018** | | | | |
| Raw milk | 2,610,333 | – | 2,610,333 | 100.0 |
| Comprehensive ruminant farming solutions | 4,304,370 | 580,783 | 3,723,587 | 86.5 |
| **Year ended December 31, 2019** | | | | |
| Raw milk | 3,063,615 | – | 3,063,615 | 100.0 |
| Comprehensive ruminant farming solutions | 5,141,442 | 537,239 | 4,604,203 | 89.6 |
| **Year ended December 31, 2020** | | | | |
| Raw milk | 6,994,592 | – | 6,994,592 | 100.0 |
| Comprehensive ruminant farming solutions | 6,268,347 | 1,481,744 | 4,786,603 | 76.4 |

*Raw milk*

We derive revenues from sales of our safe, quality raw milk to our customers. Revenue from sales of our raw milk is recognized when control of the raw milk has been transferred, being at the point the customer received the goods and accepted the quality. The following table sets forth the sales value and sales volume of our raw milk for the periods indicated:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | Sales value | Sales volume | Sales value | Sales volume | Sales value | Sales volume |
| | *(Sales value in RMB'000; sales volume in tons)* | | | | | |
| **Raw milk** | | | | | | |
| Premium raw milk | 1,297,803 | 335,829 | 1,561,656 | 383,071 | 4,831,558 | 1,133,671 |
| Specialty raw milk | 1,312,530 | 236,264 | 1,501,959 | 272,715 | 2,163,034 | 396,164 |
| A2 milk | – | – | – | – | 6,315 | 1,267 |
| Organic milk | 1,219,991 | 215,036 | 1,252,453 | 222,797 | 1,840,852 | 332,506 |
| Jersey milk | 19,247 | 3,635 | 134,700 | 25,564 | 198,123 | 37,499 |
| DHA milk | 73,292 | 17,593 | 114,805 | 24,354 | 117,744 | 24,891 |
| Subtotal | 2,610,333 | 572,093 | 3,063,615 | 655,786 | 6,994,592 | 1,529,835 |

The following table sets forth the average selling price of our raw milk for the periods indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *(RMB/kg)* | | |
| **Raw milk** | 4.6 | 4.7 | 4.6 |
| Premium raw milk | 3.9 | 4.1 | 4.3 |
| Specialty raw milk | 5.6 | 5.5 | 5.5 |
| A2 milk | – | – | 5.0 |
| Organic milk | 5.7 | 5.6 | 5.5 |
| Jersey milk | 5.3 | 5.3 | 5.3 |
| DHA milk(1) | 4.2 | 4.7 | 4.7 |

*Note:*

(1) The average selling price of DHA milk in 2018 is lower than the prices during other periods because we were at an early stage of launching DHA milk and in the phase of introducing and promoting this new product.

Our raw milk is catergorised into premium raw milk and specialty raw milk. Our specialty raw milk comprises organic milk, jersey milk, DHA milk and A2 milk. We launched Jersey milk and DHA milk in 2018 and A2 milk in October 2020. Organic milk has historically been a major contributor to the sales volume of specialty raw milk. Our average selling price of premium raw milk generally follows the overall market trend during the Track Record Period, and our average selling price of specialty raw milk, in particular the average selling price of organic milk, is higher than that of premium raw milk. The principal drivers for the relatively higher price of specialty raw milk include the long development cycle of specialty raw milk, continuous and significant investment in products, advanced farming technology applied in our production, and various difficulties for process control. In addition, we remained as an upstream raw milk supplier with all organic milk sold to Yili, a leading downstream liquid milk manufacturer with widely advertised branded organic milk products. Therefore, we have secured a stable demand and a stable average selling price for our specialty raw milk, in particular organic milk. Our pricing methodology for organic raw milk is primarily based on the OECD transfer guidelines and relevant PRC transfer pricing laws and regulations, which includes two types of transfer pricing methods, namely, the cost-plus method and the value contribution allocation method. Based on such transfer pricing methods, an independent consulting agency determined a fair price range of organic milk which was used as the starting point for our price negotiations with Yili. In practice, the result of our negotiation with Yili is based on (a) a price range determined by the independent empirical research of dairy farming companies listed across the world on their cost components (including production cost and selling & marketing cost) of premium raw milk and organic raw milk and a market mark up over the price of premium raw milk, and (b) our bargaining power. Please also refer to the section headed "Continuing Connected Transactions" in this document for further details of our supply of raw milk to Yili. The fair price range of organic raw milk reviewed by the independent consulting agency is from RMB4.91/kg to RMB6.37/kg in 2018 and from RMB5.05/kg to RMB5.86/kg in both 2019 and 2020. We typically determine the selling price for our organic raw milk by reference to such price range, subject to price negotiations with Yili. The same pricing methodology set forth above also applies to our other specialty raw milk.

The decrease of average selling price of our raw milk from RMB4.7/kg for the year ended December 31, 2019 to RMB4.6/kg for the year ended December 31, 2020 was primarily due to the acquisition of SKX, whose product structure mainly consists of premium raw milk that has relatively lower price as compared to specialty raw milk.

*Comprehensive ruminant farming solutions*

We derive our revenue from comprehensive ruminant farming solutions, which primarily include feed, breeding products and ruminant farming products. During the Track Record Period, our revenue from comprehensive ruminant farming solutions was primarily generated from the sales of feed. For the years ended December 31, 2018, 2019 and 2020, revenue generated from the sales of feed amounted to RMB3,508.8 million, RMB4,376.5 million and RMB4,395.7 million, representing 94.2%, 95.1% and 91.8% of revenues from our comprehensive ruminant farming solutions, respectively, for the same periods. The following table sets forth the composition of the revenue from our comprehensive ruminant farming solutions for the periods indicated:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **%** | **2019** | **%** | **2020** | **%** |
| | *(RMB'000, except for percentage)* | | | | | |
| Comprehensive ruminant farming solutions | | | | | | |
| Sales of feed | 3,508,771 | 94.2 | 4,376,520 | 95.1 | 4,395,724 | 91.8 |
| Processing and distribution of concentrated feed | 3,082,239 | 82.8 | 3,898,358 | 84.7 | 3,932,737 | 82.2 |
| Forage grass growing | 40,715 | 1.1 | 35,967 | 0.8 | 40,268 | 0.8 |
| Forage grass trading | 385,817 | 10.4 | 442,195 | 9.6 | 422,719 | 8.8 |
| Sales of ruminant farming products | 214,816 | 5.8 | 227,683 | 4.9 | 339,992 | 7.1 |
| Sales of breeding products | – | – | – | – | 50,887 | 1.1 |
| Total | 3,723,587 | 100.0 | 4,604,203 | 100.0 | 4,786,603 | 100.0 |

For the years ended December 31, 2018, 2019 and 2020, we sold feed of 1,357,897 tons, 1,724,567 tons and 1,604,254 tons, in average selling price of RMB2,584/ton, RMB2,538/ton and RMB2,740/ton, respectively. We sell various types of ruminant farming products, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, which do not have unified unit to measure sales volume. During the Track Record Period, the selling price of our ruminant farming products ranged from approximately RMB0.02 to RMB6,250,000. We started to operate breeding products business since our acquisition of SKX in January 2020. For the year ended December 31, 2020, we sold breeding products-frozen bovine semen of 797,668 units in the average selling price of RMB63.7/unit.

## Cost of Sales

The following table sets forth cost of sales by business segment for the periods indicated:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | % | 2019 | % | 2020 | % |
| | (RMB'000, except for percentage) | | | | | |
| Cost of sales before fair value adjustments | | | | | | |
| Raw milk | 1,550,214 | 26.7 | 1,784,635 | 25.4 | 4,000,063 | 36.2 |
| Comprehensive ruminant farming solutions | 3,238,015 | 55.7 | 3,996,923 | 57.0 | 4,177,940 | 37.8 |
| Fair value adjustments for agricultural produce included in cost of sales | 1,022,398 | 17.6 | 1,232,668 | 17.6 | 2,870,723 | 26.0 |
| Total | 5,810,627 | 100.0 | 7,014,226 | 100.0 | 11,048,726 | 100.0 |

### *Cost of Sales before Fair Value Adjustments*

*Raw milk*

Cost of sales for our raw milk business consists primarily of cost of raw materials (mainly are feed fed to our dairy herd), depreciation charge, rental cost, utilities expenses, staff salaries and benefits and other costs.

The following table sets forth the composition of cost of sales for our raw milk business before raw milk fair value adjustment for the periods indicated:

| | For the Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | % | 2019 | % | 2020 | % |
| | (RMB'000, except for percentage) | | | | | |
| Cost of sales for our raw milk business before raw milk fair value adjustments | | | | | | |
| Feed | 1,237,633 | 79.8 | 1,437,617 | 80.6 | 3,227,941 | 80.7 |
| Depreciation charge | 87,630 | 5.7 | 96,078 | 5.4 | 239,328 | 6.0 |
| Rental cost | 10,000 | 0.6 | 10,272 | 0.6 | 19,796 | 0.5 |
| Utilities expenses | 27,505 | 1.8 | 32,962 | 1.8 | 79,251 | 2.0 |
| Staff salaries and benefits | 150,636 | 9.7 | 166,734 | 9.3 | 297,156 | 7.4 |
| Others | 36,810 | 2.4 | 40,972 | 2.3 | 136,591 | 3.4 |
| Total | 1,550,214 | 100.0 | 1,784,635 | 100.0 | 4,000,063 | 100.0 |

*Comprehensive ruminant farming solutions*

The cost of sales for our comprehensive ruminant farming solutions business consists primarily of the cost of sales of feed, cost of sales of ruminant farming products, and cost of sales of breeding products.

The following table sets forth the composition of the cost of sales for our comprehensive ruminant farming solutions business before forage grass fair value adjustments for the periods indicated:

| | For the Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **%** | **2019** | **%** | **2020** | **%** |
| | *(RMB'000, except for percentage)* | | | | | |
| Cost of sales for our comprehensive ruminant farming solutions business before forage grass fair value adjustments | | | | | | |
| Cost of sales of feed | 3,072,836 | 94.9 | 3,812,839 | 95.4 | 3,865,155 | 92.5 |
| Cost of sales of ruminant farming products | 165,179 | 5.1 | 184,084 | 4.6 | 283,015 | 6.8 |
| Cost of sales of breeding products | – | – | – | – | 29,770 | 0.7 |
| Total | 3,238,015 | 100 | 3,996,923 | 100 | 4,177,940 | 100.0 |

***Fair value adjustments for agricultural produce included in cost of sales***

Fair value adjustments for agricultural produce included in cost of sales arise from the differences between the production cost under the cost approach and the market price of agricultural produce at the point of harvest. We recorded fair value adjustments for agricultural produce included in cost of sales of RMB1,022.4 million, RMB1,232.7 million and RMB2,870.7 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Fair value adjustments for agricultural produce consist of raw milk fair value adjustments and forage grass fair value adjustments. We recorded raw milk fair value adjustments of RMB1,013.1 million, RMB1,225.0 million and RMB2,863.7 million for the years ended December 31, 2018, 2019 and 2020, respectively. The forage grass fair value adjustments amounted to RMB9.3 million, RMB7.7 million and RMB7.0 million for the years ended December 31, 2018, 2019 and 2020, respectively.

**Gains Arising on Initial Recognition of Agricultural Produce at Fair Value less Cost of Sales at the Point of Harvest**

Our agricultural produce primarily consists of raw milk produced by our self-owned dairy cows in our self-operated dairy farms. Under IFRS, agricultural produce is recognised as inventories at fair value less costs to sell at the point of harvest. The fair value is determined based on the market price quoted in the local area. The resulting gain or loss of recognition of such fair value, being the difference between (i) the fair value less costs to sell of such raw milk and (ii) the breeding costs incurred in the case of raw milk business, is recognised in profit or loss for that period. Meanwhile, the fair value recognised is charged as cost of sales upon subsequent sales of such agricultural produce as part of the cost of inventories sold.

The gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest was due to the difference between the production cost of agricultural produce under the cost approach and the market price of agricultural produce at the point of harvest.

We recorded gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest of RMB1,022.4 million, RMB1,232.7 million and RMB2,870.7 million for the years ended December 31, 2018, 2019 and 2020, respectively.

The gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest could offset the agricultural produce fair value adjustments included in cost of sales.

**Gross Profit**

The following table sets forth a breakdown of our gross profit and gross profit margin by raw milk business and comprehensive ruminant farming solutions business for the periods indicated:

| | For the Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | *(RMB'000, except for percentage)* | | | | | |
| | *Gross profit* | *Gross profit margin* | *Gross profit* | *Gross profit margin* | *Gross profit* | *Gross profit margin* |
| Raw milk | 1,060,119 | 40.6% | 1,278,980 | 41.7% | 2,994,529 | 42.8% |
| – Premium raw milk | 423,601 | 32.6% | 555,855 | 35.6% | 1,931,074 | 40.0% |
| – Specialty raw milk* | 636,519 | 48.5% | 723,125 | 48.1% | 1,063,455 | 49.2% |
| Organic milk | 617,202 | 50.6% | 634,924 | 50.7% | 931,243 | 50.6% |
| Jersey milk | 7,279 | 37.8% | 52,208 | 38.8% | 84,994 | 42.9% |
| DHA milk | 12,038 | 16.4% | 35,992 | 31.4% | 43,950 | 37.3% |
| A2 milk | – | – | – | – | 3,269 | 51.8% |
| Comprehensive ruminant farming solutions | 485,572 | 13.0% | 607,280 | 13.2% | 608,663 | 12.7% |
| – Feed | 435,935 | 12.4% | 563,681 | 12.9% | 530,569 | 12.1% |
| Processing and distribution of concentrated feed | 384,967 | 12.5% | 479,310 | 12.3% | 496,513 | 12.6% |
| Forage grass growing | 12,419 | 30.5% | 9,261 | 25.7% | 7,000 | 17.4% |
| Forage grass trading | 38,549 | 10.0% | 75,110 | 17.0% | 27,056 | 6.4% |
| – Ruminant farming products | 49,637 | 23.1% | 43,599 | 19.1% | 56,977 | 16.8% |
| – Breeding products† | – | – | – | – | 21,117 | 41.5% |
| Total | 1,545,691 | 24.4% | 1,886,260 | 24.6% | 3,603,192 | 30.6% |

*Note:*

* As compared to organic milk, the gross profit margin for Jersey milk and DHA milk is lower for the following reasons:

(1) (a) The market for and the scale of the Group's Jersey milk and DHA milk is still under-developed. The sales volume is relatively small at this stage and the unit production cost and milk yield has not yet achieved economies of scale, as compared to the Group's organic milk.

*Jersey milk.* The Group commenced production of Jersey milk in 2018, with sales volume of 3,635 tons, 25,564 tons and 37,499 tons for the three years ended December 31, 2020, respectively. The revenue attributable to the Group's Jersey milk accounted for 0.3%, 1.8% and 1.7% of total revenue in 2018, 2019 and 2020, respectively.

*DHA milk.* The Group commenced production of DHA milk in 2018, with sales volume amounting to 17,593 tons, 24,354 tons and 24,891 tons for the years ended December 31, 2018, 2019 and 2020, respectively. The revenue attributable to the Group's DHA milk accounted for 1.2%, 1.5% and 1.0% of total revenue in 2018, 2019 and 2020, respectively.

(b) In contrast, the market for and the scale of the Group's organic milk is more developed. The Group commenced production of organic milk in 2012, with sales volume amounting to 215,036 tons, 222,797 tons and 332,506 tons for the years ended December 31, 2018, 2019 and 2020, respectively. The revenue attributable to the Group's organic milk accounted for 19.3%, 16.3% and 15.6% of total revenue in 2018, 2019 and 2020, respectively.

(2) As the downstream liquid milk products of Jersey milk and DHA milk are relatively new to the market, it takes time for consumers to become more informed of such products. Discounts and special offers were therefore given by the downstream liquid milk product manufacturer to its end customers. In addition, substantial marketing expenses were incurred during the promotional period of the downstream liquid milk products of Jersey milk and DHA milk, which led to lower profit of the products across the entire value chain. Therefore a lower applicable upper limit was set based on the value contribution allocation method and a relatively lower selling price was determined by the Group and Yili for the Group's Jersey milk and DHA milk.

† We started to operate our breeding business in January 2020 after the acquisition of SKX.

### Loss Arising from Changes in Fair Value less Costs to Sell of Biological Assets

Loss arising from changes in fair value less costs to sell of biological assets represents the difference in fair value less costs to sell of our biological assets from period to period, due to the changes in physical attributes and market prices of our biological assets and the changes in discounted future cash flows to be generated by our biological assets, in particular dairy cows which constitutes a major part of our biological assets. The fair value is measured by reference to local market selling prices or by projecting future cash flows to be generated from those cows and discounting them to a present day value.

Our fair value changes in respect of biological assets include the following two categories: (a) realised loss resulting from culled and dead cows, and (b) unrealised gain or loss arising from the cows held by us based on valuation. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flows from milking is higher than the selling price of heifers. Therefore, our unrealised gain arising from changes in fair value less costs to sell of biological assets represents changes in fair value arising from the cows held by us as of the end of the relevant period. Further, when a milkable cow is culled and sold, its value decreases and we record realised loss arising from changes in fair value less costs to sell of biological assets because the proceeds from the disposal of culled and dead cows are generally lower than their carrying value. During the Track Record Period, the biological assets were revalued at each reporting date, and our realised loss arising from changes in fair value less costs to sell of biological assets, which is resulted from the culling and death of cows, is partially offset by unrealised gain arising from changes in fair value less costs to sell of biological assets. The drivers for our unrealised gain arising from changes in fair value less costs to sell of biological assets include the following: (a) the increased scale of biological assets and (b) the increase in unit fair value of milkable cows which is resulted from (i) an increase in the percentage of milkable cows for producing specialty raw milk that carries a higher unit fair value as compared to milkable cows for producing premium raw milk and (ii) the age structure of our dairy herds with more young milkable cows.

During the Track Record Period, the valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers*. The fair value of calves and heifers is determined by reference to the local market selling price. The fair values of calves and heifers less than 14 months old are determined by subtracting the estimated feed costs required to raise the cows from their respective ages at the end of each reporting period to 14 months old. Conversely, the fair values of heifers older than 14 months are determined by adding the estimated feed costs required to raise the heifers from 14 months old to their respective ages at the end of each reporting period plus the margins that would normally be required by a raiser.

- *Milkable cows*. The fair values of milkable cows are determined by using the multi-period excess earnings approach, which is based on the discounted future cash flows to be generated by such milkable cows. The main influencing parameters include, among others, the estimated raw milk price, estimated feeding cost per kilogram of milk, average daily milk yield and herd structure. The herd structure refers to the different lactation periods of milkable cows. The valuation model assumes that milkable cow has six lactation cycles. The milkable cow in the first lactation period can generate future cash flows in its remaining five lactation periods. Accordingly, the value of young milkable cows (e.g. those in first and second lactation periods) is higher than that of older milkable cows.

We recorded loss arising from changes in fair value less costs to sell of biological assets of RMB87.3 million, RMB133.3 million and RMB413.8 million for the years ended December 31, 2018, 2019 and 2020, respectively. See the section headed "– Year-to-year Comparison of Results of Operations" in this prospectus for analysis on the fluctuation of the gains and losses arising from changes in fair value less costs to sell of biological assets.

As compared to other industry peers, our loss arising from changes in fair value less costs to sell of biological assets for raw milk business was relatively lower during the Track Record Period, mainly because of (a) a relatively low loss arising from culled and dead cows, which was due to our relatively stable culling rate and relatively low culling cost (i.e., fair value) while selling prices of culled cows in the market are similar, (b) the optimization of our herd structure as a result of (1) the investment in new dairy farms with a higher proportion of young milkable cows that usually carry a relatively high value and (2) the increased proportion of milkable cows for producing specialty raw milk that usually carry a higher value than the value of milkable cows for producing premium raw milk, and (c) the continuously improved milk yield per milkable cow.

When disposing of our dairy cows, we write off the carrying amount of the dairy cows from our biological assets, and the difference between the carrying amount of the dairy cows disposed of and the proceeds from the disposal is recorded as change in fair value less costs to sell of our biological assets. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of biological assets amounted to RMB190.1 million, RMB328.2 million and RMB974.5 million for the years ended December 31, 2018, 2019 and 2020, respectively. The significant increase in the cash proceeds from disposal of biological assets from RMB190.1 million for the year ended December 31, 2018 to RMB328.2 million for the year ended December 31, 2019 was mainly because the number and unit price of feeder cattle and culled cows increased. The large increase in the cash proceeds from disposal of biological assets from RMB328.2 million for the year ended December 31, 2019 to RMB974.5 million for the year ended December 31, 2020 was mainly due to the acquisition of SKX, the increases in the number of culled cows and the feeder cattle sold and an increase in the unit price of dairy cows.

**Other Income**

The following table sets forth the breakdown of our other income for the periods indicated:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Government grants released from deferred income | 27,033 | 38,773 | 26,487 |
| Incentive subsidies | 4,102 | 658 | 17,825 |
| Rental income[1] | 5,002 | 3,306 | 6,691 |
| Bank interest income | 6,115 | 4,390 | 12,606 |
| Income from sale of scrap materials | 2,175 | 2,589 | 3,725 |
| Compensation income[2] | 3,087 | 899 | 704 |
| Write-back of other payables | 796 | 1,515 | 4,441 |
| Others | 3,159 | 3,266 | 4,500 |
| | 51,469 | 55,396 | 76,979 |

*Notes:*

(1) Mainly included rental income from leasing out the dairy farms in Hohhot.

(2) Mainly included compensation from suppliers due to non-material breach of contracts. Such breaches generally did not impact our business and relationships with suppliers.

We recorded other income of RMB51.5 million, RMB55.4 million and RMB77.0 million for the years ended December 31, 2018, 2019 and 2020, respectively. Our other income mainly includes government grants released from deferred income, incentive subsidies, rental income, bank interest, income from sale of scrap materials, compensation income, write-back of other payables and others, and among them, government grants released under deferred income represent the largest component of our other income. Government grants released from deferred income, amounted to RMB27.0 million, RMB38.8 million and RMB26.5 million for the years ended December 31, 2018, 2019 and 2020, respectively, which mainly include unconditional government subsidies granted to us by the Chinese government to support China's dairy farming business and our research and development.

**Impairment Loss under Expected Credit Loss Model, Net of Reversal**

Our impairment losses under expected credit loss model, net of reversal consist of impairment losses recognized or reversed on trade and other receivables. The following table sets forth a breakdown of our impairment losses under expected credit loss model, net of reversal for the periods indicated:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *(RMB'000)* | |
| Impairment losses recognized/reversed on: | | | |
| Trade receivables | 1,262 | 24,273 | 41,359 |
| Other receivables | 191 | 488 | 3,724 |
| Total | 1,453 | 24,761 | 45,083 |

**Other Gains and Losses**

Other gains and losses consist primarily of (i) loss or gain on disposal of property, plant and equipment, (ii) impairment loss on property, plant and equipment, (iii) reversal of impairment loss on trade and other receivables, (iv) reduction in or additional provision for other obligations, (v) fair value gains or loss on derivative financial instruments, (vi) fair value gain on financial instruments at fair value through profit or loss, (vii) gain or loss on termination and modification of lease agreements, and (viii) others.

The following table sets forth a breakdown of the components of our other gains and losses for the periods indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | (RMB'000) | |
| Foreign exchange differences, net(1) | – | – | (29,371) |
| Loss on disposal of property, plant and equipment, net | (5,272) | (6,298) | (5,909) |
| Impairment loss on property, plant and equipment | (26,204) | (8,271) | (15,197) |
| Reduction in provision for other obligations(2) | 943 | 1,515 | – |
| Fair value (loss)/gain on derivative financial instruments | (5,208) | (2,186) | 436 |
| Fair value gain on financial instruments at fair value through profit or loss | – | 209 | – |
| Gain on termination and modification of lease agreements | – | 105 | – |
| Others | 128 | (1,120) | (4,232) |
| | (35,613) | (16,046) | (54,273) |

*Note:*

(1) The foreign exchange differences were nil in 2018 and 2019 because (i) we only had a small amount of cash in U.S. dollars in 2018 and 2019, (ii) the issuance of the Convertible Notes in November 2020 significantly increased our cash position in U.S. dollars, and (iii) U.S. dollars depreciated in 2020.

(2) At initial recognition, the provision for the obligation to return the dairy cows represented the best estimate of the consideration required to settle the present obligation which approximate the fair value of the dairy cows to be returned to the third party, pursuant to the relevant lease agreement, we are required to return the same number of dairy cows with same age composition to the lessor. For more information, please refer to Note 37 to the Accountants' Report in Appendix I to this prospectus.

**Selling and Distribution Expenses**

Our selling and distribution expenses consist primarily of: (i) loading, unloading and transportation costs, which are mainly costs incurred by us to deliver raw milk and ruminant farming products to our customers; (ii) marketing expenses, which are mainly expenses involved in promoting our comprehensive ruminant farming solutions; (iii) staff remuneration, mainly including salaries and bonuses paid by us to our sales personnel; (iv) taxes, mainly including business taxes and surcharges; (v) travel expenses, which are related to the carrying out of our marketing activities; and (vi) others.

The following table sets forth a breakdown of our selling and distribution expenses and as a percentage of our total selling and distribution expenses for the periods indicated:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | *RMB* | *%* | *RMB* | *%* | *RMB* | *%* |
| | *(RMB'000, except for percentages)* | | | | | |
| Loading, unloading and transportation costs | 181,761 | 66.9 | 201,351 | 59.2 | 303,700 | 67.0 |
| Marketing expenses | 10,942 | 4.0 | 48,186 | 14.1 | 27,919 | 6.2 |
| Staff remuneration | 37,795 | 13.9 | 44,992 | 13.2 | 57,723 | 12.7 |
| Taxes | 16,406 | 6.0 | 21,531 | 6.3 | 28,172 | 6.2 |
| Travel expenses | 14,509 | 5.3 | 12,302 | 3.6 | 14,304 | 3.2 |
| Others | 10,519 | 3.9 | 12,325 | 3.6 | 21,298 | 4.7 |
| Total | 271,932 | 100.0 | 340,687 | 100.0 | 453,116 | 100.0 |

**Administrative Expenses**

Our administrative expenses consist of: (i) staff remuneration, mainly including salaries and bonuses of our management and executive staff; (ii) maintenance expenses, mainly including expenses incurred for regular maintenance of our dairy farms and production facilities; (iii) travel and office expenses related to our administrative activities; (iv) legal and professional service fees, mainly including legal and consulting services; (v) insurance expenses, mainly including commercial property insurance we have purchased; (vi) research and development expenses; and (vii) others, mainly including depreciation and amortisation, taxes and charges, etc.

The following table sets forth a breakdown of our administrative expenses and as a percentage of our total administrative expenses for the periods indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | *RMB* | *%* | *RMB* | *%* | *RMB* | *%* |
| | *(RMB'000, except percentages)* | | | | | |
| Staff remuneration | 154,434 | 36.7 | 182,773 | 40.9 | 256,003 | 34.4 |
| Maintenance expenses | 125,673 | 29.8 | 124,138 | 27.9 | 273,640 | 36.8 |
| Travel and office expenses | 54,798 | 13.0 | 61,292 | 13.8 | 72,046 | 9.7 |
| Legal and professional services fees | 25,577 | 6.1 | 13,594 | 3.1 | 18,935 | 2.5 |
| Insurance expenses | 7,380 | 1.8 | 10,727 | 2.4 | 34,421 | 4.6 |
| Research and development expenses | 5,249 | 1.2 | 10,515 | 2.4 | 22,696 | 3.0 |
| Others | 48,187 | 11.4 | 42,414 | 9.5 | 66,775 | 9.0 |
| Total | 421,298 | 100.0 | 445,453 | 100.0 | 744,516 | 100.0 |

## Other Expenses

Our other expenses mainly include disaster losses, compensation payment, donations and others. The table below sets forth a breakdown of other expenses and as a percentage of total other expenses for the periods indicated:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | |
| | *RMB* | *%* | *RMB* | *%* | *RMB* | *%* |
| | *(RMB'000, except for percentage)* | | | | | |
| Disaster losses[1] | 49 | 2.1 | 362 | 1.4 | – | – |
| Compensation payment[2] | 1,155 | 50.0 | 1,180 | 4.4 | 5,154 | 25.7 |
| Donations | 1,107 | 47.9 | 1,576 | 5.9 | 3,213 | 16.0 |
| Fonterra Acquisition related expenses | – | – | – | – | 11,663 | 58.2 |
| Other[3] | – | – | 23,410 | 88.3 | – | – |
| Total | 2,311 | 100.0 | 26,528 | 100.0 | 20,030 | 100.0 |

*Notes:*

(1) mainly included losses on silage caused by special weather conditions, among others.

(2) mainly included (i) the compensation made by us in association with breach of the contracts with our customers caused by feed products being damaged in delivery, (ii) the compensation made by us in association with breach of the contracts with our suppliers, (iii) the work injury compensation paid to employees in 2019, and (iv) a provision recorded in 2020 with respect to the litigations between SKX and Yanhua. For more information regarding the provision recorded in 2020, see the section headed "Business – Legal Proceedings – Litigations between SKX and Yanhua." The aforementioned breaches and disputes generally did not impact our business and our relationships with customers and suppliers.

(3) mainly included professional service expenses associated with the acquisition of SKX.

## Listing Expenses

Listing expenses represent fees in connection with this Offering. For the three years ended December 31, 2018, 2019 and 2020, we recorded listing expenses of nil, nil and RMB34.4 million, respectively.

## Share of Profit of a Joint Venture

Share of profit of a joint venture represents profits shared by a corporate which mainly engages in the production and sales of frozen semen, in which we hold 50% equity interest. During the Track Record Period, we recorded share of profit of a joint venture of RMB25 thousand for the year ended December 31, 2020.

### Finance Costs

Our finance costs mainly represent interest expenses on bank borrowings, other borrowings from a subsidiary and lease liabilities. We recorded finance costs of RMB80.1 million, RMB104.1 million and RMB309.8 million for the years ended December 31, 2018, 2019 and 2020, respectively.

### Profit before Tax

We recorded a profit before tax of RMB697.2 million, RMB850.9 million and RMB1,594.4 million for the years ended December 31, 2018, 2019 and 2020, respectively.

### Income Tax Expenses

Our Company is incorporated as an exempted company and as such is not subject to Cayman Islands taxation.

No provision for taxation in Hong Kong has been made as our Group's income neither arises in, nor is derived from Hong Kong during the Track Record Period.

The exemption of PRC EIT for income from agriculture and husbandry business has been uniformly in force since January 1, 2008. Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of our Company are exempted from PRC EIT for taxable profit from the operation of agricultural business in the PRC during the Track Record Period. In addition, certain subsidiaries operating in the PRC, including Muquan Yuanxing Feeds, Ningxia Bio-Technology, Wulanchabu Bio-Technology and Bayannaoer Bio-Technology (as defined in Note 51), are eligible for a preferential tax rate of 15% under relevant preferential tax policy in relation to PRC western development. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa [2012] No. 97), Ningxia Bio-Technology is eligible for 40% EIT reduction from 2018 to 2020 on the basis of a 15% tax rate.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, except for the preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within our Group operating in the PRC are subject to EIT at the statutory rate of 25% during the Track Record Period.

Our income tax expenses were RMB44.3 million, RMB49.0 million and RMB53.8 million for the years ended December 31, 2018, 2019 and 2020, respectively. During the Track Record Period, we have benefited from preferential tax policies and our effective income tax rate was 6%, 6% and 3%, as certain subsidiaries of our Group are exempted from PRC Enterprise Income Tax or enjoyed preferential tax rate for taxable profit from the operation of agricultural business in the PRC, for more information, see the section headed "— Major Factors Affecting Our Results of Operations and Financial Condition — Our ability to continuously benefit from government support" in this prospectus.

**Profit for the Year**

Based on the foregoing reasons, for the years ended December 31, 2018, 2019 and 2020, we recorded profit for the year of RMB652.9 million, RMB801.9 million and RMB1,540.6 million, respectively.

## YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS

### Year ended December 31, 2020 Compared to Year ended December 31, 2019

***Revenue***

Our revenue increased by 53.6% from RMB7,667.8 million for the year ended December 31, 2019 to RMB11,781.2 million for the year ended December 31, 2020, which was primarily driven by a significant increase in revenue generated from the raw milk business segment and a steady increase in revenue generated from the comprehensive ruminant farming solutions.

- *Revenue generated from raw milk*. Our revenue generated from raw milk increased by 128.3% from RMB3,063.6 million for the year ended December 31, 2019 to RMB6,994.6 million for the year ended December 31, 2020, which was mainly due to (i) a significant increase in the sales volume of premium raw milk as a result of (a) the acquisition of the controlling interest in SKX, (b) new dairy farms put into production, and (c) the increases in the number of milkable cow and average milk yield per milkable cow, and (ii) a rise in the average unit price of premium raw milk from RMB4.1 per kilogram for the year ended December 31, 2019 to RMB4.3 per kilogram for the year ended December 31, 2020, which was generally in line with raw milk supply market, and (iii) an increase in the sales volume of specialty raw milk, the average selling price of which remained stable during the year.

- *Revenue generated from comprehensive ruminant farming solutions*. Our revenue generated from comprehensive ruminant farming solutions increased by 4.0% from RMB4,604.2 million for the year ended December 31, 2019 to RMB4,786.6 million for the year ended December 31, 2020, which was mainly due to (i) a 49.3% increase in the revenue generated from sales of ruminant farming products, attributable to the introduction of new products and an increase in sales volume, and (ii) an increase of RMB50.9 million in the revenue generated from sales of breeding products as a result of the acquisition of the controlling interest in SKX.

***Cost of Sales***

Our cost of sales increased by 57.5% from RMB7,014.2 million for the year ended December 31, 2019 to RMB11,048.7 million for the year ended December 31, 2020. The increase was primarily due to our business growth in raw milk and comprehensive ruminant farming solutions, and the effect of agricultural produce fair value adjustments.

Cost of sales for raw milk business before raw milk fair value adjustments increased by 124.1% from RMB1,784.6 million for the year ended December 31, 2019 to RMB4,000.1 million for the year ended December 31, 2020, which was primarily due to the increase in cost of sales as a result of the acquisition of the controlling interest in SKX, new dairy farms put into production, the increased number of milkable cows and the increase in the sales volume of specialty raw milk.

Cost of sales of comprehensive ruminant farming solutions before forage grass fair value adjustments increased by 4.5% from RMB3,996.9 million for the year ended December 31, 2019 to RMB4,177.9 million for the year ended December 31, 2020, which was primarily due to the increase in the sales volume of ruminant farming products and breeding products.

Fair value adjustments for agricultural produce included in cost of sales increased from RMB1,232.7 million for the year ended December 31, 2019 to RMB2,870.7 million for the year ended December 31, 2020.

***Gains Arising from Initial Recognition of Agricultural Produce at Fair Value less Costs to Sell at the Point of Harvest***

Our gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest were RMB1,232.7 million for the year ended December 31, 2019 and RMB2,870.7 million for the year ended December 31, 2020 respectively. The change reflects the adjustment in the fair value of agricultural produce. Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest is offset against the agricultural produce fair value adjustments included in cost of sales.

***Gross Profit***

As a result of the aforementioned growth in revenue alongside the consolidation of the finance performance of SKX and an improvement in overall gross profit margin, our gross profit increased by 91.0% from RMB1,886.3 million for the year ended December 31, 2019 to RMB3,603.2 million for the year ended December 31, 2020. During the same periods, our gross profit margin increased from 24.6% to 30.6%, mainly due to the increase in proportion of raw milk segment, which has higher gross profit margin as compared to comprehensive ruminant farming solutions segment.

Gross profit of raw milk increased from RMB1,279.0 million for the year ended December 31, 2019 to RMB2,994.5 million for the year ended December 31, 2020. Gross profit margin of raw milk increased from 41.7% for the year ended December 31, 2019 to 42.8% for the year ended December 31, 2020, mainly because of (i) an increase in the sales volume of specialty raw milk during the year which has a relatively high gross profit margin and (ii) an increase in the average selling price and gross profit margin of premium raw milk which was generally in line with the overall raw milk supply market.

Gross profit of comprehensive ruminant farming solutions increased from RMB607.3 million for the year ended December 31, 2019 to RMB608.7 million for the year ended December 31, 2020. Gross profit margin of comprehensive ruminant farming solutions decreased slightly from 13.2% in 2019 to 12.7% in 2020 mainly because we received most of the tax refund granted by the Chinese government in 2019 in connection with the tariff imposed on the alfalfa hay imported from the U.S. during the period from approximately July 2018 to September 2019 as a result of the China-U.S. trade war and the remaining tax refund we received in 2020 only accounted for a small portion of the total tax refund amount, which brought down the gross profit margin of the forage grass trading in 2020.

***Loss Arising from Changes in Fair Value less Costs to Sell of Biological Assets***

Our loss arising from changes in fair value less costs to sell of biological assets increased by 210.5% from RMB133.3 million for the year ended December 31, 2019 to RMB413.8 million for the year ended December 31, 2020. The increase in loss was primarily due to (i) the consolidation of SKX's loss arising from changes in fair value less costs to sell of biological assets; and (ii) the disposal of certain dairy cows with lower than expected lactating level for optimizing our dairy herd structure, leading to a loss arising from changes in fair value of our biological assets. The increase in loss arising from changes in fair value less costs to sell of biological assets was partially offset by an unrealised gain in the fair value of our biological assets primarily since we (i) improved our average selling price of premium raw milk during 2020, which was in line with the overall raw milk supply industry, (ii) increased the scale of our biological assets through the acquisition of SKX, and (iii) improved our herd structure and quality.

***Other Income***

Our other income increased by 39.0% from RMB55.4 million for the year ended December 31, 2019 to RMB77.0 million for the year ended December 31, 2020, which was primarily due to (i) the increase in our incentive subsidies from RMB0.7 million for the year ended December 31, 2019 to RMB17.8 million for the year ended December 31, 2020; (ii) an increase in rental income from RMB3.3 million for the year ended December 31, 2019 to RMB6.7 million for the year ended December 31, 2020; and (iii) the increase in bank interest income from RMB4.4 million for the year ended December 31, 2019 to RMB12.6 million for the year ended December 31, 2020.

***Impairment Loss under Expected Credit Loss Model, Net of Reversal***

Our impairment loss under expected credit loss model, net of reversal increased by 82.1% from RMB24.8 million for the year ended December 31, 2019 to RMB45.1 million for the year ended December 31, 2020. The increase was primarily due to certain receivables recoverability issues with respect to a few clients in the new markets, including Southwest China and Gansu Province, where we started entering in 2018.

*Other Gains and Losses*

Our other gains and losses increased by 238.2% from a loss of RMB16.0 million for the year ended December 31, 2019 to a loss of RMB54.3 million for the year ended December 31, 2020. The increase was primarily due to (i) an increase of impairment loss on property, plant and equipment caused by obsolescence, and (ii) net foreign exchange differences related to our cash position in U.S. dollars.

*Fair Value Loss on Convertible Notes*

We recorded fair value loss on convertible notes of RMB10.8 million for the year ended December 31, 2020 due to the underlying features of the outstanding Convertible Notes.

*Selling and Distribution Expenses*

Our selling and distribution expenses increased by 33.0% from RMB340.7 million for the year ended December 31, 2019 to RMB453.1 million for the year ended December 31, 2020. The increase was primarily due to the increase in loading, unloading and transportation costs from RMB201.4 million in 2019 to RMB303.7 million in 2020, which was mainly related to the increase in the sales of our raw milk and feed. The proportion of our selling and distribution expenses in our revenue decreased from 4.4% for the year ended December 31, 2019 to 3.8% for the year ended December 31, 2020.

*Administrative Expenses*

Our administrative expenses increased by 67.1% from RMB445.5 million for the year ended December 31, 2019 to RMB744.5 million for the year ended December 31, 2020. The increase was primarily due to the acquisition of the controlling interests in SKX, the expansion of Youran's business and the improvement and renovation of infrastructures, resulting in an increase in maintenance expenses from RMB124.1 million in 2019 to RMB273.6 million in 2020, an increase in insurance expenses from RMB10.7 million in 2019 to RMB34.4 million in 2020, and an increase in staff remuneration from RMB182.8 million in 2019 to RMB256.0 million in 2020. The proportion of administrative expenses in our revenue increased from 5.8% for the year ended December 31, 2019 to 6.3% for the year ended December 31, 2020.

*Other Expenses*

Our other expenses decreased by 24.5% from RMB26.5 million for the year ended December 31, 2019 to RMB20.0 million for the year ended December 31, 2020. The decrease was primarily due to a relatively large amount of expenses associated with the acquisition of SKX in 2019, as compared with the expenses related to the Fonterra Acquisition in 2020.

***Listing Expenses***

During the Track Record Period, we recorded listing expenses of RMB34.4 million for the year ended December 31, 2020, in connection with this Offering.

***Share of Profit of a Joint Venture***

During the Track Record Period, we recorded share of profit of a joint venture of RMB25 thousand for the year ended December 31, 2020, which was generated from share of profit of an enterprise which we held 50% equity interest in and is mainly engaged in the production and sales of raw semen.

***Finance Costs***

Our finance costs increased by 197.7% from RMB104.1 million for the year ended December 31, 2019 to RMB309.8 million for the year ended December 31, 2020. The increase was primarily due to (i) the consolidation of finance cost incurred by SKX; (ii) an increase by 186.3% in interest expenses on bank and other borrowings from RMB91.4 million for the year ended December 31, 2019 to RMB261.7 million for the year ended December 31, 2020, which was mainly attributable to the increase in borrowing principal; and (iii) an increase by 189.8% in interest expenses on lease liabilities from RMB16.7 million for the year ended December 31, 2019 to RMB48.4 million for the year ended December 31, 2020, mainly as a result of additional leasehold land.

***Profit before Tax***

As a result of the foregoing, we had a profit before tax of RMB1,594.4 million for the year ended December 31, 2020, compared with a profit before tax of RMB850.9 million for the year ended December 31, 2019.

***Income Tax Expense***

We recorded a 9.9% increase in income tax expense from RMB49.0 million for the year ended December 31, 2019 to RMB53.8 million for the year ended December 31, 2020, which was primarily attributable to the increase in the taxable income of our Group and the respective tax exemptions of our business. For more details, see the section headed "Financial Information – Description of Major Components of Our Results of Operations – Income tax expense" in this prospectus.

***Profit for the Year***

Our profit for the year increased by 92.1% from RMB801.9 million for the year ended December 31, 2019 to RMB1,540.6 million for the year ended December 31, 2020, primarily due to the consolidation of financial performance of SKX, the rapid growth of our revenue and the impact of economies of scale, which led to the faster growth of our net profit as compared to our revenue.

**Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

***Revenue***

Our revenue increased by 21.1% from RMB6,333.9 million for the year ended December 31, 2018 to RMB7,667.8 million for the year ended December 31, 2019, which was primarily driven by the significant increase in revenues from raw milk and comprehensive ruminant farming solutions.

- *Revenue generated from raw milk*. Our revenue generated from raw milk increased by 17.4% from RMB2,610.3 million for the year ended December 31, 2018 to RMB3,063.6 million for the year ended December 31, 2019, which was mainly due to (i) an increase in sales volume of raw milk from 572,093 tons for the year ended December 31, 2018 to 655,786 tons for the year ended December 31, 2019 as a result of new dairy farms put into production, the increases in the number of milkable cow from 61,857 for the year ended December 31, 2018 to 77,955 for the year ended December 31, 2019, and the higher average milk yield per milkable cow, and (ii) an increase in the average unit price of raw milk from RMB4.6 per kilogram for the year ended December 31, 2018 to RMB4.7 per kilogram for the year ended December 31, 2019.

- *Revenue generated from comprehensive ruminant farming solutions*. Our revenue generated from comprehensive ruminant farming solutions increased by 23.6% from RMB3,723.6 million for the year ended December 31, 2018 to RMB4,604.2 million for the year ended December 31, 2019, which was mainly due to an increase in the revenue generated from sales of feed from RMB3,508.8 million for the year ended December 31, 2018 to RMB4,376.5 million for the year ended December 31, 2019 as a result of the increase in the sales volume of feed from 1,357,897 tons in 2018 to 1,724,567 tons in 2019, which in turn was mainly because we deepened our cooperation with the major dairy farms with which we had preexisting customer relationships.

***Cost of Sales***

Our cost of sales increased by 20.7% from RMB5,810.6 million for the year ended December 31, 2018 to RMB7,014.2 million for the year ended December 31, 2019. The increase was primarily due to our business growth in raw milk and comprehensive ruminant farming solutions, and the effect of agricultural produce fair value adjustments.

Cost of sales of raw milk before raw milk fair value adjustment increased from RMB1,550.2 million for the year ended December 31, 2018 to RMB1,784.6 million for the year ended December 31, 2019, which was primarily in line with the increase in sales volume of raw milk resulted from new dairy farms put into production, the increased number of milkable cows, and the higher average milk yield per milkable cow.

Cost of sales of comprehensive ruminant farming solutions before forage grass fair value adjustment increased from RMB3,238.0 million for the year ended December 31, 2018 to RMB3,996.9 million for the year ended December 31, 2019, which was primarily due to the increases in sales volume of feed and the costs of some of the raw materials.

Fair value adjustments for agricultural produce included in cost of sales increased from RMB1,022.4 million for the year ended December 31, 2018 to RMB1,232.7 million for the year ended December 31, 2019.

***Gains Arising from Initial Recognition of Agricultural Produce at Fair Value less Costs to Sell at the Point of Harvest***

Our gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest were RMB1,022.4 million for the year ended December 31, 2018 and RMB1,232.7 million for the year ended December 31, 2019 respectively. The change reflects the adjustment in fair value of raw milk. Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest is offset by the agricultural produce fair value adjustments included in cost of sales.

***Gross Profit***

As a result of the foregoing, our gross profit increased by 22.0% from RMB1,545.7 million for the year ended December 31, 2018 to RMB1,886.3 million for the year ended December 31, 2019. During the same periods, our gross profit margin increased from 24.4% to 24.6%, mainly due to the increase in the gross profit margin of raw milk and comprehensive ruminant farming solutions.

Gross profit of raw milk increased from RMB1,060.1 million for the year ended December 31, 2018 to RMB1,279.0 million for the year ended December 31, 2019. Gross profit margin of raw milk increased from 40.6% for the year ended December 31, 2018 to 41.7% for the year ended December 31, 2019, primarily due to the increases in the average unit price of raw milk and the average milk yield per milkable cow. In terms of specialty raw milk, gross profit margin of organic milk remained stable at 50.6% for the year ended December 31, 2018 and 50.7% for the year ended December 31, 2019; gross profit margin of jersey milk increased from 37.8% for the year ended December 31, 2018 to 38.8% for the year ended December 31, 2019, primarily due to the decreased cost associated with feed fed to our dairy herd; and gross profit margin of DHA milk increased from 16.4% for the year ended December 31, 2018 to 31.4% for the year ended December 31, 2019, primarily due to the gradually increasing average milk yield per milkable cow and the increase in selling price.

Gross profit of comprehensive ruminant farming solutions increased from RMB485.6 million for the year ended December 31, 2018 to RMB607.3 million for the year ended December 31, 2019. Gross profit margin of comprehensive ruminant farming solutions increased from 13.0% for the year ended December 31, 2018 to 13.2% for the year ended December 31, 2019, mainly as a result of a tax rebate of alfalfa hay granted to us during the year.

***Loss Arising from Changes in Fair Value less Costs to Sell of Biological Assets***

Our loss arising from changes in fair value less costs to sell of biological assets increased by 52.7% from RMB87.3 million for the year ended December 31, 2018 to RMB133.3 million for the year ended December 31, 2019. The increase in loss was primarily due to the disposal of certain dairy cows with lower than expected lactating level for optimizing our dairy herd structure, leading to a loss arising from changes in fair value of our biological assets. The increase in loss arising from changes in fair value less costs to sell of biological assets was partially offset by an unrealised gain in the fair value of our biological assets which was primarily due to (i) the continuous increase in the average selling price of our premium raw milk in 2019, which was in line with the overall raw milk supply industry, and (ii) the optimization of the quality of our dairy herd structure in 2019.

***Other Income***

Our other income increased by 7.6% from RMB51.5 million for the year ended December 31, 2018 to RMB55.4 million for the year ended December 31, 2019, which was primarily due to an increase in government grants.

***Impairment Loss under Expected Credit Loss Model, Net of Reversal***

Our impairment loss under expected credit loss model, net of reversal increased significantly from RMB1.5 million for the year ended December 31, 2018 to RMB24.8 million for the year ended December 31, 2019. The increase was primarily due to an increase in impairment losses recognized on trade receivables from RMB1.3 million to RMB24.3 million. The significant increase in provision for credit losses of trade receivables was primarily due to the reasons that (a) with the business expansion including entering into new market and enlarged customer base, the Company adopts individual assessment to determine the provision for receivables with credit risk, under which we made adequate provision for impairment on account receivables with ageing over one year, receivables not recovered within agreed date and with a sign of recoverability risk; and (b) considering the factors including account aging analysis and historical credit losses, we adjusted the average loss rate under the expected loss model.

***Other Gains and Losses***

Our other gains and losses decreased by 54.9% from a loss of RMB35.6 million for the year ended December 31, 2018 to a loss of RMB16.0 million for the year ended December 31, 2019. The decrease was primarily because the impairment on property, plant and equipment changed from a loss of RMB26.2 million for the year ended December 31, 2018 to RMB8.3 million for the year ended December 31, 2019.

***Selling and Distribution Expenses***

Our selling and distribution expenses increased by 25.3% from RMB271.9 million for the year ended December 31, 2018 to RMB340.7 million for the year ended December 31, 2019. The increase was primarily due to (i) an increase in marketing expenses from RMB10.9 million for the year ended December 31, 2018 to RMB48.2 million for the year ended December 31, 2019, mainly because the increasing sales volume and business expansion led to higher promotion expenses; and (ii) the increase in loading, unloading and transportation costs from RMB181.8 million for the year ended December 31, 2018 to RMB201.4 million for the year ended December 31, 2019, which was mainly related to the increases in sales volume of raw milk and feed. The proportion of our selling and distribution expenses in our revenue stayed relatively stable as it slightly increased from 4.3% for the year ended December 31, 2018 to 4.4% for the year ended December 31, 2019.

***Administrative Expenses***

Our administrative expenses increased by 5.7% from RMB421.3 million for the year ended December 31, 2018 to RMB445.5 million for the year ended December 31, 2019. The increase was primarily due to an increase in staff remuneration from RMB154.4 million for the year ended December 31, 2018 to RMB182.8 million for the year ended December 31, 2019 mainly due to the increases in administrative personnel headcounts and the average salary. The proportion of our administrative expenses in our revenue decreased from 6.7% for the year ended December 31, 2018 to 5.8% for the year ended December 31, 2019.

***Other Expenses***

Our other expenses increased significantly from RMB2.3 million for the year ended December 31, 2018 to RMB26.5 million for the year ended December 31, 2019. The increase was primarily due to the advisory fees incurred in connection with the acquisition of the controlling interest of SKX.

***Finance Costs***

Our finance costs increased by 30.0% from RMB80.1 million for the year ended December 31, 2018 to RMB104.1 million for the year ended December 31, 2019. The increase was primarily due to (i) a 31.1% increase in interest expenses on bank and other borrowings from RMB69.7 million for the year ended December 31, 2018 to RMB91.4 million for the year ended December 31, 2019, which was mainly attributable to the increase in principal of borrowings; (ii) a 98.0% increase in interest expenses on lease liabilities from RMB8.4 million for the year ended December 31, 2018 to RMB16.7 million for the year ended December 31, 2019, mainly as a result of the additional leasehold land.

***Profit before Tax***

As a result of the foregoing, we had a profit before tax of RMB697.2 million for the year ended December 31, 2018, compared with a profit before tax of RMB850.9 million for the year ended December 31, 2019.

### *Income Tax Expense*

We recorded a 10.5% increase in income tax expense from RMB44.3 million for the year ended December 31, 2018 to RMB49.0 million for the year ended December 31, 2019, which was primarily attributable to the increase in the taxable income of our Group and the respective tax exemptions of our business. For more details, see the section headed "– Description of Major Components of Our Results of Operations – Income tax expense" in this prospectus.

### *Profit for the Year*

Our profit for the year increased by 22.8% from RMB652.9 million for the year ended December 31, 2018 to RMB801.9 million for the year ended December 31, 2019, primarily due to the growth of our revenue and the impact of economies of scale, which led to the faster growth of our net profit as compared to our revenue.

## DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS OF OUR GROUP

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which has been extracted from our Group's audited consolidated financial statements included in Appendix I to this prospectus.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| **Non-current assets** | | | |
| Property, plant and equipment | 2,397,229 | 2,933,139 | 6,183,940 |
| Investment properties | 47,121 | 32,360 | 29,853 |
| Right-of-use assets | 482,045 | 532,968 | 1,321,296 |
| Goodwill | – | – | 762,741 |
| Intangible assets | 1,787 | 1,400 | 4,934 |
| Biological assets | 2,606,450 | 3,322,917 | 7,038,112 |
| Deferred tax assets | 1,351 | 5,088 | 11,382 |
| Interest in a joint venture | – | – | 808 |
| Equity instruments at fair value through other comprehensive income | – | – | 72,040 |
| Pledged and restricted bank deposits | 650 | 1,851 | 21,282 |
| Deposits paid for purchase of property, plant and equipment | 38,584 | 64,715 | 140,352 |
| Deposits paid for purchase of biological assets | 60,851 | 8,372 | 208,907 |
| **Total non-current assets** | **5,636,068** | **6,902,810** | **15,795,647** |

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| **Current assets** | | | |
| Inventories | 899,994 | 967,286 | 1,972,145 |
| Trade and bills receivables | 617,658 | 974,298 | 834,521 |
| Bills receivables at fair value through other comprehensive income | 27,147 | 75,679 | 27,080 |
| Contract assets | 15,547 | 7,527 | 12,139 |
| Biological assets | 1,629 | 12,070 | 9,564 |
| Prepayments, deposits and other receivables | 126,548 | 230,809 | 246,691 |
| Amounts due from related parties | 128,571 | 145,519 | 555,676 |
| Pledged and restricted bank deposits | 100 | 60,100 | 128,367 |
| Bank balances and cash | 311,884 | 570,476 | 2,619,113 |
| Total current assets | 2,129,078 | 3,043,764 | 6,405,296 |
| **Total assets** | **7,765,146** | **9,946,574** | **22,200,943** |
| **Current liabilities** | | | |
| Trade and bills payables | 356,702 | 572,559 | 1,438,505 |
| Other payables and accruals | 455,794 | 581,362 | 1,149,490 |
| Contract liabilities | 9,795 | 18,162 | 34,770 |
| Amounts due to related parties | 72 | 157 | 14,257 |
| Bank and other borrowings | 1,742,014 | 1,682,945 | 4,224,527 |
| Lease liabilities | 24,595 | 12,405 | 38,684 |
| Other liabilities | – | 11,058 | 6,261 |
| Other provisions | – | – | 18,546 |
| Income tax payable | 9,092 | 21,886 | 19,068 |
| Total current liabilities | 2,598,064 | 2,900,534 | 6,944,108 |
| **Net current (liabilities)/ assets** | **(468,986)** | **143,230** | **(538,812)** |

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| **Non-current liabilities** | | | |
| Bank and other borrowings | – | 1,099,660 | 1,971,606 |
| Convertible notes | – | – | 3,043,648 |
| Deferred tax liabilities | 7,147 | 6,902 | 6,667 |
| Deferred income | 231,622 | 207,843 | 216,968 |
| Lease liabilities | 299,368 | 313,312 | 928,805 |
| Other liabilities | 39,679 | 27,106 | 20,845 |
| Other provisions | 1,329 | 1,398 | 6,760 |
| Total non-current liabilities | 579,145 | 1,656,221 | 6,195,299 |
| **Total liabilities** | **3,177,209** | **4,556,755** | **13,139,407** |
| **Net assets** | **4,587,937** | **5,389,819** | **9,061,536** |
| **Capital and reserves** | | | |
| Share capital | – | – | 219 |
| Reserves | 4,587,937 | 5,389,819 | 7,819,989 |
| Equity attributable to owners of the Company | 4,587,937 | 5,389,819 | 7,820,208 |
| Non-controlling interests | – | – | 1,241,328 |
| **Total equity** | **4,587,937** | **5,389,819** | **9,061,536** |
| **Total equity and liabilities** | **7,765,146** | **9,946,574** | **22,200,943** |

**Current Assets and Liabilities**

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

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *RMB'000* | | | |
| | | | | (unaudited) |
| **Current assets** | | | | |
| Inventories | 899,994 | 967,286 | 1,972,145 | 1,777,028 |
| Trade and bills receivables | 617,658 | 974,298 | 834,521 | 1,109,075 |
| Bill receivables at fair value through other comprehensive income | 27,147 | 75,679 | 27,080 | 37,191 |
| Contract assets | 15,547 | 7,527 | 12,139 | 13,272 |
| Biological assets | 1,629 | 12,070 | 9,564 | 5,867 |
| Prepayments, deposits and other receivables | 126,548 | 230,809 | 246,691 | 306,395 |
| Amounts due from related parties | 128,571 | 145,519 | 555,676 | 706,016 |
| Pledged and restricted bank deposits | 100 | 60,100 | 128,367 | 46,424 |
| Bank balances and cash | 311,884 | 570,476 | 2,619,113 | 1,304,252 |
| **Total current assets** | **2,129,078** | **3,043,764** | **6,405,296** | **5,305,520** |
| **Current liabilities** | | | | |
| Trade and bills payables | 356,702 | 572,559 | 1,438,505 | 1,203,444 |
| Other payables and accruals | 455,794 | 581,362 | 1,149,490 | 838,200 |
| Contract liabilities | 9,795 | 18,162 | 34,770 | 71,639 |
| Amounts due to related parties | 72 | 157 | 14,257 | 953 |
| Bank and other borrowings | 1,742,014 | 1,682,945 | 4,224,527 | 4,262,350 |
| Lease liabilities | 24,595 | 12,405 | 38,684 | 41,998 |
| Other liabilities | – | 11,058 | 6,261 | 6,261 |
| Other provisions | – | – | 18,546 | 13,346 |
| Income tax payable | 9,092 | 21,886 | 19,068 | 8,676 |
| Convertible notes | – | – | – | 2,188,048 |
| **Total current liabilities** | **2,598,064** | **2,900,534** | **6,944,108** | **8,634,915** |
| **Net current (liabilities)/assets** | **(468,986)** | **143,230** | **(538,812)** | **(3,329,395)** |

Our net current liabilities increased from RMB538.8 million as of December 31, 2020 to RMB3,329.4 million as of April 30, 2021, which was primarily due to reclassification of convertible notes of RMB2,188.0 million from non-current liabilities to current liabilities and a decrease in cash and cash equivalents of RMB1,314.9 million, partially offset by an increase in trade and bills receivables of RMB274.6 million.

As at December 31, 2020, the Convertible Notes were designated as financial liabilities at fair value to profit or loss mainly because its conversion option will not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's ordinary shares (the "Fixed-for-fixed Criterion") under IFRS requirement, given the Convertible Notes are denominated in USD while the Company's functional currency was RMB during the Track Record Period. Subsequent to the Track Record Period, the Company's functional currency had been changed from RMB to USD as at March 31, 2021 as the Company commenced trading business in the first quarter of 2021, with sales and purchases denominated and settled in USD. As a result, the conversion option of the Convertible Notes can fulfill the Fixed-for-fixed Criterion, and the Convertible Notes are then split into equity conversion component and liability component. The equity conversion component with fair value of approximately RMB963 million as at March 31, 2021 is recognized as equity and will not be subsequently remeasured, and the liability component with fair value of approximately RMB2,183 million as at March 31, 2021 is recognized as financial liabilities which will be subsequently measured at amortised cost.

Our net current assets/liabilities decreased from the net current assets of RMB143.2 million as of December 31, 2019 to the net current liabilities of RMB538.8 million as of December 31, 2020, which was mainly due to the consolidation of SKX's current liabilities as a result of the acquisition of the controlling interest in SKX.

We recorded net current assets of RMB143.2 million as of December 31, 2019, as compared to net current liabilities of RMB469.0 million as of December 31, 2018, which was primarily due to increases in trade and bills receivables of RMB356.6 million, bank balances and cash of RMB258.6 million and prepayments, deposits and other receivables of RMB104.3 million. The increase was partially offset by an increase of RMB215.9 million in trade and bills payables and an increase of RMB125.6 million in other payables and accruals.

During the Track Record Period, our Group recorded net current liabilities positions which exposed our Group to ongoing liquidity risk. Our Directors are of the view that ongoing net current liabilities resulted from the facts we rely on bank and other borrowings as one of the significant sources of liquidity to finance our operation and our investing activities, among which the current portions are recorded as current liabilities whereas significant amount of our capital investments, including biological assets and property, plant and equipment, that generate our revenue are recorded as non-current assets, thus leading to relatively large balances of current liabilities and relatively small balances of current assets. Our Directors are of the view that there is no material default in payment of trade and non-trade payables and borrowings, and/or breach of covenants during the trading record period and up to the date of the listing document. For details of our liquidity risk management, please refer to "Market And Other Financial Risks – Liquidity Risk Management" of this section.

*Inventories*

Our inventories primarily consist of raw materials, finished goods, semi-finished goods and breeding products. For our raw milk business, purchased feed is classified as raw materials; for our comprehensive remuneration farming solutions business, purchased soybean meal and corns are classified as raw materials, work-in-process products are classified as semi-finished goods and the manufactured feed is classified as finished goods. The following table sets forth the components of our inventories and the turnover days of inventories as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| Raw materials | 856,589 | 903,126 | 1,830,951 |
| Finished goods | 37,266 | 53,821 | 102,804 |
| Semi-finished goods | 6,139 | 10,339 | 24,608 |
| Breeding products | – | – | 13,782 |
| | 899,994 | 967,286 | 1,972,145 |

Our inventories totaled approximately RMB900.0 million, RMB967.3 million and RMB1,972.1 million as of December 31, 2018, 2019 and 2020, respectively. The increase during the Track Record Period was primarily due to an increase in raw materials from RMB856.6 million as of December 31, 2018 to RMB903.1 million as of December 31, 2019 and a further increase to RMB1,831.0 million as of December 31, 2020, which was mainly because we procured more raw materials as a new 5,000-herd dairy farm and two new dairy farms under construction commenced operation in 2018 and 2019, respectively, to further improve our economies of scale and operational efficiency. The increase in inventories in the year ended December 31, 2020 mainly reflected the impacts of the acquisition of the controlling interest in SKX and the expansion of the business scales of Youran.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *days* | |
| Inventory turnover days[1] | 51 | 49 | 63 |

(1) The inventory turnover days as of December 31, 2018, 2019 and 2020 are calculated using the average of beginning balance and ending balance of inventories for a year divided by costs of materials for all cattle herds and multiplied by 365 days.

For the years ended December 31, 2018, 2019 and 2020, our inventory turnover days were 51 days, 49 days and 63 days. The decrease in our inventory turnover days for the years ended December 31, 2018 and 2019 was primarily due to our overall enhancement in our inventory control as we customized inventory management policies for different business lines. The changes in inventory turnover days for the year ended December 31, 2020 were mainly affected by the acquisition of the controlling interest in SKX and the expansion of the business scales of Youran.

As of April 30, 2021, our inventories of RMB1,091.9 million were used or consumed, representing 55.4% of our inventories as of December 31, 2020.

***Trade and Bills Receivables***

Our trade and bills receivables represent the outstanding amounts receivable by us from our customers in connection with the sales of our raw milk and comprehensive ruminant farming solutions. Trade and bills receivables are obtained when we have an unconditional right to contract consideration and upon invoicing the customer based on the payment schedule provided in the relevant agreements. Trade and bills receivables are generally due for settlement within one year and therefore are all classified as current. The table below sets forth our trade and bills receivable balances as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Trade receivables | 618,933 | 999,846 | 900,956 |
| Less: Allowance for credit loss | (1,275) | (25,548) | (66,435) |
| | 617,658 | 974,298 | 834,521 |
| Bills receivables | – | – | – |
| | 617,658 | 974,298 | 834,521 |

Our trade and bills receivables increased from RMB617.7 million as of December 31, 2018 to RMB974.3 million as of December 31, 2019, as a result of the increases in sales of our raw milk and feed products, which were in line with the overall growth of our business. Our trade and bills receivables decreased from RMB974.3 million as of December 31, 2019 to RMB834.5 million as of December 31, 2020, primarily due to an increase in collection rate in the year ended December 31, 2020.

For our raw milk business, we typically require our customers to make payments each month for raw milk purchased in the previous month. For the sale of our comprehensive ruminant farming solutions, we set credit terms based on customer's sizes and credit ratings, and grant certain credit term, generally ranged from 30 to 90 days, to customers who meet the requirements, as well as appropriate extensions based on the evaluation of customers' credit ratings.

The following is the aged analysis of trade receivables, net of allowance for credit losses, presented based on the delivery dates:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Within 90 days | 563,418 | 825,441 | 740,925 |
| 90 days to 180 days | 51,809 | 146,921 | 83,832 |
| 181 days to 1 year | 2,431 | 1,936 | 5,889 |
| Over 1 year | – | – | 3,875 |
| | 617,658 | 974,298 | 834,521 |

The above trade receivables which have been past due more than 90 days are not considered as in default because these trade receivables relate to a number of independent customers for whom there was no recent history of default and they have a good track record with our Group.

The following table sets forth the past due analysis of the carrying amount of trade receivables:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Not yet past due | 479,347 | 655,617 | 535,788 |
| Past due less than 30 days | 23,905 | 123,766 | 100,238 |
| Past due more than 30 days but less than 90 days | 106,022 | 148,663 | 153,371 |
| Past due more than 90 days | 8,384 | 46,252 | 45,124 |
| **Total** | 617,658 | 974,298 | 834,521 |

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit loss separately. The provision rates are based on ageing groupings of customer segments with similar loss patterns (i.e., by product type and customer type).

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Our allowance for credit loss accounted to RMB1.3 million, RMB25.5 million and RMB66.4 million as of December 31, 2018, 2019 and 2020. The main reasons for such substantial increases in our allowance for credit loss include the following: (i) as we started expanding business into new markets in 2018, including Southwest China and Gansu Province, we faced certain recoverability issues with respect to a few clients in such new markets in 2019 and 2020, and (ii) we applied IFRS 9 on January 1, 2018 and started to provide for expected credit losses ("**ECL**") on accounts receivable. As disclosed on page I-75, the lifetime ECL (not credit impaired) that has been recognised for trade receivables as of December 31, 2020 amounted to RMB18,865,000, while no provision was made as of December 31, 2018.

For the year ended December 31, 2020, we had net cash from operating activities of RMB1,707.9 million. With our cash generated from operating activities and unused bank facilities, we are able to meet the requirements for working capital and other capital expenditure. The trade and bills receivables that are past due will not have a material impact on our liquidity.

Our Directors believe that there will not be any major recoverability issue for the overdue trade and bills receivables because a large portion of the receivables that had been past due over 90 days as of December 31, 2020 was settled subsequently and we have arrangements or collaterals in place that can reduce the non-payment risk or secure the customers' payment obligations.

The following tables set forth the age analysis of our trade receivables by business segments:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| **Raw milk** | | | |
| Within 90 days | 36,523 | 22,258 | 41,167 |
| 90 days to 180 days | – | – | – |
| 181 days to 1 year | 98 | – | – |
| **Subtotal** | **36,621** | **22,258** | **41,167** |

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | RMB'000 | |
| **Comprehensive ruminant farming solutions** | | | |
| Within 90 days | 526,895 | 803,183 | 699,758 |
| 90 days to 180 days | 51,809 | 146,921 | 83,832 |
| 181 days to 1 year | 2,333 | 1,936 | 5,889 |
| 1 year to 2 years | – | – | 3,328 |
| 2 years to 3 years | – | – | 547 |
| **Subtotal** | **581,037** | **952,040** | **793,354** |
| **Total** | **617,658** | **974,298** | **834,521** |

The following tables set forth the past due analysis of our trade receivables by business segments:

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | RMB'000 | |
| **Raw milk** | | | |
| Not yet past due | 36,527 | 22,257 | 40,687 |
| Past due less than 30 days | – | – | – |
| Past due more than 30 days but less than 90 days | – | – | 480 |
| Past due more than 90 days but less than 1 year | – | – | – |
| Past due more than 1 year | – | – | – |
| **Subtotal** | **36,527** | **22,257** | **41,167** |
| **Comprehensive ruminant farming solutions** | | | |
| Not yet past due | 442,820 | 633,360 | 495,101 |
| Past due less than 30 days | 23,905 | 123,766 | 100,238 |
| Past due more than 30 days but less than 90 year | 106,022 | 148,663 | 152,891 |
| Past due more than 90 days but less than 1 year | 8,384 | 46,252 | 41,249 |
| Past due more than 1 year | – | – | 3,875 |
| **Subtotal** | **581,131** | **952,041** | **793,354** |
| **Total** | **617,658** | **974,298** | **834,521** |

The following table sets forth the past due analysis of our trade and bills receivables by customers with or without the Entrusted Payment Arrangement. For further details regarding the Entrusted Payment Arrangement, please refer to the section headed "Relationships with Controlling Shareholders – Entrusted Payment Arrangement" in this prospectus.

| | With Entrusted Payment Arrangement[(1)] | Without Entrusted Payment Arrangement | Total |
|---|---|---|---|
| | | *RMB'000* | |
| **As of December 31, 2018** | | | |
| Not yet past due | 47,963 | 431,384 | 479,347 |
| Past due less than 30 days | 4,019 | 19,886 | 23,905 |
| Past due more than 30 days but less than 90 days | 14,330 | 91,692 | 106,022 |
| Past due more than 90 days but less than 1 year | 248 | 8,136 | 8,384 |
| Past due more than 1 year | – | – | – |
| **Total** | **66,560** | **551,098** | **617,658** |
| **As of December 31, 2019** | | | |
| Not yet past due | 33,831 | 621,786 | 655,617 |
| Past due less than 30 days | 12,031 | 111,735 | 123,766 |
| Past due more than 30 days but less than 90 days | 4,546 | 144,117 | 148,663 |
| Past due more than 90 days but less than 1 year | 2,083 | 44,169 | 46,252 |
| Past due more than 1 year | – | – | – |
| **Total** | **52,491** | **921,807** | **974,298** |
| **As of December 31, 2020** | | | |
| Not yet past due | 36,911 | 498,877 | 535,788 |
| Past due less than 30 days | 7,542 | 92,696 | 100,238 |
| Past due more than 30 days but less than 90 days | 2,072 | 151,299 | 153,371 |
| Past due more than 90 days but less than 1 year | 527 | 40,722 | 41,249 |
| Past due more than 1 year | – | 3,875 | 3,875 |
| **Total** | **47,052** | **787,469** | **834,521** |

(1) Includes all of the trade and bills receivables from the customers who had an Entrusted Payment Arrangement with us during the corresponding year, regardless of whether any portion of the amount owed by such customers was or will be settled through the Entrusted Payment Arrangement or not.

The following table sets forth the breakdown of trade and bills receivable turnover days by business segment:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *days* | |
| Trade and bills receivable turnover days[(1)] | 36 | 44 | 37 |
| – Raw milk | 20 | 20 | 23 |
| – Comprehensive ruminant farming solutions | 48 | 61 | 57 |

(1) The trade and bills receivables turnover days are calculated by using the average receivables balance divided by sales revenue multiplied by days for the period (365 days for the twelve months ended December 31, 2018, 2019 and 2020). Among them, the average receivables balance equals to the sum of opening balance and closing balance of amounts receivable (including trade nature balance of amount due from related parties) divided by two. For the calculation of the average receivable balance for 2020, the opening balance included the impact of SKX acquisition on January 8, 2020.

The following table sets forth the breakdown of trade and bills receivables turnover days by customers with or without the Entrusted Payment Arrangement. For further details regarding the Entrusted Payment Arrangement, please refer to the section headed "Relationships with Controlling Shareholders – Entrusted Payment Arrangement" in this prospectus.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *days* | |
| Trade and bills receivables turnover days | | | |
| – with Entrusted Payment Arrangement[(1)] | 28 | 30 | 38 |
| – without Entrusted Payment Arrangement | 72 | 70 | 71 |

(1) Includes all of the trade and bills receivables from the customers who had an Entrusted Payment Arrangement with us during the corresponding year, regardless of whether any portion of the amount owed by such customers was or will be settled through the Entrusted Payment Arrangement or not.

The trade receivables with the Entrusted Payment Arrangement are only derecognised at the receipt of entrusted payments by the Group, i.e. when the contractual rights to the cash flows from the financial assets expire. They are not derecognised prior to that time because the Group has not transferred the financial assets.

Our average trade and bills receivables turnover days were 36 days, 44 days and 37 days for the years ended December 31, 2018, 2019 and 2020. Trade and bills receivables turnover days increased from 36 days for the year ended December 31, 2018 to 44 days for the year ended December 31, 2019, which mainly reflected the increase in revenue from customers with longer credit terms for such periods, as the size of customers that our Company acquired in 2019 grew larger, and our Company accordingly granted longer credit terms to such customers; the changes in the trade and bills receivables turnover days were driven by the acquisition of the controlling interest in SKX for the year ended December 31, 2020.

As of April 30, 2021, our trade and bills receivables of RMB758.9 million were settled, representing 84.2% of our trade and bills receivables outstanding as of December 31, 2020.

As of April 30, 2021, our past due trade and bills receivables of RMB315.3 million were settled, representing 90.1% of our trade and bills receivables that were past due as of December 31, 2020.

***Trade and Bills Payables***

Our trade and bills payables mainly represent purchases of raw materials and equipment. The table below sets forth the components of our trade payables and bills as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Trade payables | 356,702 | 571,892 | 1,015,870 |
| Bills payables | – | 667 | 422,635 |
| **Total trade and bills payables** | **356,702** | **572,559** | **1,438,505** |

During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute or disagreement with our suppliers in relation to the timing, amounts of billing or the payment of our trade and bills payables.

Our trade and bills payables totaled RMB356.7 million, RMB572.6 million and RMB1,438.5 million as of December 31, 2018, 2019 and 2020, respectively. The increase in our trade payables during the Track Record Period primarily reflected the increase in the purchase of raw materials and equipment with the construction of new dairy farms and feed mills and the continuous expansion of herd size. The increase in total trade and bills payables as of December 31, 2020 compared to total trade and bills payables as of December 31, 2019 also reflected the impact of acquisition of the controlling interest in SKX.

The table below sets forth the aging analysis of our trade payables presented based on the invoice date at the end of each reporting period.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Within 1 year | 347,679 | 560,723 | 896,459 |
| 1 to 2 years | 6,855 | 9,120 | 74,789 |
| 2 to 3 years | 1,441 | 1,037 | 10,774 |
| More than 3 years | 727 | 1,012 | 33,848 |
| **Total** | **356,702** | **571,892** | **1,015,870** |

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *days* | |
| Trade and bills payables turnover days(1) | 22 | 26 | 42 |

(1) The trade and bills payables turnover days are calculated by using the average balance of payables divided by the procurement amount and multiplied by the number of days for the period (365 days for the twelve months ended December 31, 2018, 2019 and 2020). For the calculation of the average balance of payables for 2020, the opening balance included the impact of SKX acquisition on January 8, 2020.

Our average trade and bills payables turnover days were 22 days, 26 days and 42 days for the year ended December 31, 2018, 2019 and 2020. The trade payables and bills turnover days increased from 22 days for the year ended December 31, 2018 to 26 days for the year ended December 31, 2019, which was mainly as a result of the increase in our purchase of raw materials as we expanded our production, which enabled us to have stronger ability to negotiate with our suppliers. The changes in the trade and bills payables turnover days for the year ended December 31, 2020 were mainly affected by the acquisition of the controlling interest in SKX which has relatively longer payables turnover days as compared to Youran.

As of April 30, 2021, our trade and bills payables of RMB1,145.0 million were settled, representing 79.6% our trade and bills payables outstanding as of December 31, 2020.

***Bank and Other Borrowings***

Short-term bank and other borrowings decreased to RMB1,682.9 million as of December 31, 2019 from RMB1,742.0 million as of December 31, 2018, primarily due to the adjustment of our borrowing structure to increase the portion of medium- to long-term loans. As a result of the impact of acquisition of the controlling interest in SKX and the increase in capital expenditures of our new dairy farms, our short-term bank and other borrowings increased to RMB4,224.5 million as of December 31, 2020.

**Non-Current Assets and Liabilities**

The following table sets forth our non-current assets and liabilities as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| **Non-current assets** | | | |
| Property, plant and equipment | 2,397,229 | 2,933,139 | 6,183,940 |
| Investment properties | 47,121 | 32,360 | 29,853 |
| Right-of-use assets | 482,045 | 532,968 | 1,321,296 |
| Goodwill | – | – | 762,741 |
| Intangible assets | 1,787 | 1,400 | 4,934 |
| Biological assets | 2,606,450 | 3,322,917 | 7,038,112 |
| Deferred tax assets | 1,351 | 5,088 | 11,382 |
| Interest in a joint venture | – | – | 808 |
| Equity instruments at FVOCI | – | – | 72,040 |
| Pledged and restricted bank deposits | 650 | 1,851 | 21,282 |
| Deposits paid for purchase of property, plant and equipment | 38,584 | 64,715 | 140,352 |
| Deposits paid for purchase of biological assets | 60,851 | 8,372 | 208,907 |
| **Total non-current assets** | **5,636,068** | **6,902,810** | **15,795,647** |
| **Non-current liabilities** | | | |
| Bank and other borrowings | – | 1,099,660 | 1,971,606 |
| Convertible notes | – | – | 3,043,648 |
| Deferred tax liabilities | 7,147 | 6,902 | 6,667 |
| Deferred income | 231,622 | 207,843 | 216,968 |
| Lease liabilities | 299,368 | 313,312 | 928,805 |
| Other liabilities | 39,679 | 27,106 | 20,845 |
| Other provisions | 1,329 | 1,398 | 6,760 |
| **Total non-current liabilities** | 579,145 | 1,656,221 | 6,195,299 |

***Property, Plant and Equipment***

Our property, plant and equipment consist primarily of buildings, machinery, vehicles, electronic equipment, bearer plants and construction in progress. We had property, plant and equipment in the amount of RMB2,397.2 million, RMB2,933.1 million and RMB6,183.9 million as of December 31, 2018, 2019 and 2020, respectively. The continued increase in our property, plant and equipment during the Track Record Period primarily reflected our continuing investment in dairy farms and feed mills. The increase as of December 31, 2020 also reflected the impact of the acquisition of the controlling interest in SKX.

***Right-of-Use Assets***

Our right-of-use assets include our leasehold lands, leased properties and machinery. We had right-of-use assets in the amount of RMB482.0 million, RMB533.0 million and RMB1,321.3 million as of December 31, 2018, 2019 and 2020, respectively. The continuous increase for the Track Record Period was mainly because we leased more lands for our new dairy farms as well as more leased properties and machinery. The increase as of December 31, 2020 also reflected the impact of the acquisition of the controlling interest in SKX.

***Goodwill***

We recorded goodwill of RMB762.7 million as of December 31, 2020 due to the acquisition of SKX.

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| **CARRYING AMOUNT:** | | | |
| At beginning of the year | – | – | – |
| Acquisition of subsidiaries *(Note 43)* | – | – | 762,741 |
| At the end of the year | – | – | 762,741 |

Goodwill has been allocated to SKX as a group of cash generating units ("**CGU**") for impairment testing purpose. SKX mainly engaged in dairy farming business.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the CGU covering the following 5 years and pre-tax discount rate of 13% as at December 31, 2020. The cash flows beyond the five-year period are extrapolated using 2.5% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows in the cash flow projections include milk selling price, gross profit ratio, volume of sale and growth rate, and discount rate, which are determined based on the CGU's past performance and management expectations for the market development. The recoverable amount of the CGU exceeds its carrying amount by RMB466 million.

We believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount. If the growth rate beyond the five-year period changed to 1.5% or discount rate changed to 14%, while other parameters remain constant, the recoverable amount of the CGU would still exceed its recoverable amount.

No impairment of goodwill was noted as of December 31, 2020.

***Biological Assets***

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

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *head* | |
| Dairy cows: | | | |
| Calves and heifers | 65,488 | 74,082 | 150,879 |
| Milkable cows | 61,857 | 77,955 | 157,316 |
| Feeder cattle | 369 | 1,269 | 915 |
| Breeding stock | – | – | 125 |
| **Total** | **127,714** | **153,306** | **309,235** |

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

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| Dairy cows: | | | |
| Calves and heifers | 1,010,321 | 1,094,787 | 2,432,082 |
| Milkable cows | 1,596,129 | 2,228,130 | 4,564,233 |
| Feeder cattle | 1,629 | 12,070 | 9,564 |
| Breeding stock | – | – | 41,797 |
| Total | 2,608,079 | 3,334,987 | 7,047,676 |
| Less: current portion classified under current assets | (1,629) | (12,070) | (9,564) |
| Non-current portion classified under non-current assets | 2,606,450 | 3,322,917 | 7,038,112 |

The Reporting Accountants' procedures in relation to the fair value of milkable cows include:

- understanding our relevant internal controls over the fair value determination of milkable cows;
- evaluating the independent valuer's objectivity, qualifications and competence;
- assessing the appropriateness of the valuation methodologies and the reasonableness of the discount rate applied; and
- assessing the reasonableness of the key assumptions, including the estimated future market price of raw milk, the estimated average daily milk yield and the estimated feed costs per kilogram of raw milk by comparing to historical and industry data.

The fair value of our biological assets increased from RMB2,608.1 million as of December 31, 2018 to RMB3,335.0 million as of December 31, 2019 and further to RMB7,047.7 million as of December 31, 2020. The increase in the fair value of our biological assets during the Track Record Period was primarily due to (i) continuing increase in the fair value of milkable cows as a result of the increases in the number of milkable cows, the average milk yield per milkable cow, raw milk price and the sales volume of specialty raw milk; and (ii) continuing increase in the fair value of calves and heifers as a result of the increased number of heifers.

The tables below set forth the movement of our biological assets during the Track Record Period.

| | Calves and heifers | Milkable cows | Breeding stock | Total non-current assets | Feeder cattle |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2018 | 649,174 | 1,192,842 | – | 1,842,016 | 964 |
| Purchase cost | 265,558 | 6,297 | – | 271,855 | – |
| Feeding and other related costs | 767,765 | – | – | 767,765 | 4,146 |
| Transfer | (675,267) | 675,267 | – | – | – |
| Transfer to feeder cattle | (6) | – | – | (6) | 6 |
| Decrease due to disposal/death | (12,369) | (174,469) | – | (186,838) | (4,558) |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 15,466 | (103,808) | – | (88,342) | 1,071 |
| At December 31, 2018 | 1,010,321 | 1,596,129 | – | 2,606,450 | 1,629 |
| Purchase cost | 158,077 | – | – | 158,077 | – |
| Feeding and other related costs | 972,139 | – | – | 972,139 | 55,038 |
| Transfer | (1,113,035) | 1,113,035 | – | – | – |
| Transfer to feeder cattle | (15,307) | (18,277) | – | (33,584) | 33,584 |
| Decrease due to disposal/death | (19,167) | (222,256) | – | (241,423) | (83,668) |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 101,759 | (240,501) | – | (138,742) | 5,487 |

| | Calves and heifers | Milkable cows | Breeding stock | Total non-current assets | Feeder cattle |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At December 31, 2019 | 1,094,787 | 2,228,130 | – | 3,322,917 | 12,070 |
| Purchase cost | 173,433 | – | 1,650 | 175,083 | – |
| Feeding and other related costs | 2,063,206 | – | 8,213 | 2,071,419 | 91,568 |
| Transfer | (1,837,545) | 1,837,545 | – | – | – |
| Transfer to feeder cattle | (20,764) | (88,425) | – | (109,189) | 109,189 |
| Decrease due to disposal/death | (293,474) | (448,221) | (2,547) | (744,242) | (218,535) |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 222,602 | (643,727) | (7,931) | (429,056) | 15,272 |
| Acquisition of subsidiaries | 1,029,837 | 1,678,931 | 42,412 | 2,751,180 | – |
| At December 31, 2020 | 2,432,082 | 4,564,233 | 41,797 | 7,038,112 | 9,564 |

When our cows are dead or otherwise disposed of, a resulting gain or loss is included in the results of operations for the respective period. The realised loss arising from changes in fair value less costs to sell of biological assets represents the losses from the culling and death of cows during the corresponding period, because the proceeds from the disposal of culled and dead cows are generally lower than their carrying value (i.e., fair value). Our realised loss arising from changes in fair value less costs to sell of biological assets increased from RMB244.0 million in 2018 to RMB267.3 million in 2019, primarily because of an increase in the culling and death of cows due to an increase in the scale and unit fair value of our biological assets. Realised loss increased from RMB267.3 million in 2019 to RMB975.4 million in 2020, primarily because of an increase in the culling and death scale after the acquisition of SKX and an increase in culling cost (i.e., fair value).

Unrealised fair value gains or losses on biological assets are non-cash in nature and represent changes in fair value arising from the cows held by us as of the end of the relevant period which is derived from many assumptions. Our unrealised gain arising from changes in fair value less costs to sell of biological assets decreased from RMB156.7 million in 2018 to RMB134.1 million in 2019 mainly because there was a larger increase in the unit fair value of milkable cows in 2018 as compared to the unit fair value increase in 2019, which was due to more dairy cows being converted into milkable cows for producing specialty raw milk in 2018. It increased significantly from RMB134.1 million in 2019 to RMB561.6 million in 2020, primarily attributable to an increase in the scale of biological assets after the acquisition of SKX and an increase in the unit fair value of milkable cows. For more information about the movement of fair value of biological assets, please refer to Note 22 of the section headed "Appendix I – Accountants' Report".

Our biological assets were independently valued by Jones Lang LaSalle, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets. For valuation of our biological assets, see Note 46 of the Accountants' Report as set out in Appendix I to this prospectus.

***Equity instruments at FVOCI***

We recorded equity investments at FVOCI of RMB72.0 million as of December 31, 2020, which represents the equity investment by SKX in three PRC companies. Of such equity investments at FVOCI, RMB71.6 million represents a 11.37% equity interest in a dairy breeding enterprise located in Inner Mongolia held by SKX and RMB0.4 million represents SKX's minority interests in the other two investees.

***Non-Current Bank and Other Borrowings***

We recorded long-term bank and other borrowings of RMB1,099.7 million as of December 31, 2019 and RMB1,971.6 million as of December 31, 2020. The amount of our non-current borrowings as of December 31, 2020 primarily represents the outstanding amount of unsecured loans and secured loans we obtained from commercial banks.

***Deferred Income***

Deferred income represents government subsidies related to assets that are required to be amortized over one year. Our deferred income was RMB231.6 million, RMB207.8 million and RMB217.0 million as of December 31, 2018, 2019 and 2020, respectively. The decrease in deferred income from 2018 to 2019 was mainly due to the amortisation of government subsidies. The increase in the amount of non-current deferred government grants from as of December 31, 2019 to as of December 31, 2020 was mainly due to the impacts of the acquisition of the controlling interest in SKX.

***Non-Current Lease Liabilities***

Our non-current lease liabilities represent lease liabilities over one year. The table below sets forth a breakdown of our non-current lease liabilities as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Within a period of more than one year but not more than two years | 13,133 | 15,547 | 33,115 |
| Within a period of more than two years but not more than five years | 48,097 | 42,156 | 99,473 |
| Within a period of more than five years | 238,138 | 255,609 | 796,217 |
| **Total** | **299,368** | **313,312** | **928,805** |

Our non-current lease liabilities was RMB299.4 million, RMB313.3 million and RMB928.8 million as of December 31, 2018, 2019 and 2020, respectively. The increase of our non-current lease liabilities during the Track Record Period was due to the addition of leasehold land and the acquisition of the controlling interest in SKX.

## KEY FINANCIAL RATIOS

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

| | For the Year Ended December 31/ as of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| Return on equity[(1)] | 14.2% | 14.9% | 17.0% |
| Current ratio[(2)] | 0.82 | 1.05 | 0.92 |
| Quick ratio[(3)] | 0.47 | 0.72 | 0.64 |
| Net gearing ratio[(4)] | 31.2% | 39.9% | 71.6% |

*Notes:*

(1) Return on equity ratio for each of the years ended December 31, 2018, 2019 and 2020 is calculated as profit for the year divided by total equity at the end of the year and multiplied by 100%.

(2) Calculated as current assets divided by current liabilities.

(3) Calculated as current assets less inventories divided by current liabilities.

(4) Calculated as net debt (which equals bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits under current assets) divided by total equity and multiplied by 100%.

Our return on equity increased from 14.2% for the year ended December 31, 2018 to 14.9% for the year ended December 31, 2019, mainly due to the increase in net profit because of the dairy industry recovery and higher raw milk prices driven by the increased demand. Our return on equity increased from 14.9% for the year ended December 31, 2019 to 17.0% for the year ended December 31, 2020, mainly reflecting the rise in our net profit and the impacts of the acquisition of the controlling interest in SKX.

Our current ratio increased from 0.82 as of December 31, 2018 to 1.05 as of December 31, 2019, mainly due to an increase in our current assets primarily resulted from increases in current biological assets and bank balances and cash, and decreased from 1.05 as of December 31, 2019 to 0.92 as of December 31, 2020, mainly reflecting the impacts of the acquisition of the controlling interest in SKX.

Similar to the current ratio, our quick ratio increased from 0.47 as of December 31, 2018 to 0.72 as of December 31, 2019, mainly due to an increase in our current assets primarily resulted from increases in current biological assets and bank balances and cash, and decreased from 0.72 as of December 31, 2019 to 0.64 as of December 31, 2020, mainly reflecting the impacts of the acquisition of the controlling interest in SKX, which had a lower quick ratio as compared to Youran.

Our net gearing ratio increased from 31.2% as of December 31, 2018 to 39.9% as of December 31, 2019, mainly due to the increase in Youran's newly constructed projects, and increased from 39.9% as of December 31, 2019 to 71.6% as of December 31, 2020, mainly due to the issuance of the Convertible Notes in November 2020 and the increase in bank and other borrowings resulting from the consolidation of SKX's financial.

## LIQUIDITY AND CAPITAL RESOURCES

Our cash is primarily used for funding working capital, addition of biological assets, payment for plant and equipment and other capital expenditures. During the Track Record Period, we met our requirements for working capital and other capital expenditure through a combination of cash generated from operating activities, bank borrowings and net proceeds from share offering. The following table sets forth a summary of our cash flows for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Net cash from operating activities | 605,801 | 870,809 | 1,707,871 |
| Net cash used in investing activities | (1,142,959) | (1,490,454) | (4,752,812)[1] |
| Net cash from financing activities | 424,955 | 878,237 | 5,093,578 |
| Net (decrease)/increase in cash and cash equivalents | (112,203) | 258,592 | 2,048,637 |
| **Cash and cash equivalents at the beginning of the year** | **424,087** | **311,884** | **570,476** |
| **Cash and cash equivalents at the end of the year** | **311,884** | **570,476** | **2,619,113** |

*Note:*

(1) The net cash used in investing activities for the year ended December 31, 2020 was largely attributable to net cash outflows of RMB1,936.2 million for the acquisition of SKX.

**Net Cash from Operating Activities**

For the year ended December 31, 2020, net cash from operating activities amounted to RMB1,707.9 million, which was mainly attributable to profit before income tax for the period of RMB1,594.4 million, adjusted for (i) a loss of RMB413.8 million arising from changes in fair value of cows less cost of sales; (ii) finance costs of RMB309.8 million; (iii) depreciation and amortisation of RMB334.3 million; and (iv) changes in working capital (mainly including a decrease of RMB503.8 million in trade and bills payables, an increase in amounts due from related parties of RMB410.2 million, and a decrease in trade and bills receivables of RMB306.3 million).

For the year ended December 31, 2019, net cash from operating activities amounted to RMB870.8 million, which was mainly attributable to profit before income tax and total comprehensive income for the year of RMB850.9 million, adjusted for (i) a loss of RMB133.3 million arising from changes in fair value of cows less cost of sales; (ii) depreciation and amortisation of RMB139.3 million; (iii) finance costs of RMB104.1 million; and (iv) changes in working capital (mainly including an increase of RMB380.9 million in trade and bills receivables and an increase of RMB215.9 million in trade and bills payables).

For the year ended December 31, 2018, net cash from operating activities amounted to RMB605.8 million, which was mainly attributable to profit before income tax and total comprehensive income for the year of RMB697.2 million, adjusted for (i) depreciation and amortisation of RMB125.3 million; (ii) changes in working capital (mainly including an increase of RMB247.4 million in trade and bills receivables and an increase of RMB138.5 million in inventories).

**Net Cash Used in Investing Activities**

For the year ended December 31, 2020, net cash used in investing activities amounted to RMB4,752.8 million, which was mainly attributable to (i) payments for biological assets of RMB2,328.9 million, (ii) acquisition of subsidiaries of RMB1,936.2 million, and (iii) payments for property, plant and equipment of RMB1,340.2 million, partially offset by the proceeds from the disposal of biological assets of RMB974.5 million.

For the year ended December 31, 2019, net cash used in investing activities amounted to RMB1,490.5 million, which was mainly attributable to (i) payments for biological assets of RMB1,041.4 million, and (ii) payments for property, plant and equipment of RMB726.5 million, partially offset by the proceeds from the disposal of biological assets of RMB328.2 million.

For the year ended December 31, 2018, net cash used in investing activities amounted to RMB1,143.0 million, which was mainly due to (i) payments for biological assets of RMB979.5 million, and (ii) payments for property, plant and equipment of RMB359.8 million, partially offset by proceeds from the disposal of biological assets of RMB190.1 million.

### Net Cash from Financing Activities

For the year ended December 31, 2020, net cash from financing activities amounted to RMB5,093.6 million, which was mainly attributable to (i) new bank and other borrowings raised of RMB7,250.3 million; (ii) proceeds on issue of convertible notes of RMB3,050.7 million; and (iii) capital contribution by the then holding company of RMB2,278.5 million, partially offset by repayment of bank and other borrowings of RMB5,886.0 million.

For the year ended December 31, 2019, net cash from financing activities amounted to RMB878.2 million, which was mainly attributable to new bank and other borrowings raised of RMB3,115.7 million; partially offset by repayment of bank and other borrowings of RMB2,078.9 million.

For the year ended December 31, 2018, net cash from financing activities amounted to RMB425.0 million, which was mainly attributable to new bank and other borrowings raised of RMB2,640.0 million, partially offset by repayment of bank and other borrowings of RMB2,100.0 million.

## INDEBTEDNESS

At the close of business on April 30, 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the date of this Prospectus, our Group had outstanding borrowings of approximately RMB10,319,080,000, comprising:

(i) secured and guaranteed bank borrowings of RMB438,170,000 which were secured by certain biological assets of our Group and equity interests of certain subsidiaries of our Group, and guaranteed by certain subsidiaries of our Group;

(ii) secured and unguaranteed bank borrowings of approximately RMB1,273,511,000 which were secured by certain bank deposits, internally generated intangible assets, bills receivables, biological assets of our Group and the equity interests of certain subsidiaries of our Group;

(iii) unsecured and guaranteed bank borrowings of approximately RMB2,942,782,000, which were guaranteed by certain subsidiaries of our Group;

(iv) unsecured and unguaranteed bank borrowings of approximately RMB3,449,463,000;

(v) unsecured and unguaranteed other liabilities of approximately RMB27,106,000; and

(vi) unsecured and unguaranteed convertible notes with an aggregate carrying amount of RMB2,188,048,000.

At April 30, 2021, we had lease liabilities of RMB948,831,000 in relation to the remaining lease terms of certain lease contracts, of which lease liabilities of RMB939,582,000 were unsecured and unguaranteed, and RMB9,249,000 were secured by rental deposits and unguaranteed.

At April 30, 2021, we had an ongoing civil litigation against us for alleged failure to supply of products to a customer, of which provision of RMB13,346,000 has been made.

At April 30, 2021, we had an outstanding arbitration regarding the adjustments made to the consideration for acquisition of SKX. The arbitration amount is RMB44.9 million. The directors of the Company have considered that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Accordingly, no provision has been made in relation to this arbitration.

At April 30, 2021, we had provisions for land rehabilitation amounted to RMB8,345,000, which are related to an obligation to incur rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing dairy farming operations.

Save as aforesaid and apart from intra-group liabilities and normal trade, bills and other payables in the ordinary course of our business, at the close of business on April 30, 2021, we did not have any debt securities authorised or created but unissued, issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, debentures, hire purchase or finance lease obligations, guaranteed, unguaranteed, secured and unsecured borrowings and debts, or other material contingent liabilities.

| | **As of December 31,** | | | **As of April 30,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | | *RMB'000* | | |
| | | | | (unaudited) |
| Bank borrowings | 1,742,014 | 2,753,708 | 6,196,133 | 8,103,927 |
| Unsecured | 1,341,429 | 2,753,708 | 4,862,089 | 6,392,246 |
| Secured | 400,585 | – | 1,305,041 | 1,711,681 |
| Other borrowings | – | 28,897 | 29,003 | – |
| | 1,742,014 | 2,782,605 | 6,196,133 | 8,103,927 |

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | | *RMB'000* | | |
| | | | | (unaudited) |
| The carrying amounts of the above borrowings are repayable | | | | |
| Within one year | 1,742,014 | 1,682,945 | 4,224,527 | 4,262,350 |
| More than one year but within two years | – | 508,027 | 939,903 | 1,690,060 |
| More than two years but within five years | – | 591,633 | 933,648 | 1,802,098 |
| More than five years | – | – | 98,055 | 349,419 |
| | 1,742,014 | 2,782,605 | 6,196,133 | 8,103,927 |
| Less: amounts due within one year shown under current liabilities | (1,742,014) | (1,682,945) | (4,224,527) | (4,262,350) |
| Amount shown under non-current liabilities | – | 1,099,660 | 1,971,606 | 3,841,577 |
| Lease liabilities | 323,963 | 325,717 | 967,489 | 948,831 |
| Less: Amount due for settlement within 12 months shown under current liabilities | (24,595) | (12,405) | 38,684 | (41,998) |
| Amount due for settlement after 12 months shown under noncurrent liabilities | 299,368 | 313,312 | 928,805 | 906,833 |
| Other liabilities at amortised cost | – | 38,164 | 27,106 | 27,106 |
| Portion classified under current liabilities | – | (11,058) | (6,261) | (6,261) |
| Portion classified under non-current liabilities | – | 27,106 | 20,845 | 20,845 |

Our secured bank loans as of December 31, 2018 were secured by bank deposits of RMB0.1 million. Our secured bank loans as of December 31, 2020 were secured by certain of biological assets, bank deposits, internally generated intangible assets, bills receivables, and equity interests of certain subsidiaries of our Group. In addition, certain bank borrowings were guaranteed by certain subsidiaries of our Group.

Our other borrowings represent loans from local governments. In April 2019, we entered into a loan arrangement with several local governments, which will be matured in March 2021. These loans bear interest at a fixed interest rate of 4.75% per annum before June 30, 2019. Since July 1, 2019, the interest rate has been changed to 6%.

## CONTINGENT LIABILITIES

Apart from ongoing litigation for which provision has been made, at the end of each reporting period, we had no significant contingent liability.

## CAPITAL EXPENDITURES

The following table sets forth capital expenditures for the periods indicated:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| **Capital expenditures in respect of acquisition of property, plant and equipment** | | | |
| Contracted but not provided for | 545,302 | 664,055 | 1,681,760 |

## CONTRACTUAL OBLIGATIONS

As of the Latest Practicable Date, we did not have any material contractual obligations.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-balance sheet commitments and arrangements.

## MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors confirm that the related party transactions set out in Note 47 to the Accountants' Report in Appendix I to this prospectus were conducted in the ordinary course of business on arm's length basis and by reference to the normal commercial terms of each party. Our Directors also consider that our related party transactions during the Track Record Period would not affect our results during such period, and would not make our historical results not reflective of our future performance.

We expect that certain of our related party transactions will proceed following the Global Offering. For our related party transactions under Chapter 14A of the Listing Rules, please refer to the section headed "Continuing Connected Transactions" in this prospectus.

### Loans from related parties

During the Track Record Period, we obtained a loan with an annual interest rate of 5.5% and repayment term of five months and a loan with an annual interest rate of 5.5% and repayment term of three months from Huishang Commercial Factoring Company Limited, a subsidiary of the Yili Group, to replenish our working capital. Such loans are unsecured. For the years ended December 31, 2018, 2019 and 2020, we recorded advance from Huishang Commercial Factoring Company Limited of RMB300.0 million, nil and nil, respectively. As of December 31, 2018, 2019 and 2020, the total outstanding loans and interest payable to Huishang Commercial Factoring Company Limited were nil, nil and nil, respectively.

## MARKET AND OTHER FINANCIAL RISK MANAGEMENT

We are exposed to various types of market risks in the ordinary course of our business. The main risks arising from our financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. We manage our exposure to these risks through regular operating and financial activities. Our Board regularly reviews the risks and our financial risk management policy, and seeks to ensure that adequate resources are available to manage the market risks summarized below. For more details, see Note 45 to the Accountants' Report included in the Appendix I to this prospectus.

### Foreign Currency Risk Management

We operate mainly in the PRC and majority of revenue and cost of goods sold and operations are denominated in RMB. Almost all of the revenue and costs are denominated in our group members' respective functional currency.

We are exposed to foreign currency risk primarily with respect to the changes of exchange rate of US$ against RMB, which is the functional currency of most of our group members. Our Company has foreign currency bank balances which mainly expose us to foreign currency risk.

The carrying amounts of our foreign currency denominated monetary assets (bank balances) and liabilities (convertible notes) at the end of each reporting period are as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| Bank balances denominated in US$ | 218 | 241 | 115,112 |
| Convertible notes in US$ | – | – | 3,043,648 |

We currently do not have a foreign exchange hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

***Sensitivity Analysis***

We are mainly exposed to the effects of fluctuation in RMB against US$. The following table details our sensitivity to a 5% increase or decrease in RMB against US$. The percentage represents management's assessment of the reasonably possible change in foreign exchange rate. At the end of each reporting period, if the exchange rate had been weakened/strengthened in RMB against US$ by 5% and all other variables were held constant, our post-tax profit for each reporting period would decrease/increase as follow:

| | Change in exchange rate | Increase/(decrease) in profit after tax | | |
|---|---|---|---|---|
| | | 2018 | 2019 | 2020 |
| | | | *RMB'000* | |
| RMB strengthen against US$ | 5% | (11) | (12) | 146,426 |
| RMB weaken against US$ | 5% | 11 | 12 | (146,426) |

**Interest Rate Risk Management**

We are exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and lease liabilities. We are also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged and restricted bank deposits and variable-rate bank borrowings. Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and PBOC arising from our RMB denominated borrowings.

### Credit Risk Management

In order to minimize the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by our management based on prior experience and the current economic environment.

We perform impairment assessment under ECL model upon application of IFRS 9 on January 1, 2018 on financial assets individually or based on provision matrix. We also review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our management considers that our credit risk is significantly reduced.

### Liquidity Risk Management

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

We had net current liabilities of RMB538.8 million as at December 31, 2020, which exposed us to liquidity risk. In order to mitigate the liquidity risk, our Directors regularly monitor the operating of our cash flows to meet our liquidity requirement in the short and long term. Our net current liabilities position as at December 31, 2020 was mainly attributable to trade and bills payables, other payables and accruals, bank and other borrowings due within one year.

In view of these circumstances, our Directors have considered our future liquidity and performance and our available sources of finance, including unutilised bank loan facilities in an amount of RMB5,970.7 million as of March 31, 2021 and the issuance of convertible notes in November 2020, in assessing we will have sufficient financial resources to continue as a going concern. Meanwhile, we recorded net operating cash inflows during the Track Record Period.

## FINANCIAL INFORMATION OF SKX

The historical financial information contained and discussed in this subsection "– Financial Information of SKX" presents the historical financial information of SKX for the years ended December 31, 2018 and 2019.

Our Company completed the acquisition of the controlling interest in SKX on January 8, 2020, which falls within the Track Record Period. Based on the historical financial information of SKX, such acquisition has triggered the disclosure thresholds under Rule 4.05A. Therefore, this prospectus also includes the pre-acquisition financial information of SKX from January 1, 2020 up to January 7, 2020, for details of which please see the section headed "Appendix I – Accountants' Report – III" in this prospectus.

## Summary Consolidated Statements of Comprehensive (Loss)/Income of SKX

| | Year ended December 31, | | | | | | For the seven days ended January 7, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 2,103,874 | – | 2,103,874 | 2,407,511 | – | 2,407,511 | 53,205 | – | 53,205 |
| Cost of sales | (2,008,473) | – | (2,008,473) | (2,312,015) | – | (2,312,015) | (51,462) | – | (51,462) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 660,957 | – | 660,957 | 717,390 | – | 717,390 | 17,837 | – | 17,837 |
| Gross profit before impairment loss on inventories | 756,358 | – | 756,358 | 812,886 | – | 812,886 | 19,580 | – | 19,580 |
| Impairment loss on inventories | (5,030) | – | (5,030) | (45,959) | – | (45,959) | (18) | – | (18) |
| Gross profit after impairment loss on inventories | 751,328 | – | 751,328 | 766,927 | – | 766,927 | 19,562 | – | 19,562 |
| Loss arising from changes in fair value less costs to sell of biological assets | – | (399,789) | (399,789) | – | (267,165) | (267,165) | – | (4,584) | (4,584) |
| Other income | 30,599 | – | 30,599 | 29,752 | – | 29,752 | 203 | – | 203 |
| Selling and distribution expenses | (79,617) | – | (79,617) | (89,364) | – | (89,364) | (1,687) | – | (1,687) |
| Administrative expenses | (100,233) | – | (100,233) | (141,008) | – | (141,008) | (4,025) | – | (4,025) |
| Other expenses | (5,362) | – | (5,362) | (16,148) | – | (16,148) | (85) | – | (85) |
| Share of profit of a joint venture | 109 | – | 109 | 215 | – | 215 | – | – | – |
| Impairment loss under expected credit loss model, net of reversal | (9,915) | – | (9,915) | (14,681) | – | (14,681) | (83) | – | (83) |
| Other gains and losses | (4,565) | – | (4,565) | (18,419) | – | (18,419) | 71 | – | 71 |
| Finance costs | (129,444) | – | (129,444) | (141,064) | – | (141,064) | (2,800) | – | (2,800) |
| Profit before tax | 452,900 | (399,789) | 53,111 | 376,210 | (267,165) | 109,045 | 11,156 | (4,584) | 6,572 |
| Income tax (expense)/credit | (285) | – | (285) | 192 | – | 192 | – | – | – |
| Profit for the year/period | 452,615 | (399,789) | 52,826 | 376,402 | (267,165) | 109,237 | 11,156 | (4,584) | 6,572 |

| | Year ended December 31, | | | | | | For the seven days ended January 7, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | **Results before biological assets fair value adjustments** | **Biological assets fair value adjustments** | **Total** | **Results before biological assets fair value adjustments** | **Biological assets fair value adjustments** | **Total** | **Results before biological assets fair value adjustments** | **Biological assets fair value adjustments** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Other comprehensive income/(expense), net of income tax:** | | | | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | | | | | |
| Fair value (loss)/gain on investments in equity instruments at FVTOCI | (4,791) | – | (4,791) | 11,148 | – | 11,148 | – | – | – |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | | |
| Exchange differences arising on translation of foreign investment | 17 | – | 17 | 88 | – | 88 | (3) | – | (3) |
| **Other comprehensive (expense)/income, net of income tax** | (4,774) | – | (4,774) | 11,236 | – | 11,236 | (3) | – | (3) |
| **Total comprehensive income for the year/period** | 447,841 | (399,789) | 48,052 | 387,638 | (267,165) | 120,473 | 11,153 | (4,584) | 6,569 |
| Profit/(loss) for the year/period attributable to: | | | | | | | | | |
| Owners of SKX | | | 49,712 | | | 112,004 | | | 6,595 |
| Non-controlling interests | | | 3,114 | | | (2,767) | | | (23) |
| Profit for the year/period | | | 52,826 | | | 109,237 | | | 6,572 |
| Total comprehensive income/(expense) for the year/period attributable to: | | | | | | | | | |
| Owners of SKX | | | 44,938 | | | 123,240 | | | 6,592 |
| Non-controlling interests | | | 3,114 | | | (2,767) | | | (23) |
| Total comprehensive income for the year/period | | | 48,052 | | | 120,473 | | | 6,569 |
| Earnings per share | | | | | | | | | |
| Basic (RMB) | | | 0.05 | | | 0.12 | | | 0.01 |

**Description of Major Components of the Results of Operations of SKX**

***Revenue***

During the Track Record Period, revenue of SKX was generated primarily from sales of raw milk and breeding products to its customers. The following table sets forth the components of the revenue of SKX by segment for the periods indicated:

| | Segment revenue | Inter-segment revenue | External revenue | External revenue as % of total revenue |
|---|---|---|---|---|
| | *RMB'000 (except for percentage)* | | | |
| **Year ended December 31, 2018** | | | | |
| Raw milk business | 2,037,472 | – | 2,037,472 | 100.0 |
| Comprehensive ruminant farming solution-breeding business | 82,124 | 15,722 | 66,402 | 80.9 |
| **Year ended December 31, 2019** | | | | |
| Raw milk business | 2,347,557 | – | 2,347,557 | 100.0 |
| Comprehensive ruminant farming solution-breeding business | 72,583 | 12,629 | 59,954 | 82.6 |

*Raw milk business.* SKX derives revenue from the sales of raw milk, which represents the largest component of the revenue of SKX. Revenue is recognized when raw milk is delivered to SKX's customers. The following table sets forth the sales value, sales volume and average selling price per kilogram of SKX's raw milk for the periods indicated:

| | For the Year Ended December 31, | |
|---|---|---|
| | **2018** | **2019** |
| Sales value *(RMB'000)* | 2,037,472 | 2,347,557 |
| Sales volume *(tons)* | 554,995 | 605,020 |
| Average selling price per kilogram *(RMB/kilogram)* | 3.7 | 3.9 |

*Comprehensive ruminant farming solution-breeding business.* SKX generates revenue from the sales of breeding products, such as frozen bovine semen. Such breeding products are the high-quality frozen semen of domestic and overseas dairy cows and beef cattle which we provide for dairy farms for the purpose of breeding calves.

***Cost of Sales***

The following table sets forth a breakdown of the cost of sales of SKX for the periods indicated:

| | **For the Year Ended December 31,** | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Cost of sales before fair value adjustments | | |
| Costs of sales of raw milk | 1,318,493 | 1,566,654 |
| Costs of sales of breeding products | 29,023 | 27,971 |
| | 1,347,516 | 1,594,625 |
| Raw milk fair value adjustments included in cost of sales | 660,957 | 717,390 |
| **Total cost of sales** | **2,008,473** | **2,312,015** |

*Cost of sales before fair value adjustments*

- Raw milk business

Cost of sales before raw milk fair value adjustments included in cost of sales of the raw milk business of SKX mainly includes raw materials, depreciation charges, staff remuneration, cost of utilities and others.

The following table sets forth major components of the cost of sales before raw milk fair value adjustments of SKX's raw milk business for the periods indicated:

| | **For the Year Ended December 31,** | | | |
|---|---|---|---|---|
| | **2018** | | **2019** | |
| | **Amount** | **Percentage in total amount** | **Amount** | **Percentage in total amount** |
| | *(RMB'000, except percentages)* | | | |
| Cost of sales of raw milk business before raw milk fair value adjustments | | | | |
| Raw materials | 1,088,618 | 82.6 | 1,310,544 | 83.7 |
| Depreciation charges | 70,460 | 5.3 | 87,380 | 5.6 |
| Cost of utilities | 24,356 | 1.8 | 25,519 | 1.6 |
| Staff remuneration | 97,296 | 7.4 | 101,322 | 6.5 |
| Others | 37,763 | 2.9 | 41,889 | 2.6 |
| **Total** | **1,318,493** | **100.0** | **1,566,654** | **100.0** |

- Comprehensive ruminant farming solution-breeding business

Cost of sales of the breeding business of SKX mainly includes raw materials, depreciation charges, staff remuneration, cost of utilities and others.

The following table sets forth major components of the cost of sales of SKX's breeding business for the periods indicated:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2019 | |
| | | % | | % |
| | (RMB'000, except percentages) | | | |
| Raw materials | 17,519 | 60.4 | 16,630 | 59.4 |
| Depreciation charges | 5,435 | 18.7 | 6,015 | 21.5 |
| Cost of utilities | 625 | 2.2 | 581 | 2.1 |
| Staff remuneration | 3,043 | 10.5 | 3,077 | 11.0 |
| Others | 2,401 | 8.2 | 1,668 | 6.0 |
| **Total** | **29,023** | **100.0** | **27,971** | **100.0** |

*Raw milk fair value adjustments included in cost of sales*

Raw milk fair value adjustments included in cost of sales were due to the difference between the production cost of raw milk under the cost approach and the market price of raw milk at the point of harvest. SKX recorded raw milk fair value adjustments included in cost of sales of RMB661.0 million and RMB717.4 million for the years ended December 31, 2018 and 2019, respectively.

***Gains Arising on Initial Recognition of Agricultural Produce at Fair Value Less Costs of Sales at the Point of Harvest***

Gains arising on initial recognition of agricultural produce at fair value less costs of sales at the point of harvest arise from the raw milk fair value adjustments.

SKX recorded gains arising on initial recognition of agricultural produce at fair value less costs of sales at the point of harvest of RMB661.0 million and RMB717.4 million for the years ended December 31, 2018 and 2019, respectively.

Gains arising on initial recognition of agricultural produce at fair value less costs of sales at the point of harvest is offset by raw milk fair value adjustments included in cost of sales.

***Gross Profit before Impairment Loss on Inventories***

The following table sets forth a breakdown of the gross profit before impairment loss on inventories and as a percentage of our total revenue (being gross profit margin before impairment loss on inventories) by raw milk business and comprehensive ruminant farming solution – breeding business for the periods indicated:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2019 | |
| | Gross profit before impairment loss on inventories | Gross margin before impairment loss on inventories | Gross profit before impairment loss on inventories | Gross margin before impairment loss on inventories |
| | *(RMB'000, except percentages)* | | | |
| Raw milk business | 718,979 | 35.3% | 780,903 | 33.3% |
| Comprehensive ruminant farming solution-breeding business | 37,379 | 56.3% | 31,983 | 53.3% |
| **Total** | **756,358** | 36.0% | **812,886** | 33.8% |

***Impairment losses of inventories***

Impairment losses of inventories represents the loss arising from the impairment made by SKX in relation to part of its breeding products inventory. For the year ended December 31, 2018 and 2019, SKX recorded impairment losses of inventories of RMB5.0 million and RMB46.0 million, respectively.

***Loss Arising from Changes in Fair Value less Costs to Sell of Biological Assets***

Loss arising from changes in fair value less costs to sell of biological assets represents fair value changes in our dairy cows, due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifers. Further, when a milkable cow is culled and sold, its value decreases. During the two years ended December 31, 2018 and 2019, the biological assets were revalued at each reporting date.

During the two years ended December 31, 2018 and 2019, the valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers*. The fair value of calves and heifers is determined by reference to the local market selling price. The fair value of calves and heifers less than 14 months old are determined by subtracting the estimated feed costs required to raise the cows from their respective age at the end of each reporting period to 14 months old. Conversely, the fair values of heifers older than 14 months old are determined by adding the estimated feed costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period.

- *Milkable cows*. The fair values of milkable cows are determined by using the future earnings approach, which is based on the discounted future cash flows to be generated by such milkable cows.

SKX recorded net losses arising from changes in fair value less costs to sell of biological assets of RMB399.8 million and RMB267.2 million for the years ended December 31, 2018 and 2019, respectively. See the section headed "– Year-to-year Comparison of Results of Operations" for analyses on the fluctuation of the gains and loss arising from changes in fair value less costs to sell of biological assets.

When disposing of dairy cows, SKX writes off the carrying amount of the dairy cows from SKX's biological assets, and the difference between the carrying amount of the dairy cows disposed and the proceeds from the disposal is recorded as changes in fair value less costs to sell of our biological assets. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of biological assets amounted to RMB331.2 million and RMB538.0 million for the years ended December 31, 2018 and 2019, respectively.

***Other Income***

Other income of SKX mainly consists of (i) government grants (namely the government grants received by SKX from relevant governmental authorities of the PRC), (ii) income from sales of raw material, (iii) bank interest income, (iv) rental income, and (v) others, mainly being income generated from technical services provided by SKX such as feedstuff detection, production performance testing on dairy cows and other external services.

The following table sets forth a breakdown of other income of SKX for the periods indicated:

| | For the year ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | *RMB'000* | |
| Government grants | 21,408 | 15,293 |
| Income from sales of raw materials | 2,522 | 8,775 |
| Bank interest income | 2,025 | 1,096 |
| Rental income | 4,613 | 4,202 |
| Others | 31 | 386 |
| **Total** | **30,599** | **29,752** |

### *Selling and Distribution Expenses*

Selling and distribution expenses of SKX consist of loading, unloading and transportation costs, marketing expenses, staff remuneration, taxes, travel expenses and others.

The following table sets forth a breakdown of selling and distribution expenses of SKX and as a percentage of total selling and distribution expenses of SKX for the periods indicated:

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2019 | |
| | *RMB* | *%* | *RMB* | *%* |
| | *(RMB'000, except percentages)* | | | |
| Loading, unloading and transportation costs | 58,156 | 73.1 | 63,964 | 71.6 |
| Marketing expenses | 8,379 | 10.5 | 8,804 | 9.9 |
| Staff remuneration | 4,708 | 5.9 | 6,358 | 7.1 |
| Taxes | 5,520 | 6.9 | 7,249 | 8.1 |
| Travel expenses | 990 | 1.3 | 1,454 | 1.6 |
| Others | 1,864 | 2.3 | 1,535 | 1.7 |
| **Total** | **79,617** | **100.0** | **89,364** | **100.0** |

***Administrative Expenses***

Administrative expenses of SKX consist of staff remuneration, insurance expenses, research and development expenses, travel and office expenses, legal and professional service fees, maintenance expenses and others.

The following table sets forth a breakdown of administrative expenses of SKX and as a percentage of total administrative expenses of SKX for the periods indicated:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2019 | |
| | *RMB* | *%* | *RMB* | *%* |
| | *(RMB'000, except percentages)* | | | |
| Staff remuneration | 45,337 | 45.2 | 50,970 | 36.1 |
| Maintenance expenses | 1,649 | 1.6 | 8,277 | 5.9 |
| Travel and office expenses | 2,825 | 2.8 | 3,259 | 2.3 |
| Legal and professional service fees | 2,281 | 2.3 | 12,517 | 8.9 |
| Insurance expenses | 12,468 | 12.4 | 17,936 | 12.7 |
| Research and development expenses | 8,812 | 8.8 | 9,441 | 6.7 |
| Others | 26,861 | 26.9 | 38,608 | 27.4 |
| **Total** | **100,233** | **100.0** | **141,008** | **100.0** |

***Other Expenses***

Other expenses of SKX consist of expenses from selling raw materials, depreciation of investment properties and right-of-use assets and others. The following table sets forth a breakdown of SKX's other expenses:

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | *RMB'000* | |
| Cost of sales of raw materials | 2,420 | 13,092 |
| Depreciation of investment properties and right-of-use assets | 2,816 | 2,656 |
| Others | 126 | 400 |
| **Total** | **5,362** | **16,148** |

***Share of (Loss)/Profit of a Joint Venture***

Share of profit of a joint venture represents profits shared by SKX from a corporate engaged in the production and sales of raw semen, in which SKX holds 50% equity interest. SKX recorded share of profit of a joint venture of RMB0.1 million and RMB0.2 million for the years ended December 31, 2018 and 2019, respectively.

***Impairment Losses under Expected Credit Loss Model, Net of Reversal***

SKX's impairment losses under expected credit loss model, net of reversal includes (i) credit losses recognized in respect of trade and bills receivables; and (ii) credit losses recognized in respect of other receivables. SKX records impairment losses under expected credit loss model, net of reversal of RMB9.9 million and RMB14.7 million for the years ended December 31, 2018 and 2019, respectively.

***Other Gains and Losses***

Other gains and losses of SKX consists of (i) gain/(loss) on disposal of property, plant and equipment; (ii) impairment losses on property, plant and equipment; (iii) impairment losses (recognized)/reversed in respect of trade and bills receivables and other receivables; (iv) gains arising from acquisition of subsidiaries; (v) provision for litigations; (vi) exchange loss, net; and (vii) others.

The following table sets forth a breakdown of SKX's other gains and losses for the periods indicated:

| | **For the Year Ended December 31,** | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Loss on disposal of property, plant and equipment | (1,824) | (2,671) |
| Impairment losses of property, plant and equipment | (1,224) | – |
| Litigation provision | – | (13,346) |
| Net exchange loss | (215) | (551) |
| Others | (1,302) | (1,851) |
| **Total** | **(4,565)** | **(18,419)** |

***Finance Costs***

Finance costs of SKX include interest expenses on bank borrowings, lease liabilities and interest on contract liabilities from customers. The following table sets forth a breakdown of SKX's finance costs:

| | For the Year Ended December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Interest expenses on: | | |
| Bank borrowings | 113,040 | 107,874 |
| Lease liabilities | 15,302 | 15,480 |
| Interest on contract liabilities from customers | 1,102 | 17,710 |
| **Total** | **129,444** | **141,064** |

***Profit Before Tax***

SKX recorded a profit before tax of RMB53.1 million and RMB109.0 million for the years ended December 31, 2018 and 2019, respectively.

***Income Tax Expenses***

For each of the years ended December 31, 2018 and 2019, except for the 15% preferential tax rate SKX enjoys under the Great Western Development policies, the PRC subsidiaries of SKX are generally subject to a tax rate of 25% for the PRC enterprise income tax. According to the Law on the Enterprise Income Tax of the People's Republic of China (the "**EIT Law**"), the income of SKX generated from agricultural and husbandry programs (such as the feeding of dairy cows) is exempt from income tax. According to PRC laws and regulations on tax, the relevant PRC subsidiaries shall, based on their operating conditions and related tax regulations, determine on their own whether they meet the conditions stipulated in the preferential items. Those subsidiaries who meet the conditions may calculate the tax deductions accordingly and may enjoy EIT preferences by filing an EIT return. They shall collect and maintain relevant documents for future reference.

***Profit for the Year***

SKX recorded profit for the year of RMB52.8 million and RMB109.2 million for the years ended December 31, 2018 and 2019, respectively.

**Year-to-year Comparison of Results of Operations**

***Year Ended December 31, 2019 Compared to Year Ended December 31, 2018***

*Revenue*

The revenue of SKX increased by 14.4% from RMB2,103.9 million for the year ended December 31, 2018 to RMB2,407.5 million for the year ended December 31, 2019.

- *Raw milk business.* Revenue generated from sales of raw milk increased by 15.2% from RMB2,037.5 million for the year ended December 31, 2018 to RMB2,347.6 million for the year ended December 31, 2019, which resulted from (i) a 9.0% increase in raw milk sales volume from 554,995 tons for the year ended December 31, 2018 to 605,020 tons for the year ended December 31, 2019, as a result of the increases in the number of milkable cows and the average milk yield per milkable cow; and (ii) an increase in the average unit price of raw milk from RMB3.7 per kilogram for the year ended December 31, 2018 to RMB3.9 per kilogram for the year ended December 31, 2019.

- *Comprehensive ruminant farming solution-breeding business.* Revenue generated from breeding products decreased by 9.7% from RMB66.4 million for the year ended December 31, 2018 to RMB60.0 million for the year ended December 31, 2019 mainly since SKX adjusted its sales strategy of breeding products in light of the market demand of breeding products, resulting in the decreased sales volume.

*Cost of sales*

The cost of sales of SKX increased by 15.1% from RMB2,008.5 million for the year ended December 31, 2018 to RMB2,312.0 million for the year ended December 31, 2019.

- Cost of sales before fair value adjustments

  - *Raw milk business.* The cost of raw milk sold increased by 18.8% from RMB1,318.5 million for the year ended December 31, 2018 to RMB1,566.7 million for the year ended December 31, 2019, which was due to a 9.0% increase in raw milk sales volume from 554,995 tons for the year ended December 31, 2018 to 605,020 tons for the year ended December 31, 2019 as a result of the increases in the number of milkable cows and the average milk yield per milkable cow.

  - *Comprehensive ruminant farming solution-breeding business.* The cost of sales generated from the sales of breeding products decreased by 3.6% from RMB29.0 million for the year ended December 31, 2018 to RMB28.0 million for the year ended December 31, 2019 mainly since SKX adjusted its sales strategy of breeding products in light of the market demand of breeding products, resulting in the decreased sales volume.

- *Raw milk fair value adjustments included in cost of sales.* The raw milk fair value adjustments increased from RMB661.0 million for the year ended December 31, 2018 to RMB717.4 million for the year ended December 31, 2019.

***Gains Arising on Initial Recognition of Agricultural Produce at Fair Value Less Costs of Sales at the Point of Harvest***

Gains arising on initial recognition of agricultural produce at fair value less costs of sales at the point of harvest of SKX were RMB661.0 million for the year ended December 31, 2018 and RMB717.4 million for the year ended December 31, 2019, respectively, which was primarily due to the fair value adjustment of raw milk. Gains arising on initial recognition of agricultural produce at fair value less costs of sales at the point of harvest is offset by raw milk fair value adjustments included in cost of sales.

***Gross profit before impairment loss on inventories***

As a result of the foregoing, the gross profit before impairment loss on inventories of SKX increased by 7.5% from RMB756.4 million for the year ended December 31, 2018 to RMB812.9 million for the year ended December 31, 2019. During the same period, SKX's gross profit margin before impairment loss on inventories decreased from 36.0% to 33.8%.

- *Raw milk business.* The gross profit before impairment loss on inventories of raw milk business of SKX increased by 8.6% from RMB719.0 million for the year ended December 31, 2018 to RMB780.9 million for the year ended December 31, 2019. SKX's gross profit margin of raw milk decreased from 35.3% for the year ended December 31, 2018 to 33.3% for the year ended December 31, 2019, primarily due to the increase in raw materials costs (mainly feed costs) as SKX improved the quality of feed it used to improve the average milk yield per milkable cow.

- *Comprehensive ruminant farming solution-breeding business.* The gross profit before impairment loss on inventories of breeding business of SKX decreased from RMB37.4 million for the year ended December 31, 2018 to RMB32.0 million for the year ended December 31, 2019. The gross profit margin before impairment loss on inventories decreased from 56.3% for the year ended December 31, 2018 to 53.3% for the year ended December 31, 2019, mainly due to the changes in proportion of products with different gross margins.

***Impairment losses of inventories***

SKX recorded impairment losses of inventories of RMB46.0 million for the year ended December 31, 2019 as compared to the impairment losses of inventories of RMB5.0 million for the year ended December 31, 2018, mainly due to the impairment loss recognized by SKX in relation to unsold frozen semen at December 31, 2019 with lower breeding value, which could not meet market demands and for which there is no recent market value as reference.

*Loss Arising from Changes in Fair Value Less Costs to Sell of Biological Assets*

Loss arising from changes in fair value less costs to sell of biological assets of SKX decreased by 33.2% from RMB399.8 million for the year ended December 31, 2018 to RMB267.2 million for the year ended December 31, 2019. The decrease in loss was mainly caused by an increase in fair value of SKX's biological assets primarily due to optimization of the quality of herd structure and market price of SKX's milkable cows in 2019.

*Other Income*

Other income of SKX slightly decreased by 2.8% from RMB30.6 million for the year ended December 31, 2018 to RMB29.8 million for the year ended December 31, 2019. The decrease was primarily due to a decrease of 28.6% in government grants from RMB21.4 million for the year ended December 31, 2018 to RMB15.3 million for the year ended December 31, 2019. The decrease was partially offset by an increase of 247.9% in income from sales of raw materials associated with the sale of part of SKX's feed during the restructuring of SKX's dairy farms from RMB2.5 million for the year ended December 31, 2018 to RMB8.8 million for the year ended December 31, 2019.

*Selling and Distribution Expenses*

Selling and distribution expenses of SKX increased by 12.2% from RMB79.6 million for the year ended December 31, 2018 to RMB89.4 million for the year ended December 31, 2019. The increase was primarily due to increases in loading, unloading and transportation costs resulted from the increase in sales volume of raw milk from the year ended December 31, 2018 to the year ended December 31, 2019. The proportion of SKX selling and distribution expenses in its revenue decreased from 3.8% for the year ended December 31, 2018 to 3.7% for the year ended December 31, 2019.

*Administrative Expenses*

Administrative expenses of SKX increased by 40.7% from RMB100.2 million for the year ended December 31, 2018 to RMB141.0 million for the year ended December 31, 2019. The increase was primarily due to (i) the increased maintenance expenses caused by infrastructure repairs and the increased insurance expenses in connection with business expansion, (ii) the increase in employees' remuneration resulting from the increased administrative staff as well as staff salaries and benefits, and (iii) the rise in legal and professional fees as a result of the increase in legal fees and professional fees, such as costs associated with environmental impact assessment and project supervision, in connection with dairy farm construction. The proportion of SKX administrative expenses in its revenue increased from 4.8% for the year ended December 31, 2018 to 5.9% for the year ended December 31, 2019.

***Other Expenses***

Other expenses of SKX increased by 201.2% from RMB5.4 million for the year ended December 31, 2018 to RMB16.1 million for the year ended December 31, 2019. The increase was primarily due to the increase of the cost of sales of raw materials from RMB2.4 million for the year ended December 31, 2018 to RMB13.1 million for the year ended December 31, 2019, which was mainly related to the cost associated with the sale of part of SKX's feed during the restructuring of SKX's dairy farms.

***Share of Profit of a Joint Venture***

Share of profit of a joint venture represents profits shared by SKX from a corporate engaged in the production and sales of raw semen, in which SKX holds 50% equity interest. SKX recorded share of profit of a joint venture of RMB0.2 million for the year ended December 31, 2019 as compared to a profit of RMB0.1 million for the year ended December 31, 2018.

***Impairment Losses under Expected Credit Loss Model, Net of Reversal***

Impairment losses under expected credit loss model, net of reversal includes (i) credit losses recognized in respect of trade and bills receivables; and (ii) credit losses recognized in respect of other receivables. SKX recognized impairment losses under expected credit loss model, net of reversal of RMB14.7 million for the year ended December 31, 2019 as compared with a loss of RMB9.9 million recognized for the year ended December 31, 2018. Such increase was mainly due to a newly added customer credit impairment loss.

***Other Gains and Losses***

Other gains and losses of SKX increased from a loss of RMB4.6 million for the year ended December 31, 2018 to a loss of RMB18.4 million for the year ended December 31, 2019. The increase was primarily due to an increase in litigation provision from nil for the year ended December 31, 2018 to RMB13.3 million for the year ended December 31, 2019.

***Finance Costs***

Finance costs of SKX increased by 9.0% from RMB129.4 million for the year ended December 31, 2018 to RMB141.1 million for the year ended December 31, 2019, which was primarily due to the increase in borrowings.

***Profit before Tax***

As a result of the foregoing, SKX had a profit before tax of RMB53.1 million for the year ended December 31, 2018, compared with a profit before tax of RMB109.0 million for the year ended December 31, 2019.

***Income Tax Expense***

SKX recorded income tax expenses of RMB0.3 million and income tax credit of RMB0.2 million for the years ended December 31, 2018 and 2019, respectively. For more details about the tax exemption, see the section headed "– Description of Major Components of the Results of Operations of SKX – Income Tax Expense" in this prospectus.

***Profit for the year***

As a result of the foregoing, SKX recorded the profit for the year of RMB52.8 million for the year ended December 31, 2018, compared with the profit for the year of RMB109.2 million for the year ended December 31, 2019. The change was largely affected by the loss arising from changes in fair value less costs to sell biological assets.

**Discussion of Key Balance Sheet Items of SKX**

The table below sets forth selected information from the consolidated statements of financial position of SKX, which has been extracted from the audited consolidated financial statements of SKX included in Section III – Pre-acquisition Financial Information to Appendix I to this prospectus, as of the dates indicated:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Total current assets | 965,487 | 1,093,139 |
| Total non-current assets | 5,128,940 | 5,423,752 |
| Total assets | 6,094,427 | 6,516,891 |
| Total current liabilities | 2,468,951 | 2,889,003 |
| Total non-current liabilities | 1,213,149 | 1,323,956 |
| Total liabilities | 3,682,100 | 4,212,959 |
| **Net assets** | **2,412,327** | **2,303,932** |
| Non-controlling interests | 129,437 | 5,874 |
| Total equity | 2,412,327 | 2,303,932 |
| **Total equity and liabilities** | **6,094,427** | **6,516,891** |

***Current Assets and Liabilities***

The following table sets forth the current assets and current liabilities of SKX as of the dates indicated:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| **Current assets** | | |
| Inventories | 528,191 | 672,044 |
| Trade and bills receivables | 223,530 | 171,046 |
| Prepayments, deposits and other receivables | 32,672 | 29,752 |
| Bank balances and cash | 153,131 | 195,300 |
| Pledged and restricted bank deposits | 27,963 | 24,997 |
| **Total current assets** | **965,487** | **1,093,139** |
| **Current liabilities** | | |
| Trade and bills payables | 928,743 | 1,256,423 |
| Other payables and accruals | 356,009 | 334,159 |
| Contract liabilities | 30,233 | 188,807 |
| Income tax payable | 246 | 17 |
| Lease liabilities | 4,921 | 5,604 |
| Bank borrowings | 1,148,799 | 1,090,647 |
| Other provision | – | 13,346 |
| **Total current liabilities** | **2,468,951** | **2,889,003** |
| **Net current liabilities** | **(1,503,464)** | **(1,795,864)** |

The net current liabilities of SKX increased from RMB1,503.5 million as of December 31, 2018 to RMB1,795.9 million as of December 31, 2019. This was primarily driven by (i) an increase in trade and bills payables from RMB928.7 million as of December 31, 2018 to RMB1,256.4 million as of December 31, 2019; (ii) an increase in contract liabilities from RMB30.2 million as of December 31, 2018 to RMB188.8 million as of December 31, 2019; these were partially offset by (i) an increase in inventories from RMB528.2 million as of December 31, 2018 to RMB672.0 million as of December 31, 2019; (ii) an increase in bank balances and cash from RMB153.1 million as of December 31, 2018 to RMB195.3 million as of December 31, 2019; and (iii) a decrease in borrowings from RMB1,148.8 million as of December 31, 2018 to RMB1,090.6 million as of December 31, 2019.

***Inventories***

Inventories of SKX primarily consist of raw materials, breeding products and consumables. The following table sets forth the components of SKX's inventories as of the dates indicated:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Raw materials | 452,827 | 619,267 |
| Breeding products | 56,564 | 17,065 |
| Consumables | 18,800 | 35,712 |
| **Total** | **528,191** | **672,044** |

Inventories of SKX increased from RMB528.2 million as of December 31, 2018 to RMB672.0 million as of December 31, 2019, which was mainly due to (i) an increase in raw materials from RMB452.8 million as of December 31, 2018 to RMB619.3 million as of December 31, 2019 as a result of the increase in silage reserves; and (ii) an increase in consumables from RMB18.8 million as of December 31, 2018 to RMB35.7 million as of December 31, 2019.

| | For the years ended December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *days* | |
| Inventory turnover days[(1)] | 88 | 90 |

(1) Inventory turnover days were calculated using the average of beginning balance and ending balance of inventory for a year divided by material costs of the entire herd and multiplied by 365 days.

During the two years ended December 31, 2018 and 2019, inventory turnover days of SKX increased from 88 days for the year ended December 31, 2018 to 90 days for the year ended December 31, 2019, which was primarily due to the slight increase in inventory balance as a result of rising silage reserves.

***Trade and Bills Receivables***

Trade and bills receivables of SKX primarily represent receivables from sales of raw milk and breeding products. The following table sets forth a breakdown of SKX's trade and bills receivables:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Trade receivables | 254,181 | 214,781 |
| Less: allowance for credit losses | (30,801) | (44,735) |
| | 223,380 | 170,046 |
| Bills receivables | 150 | 1,000 |
| **Trade and bills receivables** | **223,530** | **171,046** |

Trade and bills receivables decreased from RMB223.5 million as of December 31, 2018 to RMB171.0 million as of December 31, 2019, mainly because SKX tightened its receivables collection policies.

The following table sets forth an aging analysis of SKX's trade and bills receivables net of allowance for credit losses (doubtful debts) presented based on invoice date which approximate to the respective dates on which revenue is recognised as at the end of each reporting period:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Within 180 days | 172,177 | 149,023 |
| 181 days to 1 year | 33,382 | 13,534 |
| 1 year to 2 years | 13,995 | 6,215 |
| Over 2 years | 3,976 | 2,274 |
| **Total** | **223,530** | **171,046** |

| | For the year ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | days | |
| Trade and bills receivables turnover days[1] | 43 | 30 |

(1) SKX's trade and bills receivables turnover days are calculated by using the average balance of receivables divided by the revenue and multiplied by the number of days during the period (365 days).

For the years ended December 31, 2018 and 2019, average trade and bills receivables turnover days of SKX were 43 days and 30 days, respectively. The decrease was mainly due to the enhanced management of trade receivables.

***Trade and Bills Payables***

Trade and bills payables of SKX represent the payables for the sales of raw materials and breeding products. The table below sets forth the components of SKX's trade and bills payables balances as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | RMB'000 | |
| Trade payables | 834,533 | 1,050,239 |
| Bills payable | 94,210 | 206,184 |
| **Total trade and bills payables** | **928,743** | **1,256,423** |

| | For the year ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | days | |
| Trade and bills payables turnover days[1] | 133 | 161 |

(1) SKX's trade and bills payables turnover days are calculated by using the average balance of payables divided by the procurement amount and multiplied by the number of days for the period (365 days).

Trade and bills payables of SKX increased from RMB928.7 million as of December 31, 2018 to RMB1,256.4 million as of December 31, 2019, which was mainly due to the increase in trade payables resulted from the rising procurement volume. SKX's average trade and bills payables turnover days were 133 days and 161 days for the years ended December 31, 2018 and 2019.

The following table sets forth an aging analysis of SKX's trade and bills payables presented based on invoice date at the end of each reporting period:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Within 1 year | 869,858 | 1,207,990 |
| 1 year to 2 years | 41,187 | 33,041 |
| 2 years to 3 years | 4,511 | 4,230 |
| More than 3 years | 13,187 | 11,162 |
| **Total** | **928,743** | **1,256,423** |

***Other Payables and Accruals***

Other payables and accruals of SKX consist primarily of (i) construction costs payables, (ii) deposits received (deposits received by SKX from suppliers), (iii) accrued staff costs, (iv) other tax payables, (v) advance received from lessees, (vi) advances received for disposal of dairy cows, (vii) consideration payables for acquisition of non-controlling interest, and (viii) others.

The table below sets forth the components of SKX's other payables and accruals as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Construction costs payable | 289,697 | 259,625 |
| Deposits received | 13,429 | 13,696 |
| Accrued staff costs | 33,523 | 31,546 |
| Other tax payables | 1,687 | 626 |
| Consideration payables for acquisition of non-controlling interests | – | 22,922 |
| Advance received for disposal of dairy cows | 1,403 | 1,064 |
| Others | 16,270 | 4,680 |
| **Total** | **356,009** | **334,159** |

Other payables and accruals of SKX decreased from RMB356.0 million as of December 31, 2018 to RMB334.2 million as of December 31, 2019, which was mainly due to (i) an increase in consideration payables for acquisition of non-controlling interests from nil as of December 31, 2018 to RMB22.9 million as of December 31, 2019 as a result of SKX's acquisition of minority interests in seven of its subsidiaries in 2019 and its retainment of partial payment for shares as quality warranty after the contract period, and (ii) a decrease in construction costs payable from RMB289.7 million as of December 31, 2018 to RMB259.6 million as of December 31, 2019 as a result of the payment of construction costs payable.

***Current Bank Borrowings***

The current bank borrowings of SKX decreased from RMB1,148.8 million as of December 31, 2018 to RMB1,090.6 million as of December 31, 2019, due to the repayment of short-term borrowings.

**Non-Current Assets and Non-current Liabilities**

The following table sets forth the non-current assets and non-current liabilities of SKX as of the dates indicated:

| | As of Year Ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | RMB'000 | |
| **Non-current assets** | | |
| Property, plant and equipment | 2,220,605 | 2,289,212 |
| Right-of-use assets | 317,150 | 324,651 |
| Investment properties | 12,287 | 11,863 |
| Intangible assets | 909 | 737 |
| Interests in a joint venture | 431 | 733 |
| Biological assets | 2,541,223 | 2,746,839 |
| Deferred tax assets | 795 | 795 |
| Prepayments for acquisition of property, plant and equipment and biological assets | – | 2,234 |
| Equity instrument at fair value through other comprehensive income | 35,540 | 46,688 |
| **Total non-current assets** | **5,128,940** | **5,423,752** |
| **Non-current liabilities** | | |
| Deferred income | 31,653 | 29,538 |
| Lease liabilities | 285,308 | 297,616 |
| Other liabilities | 3,460 | 660 |
| Bank borrowings | 892,728 | 996,142 |
| **Total non-current liabilities** | **1,213,149** | **1,323,956** |

***Property, Plant and Equipment***

Property, plant and equipment of SKX consist primarily of buildings, machinery and equipment, vehicles, electronic equipment, leasehold improvements, and construction in progress. The amount of property, plant and equipment of SKX increased from RMB2,220.6 million as of December 31, 2018, to RMB2,289.2 million as of December 31, 2019, which was consistent with the expansion of SKX's business for the years ended December 31, 2018 and 2019.

***Right-of-Use Assets***

Right-of-use assets of SKX include leasehold lands, leased properties and machinery.

Right-of-use assets of SKX increased from RMB317.2 million as of December 31, 2018 to RMB324.7 million as of December 31, 2019, which was due to an increase in leasehold lands for new dairy farms of SKX in 2019.

***Biological Assets***

Biological assets of SKX consist of breeding stock and dairy cows, which are further categorized into milkable cows, heifers and calves. The following table sets forth the number of SKX's biological assets as of the dates indicated.

| | **As of December 31,** | |
|---|---|---|
| | **2018** | **2019** |
| | *heads, except for raw milk sales volume (ton)* | |
| Dairy cows: | | |
| Milkable cows | 66,912 | 70,134 |
| Heifers and calves | 64,657 | 60,500 |
| Breeding stock | 129 | 115 |
| **Total biological assets** | **131,698** | **130,749** |
| **Raw milk sales volume** | **554,995** | **605,020** |

The following table sets forth the value of SKX's biological assets as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | *RMB'000* | |
| Dairy cows: | | |
| Milkable cows | 1,472,337 | 1,674,181 |
| Heifers and calves | 1,040,558 | 1,030,787 |
| Breeding stock | 28,328 | 41,871 |
| **Total biological assets** | **2,541,223** | **2,746,839** |

The value of SKX's biological assets increased from RMB2,541.2 million as of December 31, 2018, to RMB2,746.8 million as of December 31, 2019. The increase in the fair value of SKX's biological assets during the years ended December 31, 2018 and 2019 was primarily due to a combination of (i) an increase in the number of SKX's cows; and (ii) the selling prices of raw milk and prices of culled cows resulting in an increase in profit per cow.

Biological assets were independently valued by Jones Lang LaSalle, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets. For valuation of our biological assets, please see Note 22 of the Accountants' Report included in Appendix I to this prospectus.

***Non-Current Borrowings***

Non-current borrowings represent SKX's bank borrowings with a term of more than one year. SKX's non-current borrowings increased from RMB892.7 million as of December 31, 2018 to RMB996.1 million as of December 31, 2019, mainly because of the increase in long-term loans.

***Non-Current Lease Liabilities***

Non-current lease liabilities of SKX represent the present value of outstanding lease payments under SKX's lease agreement. The table below sets forth a breakdown of SKX's non-current lease liabilities as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Within a period of more than one year but not more than two years | 4,639 | 11,028 |
| Within a period of more than two years but not more than five years | 11,951 | 11,890 |
| Within a period of more than five years | 268,718 | 274,698 |
| **Total** | **285,308** | **297,616** |

Non-current lease liabilities increased from RMB285.3 million as of December 31, 2018 to RMB297.6 million as of December 31, 2019 mainly due to the land lease agreement entered into for the construction of a new dairy farm.

**Key Financial Ratios**

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

| | For the year ended/as of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| Return on equity(1) | 2.2% | 4.7% |
| Current ratio(2) | 0.39 | 0.38 |
| Quick ratio(3) | 0.18 | 0.15 |
| Net gearing ratio(4) | 77.1% | 81.0% |

*Notes:*

(1) Calculated by dividing the net profit during the year by the total equity at the end of the year and multiplying by 100%.

(2) Calculated by dividing current assets by current liabilities.

(3) Calculated by dividing current assets less inventories by current liabilities.

(4) Calculated by dividing net debt (bank borrowings less bank balances and cash and pledged and restricted bank deposits) by the total equity and multiplying by 100%.

SKX's return on equity increased from 2.2% for the year ended December 31, 2018 to 4.7% for the year ended December 31, 2019, mainly due to the changes in fair value of biological assets.

SKX's current ratio decreased from 0.39 as of December 31, 2018 to 0.38 as of December 31, 2019, mainly due to a larger increase in current liabilities as compared with current assets as result of the annual increase in the balance of trade payables.

Similar to the current ratio, SKX's quick ratio decreased from 0.18 as of December 31, 2018 to 0.15 as of December 31, 2019, mainly due to a larger increase in current liabilities as compared with current assets as a result of the annual increase in the balance of trade payables.

SKX's net gearing ratio increased from 77.1% as of December 31, 2018 to 81.0% as of December 31, 2019, mainly due to the increases in bank borrowings.

**Liquidity and Capital Resources**

Cash requirements arising from SKX have principally been satisfied with cash generated from business activities and equity contributions from shareholders.

The cash and cash equivalents of SKX were RMB153.1 million and RMB195.3 million as of December 31, 2018 and 2019, respectively. The following table sets forth cash flows of SKX for the periods indicated:

| | **For the years ended December 31,** | |
|---|---|---|
| | **2018** | **2019** |
| | *RMB'000* | |
| Net cash from operating activities | 1,132,338 | 904,729 |
| Net cash used in investing activities | (864,196) | (564,720) |
| Net cash used in financing activities | (362,130) | (297,834) |
| Net increase (decrease) in cash and cash equivalents | (93,988) | 42,175 |
| **Cash and cash equivalents at the beginning of the year** | **247,130** | **153,131** |
| Effect of foreign exchange rate changes | (11) | (6) |
| **Cash and cash equivalents at the end of the year** | **153,131** | **195,300** |

*Net Cash from Operating Activities*

For the year ended December 31, 2019, net cash from operating activities was RMB904.7 million, which was primarily attributable to profit for the year before income tax of RMB109.0 million, as adjusted by (i) loss arising from changes in fair value less costs to sell of biological assets of RMB267.2 million; (ii) finance costs of RMB141.1 million; (iii) depreciation of property, plant and equipment of RMB101.5 million; (iv) movements in working capital, which primarily consisted of an increase in trade and bills payables of RMB272.7 million, and an increase in contract liabilities of RMB140.9 million.

For the year ended December 31, 2018, net cash from operating activities was RMB1,132.3 million, which was primarily attributable to profit for the year before income tax of RMB53.1 million, as adjusted by (i) loss arising from changes in fair value less costs to sell of biological assets of RMB399.8 million; (ii) finance costs of RMB129.4 million; (iii) depreciation of property, plant and equipment of RMB90.7 million; (iv) movements in working capital, which primarily consisted of an increase in trade and bills payables of RMB334.9 million.

*Net Cash used in Investing Activities*

For the year ended December 31, 2019, net cash used in investing activities was RMB564.7 million, which was primarily attributable to (i) addition of biological assets of RMB895.9 million, and (ii) purchase of property, plant and equipment of RMB222.8 million, partially offset by cash proceeds from disposal of biological assets of RMB538.0 million.

For the year ended December 31, 2018, net cash used in investing activities was RMB864.2 million, which was primarily attributable to (i) addition of biological assets of RMB942.3 million, and (ii) purchase of property, plant and equipment of RMB302.2 million; partially offset by cash proceeds from disposal of biological assets of RMB331.2 million.

*Net Cash used in Financing Activities*

For the year ended December 31, 2019, net cash used in financing activities was RMB297.8 million, which was primarily attributable to (i) repayment of borrowings of RMB1,229.5 million, (ii) interest paid of RMB123.6 million, partially offset by new bank borrowings raised of RMB1,274.6 million.

For the year ended December 31, 2018, net cash used in financing activities was RMB362.1 million, which was primarily attributable to (i) repayment of borrowings of RMB972.1 million, and (ii) interest paid of RMB129.1 million; partially offset by new bank borrowings raised of RMB743.4 million.

**Other Provisions**

SKX did not have any contingent liabilities as of December 31, 2018. As of December 31, 2019, SKX recorded provision relating to court proceedings of RMB13.3 million. Such amount arose from a contractual dispute with SKX.

### Capital Expenditures

For the years ended December 31, 2018 and 2019, SKX did not have any material capital expenditures.

### Capital Commitments

As of December 31, 2018 and 2019, the capital commitments of SKX were RMB64.7 million and RMB58.0 million, respectively.

### Contractual Obligations

As of December 31, 2018 and 2019, save for the sales contracts entered for the corresponding sales of raw milk, SKX did not have any material contractual obligations.

### Off-Balance Sheet Commitments and Arrangements

As of December 31, 2018 and 2019, SKX did not have any off-balance sheet commitments and arrangements.

## FINANCIAL INFORMATION OF FONTERRA CHINA FARMS GROUP

### Summary

Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group on October 3, 2020. Pursuant to the agreement, Youran Dairy agreed to acquire 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement including, among other things, the deduction of an amount equivalent to certain indebtedness owed, and the addition of an amount equivalent to the amount of cash held, by Fonterra China Farms Group as of the completion date from/to the agreed aggregate consideration of RMB2.31 billion. Such consideration was determined on the basis of, among other things, the net assets of Fonterra China Farms Group, as adjusted by eliminating the impact of the borrowings from the immediate controlling company of Fonterra China Farms Group when converted into additional registered capital prior to the completion. The above acquisition was completed on April 1, 2021 at a consideration of RMB2,530,565,725 which has been applied a purchase price adjustment and is subject to a further adjustment. We funded the consideration by a term loan bearing interest ranging from 4.15% to 4.75% per annum. The Fonterra Acquisition constitutes a major acquisition of our Group after Track Record Period. For more details, see the section headed "History, Reorganization and Group Structure – Major Acquisitions, Disposals and Mergers – Fonterra Acquisition" in this prospectus.

Before the Fonterra Acquisition, Fonterra China Farms Group was wholly-owned by Fonterra Group, a global leading enterprise engaged in dairy products exports and milk processing, in the PRC and is principally engaged in raw milk production.

Set out below is the discussion on the financial information of Fonterra China Farms Group for the years ended December 31, 2018, 2019 and 2020.

**Combined Statements of Profit or Loss and Other Comprehensive Income**

The combined statements of profit or loss and other comprehensive income of Fonterra China Farms Group for the periods indicated are set out in the table below.

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Revenue** | 957,654 | – | 957,654 | 1,111,354 | – | 1,111,354 | 1,186,518 | – | 1,186,518 |
| Cost of sales | (867,282) | – | (867,282) | (1,011,171) | – | (1,011,171) | (1,097,599) | – | (1,097,599) |
| Gains/(losses) arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | (12,269) | – | (12,269) | 94,418 | – | 94,418 | 181,832 | – | 181,832 |
| **Gross profit** | 78,103 | – | 78,103 | 194,601 | – | 194,601 | 270,751 | – | 270,751 |
| Losses arising from changes in fair value less costs to sell of biological assets | – | (157,748) | (157,748) | – | (8,922) | (8,922) | – | (104,400) | (104,400) |

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | |
| | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other income | 5,401 | – | 5,401 | 23,100 | – | 23,100 | 15,196 | – | 15,196 |
| Other gains and losses | (10,133) | – | (10,133) | (902,126) | – | (902,126) | 10,916 | – | 10,916 |
| Selling and distribution expenses | (62,876) | – | (62,876) | (69,338) | – | (69,338) | (50,763) | – | (50,763) |
| Administrative expenses | (70,280) | – | (70,280) | (60,622) | – | (60,622) | (60,409) | – | (60,409) |
| (Loss)/profit from operations | (59,785) | (157,748) | (217,533) | (814,385) | (8,922) | (823,307) | 185,691 | (104,400) | 81,291 |
| (Loss)/profit from operations | (59,785) | (157,748) | (217,533) | (814,385) | (8,922) | (823,307) | 185,691 | (104,400) | 81,291 |
| Finance costs | (53,262) | – | (53,262) | (50,079) | – | (50,079) | (48,201) | – | (48,201) |
| **(Loss)/profit before tax** | (113,047) | (157,748) | (270,795) | (864,464) | (8,922) | (873,386) | 137,490 | (104,400) | 33,090 |
| Income tax expense | – | – | – | – | – | – | – | – | – |
| **(Loss)/profit and total comprehensive income for the year** | (113,047) | (157,748) | (270,795) | (864,464) | (8,922) | (873,386) | 137,490 | (104,400) | 33,090 |

## DESCRIPTION OF KEY COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

### Revenue

The revenue sources of Fonterra China Farms Group mainly include the revenue from the sales of raw milk, the revenue from the sales of bull-calves and the revenue from the provision of inspection services.

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded total revenue of RMB957.7 million, RMB1,111.4 million and RMB1,186.5 million, respectively. The table below sets forth a breakdown of Fonterra China Farms Group's revenue for the periods indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Revenue from the sales of raw milk | 930,158 | 1,080,509 | 1,148,464 |
| Revenue from the sales of bull-calves | 26,913 | 29,863 | 37,632 |
| Revenue from provision of inspection services | 583 | 982 | 422 |
| | 957,654 | 1,111,354 | 1,186,518 |

Fonterra China Farms Group's revenue increased by 6.8% from RMB1,111.4 million for the year ended December 31, 2019 to RMB1,186.5 million for the year ended December 31, 2020, mainly due to an increase in the revenue from the sales of raw milk from RMB1,080.5 million for the year ended December 31, 2019 to RMB1,148.5 million for the year ended December 31, 2020, which was primarily attributable to an increase in the raw milk sales volume of Fonterra China Farms Group from 269,048 tons for the year ended December 31, 2019 to 279,348 tons for the year ended December 31, 2020 as well as the rise in average selling price of raw milk.

Fonterra China Farms Group's revenue increased by 16.0% from RMB957.7 million for the year ended December 31, 2018 to RMB1,111.4 million for the year ended December 31, 2019 mainly due to the increase in the revenue from the sales of raw milk from RMB930.2 million for the year ended December 31, 2018 to RMB1,080.5 million for the year ended December 31, 2019, which was primarily attributable to an increase in the raw milk sales volume of Fonterra China Farms Group from 246,261 tons for 2018 to 269,048 tons for 2019 as well as the rise in average selling price of raw milk.

**Cost of Sales**

Cost of sales of Fonterra China Farms Group mainly consists of feed costs, depreciation and amortization, sewage treatment fees, fair value adjustments for agricultural produce and various expenses.

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded cost of sales of RMB867.3 million, RMB1,011.2 million and RMB1,097.6 million, respectively. The table below sets forth a breakdown of the cost of sales of Fonterra China Farms Group for the periods indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Staff costs | 64,455 | 62,112 | 63,500 |
| Feed costs | 526,140 | 582,705 | 619,779 |
| Biological assets related costs | 25,136 | 32,902 | 27,952 |
| Depreciation and amortisation | 103,629 | 81,176 | 46,187 |
| Cowshed costs | 17,863 | 26,123 | 22,245 |
| Sewage treatment fees | 56,908 | 54,878 | 61,874 |
| Maintenance costs | 25,203 | 15,301 | 17,466 |
| Utility costs | 36,956 | 40,766 | 37,257 |
| Other costs | 23,261 | 20,790 | 19,507 |
| Fair value adjustments for agricultural produce included in cost of sales | (12,269) | 94,418 | 181,832 |
| | **867,282** | **1,011,171** | **1,097,599** |

Fonterra China Farms Group's cost of sales increased by 8.5% from RMB1,011.2 million for the year ended December 31, 2019 to RMB1,097.6 million for the year ended December 31, 2020, which was mainly due to higher feed costs for the year ended December 31, 2020 compared with the year ended December 31, 2019 as a result of the increased raw milk production volume.

Fonterra China Farms Group's cost of sales increased by 16.6% from RMB867.3 million for the year ended December 31, 2018 to RMB1,011.2 million for the year ended December 31, 2019, mainly due to the increase in feed costs as a result of the increased raw milk production volume.

**Gains/(Losses) Arising on Initial Recognition of Agricultural Produce at Fair Value less Cost of Sales at the Point of Harvest**

Agricultural produce refers to raw milk produced by dairy cows in the dairy farms of Fonterra China Farms Group, which had been sold to the third parties for manufacturing into dairy products. Under IFRS, agricultural produce is recognised as inventories at their fair value less costs to sell at the point of harvest. The fair value is determined based on the market price quoted in the local area. The resulting gain or loss of recognition of such fair value, being the difference between (i) the fair value less costs to sell of such raw milk and (ii) the breeding costs incurred, is recognised in profit or loss for that period. Meanwhile, the gain or loss so recognised is charged as cost of sales upon internal consumption or subsequent sales of such raw milk as part of the cost of inventories sold.

The gains or losses arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest was due to the difference between the production cost of agricultural produce under the cost approach and the market price of agricultural produce at the point of harvest.

Fonterra China Farms Group recorded gains arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest of RMB94.4 million and RMB181.8 million for the years ended December 31, 2019 and 2020, respectively while recognising losses arising on initial recognition of agricultural produce at fair value less cost of sales at the point of harvest of RMB12.3 million for the year ended December 31, 2018.

**Gross Profit and Gross Profit Margin**

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded gross profit of RMB78.1 million, RMB194.6 million and RMB270.8 million, respectively. For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group's gross profit margin was 8.2%, 17.5% and 22.8%, respectively.

Fonterra China Farms Group's gross profit increased by 39.1% from RMB194.6 million for the year ended December 31, 2019 to RMB270.8 million for the year ended December 31, 2020 because the revenue of Fonterra China Farms Group increased from the year ended December 31, 2019 to the year ended December 31, 2020, and less depreciation and amortisation was recognised in cost of sales in the year ended December 31, 2020 due to the impairment of property, plant and equipment in the second half of 2019.

Fonterra China Farms Group's gross profit increased by 149.2% from RMB78.1 million for the year ended December 31, 2018 to RMB194.6 million for the year ended December 31, 2019 because the revenue of Fonterra China Farms Group increased from 2018 to 2019.

**Losses Arising from Changes in Fair Value less Costs to Sell of Biological Assets**

Losses arising from changes in fair value less costs to sell of biological assets of Fonterra China Farms Group represents the dairy cows fair value adjustments of Fonterra China Farms Group resulting from the changes in the physical attributes and market prices of Fonterra China Farms Group's dairy cows and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milking is higher than the selling price of heifers. Further, when a milkable cow is culled and sold, its value decreases. During the Track Record Period, the biological assets were revalued at each reporting date.

During the Track Record Period, the valuer for dairy cows has adopted the following principal valuation assumptions:

- *Calves and heifers*. The fair value of calves and heifers is determined by reference to the local market selling price. The fair value of calves and heifers less than 14 months old are determined by subtracting the estimated feed costs required to raise the cows from their respective age at the end of each reporting period to 14 months old plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers older than 14 months are determined by adding the estimated feed costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.

- *Milkable cows*. The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.

Losses arising from changes in fair value less costs to sell of biological assets recorded by Fonterra China Farms Group was RMB157.7 million, RMB8.9 million and RMB104.4 million for the years ended December 31, 2018, 2019 and 2020, respectively.

With the rebound in the market price of raw milk in 2019 and the increase of the quantity of milkable cows, loss arising from changes in fair value in 2019 decreased from 2018. In 2020, Fonterra China Farms Group continued optimising the herd structure and disposed certain matured milkable cows with lower productivity. As a result, the headcount of milkable cows decreased and led to a loss arising from changes in fair value during the year ended December 31, 2020.

When disposing of dairy cows, Fonterra China Farms Group writes off the carrying amount of dairy cows from its biological assets, and the difference between the carrying amount of the dairy cows disposed and the proceeds from the disposal is recorded as change in fair value less costs to sell of its biological assets. The cash proceeds are recorded under investment cash inflow. The cash proceeds from disposal of biological assets amounted to RMB188.1 million, RMB51.6 million and RMB151.1 million for the years ended December 31, 2018, 2019 and 2020, respectively.

**Other Income**

Other income of Fonterra China Farms Group mainly consists of government grants, interest income, income from sales of scrap materials, insurance compensation and others.

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded other income of RMB5.4 million, RMB23.1 million and RMB15.2 million, respectively. During the Track Record Period, the changes in other income of Fonterra China Farms Group were mainly due to the changes in government grants included in profit or loss for the current period.

**Other Gains and Losses**

Other gains and losses of Fonterra China Farms Group consist primarily of (i) losses or gains on disposal of property, plant and equipment, (ii) gain on waiver of payment, (iii) impairment loss on property, plant and equipment, (iv) impairment loss on intangible assets, (v) net foreign exchange gains/losses, and (vi) others.

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded a loss of RMB10.1 million, a loss of RMB902.1 million and a gain of RMB10.9 million under other gains and losses, respectively.

The increase in other losses from the year ended December 31, 2018 to the year ended December 31, 2019 was mainly due to impairment losses on property, plant and equipment and intangible assets of RMB898.5 million and RMB657,000 respectively. At the end of each Fonterra Group's fiscal year as of July 31 and at the end of each reporting period, Fonterra China Farms Group reviews internal and external sources of information to identify indications on whether their property, plant and equipment may be impaired. As the two companies of Fonterra China Farms Group, Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.) and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), incurred operating losses in the past few consecutive years, Fonterra China Farms Group assessed whether impairment losses should be recognised by comparing the recoverable amounts of its property, plant and equipment to their carrying amount at the impairment assessment date. No impairment was recognised with respect to Fonterra China Farms Group's property, plant and equipment for the year ended 31 December 2018 as the total carrying amount of property, plant and equipment is lower than its assessed recoverable amount.

However, Fonterra China Farms Group's performance was negatively impacted by several unexpected events in 2018, such as the heavy flooding in one farm location. Such events resulted in a temporary reduction of production volume. Milk price was improved in 2019 compared with 2018. However, the speed of price increase was slower than expected. As a result, Fonterra China Farms Group has revised the future milk price forecast to reflect a phased increase in pricing, considering the expected lag in the expansion of the premium customer base. Further, the reduction of production volume occurred in 2018 was expected to take a longer recovery period. The aggregation of such experiences and a change to adopt the phased increase in pricing resulted in the management of Fonterra China Farms Group adjusted the estimated milk production by a 7 percent reduction and lowered the future milk price in the 2019 impairment analysis, both of which had been identified as the key assumptions given they are the primary drivers of earnings improvement and the most significant assumptions change from prior years. Impairment losses were recognised for the year ended 31 December 2019, as a result of the carrying amount of property, plant and equipment and intangible assets being written down to their recoverable amounts as at 31 December 2019, respectively.

Except for the aforementioned impact of the impairment losses on property, plant and equipment and intangible assets, the change in other gains & losses from the year ended December 31, 2019 to the year ended December 31, 2020 was mainly due to (i) gains on waiver of payment changed from nil for the year ended December 31, 2019 to RMB2.0 million for the year ended December 31, 2020, which represents waiver of payment granted to Fonterra China Farms Group by one of its affiliate; and (ii) net foreign exchange gains/losses changed from loss of RMB2.5 million for the year ended December 31, 2019 into gain of RMB9.1 million for the year ended December 31, 2020.

**Selling and Distribution Expenses**

Selling and distribution expenses are transportation costs incurred by Fonterra China Farms Group.

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded selling and distribution expenses of RMB62.9 million, RMB69.3 million and RMB50.8 million, respectively. The increase from the year ended December 31, 2018 to the year ended December 31, 2019 was in line with the increase in sales volume of raw milk. The decrease from the year ended December 31, 2019 to the year ended December 31, 2020 was mainly due to the decrease in transportation costs as a result of the shortened delivery distance to customers.

**Administrative Expenses**

Administrative expenses of Fonterra China Farms Group mainly consist of farm consultancy fees, staff costs, depreciation and amortization and other expenses.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Staff costs | 16,582 | 19,480 | 18,252 |
| Farm consultancy fees | 38,724 | 27,657 | 26,008 |
| Professional agency service fees | 727 | 1,836 | 1,905 |
| Security service fees | 1,778 | 1,442 | 1,492 |
| Depreciation and amortisation | 6,561 | 5,398 | 2,755 |
| Others | 5,908 | 4,809 | 9,997 |
| | **70,280** | **60,622** | **60,409** |

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded administrative expenses of RMB70.3 million, RMB60.6 million and RMB60.4 million, respectively. The decrease from the year ended December 31, 2018 to the year ended December 31, 2019 was mainly due to the decrease in farm consultancy fees provided by a fellow subsidiary of Fonterra China Farms Group. The fellow subsidiary reached a service agreement with Fonterra China Farms Group to provide various consulting services, which include supporting the farms' management and operational functions, establishing a best practice farm operations framework, providing financial service, information technology service and other corporate services. In consideration for the performance of the services by the fellow subsidiary, together with its other obligations under the agreement, the fellow subsidiary is entitled to be paid for services rendered, being an amount equivalent to the costs incurred plus an arm's length fee as agreed in writing by the parties from time to time.

**Finance Costs**

Fonterra China Farms Group's finance costs mainly consist of (i) interest expenses on bank borrowings, (ii) interest expenses on borrowings from the cash pooling arrangement, (iii) interest expenses on borrowings from the immediate controlling company, and (iv) interest expenses on lease liabilities.

For the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded finance costs of RMB53.3 million, RMB50.1 million and RMB48.2 million, respectively. The decreases were mainly because the interest expenses on bank borrowings decreased from RMB6.4 million for the year ended December 31, 2018 to RMB4.8 million for the year ended December 31, 2019 and further to RMB3.9 million for the year ended December 31, 2020. During the Track Record Period, the continuous decrease in the interest expenses on bank borrowings was mainly in line with the decrease in the amount of bank borrowings and the change in the interest rate.

**(Loss)/Profit Before Tax**

Based on the foregoing reasons, for the years ended December 31, 2018, 2019 and 2020, Fonterra China Farms Group recorded a loss of RMB270.8 million and RMB873.4 million and a profit of RMB33.1 million, respectively.

**Income Tax Expenses**

Fonterra China Farms Group recorded no income tax expenses during the Track Record Period, because the PRC entities of the Fonterra China Farms Group are entitled to be exempt to EIT as the principal activities of those entities are raising and breeding of dairy cows and raw milk production in the PRC.

**(Loss)/Profit and Total Comprehensive Income for the Year**

Based on the foregoing reasons, Fonterra China Farms Group recorded loss or profit and total comprehensive income for the year of loss of RMB270.8 million and RMB873.4 million and profit of RMB33.1 million for the years ended December 31, 2018, 2019 and 2020, respectively.

## DESCRIPTION OF KEY COMBINED STATEMENT OF FINANCIAL POSITION ITEMS

The table below sets forth selected information from Fonterra China Farms Group's combined statements of financial position as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Total current assets | 421,648 | 381,356 | 567,168 |
| Total non-current assets | 3,172,425 | 2,329,548 | 2,194,251 |
| **Total assets** | **3,594,073** | **2,710,904** | **2,761,419** |
| Total current liabilities | 416,522 | 1,106,642 | 778,820 |
| Total non-current liabilities | 2,501,633 | 1,772,280 | 742,911 |
| **Total liabilities** | **2,918,155** | **2,878,922** | **1,521,731** |

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| Net assets/(liabilities) | 675,918 | (168,018) | 1,239,688 |
| Share capital | 1,343,927 | 1,343,927 | 2,827,927 |
| Reserves | (668,009) | (1,511,945) | (1,588,239) |
| **Total equity/(deficit)** | **675,918** | **(168,018)** | **1,239,688** |

**Current Assets and Current Liabilities**

The following table sets forth Fonterra China Farms Group's current assets and current liabilities as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| **Current assets** | | | |
| Inventories | 186,681 | 180,292 | 197,351 |
| Trade receivables | 99,806 | 121,661 | 122,359 |
| Prepayments, deposits and other receivables | 7,602 | 8,166 | 11,042 |
| Amounts due from related parties | 109,239 | 56,838 | 168,795 |
| Cash and cash equivalents | 18,320 | 14,399 | 67,621 |
| **Total current assets** | 421,648 | 381,356 | 567,168 |
| **Current liabilities** | | | |
| Trade payables | 149,627 | 161,543 | 159,460 |
| Other payables and accruals | 69,021 | 65,250 | 60,203 |
| Contract liabilities | 608 | 1,390 | 1,757 |
| Amounts due to related parties | 38,311 | 36,269 | 30,762 |
| Bank borrowings | 143,982 | 95,936 | 95,936 |
| Borrowings from immediate controlling company, including due within one year | – | 740,539 | 430,403 |
| Lease liabilities | 14,973 | 5,715 | 299 |
| **Total current liabilities** | 416,522 | 1,106,642 | 778,820 |
| **Net current assets/(liabilities)** | 5,126 | (725,286) | (211,652) |

Fonterra China Farms Group's net current liabilities decreased from RMB725.3 million as of December 31, 2019 to RMB211.7 million as of December 31, 2020, which was primarily attributable to (i) an increase in amounts due from related parties from RMB56.8 million as of December 31, 2019 to RMB168.8 million as of December 31, 2020, which was mainly because the increase in net lending to related parties through cash pooling arrangement; (ii) a decrease in current borrowings from immediate controlling company (including due within one year) from RMB740.5 million as of December 31, 2019 to RMB430.4 million as of December 31, 2020, which mainly because borrowings from immediate controlling company with total carrying amounts of RMB1,350.7 million, including RMB491.8 million due within one year, as at December 31, 2019 in one entity of Fonterra China Farms Group have been converted into additional registered capital on December 4, 2020.

Fonterra China Farms Group's net current assets/liabilities changed from net current assets of RMB5.1 million as of December 31, 2018 to net current liabilities of RMB725.3 million as of December 31, 2019, which was primarily attributable to (i) an increase in non-current borrowings from the immediate controlling company due within one year from nil thousand as of December 31, 2018 to RMB740.5 million as of December 31, 2019, which was mainly due to the increase in borrowings due within one year; (ii) a decrease in amounts due from related parties from RMB109.2 million as of December 31, 2018 to RMB56.8 million as of December 31, 2019, which was mainly due to a decrease in the principal amount of borrowings from Fonterra China Farms Group to its affiliate; partially offset by an increase in trade receivables from RMB99.8 million as of December 31, 2018 to RMB121.7 million as of December 31, 2019, which was in line with the revenue growth trend.

***Inventories***

Fonterra China Farms Group's inventories primarily consist of feed and others. The following table sets forth the components of Fonterra China Farms Group's inventories and the turnover days of inventories for the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| Feed | 170,424 | 162,712 | 178,516 |
| Others | 16,257 | 17,580 | 18,835 |
| | 186,681 | 180,292 | 197,351 |

Fonterra China Farms Group's inventories remained generally stable at RMB186.7 million and RMB180.3 million as of December 31, 2018 and 2019, respectively; Fonterra China Farms Group's inventories totaled RMB197.4 million as of December 31, 2020, and the increase from that as of December 31, 2019 was primarily due to more feeds purchased in October and November 2020 preparing for next year's feeding.

| | For the Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *days* | |
| Inventory turnover days[(1)] | 108 | 98 | 93 |

(1) The inventory turnover days as of December 31, 2018, 2019 and 2020 are calculated using the average of opening balance and closing balance of inventories for a year divided by costs of materials for all cattle herds and multiplied by 365 days.

As of December 31, 2018, 2019 and 2020, Fonterra China Farms Group's inventory turnover days were 108 days, 98 days and 93 days. The decreases of Fonterra China Farms Group's inventory turnover days during the Track Record Period mainly reflected the changes in its stock mix, including the increased proportion of feed with shorter storage time.

***Trade Receivables***

Fonterra China Farms Group's trade receivables mainly represent the outstanding amounts due from for the sales of raw milk. Trade receivables increased from RMB99.8 million as of December 31, 2018 to RMB121.7 million as of December 31, 2019, which was in line with the changes in Fonterra China Farms Group's sales. Trade receivables kept stable of RMB121.7 million as of December 31, 2019 to RMB122.4 million as of December 31, 2020.

The table below sets forth the aging analysis of Fonterra China Farms Group's trade receivables presented based on the invoice date at the end of each reporting period:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Within 30 days | 86,747 | 121,519 | 122,359 |
| 31 days to 60 days | 13,059 | 90 | – |
| 61 days to 90 days | – | 52 | – |
| | 99,806 | 121,661 | 122,359 |

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *days* | |
| Trade receivables turnover days(1) | 40 | 37 | 39 |

(1) Fonterra China Farms Group's trade receivables turnover days are calculated by using the average receivables balance divided by revenue multiplied by days for the period (365 days for the twelve months ended December 31, 2018, 2019 and 2020).

Fonterra China Farms Group's trade receivables turnover days remained largely stable at 40 days, 37 days and 39 days for the year ended December 31, 2018 and 2019 and for the year ended December 31, 2020, respectively.

**Prepayments, Deposits and Other Receivables**

Fonterra China Farms Group's prepayments, deposits and other receivables include (i) prepayments to suppliers, (ii) utility and other deposits, (iii) compensation receivable, (iv) advances to staff, (v) insurance prepayments, and (vi) other receivables. The table below sets forth a breakdown of Fonterra China Farms Group's prepayments, deposits and other receivables.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Prepayments to suppliers | 1,420 | 1,549 | 1,454 |
| Utility and other deposits | 4,331 | 4,440 | 4,384 |
| Compensation receivable | 870 | 903 | – |
| Advances to staff | 500 | 590 | 710 |
| Insurance prepayments | 274 | 639 | 3,142 |
| Other receivables | 207 | 45 | 1,352 |
| | 7,602 | 8,166 | 11,042 |

Fonterra China Farms Group's prepayments, deposits and other receivables subsequently increased from RMB7.6 million as of December 31, 2018 to RMB8.2 million as of December 31, 2019, mainly due to an increase in insurance prepayments from RMB0.3 million in 2018 to RMB0.6 million in 2019. Prepayments, deposits and other receivables increased to RMB11.0 million as of December 31, 2020, primarily attributable to an increase in insurance prepayments from RMB0.6 million in 2019 to RMB3.1 million as of December 31, 2020 and partially offset by the decrease in compensation receivable.

**Trade Payables**

Fonterra China Farms Group's trade payables mainly represent the outstanding amounts due to suppliers for the purchase of feed. Trade payables increased from RMB149.6 million as of December 31, 2018 to RMB161.5 million as of December 31, 2019 and then decreased to RMB159.5 million as of December 31, 2020, which was in line with Fonterra China Farms Group's purchase.

The table below sets forth the aging analysis of Fonterra China Farms Group's trade payables presented based on the invoice date at the end of each reporting period:

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Within 1 month | 83,520 | 93,129 | 106,880 |
| 2 to 3 months | 62,507 | 62,456 | 51,789 |
| 4 to 6 months | 3,588 | 5,652 | 791 |
| Over 6 months | 12 | 306 | – |
| | 149,627 | 161,543 | 159,460 |

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *days* | |
| Trade payables turnover days[(1)] | 88 | 83 | 79 |

(1) Fonterra China Farms Group's trade payables turnover days are calculated by using the average balance of payables divided by the costs of materials for all cattle herds and multiplied by the number of days for the period (365 days for the twelve months ended December 31, 2018. 2019 and 2020).

Fonterra China Farms Group's trade payables turnover days were 88 days, 83 days and 79 days for the years ended December 31, 2018, 2019 and 2020, respectively. The decreases from 2018 to 2019 were mainly because Fonterra China Farms Group increased its purchase frequency based on inventory consumption during the years ended December 31, 2018 and 2019. The decrease in trade payables turnover days from 83 days for the year ended December 31, 2019 to 79 days for the year ended December 31, 2020 was mainly because Fonterra China Farms Group increased its purchase frequency based on inventory consumption.

**Other Payables and Accruals**

Fonterra China Farms Group's other payables and accruals mainly include (i) payables for purchase of property, plant and equipment, (ii) salaries and welfare payables, (iii) deposits received from suppliers, (iv) service and professional fee payables, (v) freight charges payables, (vi) non-income tax related tax payables, (vii) interest payables, and (viii) sundry payables and accrued expenses.

The table below sets forth the components of Fonterra China Farms Group's other payables and accrues as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Payables for purchase of property, plant and equipment | 5,313 | 6,470 | 638 |
| Salaries and welfare payables | 7,436 | 9,043 | 8,477 |
| Deposits received from suppliers | 4,240 | 11,555 | 6,333 |
| Service and professional fee payables | 452 | 569 | 1,489 |
| Freight charges payables | 16,613 | 15,623 | 20,101 |
| Non-income tax related tax payables | – | 29 | 371 |
| Interest payables | 665 | 937 | 467 |
| Sundry payables and accrued expenses | 34,302 | 21,024 | 22,327 |
| | 69,021 | 65,250 | 60,203 |

Other payables and accrues decreased from RMB69.0 million as of December 31, 2018 to RMB65.3 million as of December 31, 2019, mainly because sundry payables and accrued expenses decreased from RMB34.3 million as of December 31, 2018 to RMB21.0 million as of December 31, 2019. Other payables and accruals then decreased to RMB60.2 million as of December 31, 2020, mainly because deposits received from suppliers decreased from RMB11.6 million as of December 31, 2019 to RMB6.3 million as of December 31, 2020 due to the silage purchase activities.

**Short-term Bank Borrowings**

Fonterra China Farms Group's short-term bank borrowings decreased from RMB144.0 million as of December 31, 2018 to RMB95.9 million as of December 31, 2019 and remained at RMB95.9 million as of December 31, 2020, respectively, which was mainly because Fonterra China Farms Group adjusted its financing structure and decreased bank loans.

**Non-current Assets and Liabilities**

The following table sets forth Fonterra China Farms Group's non-current assets and liabilities as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | RMB'000 | |
| **Non-current assets** | | | |
| Property, plant and equipment | 1,988,154 | 1,057,016 | 1,019,349 |
| Right-of-use assets | 91,396 | 87,701 | 83,816 |
| Intangible assets | 2,268 | 171 | 103 |
| Biological assets | 1,090,607 | 1,184,660 | 1,090,983 |
| **Total non-current assets** | 3,172,425 | 2,329,548 | 2,194,251 |
| **Non-current liabilities** | | | |
| Borrowings from immediate controlling company, excluding due within one year | 2,458,632 | 1,733,220 | 702,333 |
| Lease liabilities | 41,901 | 38,110 | 39,778 |
| Deferred income | 1,100 | 950 | 800 |
| **Total non-current liabilities** | 2,501,633 | 1,772,280 | 742,911 |

***Property, Plant and Equipment***

Fonterra China Farms Group's property, plant and equipment mainly include buildings, machinery and equipment, vehicles, electronic equipment and construction in progress. Fonterra China Farms Group's property, plant and equipment amounted to RMB1,988.2 million, RMB1,057.0 million and RMB1,019.3 million as of December 31, 2018, 2019 and 2020, respectively. The decrease from RMB1,988.2 million as of December 31, 2018 to RMB1,057.0 million as of December 31, 2019 was mainly due to the impact of impairment losses recognised in 2019; the slight decrease from as of December 31, 2019 to RMB1,019.3 million as of December 31, 2020 was resulted from depreciation of property, plant and equipment.

***Right-of-Use Assets***

Fonterra China Farms Group's right-of-use assets include leasehold lands and vehicles. Fonterra China Farms Group's right-to-use assets amounted to RMB91.4 million, RMB87.7 million and RMB83.8 million as of December 31, 2018, 2019 and 2020, respectively. The decreases were mainly affected by the amortisation of right-of-use assets.

***Biological Assets***

Fonterra China Farms Group's biological assets include calves, heifers and milkable cows. The table below sets forth the number of Fonterra China Farms Group's biological assets as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *heads* | |
| Calves and heifers | 23,922 | 24,931 | 22,794 |
| Milkable cows | 28,473 | 31,618 | 29,502 |
| | 52,395 | 56,549 | 52,296 |

The table below sets forth the value of Fonterra China Farms Group's biological assets as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Calves and heifers | 444,339 | 416,964 | 350,409 |
| Milkable cows | 646,268 | 767,696 | 740,574 |
| | 1,090,607 | 1,184,660 | 1,090,983 |

The value of Fonterra China Farms Group's biological assets remained generally stable during the Track Record Period. The value of Fonterra China Farms Group's biological assets was RMB1,090.6 million, RMB1,184.7 million and RMB1,091.0 million as of December 31, 2018, 2019 and 2020, respectively.

Biological assets were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), a firm of independent qualified professional valuers not connected with us or Fonterra China Farms Group, which has appropriate qualifications and experiences in valuation of biological assets. For valuation of Fonterra China Farms Group's biological assets, see Note 15 of the Accountants' Report included in Appendix II to this prospectus.

***Borrowings from the Immediate Controlling Company (Non-Current)***

Borrowings from Fonterra China Farms Group's immediate controlling company are unsecured, interest-free and are in the form of promissory notes, whose terms of repayment is between 3 to 10 years. The non-current borrowings from Fonterra China Farms Group's immediate controlling company decreased from RMB2,458.6 million as of December 31, 2018 to RMB1,733.2 million as of December 31, 2019 mainly because the reclassification of non-current borrowings from Fonterra China Farms Group's immediate controlling company due within one year to current liabilities. Non-current borrowings from Fonterra China Farms Group's immediate controlling company further decreased to RMB702.3 million as of December 31, 2020 mainly because borrowings from immediate controlling company by Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), the principal amount of which was RMB1,484,000,000, were converted into additional registered capital on December 4, 2020.

**Cash Flow Analysis**

| | For the Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Net cash generated from operating activities | 74,596 | 161,441 | 201,224 |
| Net cash used in investing activities | (32,187) | (98,614) | (127,663) |
| Net cash used in financing activities | (84,785) | (68,782) | (12,216) |
| Net (decrease)/increase in cash and cash equivalents | (42,376) | (5,955) | 61,345 |
| **Cash and cash equivalents at the beginning of the year** | 54,774 | 18,320 | 14,399 |
| Effect of foreign exchange rate changes | 5,922 | 2,034 | (8,123) |
| **Cash and cash equivalents at the end of the year** | 18,320 | 14,399 | 67,621 |

*Net Cash Generated from Operating Activities*

For the year ended December 31, 2020, net cash generated from operating activities of Fonterra China Farms Group amounted to RMB201.2 million, which was mainly attributable to profit before income tax for the year of RMB33.1 million, as adjusted by (i) a loss of RMB104.4 million arising from changes in fair value less costs to sell of biological assets; (ii) finance costs of RMB48.2 million; and (iii) depreciation and amortisation of RMB48.9 million; and (iv) movements in working capital, which were mainly due to an increase in inventories of RMB17.1 million and a decrease in amounts due to related parties of RMB4.8 million.

For the year ended December 31, 2019, net cash generated from operating activities of Fonterra China Farms Group amounted to RMB161.4 million, which was mainly attributable to loss before income tax for the year of RMB873.4 million, as adjusted by (i) impairment loss on property, plant and equipment and intangible assets of RMB899.1 million; (ii) depreciation and amortisation of RMB86.6 million; and (iii) finance costs of RMB50.1 million; and (iv) movements in working capital, which primarily consisted of an increase in trade receivables of RMB21.9 million and an increase in trade payables of RMB11.9 million.

For the year ended December 31, 2018, net cash generated from operating activities of Fonterra China Farms Group amounted to RMB74.6 million, which was mainly attributable to loss before income tax for the year of RMB270.8 million, as adjusted by (i) a loss of RMB157.7 million arising from changes in fair value less costs to sell of biological assets; (ii) depreciation and amortisation of RMB110.2 million; and (iii) movements in working capital, which primarily consisted of an increase in other payables and accruals of RMB17.5 million, a decrease in trade payables of RMB13.4 million and a decrease in inventories of RMB12.7 million.

*Net Cash used in Investing Activities*

For the year ended December 31, 2020, net cash used in investing activities of Fonterra China Farms Group amounted to RMB127.7 million, which was mainly attributable to (i) net lending to related parties of RMB111.7 million through cash pooling arrangement; and (ii) expenditure on biological assets of RMB160.8 million, partially offset by proceeds from disposal of biological assets of RMB151.1 million.

For the year ended December 31, 2019, net cash used in investing activities of Fonterra China Farms Group amounted to RMB98.6 million, which was mainly attributable to (i) expenditure on biological assets of RMB157.4 million; and (ii) payments for purchase of property, plant and equipment of RMB51.6 million, partially offset by (i) cash proceeds from disposal of biological assets of RMB51.6 million, and (ii) repayment of net lending by related parties through cash pooling arrangement of RMB51.4 million.

For the year ended December 31, 2018, net cash used in investing activities of Fonterra China Farms Group amounted to RMB32.2 million, which was mainly attributable to (i) expenditure on biological assets of RMB215.2 million; and (ii) net lending to related parties of RMB107.8 million through the cash pooling arrangement, partially offset by (i) proceeds from disposal of biological assets of RMB188.1 million, and (ii) repayment of net lending by related parties through cash pooling arrangement of RMB110.0 million.

***Net Cash used in Financing Activities***

For the year ended December 31, 2020, net cash used in financing activities of Fonterra China Farms Group amounted to RMB12.2 million, which was mainly attributable to interest paid of RMB5.9 million and lease rentals paid of RMB6.3 million.

For the year ended December 31, 2019, net cash used in financing activities of Fonterra China Farms Group amounted to RMB68.8 million, which was mainly attributable to repayment of bank loans of RMB131.2 million, partially offset by proceeds from bank loans of RMB83.2 million.

For the year ended December 31, 2018, net cash used in financing activities of Fonterra China Farms Group amounted to RMB84.8 million, which was mainly attributable to repayment of bank loans of RMB177.5 million, partially offset by proceeds from bank loans of RMB99.5 million.

**Unsecured Bank Borrowings**

Fonterra China Farms Group's unsecured bank borrowings bear interest at rates ranging from 3.6% to 5.2% per annum, which was determined based on the borrowing rates announced by the People's Bank of China. During the Track Record Period, all bank loans are unsecured and supported by a letter of comfort from Fonterra Group. Upon completion of the Fonterra Acquisition, Fonterra China Farms Group will cease to receive the benefit of that letter of comfort from Fonterra Group.

**Borrowings from the Immediate Controlling Company**

Borrowings from Fonterra China Farms Group's immediate controlling company are unsecured and interest-free loans due from immediate controlling company, Fonterra Tangshan Dairy Farm (HK) Limited ("**Fonterra HK**"), in the form of promissory notes where repayment is expected in 3 to 10 years.

The total discounted amounts of borrowings from Fonterra China Farms Group's immediate controlling company were RMB2,458.6 million, RMB2,473.8 million, and RMB1,132.7 million as of December 31, 2018, 2019 and 2020, respectively. The borrowings from the immediate controlling company were unsecured, interest-free and were discounted to their net present value at an effective borrowing interest rate of 1.71% per annum for the years ended December 31, 2018, 2019 and 2020.

Pursuant to the share purchase agreement dated October 3, 2020 entered into between Youran Dairy and the shareholder of Fonterra China Farms Group, the borrowings from immediate controlling company by Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), the principal amount of which was RMB1,484,000,000, were converted into additional registered capital of USD226,541,000 on December 4, 2020. While the remaining borrowings from the immediate controlling company by Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.) as at 31 December 2020, the principal amount of which was RMB1,165,773,000, were converted into additional registered capital of USD186,473,353 on February 26, 2021.

**Lease Liabilities**

The total lease liabilities of Fonterra China Farms Group as of December 31, 2018, 2019 and 2020 were RMB56.9 million, RMB43.8 million and RMB40.1 million.

## CONTINGENT LIABILITIES

As of the Latest Practicable Date, Fonterra China Farms Group did not have any material contingent liabilities.

## CAPITAL EXPENDITURES

The table below sets forth the historical capital expenditures of Fonterra China Farms Group for the periods indicated:

| | **As of December 31,** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | *RMB'000* | |
| Capital expenditures in respect of acquisition of plant and equipment | 21,258 | 52,755 | 7,596 |

## CONTRACTUAL OBLIGATIONS

The table below sets forth the historical capital commitments and contractual liabilities of Fonterra China Farms Group as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | | *RMB'000* | |
| Contract liabilities[1] | 608 | 1,390 | 1,757 |
| Capital commitments | 10,236 | 13,287 | 4,246 |
| | 10,844 | 14,677 | 6,003 |

*Note:*

(1) Mainly representing contractual obligations relating to sales of bull-calves for the receipts in advances from customers.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, Fonterra China Farms Group did not have any off-balance sheet commitments and arrangements.

## DIVIDENDS

On November 4, 2020, we declared a dividend of US$180.3 million to our equity shareholders, which was fully paid on November 5, 2020. Save for this, we did not pay or declare any other dividends during the Track Record Period. We do not have any dividend policy and have no present plan to pay any dividends to our Shareholders in the foreseeable future. Any declaration and payment as well as the amount of dividends will be subject to our Memorandum of Association and the Cayman Companies Act. The declaration and payment of any dividends in the future will be determined by our Board of Directors, in its discretion, and will depend on a number of factors, including our results of operations, cash flows, financial condition, operating and capital expenditure requirements. In addition, our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. As advised by our Cayman Islands counsel, under the Companies Act, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. There is no assurance that dividends of any amount will be declared by the Company to be distributed in any year. Investors should not purchase our shares with the expectation of receiving cash dividends.

If we pay dividends in the future, in order for us to distribute dividends to our Shareholders, we will rely to some extent on any dividends distributed by our PRC subsidiaries. Any dividend distributions from our PRC subsidiaries to us will be subject to PRC withholding tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. For further details, please see the section headed "Risk Factors – Risks Relating to Conducting Business in the PRC" in this prospectus.

## WORKING CAPITAL SUFFICIENCY

Taking into account the financial resources available to us, including the estimated net proceeds from the Global Offering, the proceeds from the issuance of our Convertible Notes, cash flow generated from operations, bank facilities available to us and cash and cash equivalents on hand, our Directors believe that we (including the enlarged group with Fonterra China Farms Group) have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of this prospectus.

## DISTRIBUTABLE RESERVES

As of December 31, 2020, we did not have any distributable reserves.

## LISTING EXPENSE

Based on the mid-point Offer Price of HK$7.82 (being the mid-point of our Offer Price range of HK$6.98 to HK$8.66 per Offer Share), the total listing expenses (including underwriting commissions) payable by our Company are estimated to be approximately HK$220.2 million (equivalent to approximately RMB181.2 million), assuming the Over-allotment Option is not exercised. These listing expenses mainly include professional fees paid and payable to the professional parties, and commissions and incentive payable to the Underwriters for their services rendered in relation to the Listing and the Global Offering.

As of December 31, 2020, the listing expenses (excluding underwriting commissions) that have been charged to the consolidated statements of comprehensive (loss)/income of our Group in relation to the Listing were RMB34.4 million. We estimate that listing expenses of approximately RMB181.2 million (including underwriting commissions and incentive of approximately RMB111.1 million, assuming the Over-allotment Option is not exercised and based on an Offer Price of HK$7.82 per Offer Share) will be incurred by our Group, of which approximately RMB61.7 million is expected to be charged to our consolidated statement of comprehensive income and approximately RMB119.5 million is expected to be charged against equity upon the Listing.

## VALUATION OF BIOLOGICAL ASSETS

### Information about the independent valuer of our biological assets

We have engaged Jones Lang LaSalle, a firm of independent qualified professional valuer, to determine the fair value of our dairy cows as of December 31, 2018, 2019 and 2020, respectively. The key valuer of JLL's valuer includes Mr. Simon M.K. Chan.

Mr. Simon Chan, Regional Director at JLL, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Chartered Valuer and Appraiser (CVA), a member of The International Association of Consultants, Valuers and Analysts (IACVA), and a member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr. Simon Chan oversees the business valuation services of JLL and has experience in corporate advisory and valuation. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States. Simon oversaw the valuation of biological assets for the initial public offerings and subsequent financial reports of Eggriculture Foods Limited (8609.HK), China Modern Dairy Holdings Ltd. (1117.HK), China Huishan Dairy Holdings Company Limited (6863.HK), YuanShengTai Dairy Farm Limited (1431.HK), WH Group Limited (288.HK), China Shengmu Organic Milk Limited (1432.HK) and Shandong Fengxiang Co., Ltd. (9977.HK).

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

### Valuation methodology

In arriving at the assessed value, the income approach, a generally accepted approaches have been considered.

Income Approach is adopted to value the milkable cows. JLL understand from the Company that generally there is no reliable market-based price for dairy cow at this stage, therefore the fair value of the milkable cows is developed through the application of income approach technique known as multi-period excess earnings method (MEEM).

MEEM is a derivative of the discounted cash flow ("**DCF**") method. Using this technique, JLL estimate the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are net off. The net income projection is then adjusted by economic capital charges. The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Our directors and Joint Sponsors confirmed that the components of the material cash flows used in the fair value measurement are consistent with market factors and assumptions used in the measurement.

***Dairy cows***

*Calves and heifers*

A market-based approach is adopted by Jones Lang LaSalle to value our calves and heifers, because recent market-based prices for heifers at a certain age exist near each reporting date and therefore the fair value of the calves and heifers is developed through the application of the market approach with reasonable adjustments to reflect age and potential milk yield differences.

*Milkable Cows*

An income-based approach is adopted by Jones Lang LaSalle to value our milkable cows, primarily because there is no reliable market-based price for dairy cow at this stage. In general, raisers of dairy cows do not sell dairy cows that are milkable, as milking generate more profits in the long run than the sales of dairy cows. As a result, the fair value of the milkable cows is developed through the application of an income approach technique known as multi-period excess earnings method ("**MEEM**"). MEEM is a derivative of the discounted cash flow ("**DCF**") method. Using this method, Jones Lang LaSalle estimates the direct economic benefits attributed to the milkable cows. Such economic benefits are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject assets. To estimate the economic benefit, the revenues for the milkable cows are projected over their remaining useful lives. Based on the projected revenues, the costs associated with supporting the milkable cows are offset. The net income projection is then adjusted by certain economical capital charges. The capital charges include returns on the assets that are used or used up in the generation of the subject biological assets income projection. Examples of such assets include fixed assets, assembled workforce and working capital.

**Key assumptions and inputs**

***Dairy cows***

Key inputs for valuing our dairy cows are the number and classification of dairy cows. Based on maturity stages, our dairy cows are classified into calves and heifers and milkable cows. Different valuation approaches are adopted for calves and heifers and milkable cows.

*Calves and heifers*

The key inputs and assumptions for valuing our calves and heifers are the market price per head for 14 months old heifers, which was RMB17,000 (for ordinary ones) to RMB19,000 (for special ones), RMB18,500 and RMB19,000 (for ordinary ones) to RMB19,400 (for special ones) as of December 31, 2018, 2019 and 2020, respectively.

*Milkable cows*

The key assumptions and inputs include the revenues from milking the dairy cows and the costs associated with the milkable cows. Jones Lang LaSalle also assumes that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which may adversely affect our business. In deriving the residual cash flow of the milkable cows, Jones Lang LaSalle has deducted returns on contributory assets, which represent charges for the use of contributory assets employed to support the milkable cows and help generate revenue. Our Directors confirmed, and the Joint Sponsors concurred, that the key bases and assumptions used by Jones Lang LaSalle in the valuation process are consistent with those used by the industry peers and are appropriate and reasonable.

The key assumptions and inputs for calculating the revenues from milking include the following:

- The number of milkable cows and their respective estimated culling rates and calf birth rates, at different lactation stages.
- The milk yield rate as adjusted by an estimated spoilage rate at different lactation stages.
- The prices for raw milk produced by, and calves and stud bulls given birth by, milkable cows at different lactation stages.

The key assumptions and inputs for calculating the costs associated with raising the milkable cows include the following:

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

Our Directors and the Joint Sponsors discussed with Jones Lang LaSalle in relation to their methodologies, procedures, key bases and assumptions and understand that Jones Lang LaSalle has conducted the biological asset valuation in accordance with International Accounting Standard 41 – Agriculture, issued by the International Accounting Standards Board and with reference to the International Valuation Standards, issued by the International Valuation Standards Council. The key assumptions, as detailed above, are made based on the historical actual operation performance of the Company. Jones Lang LaSalle has obtained and discussed with us regarding the historical actual operation data from us, and considered and reviewed whether they are appropriate and reasonable to be used in the valuation. Jones Lang LaSalle confirmed that their valuation procedures provide a reasonable basis for their opinion, the inputs used in the valuation technique are appropriate and reasonable. Our Directors and the Joint Sponsors confirm that the key bases and assumptions adopted are consistent with industry practice and in line with the actual figures during the Track Record Period.

The Joint Sponsors and JLL conducted a number of site inspections to perform an independent verification of the biological assets without experiencing any limitation in material aspect. JLL also engaged a third-party independent consultant to advise on the physical and biological attributes of the biological assets.

The Joint Sponsors had various discussions with JLL in relation to its valuation procedures, valuation bases and assumptions, valuation techniques and information required to prepare the valuation report of the biological assets to better understand the valuation process. As confirmed by JLL, the valuation of our biological assets was conducted in accordance with the International Valuation Standards issued by the International Standards Council. JLL has further confirmed that its valuation procedures provide a reasonable basis for its opinion, and that the inputs used in the valuation techniques are appropriate and reasonable. In addition, the Joint Sponsors discussed with our management and the Reporting Accountants with respect to the techniques chosen and inputs used in the valuations. The Joint Sponsors further compared the valuation techniques chosen, bases and assumptions of the valuation with those used in other similar transactions and market practice. The Joint Sponsors and the Reporting Accountants are satisfied that the valuation techniques chosen and the inputs used in the valuation techniques are appropriate and reasonable.

Furthermore, the Joint Sponsors discussed with the Reporting Accountants with respect to their procedures performed on the valuation of the biological assets, including obtaining an understanding on the assumptions and methods used by JLL in the valuation of our biological assets and making inquiries regarding the source data used and procedures undertaken in accordance with the HKSA 500 **Audit Evidence**. The Reporting Accountants provided an unqualified opinion to the financial information of our Group as a whole as set out in Appendix I to this prospectus.

**Sensitivity Analysis**

The following table illustrates the sensitivity of the estimated fair value of milkable cows that would arise if the key inputs had changed as of December 31, 2020, assuming all other variables remained constant.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Raw milk price sensitivity* | | | | | | | | |
| Assumed Raw Milk Price | 4.31 | RMB | | | | | | |
| % Change in Dairy Cow Price | 10% | 5% | 2% | 1% | -1% | -2% | -5% | -10% |
| | *4.74* | *4.53* | *4.40* | *4.36* | *4.27* | *4.23* | *4.10* | *3.88* |
| Corresponding Valuation Result (RMB'000) | 1,449,127 | 1,315,423 | 1,235,201 | 1,208,460 | 1,154,979 | 1,128,238 | 1,048,016 | 914,312 |
| Change in Valuation Result (RMB'000) | 267,408 | 133,704 | 53,482 | 26,741 | -26,741 | -53,482 | -133,704 | -267,408 |
| % Change in Valuation Result | 22.63% | 11.31% | 4.53% | 2.26% | -2.26% | -4.53% | -11.31% | -22.63% |

*Milk yield sensitivity*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Assumed Milk Yield | 30.95 | Kg/Day/Head | | | | | | |
| % Change in Milk Yield | 10% | 5% | 2% | 1% | -1% | -2% | -5% | -10% |
| | *34.04* | *32.50* | *31.57* | *31.26* | *30.64* | *30.33* | *29.40* | *27.85* |
| Corresponding Valuation Result (RMB'000) | 1,296,015 | 1,238,867 | 1,204,579 | 1,193,149 | 1,170,290 | 1,158,861 | 1,124,572 | 1,067,425 |
| Change in Valuation Result (RMB'000) | 114,295 | 57,147 | 22,859 | 11,429 | -11,429 | -22,859 | -57,147 | -114,295 |
| % Change in Valuation Result | 9.67% | 4.84% | 1.93% | 0.97% | -0.97% | -1.93% | -4.84% | -9.67% |

*Feed cost sensitivity*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Assumed Feed Cost | 2.01 | RMB/kg | | | | | | |
| % Change in Feed Cost | 10% | 5% | 2% | 1% | -1% | -2% | -5% | -10% |
| | *2.21* | *2.11* | *2.05* | *2.03* | *1.99* | *1.97* | *1.91* | *1.81* |
| Corresponding Valuation Result (RMB'000) | 1,035,849 | 1,108,784 | 1,152,545 | 1,167,133 | 1,196,307 | 1,210,894 | 1,254,655 | 1,327,590 |
| Change in Valuation Result (RMB'000) | -145,871 | -72,935 | -29,174 | -14,587 | 14,587 | 29,174 | 72,935 | 145,871 |
| % Change in Valuation Result | -12.34% | -6.17% | -2.47% | -1.23% | 1.23% | 2.47% | 6.17% | 12.34% |

*Heifer price sensitivity*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Assumed Heifer Price | 19,000 | RMB | | | | | | |
| % Change in Heifer Price | 10% | 5% | 2% | 1% | -1% | -2% | -5% | -10% |
| | *20,900* | *19,950* | *19,380* | *19,190* | *18,810* | *18,620* | *18,050* | *17,100* |
| Corresponding Valuation Result (RMB'000) | 1,216,470 | 1,199,095 | 1,188,670 | 1,185,195 | 1,178,245 | 1,174,770 | 1,164,344 | 1,146,969 |
| Change in Valuation Result (RMB'000) | 34,750 | 17,375 | 6,950 | 3,475 | -3,475 | -6,950 | -17,375 | -34,750 |
| % Change in Valuation Result | 2.94% | 1.47% | 0.59% | 0.29% | -0.29% | -0.59% | -1.47% | -2.94% |

*Discount rate sensitivity*

| | | | | | | |
|---|---|---|---|---|---|---|
| Assumed Discount Rate | 13% | | | | | |
| % Change in Discount Rate | 1.50% | 1.00% | 0.50% | -0.50% | -1.00% | -1.50% |
| | *14.50%* | *14.00%* | *13.50%* | *12.50%* | *12.00%* | *11.50%* |
| Corresponding Valuation Result (RMB'000) | 1,160,655 | 1,167,576 | 1,174,597 | 1,188,947 | 1,196,280 | 1,203,722 |
| Change in Valuation Result (RMB'000) | -21,065 | -14,144 | -7,123 | 7,227 | 14,560 | 22,003 |
| % Change in Valuation Result | -1.78% | -1.20% | -0.60% | 0.61% | 1.23% | 1.86% |

*Note:*

The sensitivity analysis is based on the valuation of ordinary milkable cows (mature cows) from Youran Dairy.

### Stock-take and Internal Control

#### *Stock-take*

We have established a standard protocol for stock take consisting of periodic and random stock take to ensure the physical existence of our biological assets and accuracy of relevant data and information. Each of our dairy farms is required to perform a full stock take on a monthly basis to ensure the relevant information such as headcount and, age-grouping are accurately reflected in our dairy farm information management system and submit a stock-take report to the record keeping department at our headquarters. Dairy farm managers, staff of the finance department and their supervisors, staff of the record keeping department and directors of relevant departments are required to confirm the result of the monthly stock-take in writing. Our finance department also performs stock-take when a dairy farm manager resigns or is replaced.

#### *Internal Control and Management System*

We have devised a comprehensive policy for biological asset management. Our biological asset management policy covers among other things, the relevant accounting policies, transferring among age groups, purchase and disposal of dairy cows, breeding, record keeping and stock take. To facilitate the implementation of our biological asset management policy, we employ the dairy farm information management system developed by a third-party developer, in collaboration with the accounting system, to keep comprehensive record of our dairy cows herd.

## IMPACT OF THE COVID-19 OUTBREAK

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

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

- *Impact on sales of our products*. As a result of the COVID-19 outbreak, we experienced a temporary decline in our selling price of raw milk during the outbreak. Particularly, the selling prices of our premium raw milk in February and March 2020 were adversely affected by the COVID-19 outbreak, which results in the average selling price of our premium raw milk (excluding the portion of SKX) slightly decreased from RMB4.00/kg in the first half of 2019 to RMB3.88/kg in the first half of 2020. In addition, certain deliveries of feed products to our customers were delayed in February 2020 due to travel restrictions imposed by local governments in most China regions, and in January 2021, we also faced delivery delay issues in certain areas of Northeast China and Hebei province due to the governments' tightened measures in response to new COVID-19 cases. According to Frost & Sullivan, the COVID-19 outbreak had temporarily affected the operation of dairy industry and delivery delay of dairy products in China, which resulted in excess inventories and a slight decline in selling price of raw milk in the first half of 2020. The financial impact on the PRC's dairy industry (including our Group) as a result of COVID-19 outbreak was generally reduced with the effective control measures imposed by the PRC government, according to the same source. During the year ended December 31, 2020, the sales volume of our raw milk was not significantly and adversely affected by the outbreak and remained an upward trend from 655,786 tons in 2019 to 842,127 tons (excluding the portion of SKX) in 2020. Meanwhile, our comprehensive ruminant farming solutions business was less affected as the consumption of feed by dairy cows remains stable and thus less sensitive for the impact caused by Covid-19 outbreak, accordingly to Frost & Sullivan. In 2020, our comprehensive ruminant farming solutions business also maintained an upward movement as compared to 2019. Our revenue generated from comprehensive ruminant farming solutions increased by 4.0% from RMB4,604.2 million for the year ended December 31, 2019 to RMB4,786.6 million for the year ended December 31, 2020, despite the elimination of inter-segment revenue after the consolidation of SKX. As of the Latest Practicable Date, to the best of our Directors' knowledge, we have not cancelled any major projects in progress as a result of the COVID-19 outbreak.

- *Impact on our supply chain and production*. During the COVID-19 outbreak, our suppliers did not experience interruptions in their production, but we experienced delivery delays of our orders in certain regions of China in February 2020. In January 2021, we experienced delays in deliveries from certain of our suppliers who are located in certain areas of Northeast China and Hebei province. Given that we have maintained adequate inventory levels and kept communicating with the relevant government department for the purpose of coordinating transportation, as of the Latest Practicable Date, to the best of our Directors' knowledge, we had fully resumed work and our ability to perform our existing contractual obligations had not been materially affected as a result of the COVID-19 outbreak. In addition, the transportation of our products was subject to certain traffic restrictions. However, as we had timely consulted with relevant authorities to complete the required formalities for the transportation of our products, we are not aware of any material delay in product delivery due to the traffic restrictions.

- *Other impacts on our operations*. In early 2020, some of our employees were required to work remotely due to mandatory quarantines. In addition, some of our scheduled on-site marketing activities and physical meetings with customers were postponed or needed to be conducted in other manners due to the impact of the outbreak. However, any of the foregoing did not materially affect our operations and we resumed normal business operations as the restrictions were gradually eased.

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

Based on the performance of our business in 2020 and other information known to us as of the Latest Practicable Date, we also do not expect significant financial damage or impact to our long-term commercial prospect from the COVID-19 outbreak, primarily considering that: (i) we had not suspended our operations due to the COVID-19 outbreak or failed to discharge our contractual obligation during the period; (ii) our financial and operational performance remained in an upward trend during the COVID-19 outbreak; and (iii) to the best of our knowledge, the operations of our customers and suppliers had not been materially interrupted by the COVID-19 outbreak. Specifically (a) there was no cancellation of orders by our customers; and (b) there was no termination of cooperations with our suppliers due to the COVID-19 outbreak. However, we cannot assure you that the COVID-19 outbreak will not further escalate or have a material adverse effect on our results of operations. For details, please refer to the paragraph headed "Risk Factors – Our business operations and financial performance are adversely affected by the outbreak of COVID-19, and may be materially and adversely affected by other natural disasters, epidemics, acts of war or terrorism or other factors beyond our control" in this prospectus.

## VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Certain of our financial assets and liabilities are measured at fair value on a recurring basis at the end of each reporting period. The level 3 financial assets mainly included bills receivables at FVTOCI and equity instruments at FVTOCI, and the level 3 financial liabilities included convertible notes. For information about our financial assets and liabilities categorized within level 3 of fair value measurement, see note 46 in Appendix I to this Prospectus.

In relation to the valuation of the fair value of our level 3 financial assets and liabilities, the Directors have conducted the following due diligence: (i) engaged JLL to assess the value of the equity instruments at FVTOCI and convertible notes; (ii) provided all relevant information as requested by JLL so that the valuation can take into account all relevant matters; (iii) reviewed the basis of computation, scope of review, assumptions, limitations and qualifications and valuation methodologies on which a valuation is based; (iv) read and analysed the valuation report and making reasonable enquiries to JLL to satisfy themselves about the valuation and its assumptions or methodology. Based on the results of the above due diligence works performed, nothing had, come to the attention of the Directors that there were any material issues or adverse or unusual findings in relation to valuation of our financial assets and liabilities measured at level 3 fair value, nor nothing had come to the attention of the Directors to cast doubt on the accuracy or reasonable of the valuation of our level 3 financial assets and liabilities.

Details of the fair value measurement of financial assets and liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of the unobservable inputs to fair value are disclosed in Note 46 to the Accountants' Report set out in Appendix I to this prospectus.

Based on the results of the procedures on the fair value of financial assets and liabilities and other audit procedures on other items of the Historical Financial Information, the Reporting Accountants has given a true and fair view to the Historical Financial Information of the Group as a whole. Such opinion is set out in Appendix I to the Prospectus.

The Joint Sponsors have conducted the due diligence works in relation to the valuation of the fair value of our level 3 financial assets and liabilities, including: (i) obtaining and reviewing the relevant documents provided by us in relation to our level 3 financial assets and liabilities, such as applicable valuation report for equity instruments at FVTOCI, breakdown of bills receivables at FVTOCI and valuation reports for convertible notes; (ii) discussing with the management of the Company regarding the level 3 financial assets and liabilities; (iii) discussing with the Reporting Accountants to the Group to understand the nature of the level 3 financial assets and liabilities and how they assessed the value; (iv) reviewing the disclosures in relevant notes to the Accountants' Report set out in Appendix I to this prospectus; and (v) checking the qualification of JLL.

Based on (i) the aforementioned due diligence performed by the Company, (ii) independent due diligence conducted by the Joint Sponsors, and (iii) the unqualified opinion on our historical financial information for the Track Record Period as a whole issued by the Reporting Accountants to the Group, the Joint Sponsors concurs the Directors' view that, the Company has complied with SFC's "Guidance note on directors' duties in the context of valuations in corporate transactions" in relation to the relevant valuation of financial assets and liabilities categorized within level 3 of fair value measurement.

## UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rules 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of this Offering (as defined in this prospectus) on the audited consolidated net tangible assets of our Group as at December 31, 2020, as if this Offering had taken place on such date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at December 31, 2020 or at any future dates following this Offering. It is prepared based on the audited consolidated net tangible assets of our Group as at December 31, 2020 as shown in the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

| | Audited consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2020 | Estimated net proceeds from the Global Offering | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share | |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB* | *HK$* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* | *(Note 5)* |
| Based on the Offer Price of HK$8.66 per Offer Share | 7,052,767 | 3,356,981 | 10,409,748 | 2.74 | 3.33 |
| Based on the Offer Price of HK$6.98 per Office Share | 7,052,767 | 2,698,818 | 9,751,585 | 2.57 | 3.12 |

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2020 is based on the audited consolidated net assets of the Group attributable to owners of the Company amounted to RMB7,820,208,000, deducted by goodwill and intangible assets of RMB762,741,000 and RMB4,681,000 (which represents carrying amount of RMB4,934,000 less amount attributable to non-controlling interests of RMB253,000), respectively, extracted from the Accountants' Report set out in Appendix I to this Prospectus.

2. The estimated net proceeds from the Global Offering are based on 493,404,000 Offer Shares at indicative Offer Prices of HK$6.98 and HK$8.66 per Offer Share, being the low-end and high-end of the stated offer price range, respectively, after deduction of the estimated underwriting commissions and fees and other related expenses incurred and to be incurred by the Group (excluding approximately RMB34,365,000 of listing expenses recognised in profit or loss prior to December 31, 2020). It does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

   For the purpose of this unaudited pro forma financial information, the estimated net proceeds from the Global Offering is converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8228 to HK$1.00. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2020 per Share has been arrived on the basis of a total of 3,795,404,000 Shares, taking into account 3,302,000,000 existing Shares in issue; and assuming that 493,404,000 Offer Shares to be issued pursuant to the Global Offering had been completed on December 31, 2020. It does not take into account of any Shares which may be issued upon conversion of convertible notes, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2020 to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2020. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as shown on page III-1 have not been adjusted to illustrate the effect of the conversion of the convertible notes issued by the Company after December 31, 2020 into ordinary shares. Had the convertible notes been issued and converted on December 31, 2020, US$460,000,000 convertible notes with an aggregate carrying value of RMB3,043,648,000 as at December 31, 2020 would be reclassified from liabilities to equity. The conversion of convertible notes would have increased the total share in issue assumption stated in Note 3 by 1,031,274,521 shares to a total of 4,826,678,521 shares in issue.

   The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2020 after conversion of the convertible notes would be approximately RMB13,453,396,000, assuming an Offer Price of HK$8.66 per Share, and approximately RMB12,795,233,000, assuming an Offer Price of HK$6.98 per Share; and the unaudited pro forma adjusted consolidated net tangible assets of the Group as at December 31, 2020 per Share after conversion of the convertible notes would be approximately RMB2.79 (equivalent to HK$3.39), assuming an Offer Price of HK$8.66 per Share, and approximately RMB2.65 (equivalent to HK$3.22), assuming an Offer Price of HK$6.98 per Share.

5. Our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as at December 31, 2020 is converted from Renminbi to Hong Kong dollars at an exchange rate of RMB0.8228 to HK$1.00, which was the rate prevailing on May 28, 2021 as published by People's Bank of China. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

## RECENT DEVELOPMENTS

### Fonterra Acquisition

On October 3, 2020, Youran Dairy, a major subsidiary of our Company, entered into a share purchase agreement with the sole shareholder of Fonterra China Farms Group. Pursuant to the agreement, Youran Dairy agreed to acquire the 100% equity interest of Fonterra China Farms Group at an aggregate consideration of RMB2.31 billion, which is subject to adjustment according to the specific terms of the share purchase agreement. The acquisition was completed on April 1, 2021 at a consideration of RMB2,530,565,725 which has been applied a purchase price adjustment and is subject to a further adjustment. For the details, please see the section headed "History, Reorganization and Group Structure" in this prospectus.

### Convertible Notes

On November 3, 2020, our Company as issuer, PAG III as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US$330.0 million. On November 19, 2020, our Company as issuer, Bain as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US$75.0 million. On November 10, 2020, our Company as issuer, ICBC as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US$30.0 million. On November 19, 2020, our Company as issuer, BOC as investor entered into a subscription agreement for the subscription of the Convertible Notes in the total amount of approximately US$25.0 million, for the benefit of long-term business development of our Group. For more details, please see the section headed "History, Reorganization and Group Structure – Issuance of Convertible Notes" of this prospectus.

Before the maturity date of the Convertible Notes, the holders of the Convertible Notes may require the early redemption of the Convertible Notes in case that: (i) at any time after the occurrence of an event of default under the Convertible Notes, the holders of the Convertible Notes may require the Company to redeem the outstanding principal amount of the applicable Convertible Notes or any portion thereof; and (ii) upon the expiration of the fifteenth (15th) month of the applicable issuance dates of the Convertible Notes, the holders of the Convertible Notes has an one-off right to require us to redeem all outstanding principal amounts of the Convertible Notes (including the outstanding principal amount), or any portion thereof. Before maturity and early redemption (if any), the Convertible Notes will be measured at fair value and any changes to their fair value will be recorded in our consolidated statements of financial position and adjusted to the balance of such liability. These fair value changes will have no impact on our cash position or capital resources in case that early redemption has not been triggered before the conversion of the Convertible Note. Upon the conversion of the Convertible Notes into our ordinary shares, such liability will be derecognized and accounted for as an increase in share capital and share premium. The early redemption payment will be recorded as a cash outflow of financing activities.

If the Convertible Notes are to be redeemed upon the expiration of the fifteenth (15th) month of the applicable issuance dates, the redemption amount shall be the principal amounting to US$460,000,000 (equivalent to approximately RMB3,017,278,000), plus total accrued interest calculated at 10% per annum (cash and PIK interest) on the principal, amounting to US$57,914,000 (equivalent to approximately RMB379,875,300). Given that we had net cash from operating activities of RMB1,707.9 million for the year ended December 31, 2020, if the redemption of the Convertible Notes is triggered, we believe the proceeds from our financing activities and our current cash and cash equivalents will be sufficient to meet our anticipated cash needs, including our cash needs for the redemption of the Convertible Notes, working capital and capital expenditures. Furthermore, with the proceeds from the Global Offering, our financial leverage ratio will be lowered, and we will further increase the total assets through business expansions, which will further lead to our improved ability to obtain financing.

For further information regarding the Convertible Notes including the redemption features, see Note 39 to the Accountant's Report in Appendix I to this prospectus for details.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since December 31, 2020, being the end date of the periods reported on in the Accountants' Report included in Appendix I to this prospectus, and there has been no event since December 31, 2020 that would materially affect the information as set out in the Accountants' Report included in Appendix I to this prospectus.

## DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as of December 31, 2020, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## FUTURE PLANS

Please refer to the section headed "Business – Strategy" in this prospectus for a detailed description of our future plans and strategies.

## USE OF PROCEEDS

The net proceeds from the Global Offering (assuming that the Over-allotment Option is not exercised) to be received by the Company, after deducting the underwriting commission, discretionary incentive fee (assuming full payment of the discretionary incentive fee) and estimated expenses in connection with the Global Offering, will be:

- approximately HK$3,238 million, assuming that the Offer Price is HK$6.98 (being the minimum Offer Price);

- approximately HK$3,638 million, assuming that the Offer Price is HK$7.82 (being the mid-point of the Offer Price range); or

- approximately HK$4,038 million, assuming that the Offer Price is HK$8.66 (being the maximum Offer Price).

We intend to use the net proceeds from the Global Offering (assuming that the Over-allotment Option is not exercised) of HK$3,638 million (assuming that the Offer Price is HS$7.82, being the mid-point of the Offer Price range), mainly to continue scaling our business, thereby reinforcing our market leadership. Consistent with the industry norm, we will use a majority portion of the net proceeds from the Global Offering as capital expenditure in building new dairy farms and feed mills and purchasing quality dairy cows for our new dairy farms, which typically require significant capital investments as compared to other business activities. In addition, our Directors believe that such proposed use of proceeds is consistent with our future plans and strategies as set forth in the section headed "Business – Strategies" in this prospectus, and is in the best of our Company's long-term interest. By expanding our business size, we believe we will be able to continue improving our operational efficiency through economies of scale. In addition, as we continue to scale up, we will obtain massive valuable data insights into the best practices of dairy farming and nutritional needs of ruminants, which will in turn allow us to continue optimizing our product portfolio and achieve significant synergies among our businesses. Specifically, we intend to use the net proceeds from the Global Offering for the following purposes, and we will fund our other future plans and strategies through our operating cash flow and bank loans:

- Approximately HK$2,728 million, or 75.0% of our total estimated net proceeds, will be used for funding our investment projects over the next two years, including building our dairy farms under construction, new dairy farms and a feed mill and purchasing necessary facilities and equipment, to meet our increasing business demands and achieve sustainable growth through economies of scale. In particular:

- Approximately HK$2,641 million, or 72.6% of our total estimated net proceeds, will be used for funding the construction of five dairy farms under construction and three new dairy farms over the next two years. We plan to continue to ramp up our scale by adding more dairy farms to capture the attractive market opportunities along China's dairy value chain. Driven by the increasing dairy product consumption and demand of China's consumers, we have witnessed a significant growth of the raw milk supply market in China. For details, see the section headed "Industry Overview." In light of the significant market potential, we believe it is in the best of our interest to scale up our business operations by establishing new dairy farms to accommodate our expanding herds, thereby increasing our milk yield and achieving long-term profitable growth.

  With respect to our dairy farms under construction, we intend to use the net proceeds from the Global Offering to fund the subsequent construction of Hulun Buir Farm II, Hinggan League Farm, Tongliao Farm, Hohhot Farm I and Henan Farm. We intend to allocate RMB115 million to each of Hulun Buir Farm II, Hinggan League Farm and Tongliao Farm, RMB192 million to Hohhot Farm I and RMB384 million to Henan Farm. In addition, we intend to use bank loans to satisfy our capital needs in the process of subsequent construction. For more details of the five dairy farms under construction as of December 31, 2020, see the section headed "Business – Raw Milk Business – Our Dairy Farms."

  With respect to our new dairy farms, we intend to use the net proceeds from the Global Offering to fund the construction of three new dairy farms, among which two will be located in Shandong, and one will be located in Inner Mongolia. Such locations were selected primarily based on our extensive research and analysis of the local market demands. In addition, we believe it is in our best interest to expand our footprints and build scaled dairy farms in such locations due to the scarcity of land available for construction of dairy farms. The following table summarizes certain details of our new dairy farms:

| **Farm** | **Location** | **Designed capacity (number of dairy cows)** | **Expected size (square meters)** |
|---|---|---|---|
| Shandong Farm I | Shandong | 10,000 | 838,671 |
| Shandong Farm II | Shandong | 12,000 | 1,063,339 |
| Hohhot Farm II | Inner Mongolia | 12,000 | 1,224,006 |

As advised by our PRC Legal Advisor, we had obtained the relevant licenses and permits currently required for the construction of the five dairy farms under construction and three new dairy farms as of the Latest Practicable Date.

In addition, we intend to use a portion of the net proceeds from the Global Offering to purchase equipment and facilities that are necessary for the operations of our dairy farms under construction and to be newly constructed. In general, our total investment in every dairy farm under construction or to be constructed (excluding biological assets) is approximately RMB370 million, of which the total investment in equipment and facilities is approximately RMB130 million, which primarily include: (i) three milking equipment, (ii) 32 vehicle equipment for cow raising and feeding and 2,484 heatstroke prevention and cooling equipment and other breeding ancillary equipment and facilities, (iii) cow manure treatment facilities, (iv) testing and inspection equipment and (v) power generating equipment.

- Approximately HK$87 million, or 2.4% of our total estimated net proceeds, will be used for funding the construction of one feed mill in Lindian, Heilongjiang, over the next two years, the expected total investment costs of which approximates RMB118.0 million. We believe that building another feed mill in Heilongjiang is in our best interest, on the following grounds: (i) based on our market research and analysis, we believe there is significant market potential for us to grow our concentrated feed business in Lindian, Heilongjiang, especially under the local government's initiative for establishing Lindian, Heilongjiang as a high-end quality raw milk source region, (ii) the local governments plan to build Arun Banner and Hinggan League into dairy farming and processing bases, and (iii) to address the specific demands of our newly-constructed or planned organic dairy farms, namely Hulun Buir Farm I and Hulun Buir Farm II, and secure the premium quality and all-natural flavor of our organic milk, we designed our feed mill in Lindian, Heilongjiang to have a dedicated production line for concentrated feeds tailored to the organic dairy farms.

  In addition, we intend to use a portion of the net proceeds from the Global Offering to purchase one production line for structural calf feed, one production line for regular concentrated feed, one production line for organic concentrated feed, two automated packaging and palletizing lines, and two automated package-breaking systems for feed ingredients. Furthermore, we intend to purchase other equipment and facilities such as power generators and power distribution systems.

- Approximately HK$546 million, or 15.0% of our total estimated net proceeds, will be used for purchasing dairy cows for our dairy farms. We plan to import a total of approximately 20,000 Holsteins primarily from Australia and New Zealand over the next two years. Such number was determined with reference to the designed capacity of the relevant dairy farms, the natural breeding cycle of dairy cows and our target for production volume of raw milk in the next two years. Based on an estimated price of RMB24,000 per head of dairy cow, we expect to incur total costs of RMB480 million in connection with the purchase of dairy cows for our dairy farms. The following table illustrates the planned distribution of such newly-purchased dairy cows among our dairy farms:

| **Farm** | **Number of dairy cows** |
|---|---|
| Shandong Farm I | 4,000 |
| Shandong Farm II | 4,000 |
| Hohhot Farm II | 4,000 |
| Henan Farm | 8,000 |

On April 14, 2021, the government of New Zealand announced that the export of livestock by sea would cease following a transition period of up to two year. To the best knowledge of our Directors based on the currently available information, during the two-year transition period for this new rule to take effect, we would still be allowed to continue to import dairy cows from New Zealand. As we originally intended to use the net proceeds over the next two years to import dairy cows from New Zealand, we believe that such livestock export ban is unlikely to have a material adverse impact on our current importation plan. For a detailed analysis of the potential impact of such livestock export ban by the New Zealand government, see "Business – Raw Milk Business – Our Dairy Cows." Nevertheless, we would continue to monitor the progress of the implementation of such livestock export ban and conform our importation plan as necessary and appropriate.

- Approximately HK$364 million, or 10.0% of our total estimated net proceeds, is intended to be used for working capital and general corporate purposes.

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

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into interest-bearing accounts with licensed commercial banks or financial institutions in the PRC or Hong Kong. We will comply with the PRC laws in respect of foreign exchange registration and proceeds remittance.

**Selling Shareholders Proceeds**

We estimate the net proceeds to the Selling Shareholders from the sale of Sale Shares pursuant to the Global Offering, assuming the Over-allotment Option is not exercised, to be approximately HK$1,675 million (assuming an Offer Price of HK$7.82 per Offer Share, being the mid-point of the indicative Offer Price range), after deducting the underwriting commission and estimated related expenses payable by the Selling Shareholders. We will not receive net proceeds from the sale of Sale Shares pursuant to the Global Offering, whether or not the Over-allotment Option is exercised.

## HONG KONG UNDERWRITERS

Huatai Financial Holdings (Hong Kong) Limited

Credit Suisse (Hong Kong) Limited

Citigroup Global Markets Asia Limited

CLSA Limited

The Hongkong and Shanghai Banking Corporation Limited

BOCOM International Securities Limited

China Securities (International) Corporate Finance Company Limited

ICBC International Securities Limited

Futu Securities International (Hong Kong) Limited

## UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 71,544,000 Hong Kong Public Offer Shares and the International Offering of initially 643,891,000 International Offering Shares, subject, in each case, to reallocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus as well as to the Over-allotment Option (in the case of the International Offering).

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Hong Kong Public Offering

#### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on June 4, 2021. Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Public Offer Shares for subscription on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange and such approval not having been subsequently revoked prior to the commencement of trading of the Shares on the Stock Exchange and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Public Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

***Grounds for termination***

If any of the events set out below occur at any time prior to 8:00 a.m. on the Listing Date, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Joint Sponsors shall be entitled by written notice to the Company, Yili, PAG I and PAG II to terminate the Hong Kong Underwriting Agreement with immediate effect:

(a) there develops, occurs, exists or comes into force:

(i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease (but provided that the known effects of the COVID-19 pandemic as of the date of the Hong Kong Underwriting Agreement shall be excluded for the purpose of this paragraph), economic sanctions, strikes, labor disputes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)) in or affecting Hong Kong, Singapore, Japan, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdoms, the European Union (or any member thereof) or any other jurisdiction relevant to any member of the Group or the Global Offering (collectively, the "**Relevant Jurisdictions**"); or

(ii) any change or any development involving a prospective change, or any event or circumstance or series of events likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market matters or conditions, equity securities or exchange control or any monetary or trading settlement system or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any Relevant Jurisdictions; or

(iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Singapore Stock Exchange or the Tokyo Stock Exchange; or

(iv) any general moratorium on commercial banking activities in or affecting any of the Relevant Jurisdictions (declared by the relevant authorities) or any material disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or

(v) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

(vi) the imposition of sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

(vii) any change or development involving a prospective change or amendment in or affecting taxes exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies, a change in the system under which the value of the HK dollar is linked to that of the U.S. dollar or RMB is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions or affecting an investment in the Offer Shares; or

(viii) any litigation, dispute, legal action or claim or regulatory or administrative investigation or acting being threatened or instigated against any member of the Group; or

(ix) any Director or senior management as named in this Prospectus being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management or taking directorship of a company; or

(x) the chairman or the president of the Company vacating his or her office; or

(xi) an authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director or member of the Group; or

(xii) a contravention by any member of the Group or any Director of the Listing Rules or applicable laws; or

(xiii) a prohibition by an authority on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares to be issued upon any exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xiv) any change or prospective change or development, or a materialisation of, any of the risks set out in section headed "Risk Factors" in this Prospectus; or

(xv) non-compliance of this Prospectus (or any other documents used in connection with the contemplated offer and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(xvi) other than with the prior written consent of the Joint Global Coordinators, the issue or requirement to issue by the Company of or supplement or amendment to this prospectus (or to any other documents issued or used in connection with the contemplated offer and sale of the Shares) pursuant to Companies Ordinance or the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xvii) any demand by any creditor for repayment or payment of any indebtedness of any member of the Group, Yili, PAG I and PAG II or in respect of which any member of the Group, Yili, PAG I and PAG II is liable prior to its stated maturity; or

(xviii) any demand by creditors for repayment of indebtedness or an order or petition for the involuntary winding-up or liquidation of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Joint Sponsors:

(1) has or will have or may have a material adverse effect on the assets, liabilities, general affairs, business, management, prospects, shareholders' equity, profits, losses, results of operations, financial position or condition, financial or otherwise, or performance of the Group as a whole; or

(2) has or will have or may have a material adverse effect on the success or marketability of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or

(3) makes or will make or may make it inadvisable, inexpedient, impracticable or incapable for the Hong Kong Public Offering and/or the International Offering to proceed or to market the Global Offering or the delivery or distribution of the Offer Shares on the terms and in the manner contemplated by the Offer Related Documents (as defined below); or

(4) has or will have or may have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Global Coordinators or the Joint Sponsors:

(i) that any statement contained in this prospectus, the formal notice, application forms and other documents in relation to the Global Offering, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (collectively, the "**Offer-Related Documents**") (including any supplement or amendment thereto was, when it was issued, or has become, untrue, incorrect, or misleading in any material respects, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of the Offer-Related Documents (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission, any of the Offer-Related Documents (including any supplement or amendment thereto); or

(iii) there is a breach of any of the obligations imposed any party to Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or

(iv) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or

(v) any material adverse change; or

(vi) any breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the warranties given by the Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable; or

(vii) that approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) the Company withdraws any of the Offer-Related Documents or the Global Offering; or

(ix) there is a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or

(x) any expert named in this prospectus (other than the Joint Sponsors) has withdrawn or is subject to withdrawing its consent to being named in this prospectus or to the issue of any of this prospectus, application forms and the formal notice; or

(xi) a material portion of the orders placed or confirmed in the bookbuilding process, or of the investment commitments made by any cornerstone investors under agreements signed with such cornerstone investors, have been withdrawn, terminated or cancelled.

***Undertakings to the Stock Exchange***

*(A) Undertakings by the Company*

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that it will not exercise its power to issue any further Shares, or securities convertible into equity securities of the Company (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering and the Over-allotment Option; (b) pursuant to the conversion of the Convertible Notes; or (c) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

*(B) Undertakings by the Controlling Shareholders*

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Stock Exchange and the Company that, except (a) pursuant to the Global Offering and the Over-allotment Option or (b) under any of the circumstances provided under Rule 10.07 of the Listing Rules, it will not:

(i) at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the securities of the Company in respect of which they are shown in this prospectus to be the beneficial owner(s) (the "**Relevant Securities**"); and

(ii) at any time during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders as a controlling group would cease to be Controlling Shareholders of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Stock Exchange and the Company that, during the First Six-Month Period and the Second Six-Month Period, it will and will procure that the relevant registered holder(s) will:

(a) when it pledges or charges any Relevant Securities in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) in accordance with Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company in writing of such pledge or charge together with the number of the Relevant Securities so pledged or charged; and

(b) when it receives any indication, either verbal or written, from any such pledgee or chargee of the Relevant Securities that any of the pledged or charged Relevant Securities will be disposed of, immediately inform the Company in writing of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in paragraph (a) and (b) above (if any) by any of the Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

***Undertakings pursuant to the Hong Kong Underwriting Agreement***

*(A) Undertakings by the Company*

Except for the issue, offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option) and the issue of Shares pursuant to the conversion of the Convertible Notes, the Company has undertaken to each of the Hong Kong Underwriters, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Joint Sponsors not to and to procure each other member of the Group not to, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time during the First Six-Month Period:

(i) offer, allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company, or any interest in any of the foregoing), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities of which are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable);

(iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or

(iv) offer to or contract to or agree to or announce, any intention to effect any transaction described in paragraphs (i), (ii) or (iii) above, in each case, whether any such transaction described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other equity securities of the Company or Shares or other equity securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or equity securities will be completed within the First Six-Month Period).

During the Second Six-Month Period, except for the issuance of Shares pursuant to the conversion of the Convertible Notes, the Company shall not enter into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offer to or contract to or agree to or announce any intention to effect any such transaction such that any Controlling Shareholder, directly or indirectly, would cease to be a controlling shareholder (within the meaning defined in the Listing Rules) of the Company.

In the event that the Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or contract to or publicly announces any intention to, effect any such transactions, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

*(B) Undertakings by Yili, PAG I and PAG II*

Each of Yili, PAG I and PAG II hereby undertakes that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) except for any lending of Shares pursuant to the Stock Borrowing Agreement, any exercise of Over-allotment Option or any issuance of Shares pursuant to the conversion of the Convertible Notes, it will not, at any time during the First Six-Month Period, (a) sell, offer, pledge, charge, sell, contract or agree to sell, mortgage, charge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, but not limited to, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (c) offer to or contract to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (i) (a), (b) or (c) above or offer to or contract to or agree to or announce any intention to enter into any such transaction if, immediately following such transaction or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease, whether individually or collectively, with the other controlling shareholders as defined in this prospectus, to be a "controlling shareholder" (as the term is defined in the Listing Rules) of the Company;

(iii) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in paragraph (i) (a), (b) or (c) above or offer to or agrees to or contract to or publicly announce any intention to enter into any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company; and

(iv) at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date that is 12 months from the Listing Date, it will (a) if and when it or the relevant registered holder(s) pledges or charges any Shares or other securities of the Company beneficially owned by it, immediately inform the Company and the Joint Global Coordinators in writing of such pledge or charge together with the number of Shares or other securities (or interests therein) of the Company so pledged or charged; and (b) if and when it or the relevant registered holder(s) receives indications, either verbal or written, from any such pledgee or chargee that any of such pledged or charged Shares or other securities (or interests therein) of the Company will be disposed of, immediately inform the Company and the Joint Global Coordinators in writing of such indications.

***Undertakings by PAG III, Meadowland, Bain, ICBC and BOC***

Each of PAG III, Meadowland, Bain, ICBC and BOC have undertaken to our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and Underwriter(s) that, subject to certain exceptions, during the lock-up period (as described below), without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Underwriter(s)), it will not:

(i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or the Convertible Notes held by it or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or the Convertible Notes held by it or any interest in any of the foregoing) (the "**Locked-up Securities**"), or deposit any Shares or Convertible Notes held by it with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Locked-up Securities; or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

(iv) offer to or agree or contract to or announce any intention to enter into or effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the lock-up period (as described below)).

For PAG III, Meadowland, ICBC and BOC, the lock-up period refers to the period commencing on the Listing Date and ending on, and including, the date that is six months from the Listing Date. For Bain, the lock-up period refers to (a) (in respect of the Convertible Notes and an amount of Shares (as applicable) held by Bain which, in aggregate, correspond to fifteen (15) per cent. of the Principal Amount (as defined in the Convertible Note) of the Convertible Note), the period commencing on the Listing Date and ending on, and including, the date that is one month from the Listing Date; and (b) (in respect of the remainder of the Convertible Notes and Shares (as applicable)), the period commencing on the Listing Date and ending on, and including, the date that is six months from the Listing Date.

***Hong Kong Underwriters' interests in the Company***

Save for their respective obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

**International Offering**

***International Underwriting Agreement***

In connection with the International Offering, the Company and the Selling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offering Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See the section headed "Structure of the Global Offering – The International Offering."

***Over-allotment Option***

The Option Grantors are expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Option Grantors may be required to sell up to an aggregate of 107,315,000 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Offering, if any. See the section headed "Structure of the Global Offering – Over-allotment Option."

**Commissions and Expenses**

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

The Underwriters may receive a discretionary incentive fee of up to 1% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

For any unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an Offer Price of HK$7.82 per Offer Share (which is the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) will be approximately HK$225.7 million.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK$310.5 million (assuming an Offer Price of HK$7.82 per Offer Share (which is the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) and will be paid by our Company, save for such base and incentive fees and expenses relating to the sale of the Sale Shares by the Selling Shareholders which will be borne by the Selling Shareholders.

**Indemnity**

The Company has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

## ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilization Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

## THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Huatai Financial Holdings (Hong Kong) Co., Ltd., Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (in relation to the International Offering only) and CLSA Limited are the Joint Global Coordinators of the Global Offering.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued (i) pursuant to the Global Offering, including the Shares which may be issued pursuant to the exercise of the Over-allotment Option and (ii) upon conversion of the Convertible Notes.

715,435,000 Offer Shares will initially be made available under the Global Offering comprising:

(a) the Hong Kong Public Offering of initially 71,544,000 Shares (subject to reallocation) in Hong Kong as described in the sub-section "The Hong Kong Public Offering" in this section below; and

(b) the International Offering of initially 643,891,000 Shares (comprising 421,860,000 new Shares and 222,031,000 Sale Shares subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in the sub-section headed "The International Offering" this section below.

Investors may either:

(i) apply for Hong Kong Public Offer Shares under the Hong Kong Public Offering; or

(ii) apply for or indicate an interest for International Offering Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 18.85% of the total Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised and the Convertible Notes are not converted. If the Over-allotment Option is exercised in full, the Offer Shares (including Shares issued pursuant to the full exercise of the Over-allotment Option) will represent approximately 21.68% of the total Shares in issue immediately following the completion of the Global Offering and the Over-Allotment Option, assuming that the Convertible Notes are not converted.

References in this prospectus to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

## THE HONG KONG PUBLIC OFFERING

### Number of Offer Shares initially offered

The Company is initially offering 71,544,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.0% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.89% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the sub-section headed "Conditions of the Global Offering" in this section.

### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

For allocation purposes only, the total number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Public Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the "price" for Hong Kong Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 35,772,000 Hong Kong Public Offer Shares (being 50% of the 71,544,000 Offer Shares initially available under the Hong Kong Public Offering) is liable to be rejected.

**Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

If the International Offering is fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 214,632,000 Offer Shares (in the case of (a)), 286,174,000 Offer Shares (in the case of (b)) and 357,718,000 Offer Shares (in the case of (c)), representing approximately 30%, 40% and approximately 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option), reallocation being referred to in this prospectus as "Mandatory Reallocation". In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may in their sole discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In particular, if (i) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, the Joint Global Coordinators have the authority to reallocate International Offer Shares originally included in the International Offering to the Hong Kong Public Offering in such number as they deem appropriate, provided that in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, (i) the number of International Offer Shares reallocated to the Hong Kong Public Offering should not exceed 71,544,000 Shares, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 143,088,000 Shares, representing approximately 20% of the Offer Shares initially available under the Global Offering; and (ii) the final Offer Price should be fixed at the bottom end of the indicative Offer Price range (i.e. HK$6.98 per Offer Share) stated in this prospectus.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Global Offering, which is expected to be published on Thursday, June 17, 2021.

**Applications**

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the Maximum Offer Price of HK$8.66 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK$8,747.26 for one board lot of 1,000 Shares. If the Offer Price, as finally determined in the manner described in the sub-section headed "Pricing and Allocation" in this section below, is less than the Maximum Offer Price of HK$8.66 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

## THE INTERNATIONAL OFFERING

### Number of Offer Shares initially offered

The International Offering will consist of initial offering of 421,860,000 New Shares offered by the Company and 222,031,000 Sales Shares offered by the Selling Shareholders, representing approximately 90.0% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 16.97% of the total Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and the Convertible Notes are not converted).

### Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in sub-section headed "Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the subsection "The Hong Kong Public Offering – Reallocation" in this section above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

## OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Option Grantors are expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Option Grantors to sell up to an aggregate of 107,315,000 additional shares, representing approximately 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be sold pursuant thereto will represent approximately 2.83% of the total Shares in issue immediately following the completion of the Global Offering, assuming that the Convertible Notes are not converted. If the Over-allotment Option is exercised, an announcement will be made.

## STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilization Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilization Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilization Manager (or any person acting for it) and in what the Stabilization Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

(a) the Stabilization Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;

(b) there is no certainty as to the extent to which and the time or period for which the Stabilization Manager (or any person acting for it) will maintain such a long position;

(c) liquidation of any such long position by the Stabilization Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;

(d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Saturday, July 10, 2021, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

(e) the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilization period by the taking of any stabilizing action; and

(f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

**Over-Allocation**

Following any over-allocation of Shares in connection with the Global Offering, the Stabilization Manager (or any person acting for it) may cover such over-allocations, among other methods, by exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilization Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

## PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Thursday, June 10, 2021 and, in any event, no later than Friday, June 11, 2021, by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company (for itself and on behalf of the Selling Shareholders), and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$8.66 per Offer Share and is expected to be not less than HK$6.98 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the Maximum Offer Price of HK$8.66 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK$8,747.26 for one board lot of 1,000 Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the minimum Offer Price stated in this prospectus.**

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (on behalf of the Hong Kong Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered and/or the Offer Price Range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Company and the Stock Exchange at **www.yourandairy.com** and **www.hkexnews.hk**, respectively, notices of the reduction. The Company will also issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the Offer Price, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and require investors who had applied for the Hong Kong Public Offer Shares to positively confirm their applications for Offer Shares in light of the change in the number of Offer Shares and/or the Offer Price. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company (for itself and on behalf of the Selling Shareholders), will be fixed within such revised Offer Price Range. If the number of Offer Shares and/or the Offer Price range is so reduced, all applicants who have already submitted an application will need to confirm their applications in accordance with the procedures set out in the supplemental prospectus and all unconfirmed applications will not be valid.

Before submitting applications for the Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company (for itself and on behalf of the Selling Shareholders), will under no circumstances be set outside the Offer Price Range as stated in this prospectus.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Public Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed "How to Apply for Hong Kong Public Offer Shares – Publication of Results" in this prospectus.

## STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilization Manager, its affiliates, or any person acting for it may choose to borrow up to 107,315,000 Shares (being the maximum number of Shares which may be sold upon exercise of the Over-allotment Option) from the Option Grantors pursuant to a Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

(i) such stock borrowing arrangement with the Option Grantors will only be effected by the Stabilization Manager for settlement of over-allocations in the International Offering and covering any short position prior to the exercise of the Over-allotment Option;

(ii) the maximum number of Shares borrowed from the Option Grantors under the Stock Borrowing Agreement will be limited to the maximum number of Shares sold upon exercise of the Over-allotment Option;

(iii) the same number of Shares as that borrowed must be returned to the Option Grantors or their respective nominees on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;

(iv) the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, the Listing Rules and regulatory requirements; and

(v) no payment will be made to the Option Grantors by the Stabilization Manager or its authorized agents in relation to such stock borrowing arrangement.

## UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Joint Global Coordinators (on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders) agreeing on the Offer Price.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed "Underwriting" in this prospectus.

## CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

(a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued (i) pursuant to the Global Offering, including the Shares which may be sold pursuant to the exercise of the Over-allotment Option and (ii) upon conversion of the Convertible Notes on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;

(b) the Offer Price having been agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders);

(c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders) on or before Friday, June 11, 2021, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the websites of the Company and the Stock Exchange at **www.yourandairy.com** and **www.hkexnews.hk**, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Public Offer Shares – Refund of Application Monies" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Friday, June 18, 2021, provided that the Global Offering has become unconditional in all respects at or before that time.

## APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued (i) pursuant to the Global Offering, including the Shares which may be sold pursuant to the exercise of the Over-Allotment Option, and (ii) upon conversion of the Convertible Notes.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

## DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, June 18, 2021, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, June 18, 2021.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares will be 9858.

**IMPORTANT NOTICE TO INVESTORS:**
**FULLY ELECTRONIC APPLICATION PROCESS**

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.**

**This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "HKEXnews > New Listings > New Listing Information" section, and our website at www.yourandairy.com. If you require a printed copy of this document, you may download and print from the website addresses above.**

The contents of the electronic version of the document are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Set out below are procedures through which you can apply for the Hong Kong Public Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Public Offer Shares by the public.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Public Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar, Tricor Investor Services Limited, at +852 3907 7333 on the following dates:–

| | | |
|---|---|---|
| Monday, June 7, 2021 | – | 9:00 a.m. to 9:00 p.m. |
| Tuesday, June 8, 2021 | – | 9:00 a.m. to 9:00 p.m. |
| Wednesday, June 9, 2021 | – | 9:00 a.m. to 9:00 p.m. |
| Thursday, June 10, 2021 | – | 9:00 a.m. to 12:00 noon |

## 1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

(i) apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**) or at **www.hkeipo.hk**; or

(ii) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf including by:

(1) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf; or

(2) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (i) above, the Hong Kong Public Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (ii)(1) or (ii)(2) above, the Hong Kong Public Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

## 2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

If you are applying for the Hong Kong Public Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals, please contact them for the items required for the application.

## 3. TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this prospectus, you:

(i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Cayman Companies Act and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus, and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Sponsors, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Sponsors, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and (iii) the purchaser is not an "affiliate" (within the meaning of Regulation S) of our Company or a person acting on the behalf of our Company or an affiliate of the Company;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

## 4. MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **HK eIPO White Form** service or the **CCASS EIPO** service must be for a minimum of 1,000 Hong Kong Public Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

| No. of Hong Kong Public Offer Shares applied for | Amount payable on application | No. of Hong Kong Public Offer Shares applied for | Amount payable on application | No. of Hong Kong Public Offer Shares applied for | Amount payable on application | No. of Hong Kong Public Offer Shares applied for | Amount payable on application |
|---|---|---|---|---|---|---|---|
| | *HK$* | | *HK$* | | *HK$* | | *HK$* |
| 1,000 | 8,747.26 | 25,000 | 218,681.68 | 300,000 | 2,624,180.05 | 6,000,000 | 52,483,600.92 |
| 2,000 | 17,494.54 | 30,000 | 262,418.00 | 400,000 | 3,498,906.73 | 7,000,000 | 61,230,867.74 |
| 3,000 | 26,241.80 | 35,000 | 306,154.34 | 500,000 | 4,373,633.41 | 8,000,000 | 69,978,134.56 |
| 4,000 | 34,989.07 | 40,000 | 349,890.67 | 600,000 | 5,248,360.09 | 9,000,000 | 78,725,401.38 |
| 5,000 | 43,736.34 | 45,000 | 393,627.01 | 700,000 | 6,123,086.77 | 10,000,000 | 87,472,668.20 |
| 6,000 | 52,483.60 | 50,000 | 437,363.34 | 800,000 | 6,997,813.46 | 20,000,000 | 174,945,336.40 |
| 7,000 | 61,230.87 | 60,000 | 524,836.01 | 900,000 | 7,872,540.14 | 30,000,000 | 262,418,004.60 |
| 8,000 | 69,978.13 | 70,000 | 612,308.68 | 1,000,000 | 8,747,266.82 | 35,772,000[(1)] | 312,907,228.69 |
| 9,000 | 78,725.40 | 80,000 | 699,781.35 | 2,000,000 | 17,494,533.64 | | |
| 10,000 | 87,472.67 | 90,000 | 787,254.01 | 3,000,000 | 26,241,800.46 | | |
| 15,000 | 131,209.01 | 100,000 | 874,726.68 | 4,000,000 | 34,989,067.28 | | |
| 20,000 | 174,945.34 | 200,000 | 1,749,453.36 | 5,000,000 | 43,736,334.10 | | |

(1) Maximum number of Hong Kong Public Offer Shares you may apply for.

No application for any other number of the Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

## 5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

### General

Individuals who meet the criteria in "Who Can Apply" section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

If you have any questions on how to apply through the **HK eIPO White Form** service for the Hong Kong Public Offer Shares, please contact the telephone enquiry line of our Hong Kong Share Registrar, Tricor Investor Services Limited at +852 3907 7333 which is available on the following dates:

| | | |
|---|---|---|
| Monday, June 7, 2021 | – | 9:00 a.m. to 9:00 p.m. |
| Tuesday, June 8, 2021 | – | 9:00 a.m. to 9:00 p.m. |
| Wednesday, June 9, 2021 | – | 9:00 a.m. to 9:00 p.m. |
| Thursday, June 10, 2021 | – | 9:00 a.m. to 12:00 noon |

**Time for Submitting Applications under the HK eIPO White Form Service**

You may submit your application to the **HK eIPO White Form** Service Provider through the **IPO App** or **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, June 7, 2021 until 11:30 a.m. on Thursday, June 10, 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, June 10, 2021 or such later time under the "Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists" in this section.

**No Multiple Applications**

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

**Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## 6. APPLYING THROUGH THE CCASS EIPO SERVICE

### General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

### Applying through the CCASS EIPO Service

Where you applied through the **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- *(if the electronic application instructions are given for your benefit)* declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Sponsors, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

**Effect of Applying through the CCASS EIPO Service**

By applying through the **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

**Time for Inputting Electronic Application Instructions[(1)]**

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, June 7, 2021 – 9:00 a.m to 8:30 p.m.

Tuesday, June 8, 2021 – 8:00 a.m. to 8:30 p.m.

Wednesday, June 9, 2021 – 8:00 a.m to 8:30 p.m.

Thursday, June 10, 2021 – 8:00 a.m to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m on Monday, June 7, 2021 until 12:00 noon on Thursday, June 10, 2021 (24 hours daily, except on Thursday, June 10, 2021, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, June 10, 2021, the last application day or such later time as described in "Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

*Note:*

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

**No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

The Hong Kong Share Registrar would record all applications into its system and identify suspected multiple applications with identical names, identification document numbers and reference numbers according to the Best Practice Note on Treatment of Multiple/Suspected Multiple Applications ("Best Practice Note") issued by the Federation of Share Registrars Limited.

With regard to the announcement of results of allocations under the section headed "Results of Applications Made by Giving Electronic Application Instructions to HKSCC via CCASS", the list of identification document number(s) is not a complete list of successful applicants, only successful applicants whose identification document numbers are provided by CCASS are disclosed. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results.

Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue.

**Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

**Personal Data**

The following Personal Information Collection Statement applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Manager, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through the **CCASS EIPO** service or the **HK eIPO White Form** service, you agree to all of the terms of the Personal Information Collection Statement below.

***Personal Information Collection Statement***

This Personal Information Collection Statement informs the applicant for, and holder of, Hong Kong Public Offer Shares, of the policies and practices of the Company and the Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

***Reasons for the collection of your personal data***

It is necessary for applicants and registered holders of the Hong Kong Public Offer Shares to supply correct personal data to the Company or its agents and the Hong Kong Share Registrar when applying for the Hong Kong Public Offer Shares or transferring the Hong Kong Public Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Public Offer Shares being rejected, or in delay or the inability of the Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Public Offer Shares which you have successfully applied for and/or the dispatch of Share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Public Offer Shares inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

***Purposes***

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque and e-Auto Refund payment instruction(s), where applicable, verification of compliance with the terms and application procedures set out in this document and announcing results of allocation of the Hong Kong Public Offer Shares;

- compliance with applicable laws and regulations in Hong Kong and elsewhere;

- registering new issues or transfers into or out of the names of the holders of the Shares including, where applicable, HKSCC Nominees;

- maintaining or updating the register of members of the Company;

- verifying identities of the holders of the Shares;

- establishing benefit entitlements of holders of the Shares, such as dividends, rights issues, bonus issues, etc.;

- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to holders of the Shares and/or regulators and/or any other purposes to which the holders of the Shares may from time to time agree.

***Transfer of personal data***

Personal data held by the Company and the Hong Kong Share Registrar relating to the holders of the Hong Kong Public Offer Shares will be kept confidential but the Company and the Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving banks and overseas principal share registrar;
- where applicants for the Hong Kong Public Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Public Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

***Retention of personal data***

The Company and the Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Public Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

***Access to and correction of personal data***

Holders of the Hong Kong Public Offer Shares have the right to ascertain whether the Company or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company and the Hong Kong Share Registrar, at their registered address disclosed in the section headed "*Corporate Information*" in this document or as notified from time to time, for the attention of the company secretary, or the Hong Kong Share Registrar for the attention of the privacy compliance officer.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Sponsors, the Joint Bookrunners, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, June 10, 2021, the last day for applications, or such later time as described in "Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" below.

## 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

## 9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Public Offer Shares.

You may submit an application through the **CCASS EIPO** service or the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the section "– 4. Minimum Application Amount and Permitted Numbers", or as otherwise specified in the **IPO App** or on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure of the Global Offering – Pricing and Allocation".

## 10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning; and/or
- Extreme Conditions.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 10, 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, June 10, 2021 or if there is/are a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

## 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Thursday, June 17, 2021 on the Company's website at **www.yourandairy.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.yourandairy.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Thursday, June 17, 2021;

- from the "IPO Results" function in the **IPO App** or designated results of allocations website at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, June 17, 2021 to 12:00 midnight on Wednesday, June 23, 2021;

- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. on Thursday, June 17, 2021 to Tuesday, June 22, 2021 (excluding Saturday, Sunday and public holiday in Hong Kong);

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

## 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By applying through the **CCASS EIPO** service or the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website at **www.hkeipo.hk**;
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

## 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Maximum Offer Price of HK$8.66 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Thursday, June 17, 2021.

## 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Thursday, June 17, 2021. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. Friday, June 18, 2021, provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### Personal Collection

***(i) If you apply through the HK eIPO White Form service***

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 17, 2021, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, June 17, 2021 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

***(ii) If you apply through the CCASS EIPO service***

*Allocation of Hong Kong Public Offer Shares*

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, June 17, 2021, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, June 17, 2021. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 17, 2021 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, June 17, 2021. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, June 17, 2021.

## 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-164, prepared for the purpose of inclusion in this Prospectus, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

Deloitte. 德勤

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA YOURAN DAIRY GROUP LIMITED AND HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED AND CREDIT SUISSE (HONG KONG) LIMITED**

**Introduction**

We report on the historical financial information of China Youran Dairy Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-164 which comprises the consolidated statements of financial position of the Group as at December 31, 2018, 2019 and 2020, the statement of financial position of the Company as at December 31, 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information").

The Historical Financial Information set out on pages I-4 to I-164 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 7, 2021 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified

Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

**Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2018, 2019 and 2020, the Company's financial position as at December 31, 2020, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

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

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

***Dividends***

We refer to Note 16 to the Historical Financial Information which contains information about the dividend declared by the Company since its incorporation.

***No statutory financial statements for the Company***

No statutory financial statements have been prepared for the Company since its date of incorporation.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
June 7, 2021

## I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

### PREPARATION OF HISTORICAL FINANCIAL INFORMATION

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

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB") and were audited by us in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board ("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 AND OTHER COMPREHENSIVE INCOME

| | | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *NOTES* | 2018 | | | 2019 | | | 2020 | | |
| | | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | *6* | 6,333,920 | – | 6,333,920 | 7,667,818 | – | 7,667,818 | 11,781,195 | – | 11,781,195 |
| Cost of sales | *7* | (5,810,627) | – | (5,810,627) | (7,014,226) | – | (7,014,226) | (11,048,726) | – | (11,048,726) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | *22* | 1,022,398 | – | 1,022,398 | 1,232,668 | – | 1,232,668 | 2,870,723 | – | 2,870,723 |
| Gross profit | | 1,545,691 | – | 1,545,691 | 1,886,260 | – | 1,886,260 | 3,603,192 | – | 3,603,192 |
| Loss arising from changes in fair value less costs to sell of biological assets | *22* | – | (87,271) | (87,271) | – | (133,255) | (133,255) | – | (413,784) | (413,784) |
| Other income | *8* | 51,469 | – | 51,469 | 55,396 | – | 55,396 | 76,979 | – | 76,979 |
| Impairment loss under expected credit loss model, net of reversal | *9* | (1,453) | – | (1,453) | (24,761) | – | (24,761) | (45,083) | – | (45,083) |
| Other gains and losses | *10* | (35,613) | – | (35,613) | (16,046) | – | (16,046) | (54,273) | – | (54,273) |
| Fair value loss on convertible notes | *39* | – | – | – | – | – | – | (10,769) | – | (10,769) |
| Selling and distribution expenses | | (271,932) | – | (271,932) | (340,687) | – | (340,687) | (453,116) | – | (453,116) |
| Administrative expenses | | (421,298) | – | (421,298) | (445,453) | – | (445,453) | (744,516) | – | (744,516) |
| Other expenses | | (2,311) | – | (2,311) | (26,528) | – | (26,528) | (20,030) | – | (20,030) |
| Listing expenses | | – | – | – | – | – | – | (34,365) | – | (34,365) |
| Share of profit of a joint venture | | – | – | – | – | – | – | 25 | – | 25 |
| Finance costs | *11* | (80,081) | – | (80,081) | (104,071) | – | (104,071) | (309,825) | – | (309,825) |
| Profit before tax | | 784,472 | (87,271) | 697,201 | 984,110 | (133,255) | 850,855 | 2,008,219 | (413,784) | 1,594,435 |
| Income tax expense | *12* | (44,334) | – | (44,334) | (48,973) | – | (48,973) | (53,805) | – | (53,805) |
| Profit for the year | *13* | 740,138 | (87,271) | 652,867 | 935,137 | (133,255) | 801,882 | 1,954,414 | (413,784) | 1,540,630 |

| | NOTES | 2018 Results before biological assets fair value adjustments | 2018 Biological assets fair value adjustments | 2018 Total | 2019 Results before biological assets fair value adjustments | 2019 Biological assets fair value adjustments | 2019 Total | 2020 Results before biological assets fair value adjustments | 2020 Biological assets fair value adjustments | 2020 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Other comprehensive income, net of income tax** | | | | | | | | | | |
| *Items that will not be reclassified to profit or loss* | | | | | | | | | | |
| Fair value gain on investments in equity instruments at fair value though other comprehensive income | | – | – | – | – | – | – | 25,352 | – | 25,352 |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | | – | – | – | – | – | – | 49 | – | 49 |
| Other comprehensive income for the year, net of income tax | | – | – | – | – | – | – | 25,401 | – | 25,401 |
| Total comprehensive income for the year | | 740,138 | (87,271) | 652,867 | 935,137 | (133,255) | 801,882 | 1,979,815 | (413,784) | 1,566,031 |
| Profit for the year attributable to: | | | | | | | | | | |
| Owners of the Company | | | | 652,867 | | | 801,882 | | | 1,340,735 |
| Non-controlling interests | | | | – | | | – | | | 199,895 |
| | | | | 652,867 | | | 801,882 | | | 1,540,630 |
| Total comprehensive income for the year attributable to: | | | | | | | | | | |
| Owners of the Company | | | | 652,867 | | | 801,882 | | | 1,355,559 |
| Non-controlling interests | | | | – | | | – | | | 210,472 |
| | | | | 652,867 | | | 801,882 | | | 1,566,031 |
| Earnings per share | 15 | | | | | | | | | |
| Basic (RMB) | | | | 0.33 | | | 0.40 | | | 0.41 |
| Diluted (RMB) | | | | N/A | | | N/A | | | 0.40 |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | NOTES | As at December 31, 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| **Non-current assets** | | | | |
| Property, plant and equipment | 17 | 2,397,229 | 2,933,139 | 6,183,940 |
| Investment properties | 18 | 47,121 | 32,360 | 29,853 |
| Right-of-use assets | 19 | 482,045 | 532,968 | 1,321,296 |
| Goodwill | 20 | – | – | 762,741 |
| Intangible assets | 21 | 1,787 | 1,400 | 4,934 |
| Biological assets | 22 | 2,606,450 | 3,322,917 | 7,038,112 |
| Deferred tax assets | 23 | 1,351 | 5,088 | 11,382 |
| Interest in a joint venture | | – | – | 808 |
| Equity instruments at fair value through other comprehensive income | 24 | – | – | 72,040 |
| Pledged and restricted bank deposits | 30 | 650 | 1,851 | 21,282 |
| Deposits paid for purchase of property, plant and equipment | | 38,584 | 64,715 | 140,352 |
| Deposits paid for purchase of biological assets | | 60,851 | 8,372 | 208,907 |
| | | 5,636,068 | 6,902,810 | 15,795,647 |
| **Current assets** | | | | |
| Inventories | 25 | 899,994 | 967,286 | 1,972,145 |
| Trade and bills receivables | 26 | 617,658 | 974,298 | 834,521 |
| Bills receivables at fair value through other comprehensive income | 27 | 27,147 | 75,679 | 27,080 |
| Contract assets | 28 | 15,547 | 7,527 | 12,139 |
| Biological assets | 22 | 1,629 | 12,070 | 9,564 |
| Prepayments, deposits and other receivables | 29 | 126,548 | 230,809 | 246,691 |
| Amounts due from related parties | 26, 47 | 128,571 | 145,519 | 555,676 |
| Pledged and restricted bank deposits | 30 | 100 | 60,100 | 128,367 |
| Bank balances and cash | 30 | 311,884 | 570,476 | 2,619,113 |
| | | 2,129,078 | 3,043,764 | 6,405,296 |

| | | As at December 31, | | |
|---|---|---|---|---|
| | *NOTES* | **2018** | **2019** | **2020** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current liabilities** | | | | |
| Trade and bills payables | *31* | 356,702 | 572,559 | 1,438,505 |
| Other payables and accruals | *32* | 455,794 | 581,362 | 1,149,490 |
| Contract liabilities | *33* | 9,795 | 18,162 | 34,770 |
| Amounts due to related parties | *47* | 72 | 157 | 14,257 |
| Bank and other borrowings | *34* | 1,742,014 | 1,682,945 | 4,224,527 |
| Lease liabilities | *36* | 24,595 | 12,405 | 38,684 |
| Other liabilities | *37* | – | 11,058 | 6,261 |
| Other provisions | *38* | – | – | 18,546 |
| Income tax payable | | 9,092 | 21,886 | 19,068 |
| | | 2,598,064 | 2,900,534 | 6,944,108 |
| **Net current (liabilities)/assets** | | (468,986) | 143,230 | (538,812) |
| **Total assets less current liabilities** | | 5,167,082 | 7,046,040 | 15,256,835 |
| **Non-current liabilities** | | | | |
| Bank and other borrowings | *34* | – | 1,099,660 | 1,971,606 |
| Convertible notes | *39* | – | – | 3,043,648 |
| Deferred tax liabilities | *23* | 7,147 | 6,902 | 6,667 |
| Deferred income | *35* | 231,622 | 207,843 | 216,968 |
| Lease liabilities | *36* | 299,368 | 313,312 | 928,805 |
| Other liabilities | *37* | 39,679 | 27,106 | 20,845 |
| Other provisions | *38* | 1,329 | 1,398 | 6,760 |
| | | 579,145 | 1,656,221 | 6,195,299 |
| **Net assets** | | 4,587,937 | 5,389,819 | 9,061,536 |
| **Capital and reserves** | | | | |
| Share capital | *40(a)* | – | – | 219 |
| Reserves | | 4,587,937 | 5,389,819 | 7,819,989 |
| Equity attributable to owners of the Company | | 4,587,937 | 5,389,819 | 7,820,208 |
| Non-controlling interests | | – | – | 1,241,328 |
| **Total equity** | | 4,587,937 | 5,389,819 | 9,061,536 |

## STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | *NOTES* | As at December 31, 2020 *RMB'000* |
|---|---|---|
| **Non-current assets** | | |
| Interests in a subsidiary | *52* | 7,468,262 |
| **Current assets** | | |
| Issue costs | *(i)* | 7,479 |
| Bank balances and cash | *30* | 114,307 |
| | | 121,786 |
| **Current liabilities** | | |
| Amounts due to subsidiaries | *(i)* | 26,074 |
| Other payables | | 15,770 |
| | | 41,844 |
| Net current assets | | 79,942 |
| Total assets less current liabilities | | 7,548,204 |
| **Non-current liabilities** | | |
| Convertible notes | *39* | 3,043,648 |
| **Net assets** | | 4,504,556 |
| **Capital and reserves** | | |
| Share capital | *40(a)* | 219 |
| Reserves | *40(b)* | 4,504,337 |
| **Total equity** | | 4,504,556 |

*Note:*

(i) The share issue costs for the proposed initial public offering recorded up to December 31, 2020 amounted to RMB41,844,000, of which RMB34,365,000 were charged to profit or loss and RMB7,479,000 were recorded as issue costs under current assets. The amounts due to subsidiaries as at December 31, 2020 represented share issue costs paid on behalf of the Company by its subsidiaries.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Other reserve | Capital reserve | Investment revaluation reserve | Translation reserve | Statutory reserve | Retained earnings | Total | Non-controlling interests | Total equity |
| | *RMB'000* *(Note 40(a))* | *RMB'000* *(Note (i))* | *RMB'000* *(Note (i))* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Note (ii))* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2018 | – | – | 3,688,567 | – | – | – | 13,423 | 233,080 | 3,935,070 | – | 3,935,070 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | – | 652,867 | 652,867 | – | 652,867 |
| Statutory fund appropriation | – | – | – | – | – | – | 55,872 | (55,872) | – | – | – |
| As at December 31, 2018 and January 1, 2019 | – | – | 3,688,567 | – | – | – | 69,295 | 830,075 | 4,587,937 | – | 4,587,937 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | – | 801,882 | 801,882 | – | 801,882 |
| Statutory fund appropriation | – | – | – | – | – | – | 42,502 | (42,502) | – | – | – |
| At December 31, 2019 and January 1, 2020 | – | – | 3,688,567 | – | – | – | 111,797 | 1,589,455 | 5,389,819 | – | 5,389,819 |
| Profit and total comprehensive income for the year | – | – | – | – | 14,795 | 29 | – | 1,340,735 | 1,355,559 | 210,472 | 1,566,031 |
| Capital contributions *(Note (i))* | – | – | 2,278,500 | – | – | – | – | – | 2,278,500 | – | 2,278,500 |
| Acquisition of subsidiaries *(Note 43)* | – | – | – | – | – | – | – | – | – | 1,037,932 | 1,037,932 |
| Acquisition of additional interests in subsidiaries *(Note (iii))* | – | – | – | (4,922) | – | – | – | – | (4,922) | (7,076) | (11,998) |
| Statutory fund appropriation | – | – | – | – | – | – | 50,741 | (50,741) | – | – | – |
| Effect of the reorganisation (as described in Note 2) *(Note (i))* | 219 | 5,778,281 | (5,778,500) | – | – | – | – | – | – | – | – |
| Dividend paid *(Note 16)* | – | (1,198,748) | – | – | – | – | – | – | (1,198,748) | – | (1,198,748) |
| At December 31, 2020 | 219 | 4,579,533 | 188,567 | (4,922) | 14,795 | 29 | 162,538 | 2,879,449 | 7,820,208 | 1,241,328 | 9,061,536 |

*Notes:*

(i) Other reserve as at December 31, 2019 included amounts due to China Youran Dairy Holding Limited ("Youran Holding"), the then immediate holding company of the Group, of RMB3,500,000,000 prior to the reorganisation as described in Note 2. During the year ended December 31, 2020, Youran Holding advanced RMB2,278,500,000 to the Group for the purpose of the acquisition of SKX Group (as defined in Note 43). These amounts in substance represent capital contribution the Group. Upon the completion of the reorganisation, these amounts have been eliminated against the interests in subsidiaries recorded by the Company and reclassified as share capital and share premium.

(ii) The amount mainly represents statutory reserve fund. According to the relevant laws in the People's Republic of China (the "PRC"), each of the subsidiaries established in the PRC is required to allocate at least 10% of its profit after tax as per financial statements prepared in accordance with the relevant PRC accounting standards to statutory reserve fund until the reserve fund reaches 50% of the registered capital of respective subsidiary. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years' losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.

(iii) The difference between the consideration of the acquisition of non-controlling interests and the carrying amount of non-controlling interests of RMB4,922,000 has been debited to capital reserve.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | NOTES | Year ended December 31, 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| OPERATING ACTIVITIES | | | | |
| Profit before tax | | 697,201 | 850,855 | 1,594,435 |
| Adjustments for: | | | | |
| Share of profit of a joint venture | | – | – | (25) |
| Loss arising from changes in fair value less costs to sell of biological assets | | 87,271 | 133,255 | 413,784 |
| Bank interest income | *8* | (6,115) | (4,390) | (12,606) |
| Government grants | *8* | (27,033) | (38,773) | (26,487) |
| Finance costs | *11* | 80,081 | 104,071 | 309,825 |
| Depreciation and amortisation | *13* | 125,341 | 139,303 | 334,270 |
| Write-down of inventories | *7* | – | – | 5,190 |
| Impairment loss on trade and other receivables under expected credit loss model, net of reversal | *9* | 1,453 | 24,761 | 45,083 |
| Loss on disposal of property, plant and equipment | *10* | 5,272 | 6,298 | 5,909 |
| Impairment loss on property, plant and equipment | *10* | 26,204 | 8,271 | 15,197 |
| Reduction in provision for other obligations | *10* | (943) | (1,515) | – |
| Fair value gain on financial instruments at fair value through profit or loss | *10* | – | (209) | – |
| Gain on termination and modification of lease agreements | *10* | – | (105) | – |
| Fair value loss on convertible notes | *39* | – | – | 10,769 |
| Operating cash flows before movements in working capital | | 988,732 | 1,221,822 | 2,695,344 |
| Increase in inventories | | (138,521) | (42,386) | (301,719) |
| (Increase)/decrease in trade and bills receivables | | (247,381) | (380,913) | 306,303 |
| Decrease/(increase) in bills receivables at fair value through other comprehensive income | | 9,062 | (48,532) | 48,599 |
| (Increase)/decrease in prepayments and other receivables | | (17,647) | (104,425) | 15,780 |
| Increase in amounts due from related parties | | (32,826) | (16,948) | (410,157) |
| Decrease/(increase) in contract assets | | 1,653 | 8,020 | (4,612) |
| Increase/(decrease) in trade and bills payables | | 30,953 | 215,857 | (503,768) |
| Increase in other payables and accrued expenses | | 47,953 | 48,735 | 59,306 |
| Increase/(decrease) in contract liabilities | | 5,609 | 5,248 | (170,400) |
| Increase in amounts due to related parties | | 31 | 85 | 14,100 |
| Increase in other provisions | | – | – | 5,198 |
| (Decrease)/increase in deferred income | | (464) | 17 | 3,664 |
| Cash generated from operations | | 647,154 | 906,580 | 1,757,638 |
| Interest received | | 6,115 | 4,390 | 12,606 |
| Income taxes paid | | (47,468) | (40,161) | (62,373) |
| Net cash from operating activities | | 605,801 | 870,809 | 1,707,871 |

| | NOTES | Year ended December 31, 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| INVESTING ACTIVITIES | | | | |
| Payments for property, plant and equipment | | (359,797) | (726,473) | (1,340,173) |
| Payments for right-of-use assets | | (781) | (19,409) | (98,827) |
| Payments for intangible assets | | (1,273) | – | (3,309) |
| Proceeds from disposal of property, plant and equipment | | 31 | 10,713 | 10,812 |
| Payments for biological assets | | (979,480) | (1,041,405) | (2,328,867) |
| Proceeds from disposal of biological assets | | 190,130 | 328,210 | 974,504 |
| Payments for financial assets at fair value through profit or loss | | – | (56,000) | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | | – | 56,209 | – |
| Acquisitions of subsidiaries | 43 | – | – | (1,936,199) |
| Placement of pledged and restricted bank deposits | | (65) | (61,201) | (135,864) |
| Withdrawal of pledged and restricted bank deposits | | – | – | 73,163 |
| Receipt of government grants for assets | | 8,276 | 18,902 | 31,948 |
| Net cash used in investing activities | | (1,142,959) | (1,490,454) | (4,752,812) |
| FINANCING ACTIVITIES | | | | |
| New bank and other borrowings raised | | 2,640,000 | 3,115,707 | 7,250,300 |
| Repayments of bank and other borrowings | | (2,100,000) | (2,078,860) | (5,886,049) |
| Interest paid | | (73,228) | (87,673) | (263,279) |
| Repayment of lease liabilities | | (39,373) | (54,220) | (44,624) |
| Interest paid for lease liabilities | | (8,444) | (16,717) | (48,442) |
| Repayment of other liabilities | | – | – | (11,058) |
| Dividends paid to owners of the Company | | – | – | (1,198,748) |
| Proceeds on issue of convertible notes | 39 | – | – | 3,050,656 |
| Payments of interest cost for convertible notes | 39 | – | – | (17,777) |
| Receipt of interest subsidies | | 6,000 | – | – |
| Capital contribution by the then holding company | | – | – | 2,278,500 |
| Acquisition of additional interests in subsidiaries | | – | – | (10,800) |
| Payment of share issue cost for the proposed initial public offering | | – | – | (5,101) |
| Net cash from financing activities | | 424,955 | 878,237 | 5,093,578 |
| Net (decrease)/increase in cash and cash equivalents | | (112,203) | 258,592 | 2,048,637 |
| Cash and cash equivalents at beginning of the year | | 424,087 | 311,884 | 570,476 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | | 311,884 | 570,476 | 2,619,113 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE GROUP

### 1. GENERAL

China Youran Dairy Group Limited (the "Company") was incorporated in the Cayman Islands on August 21, 2020 as an exempted company with limited liability under the Companies Act (Cap. 22, Act 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands. The principal place of business of the Company is No. 169, Hexi Road, Saihan District Hohhot, Inner Mongolia, the PRC.

The Company is an investment holding company and has not carried out any business operations during the Track Record Period save for the corporate reorganisation mentioned below. The Company and its subsidiaries (together, the "Group") is primarily engaged in the production and sale of raw milk, and the trading, production and sale of dairy farming products in the PRC.

During the Track Record Period, the functional currency of the Company was RMB, which is the same as the presentation currency of the Historical Financial Information. The Company's functional currency has been subsequently changed to United States Dollar as the Company commenced trading business in first quarter of 2021, with sales and purchases denominated and settled in United States Dollar.

### 2. GROUP REORGANISATION AND BASIS OF PRESENTATION AND PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

Throughout the Track Record Period, the Group's operations were conducted by the existing group of entities held by China Youran Dairy Holding Limited ("Youran Holding"), a company incorporated in the Cayman Islands and the then holding company of all subsidiaries now comprising the Group.

In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the entities now comprising the Group underwent a group reorganisation (the "Reorganisation") which involves major steps as follows:

(a) On August 21, 2020, the Company was incorporated as an exempted company with limited liability under the laws of Cayman Islands with an authorised share capital of US$100,000 divided into 10,000,000,000 ordinary shares of US$0.00001 each.

(b) On October 27, 2020, Youran Holding and the Company entered into an instrument of transfer, pursuant to which Youran Holding transferred the entirety of its 100 ordinary shares in Yogurt Holding II Limited ("Youran BVI"), the then holding company of the companies now comprising the Group before the completion of the Reorganisation, to the Company in consideration for the issuance and allotment of 3,302,000,000 ordinary shares with a par value of US$0.00001 by the Company, and the Company became a wholly-owned subsidiary of Youran Holding.

Pursuant to the Reorganisation detailed above, which was completed by interspersing the Company between Youran Holding and the Company, the Company has become the holding company of the companies now comprising the Group on October 27, 2020.

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the Historical Financial Information has been prepared as if the Company had always been the holding company of the Group.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period or since the date of incorporation, where this is a shorter period.

The consolidated statements of financial position of the Group as at December 31, 2018 and 2019 and 2020 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taking into account the respective dates of incorporation, where applicable.

As at December 31, 2020, the Group had net current liabilities of RMB538,812,000. The consolidated financial statements have been prepared on a going concern basis, because the directors of the Company are of the opinion that based on a cash flow forecast of the Group for the 12 months ending December 31, 2021 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due for at least 12 months from December 31, 2020. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis. Based on the forecast, the sufficiency of the Group's working capital for the next 12 months depends on the Group's ability to obtain the anticipated cash flows from the Group's operating activities and the unutilised bank loan facilities obtained.

## 3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with the IFRSs, which are effective for the Group's accounting period beginning on January 1, 2020 throughout the Track Record Period.

***New or revised IFRSs in issued but not yet effective***

At the date of this report, the following new and amendments to IFRSs have been issued but are not yet effective:

| | |
|---|---|
| IFRS 17 | *Insurance Contracts and the related Amendments*[1] |
| Amendments to IFRS 16 | *COVID-19-Related Rent Concessions*[4] |
| Amendments to IFRS 16 | *COVID-19-Related Concessions Rent Beyond June 30, 2021*[6] |
| Amendments to IFRS 3 | *Reference to the Conceptual Framework*[3] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2] |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | *Interest Rate Benchmark Reform – Phase 2*[5] |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current* |
| Amendments to IAS 1 and IFRS Practice Statement 2 | *Disclosure of Accounting Policies*[1] |
| Amendments to IAS 8 | *Definition of Accounting Estimates*[1] |
| Amendments to IAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1] |
| Amendments to IAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[3] |
| Amendments to IAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract*[3] |
| Amendments to IFRS Standards | *Annual Improvements to IFRS Standards 2018-2020*[3] |

1 Effective for annual periods beginning on or after January 1, 2023.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after January 1, 2022.

4 Effective for annual periods beginning on or after June 1, 2020.

5 Effective for annual periods beginning on or after January 1, 2021.

6 Effective for annual periods beginning on or after April 1, 2021.

The directors of the Company anticipate that the application of the above new and amendments to IFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared based on the accounting policies set out below which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and biological assets at fair value less costs to sell, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

***Changes in the Group's interests in existing subsidiaries***

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

**Business combinations or asset acquisitions**

***Optional concentration test***

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

***Asset acquisitions***

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date;

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

**Investment in subsidiaries**

Investment in subsidiaries is included in the Company's statement of financial position at cost less any identified impairment losses.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

**Investments in joint ventures**

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

**Revenue from contracts with customers**

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

***Contracts with multiple performance obligations (including allocation of transaction price)***

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

***Principal versus agent***

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

**Leases**

***Definition of a lease***

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

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*Sublease*

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

***The Group as a lessee***

*Short-term leases*

The Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

*Right-of-use assets*

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statements of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

*Refundable rental deposits*

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statements of financial position.

Lease payments in relation to lease liability will be allocated into a principal and an interest portion which are presented as financing cash flows by the Group.

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

***The Group as a lessor***

*Classification and measurement of leases*

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

**Foreign currencies**

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

**Borrowing costs**

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

***Grants relating to biological assets***

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognised in profit or loss when, and only when, the government grant becomes receivable.

***Other grants***

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to defined contribution retirement benefit under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

**Taxation**

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Property, plant and equipment**

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

**Impairment on property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill**

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, investment properties, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, investment properties, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units.

In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the assets is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

An obligation to incur rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing dairy farming operation. These costs discounted to net present value are provided for and a corresponding amount is capitalised as soon as the obligation to incur such costs arises. These costs are charged to profit or loss over the life of the operation through the depreciation of the asset and the unwinding of the discount on the provision. The cost estimates are reviewed periodically and are adjusted to reflect known developments which may have an impact on the cost estimates or life of operations. The unwinding of the discount is shown as a finance cost in profit or loss.

**Biological assets**

The Group's biological assets mainly include dairy cows, feeder cattle and breeding stock. Dairy cows, including milkable cows, calves and heifers, and breeding stock are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of dairy cows and breeding stock is determined based on their present location and condition and is determined independently by a professional valuer.

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

**Agricultural produce**

Agricultural produce represents raw milk, frozen bovine semen and forage grass, which are recognised at the point of harvest at fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

***Financial assets***

*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income ("OCI") and accumulated under the heading of "Investment revaluation reserve". Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

*Impairment of financial assets*

The Group performs impairment assessment under ECL model on financial assets (including trade receivables, deposits, other receivables, amounts due from related parties, pledged and restricted bank deposits, and bank balances) and other items (including contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward–looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increase significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade and other receivables are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The ECL on trade receivables and contract assets, except for those assessed individually for debtors with significant balances, is measured on a collective basis and those financial instruments are grouped under a provision matrix based on shared credit risk characteristics by reference to aging for the debtors.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial assets.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

***Financial liabilities and equity***

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39/IFRS 9 permits the entire consolidated contract to be designated as at FVTPL.

*Convertible notes*

The component parts of the convertible notes are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivatives. Convertible notes issued by the Company are designated at FVTPL on initial recognition. Convertible notes are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of convertible notes are charged to profit or loss immediately.

*Financial liabilities at amortised cost*

Financial liabilities including trade and bills payables, other payables, bank and other borrowings, amounts due to related parties and other liabilities at amortised cost, are subsequently measured at amortised cost, using the effective interest method.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

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

***Fair value measurements of biological assets – milkable cows***

The Group's biological assets are measured at fair value less costs to sell at the end of each reporting period. The Group uses valuation techniques that include inputs that are not based on market observable data to estimate the fair value of biological assets. For milkable cows, the fair value is determined by using the multi-period excess earning method with key inputs including the discount rate, the estimated feed costs per kilogram of raw milk, estimated average daily milk yield at each lactation cycle and the estimated local future market price of raw milk. Any changes in the inputs may affect the fair value of the Group's biological assets – milkable cows significantly. The carrying amount of the Group's milkable cows as at December 31, 2018, 2019 and 2020 was RMB1,596,129,000, RMB2,228,130,000 and RMB4,564,233,000, respectively. Further details are given in Notes 22 and 46.

***Estimated impairment of property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill***

The carrying amount of property, plant and equipment, investment properties, right-of-use assets and intangible assets other than goodwill are reviewed for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in Note 4. The recoverable amount of these assets are the greater of the fair value less costs of disposal and value in use, the calculations of which involve the use of estimates. Any change in these estimates may have a material impact on the results of the Group.

As at December 31, 2018, 2019 and 2020, the aggregate carrying amounts of these assets of the Group are approximately RMB2,928,182,000, RMB3,499,867,000 and RMB7,540,023,000, respectively, as disclosed in Notes 17, 18, 19 and 21, respectively.

***Provision of ECL for trade receivables***

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 26 and 45.

***Estimated impairment of goodwill***

Determining whether goodwill is impaired requires a significant degree of estimates made by the management in determining the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of fair value less costs of disposal and value in use. The recoverable amount has been determined by a value in use calculation of the relevant cash-generating units, to which goodwill has been allocated, primarily based on the cash flow projections and a discount rate. The key assumptions and inputs used in cash flow projections including selling price, volume of sales, growth rate and discount rate. The value in use requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or changes in facts and circumstances which result in downward revision of future estimated cash flows, a material impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's raw milk and other businesses.

As at December 31, 2020, the carrying amount of goodwill is RMB762,741,000. Details are disclosed in Note 20.

***Fair value of convertible notes***

The convertible notes issued by the Company are classified as financial liabilities at FVTPL. No quoted prices in an active market are available for these financial liabilities. These financial liabilities were valued by the directors of the Company with reference to valuations carried out by an independent qualified professional valuer. The fair value of these financial liabilities is established by using valuation techniques as set out in Note 39. Valuation models established by the valuer maximise the use of market inputs to the extent possible. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value to be recognised in profit or loss. The fair values of the convertible notes as at December 31, 2020 are RMB3,043,648,000. Details of the estimates and assumptions applied are stated in Notes 39 and 46.

## 6. REVENUE AND SEGMENT INFORMATION

### (i) Disaggregation of revenue from contracts with customers

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Types of goods | | | |
| Sales of raw milk | 2,610,333 | 3,063,615 | 6,994,592 |
| Sales of feeds | 3,508,771 | 4,376,520 | 4,395,724 |
| Sales of ruminant farming products | 214,816 | 227,683 | 339,992 |
| Sales of breeding products | – | – | 50,887 |
| | 6,333,920 | 7,667,818 | 11,781,195 |
| Timing of revenue recognition | | | |
| A point in time | 6,333,920 | 7,667,818 | 11,781,195 |

### (ii) Performance obligations for contracts with customers

The Group sells raw milk, feeds, ruminant farming products and breeding products directly to its customers. Revenue is recognised when control of the goods has transferred, being at the point the customer received the goods and accepted the quality.

For the sale of raw milk, payments are generally due in two weeks after delivery. The credit term for the sale of feeds, ruminant farming products, and breeding products is normally one to three months for certain large customers and customers having long business relationship with the Group. The Group requests advance payments for certain new customers and such advance payments are recorded as contract liabilities until the control of the goods is transferred to the customers.

### (iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Most of the sale contracts are for periods of one year or less. As permitted by IFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

Information regarding segments is reported below.

Segment information has been identified on the basis of internal management reports, which are regularly reviewed by senior management, which composed of executive directors of the Company and top management (being chief operating decision maker (the "CODM")), in order to allocate resources to operating segments and to assess their performance focuses on types of products delivered. Specifically, the Group's reportable segments under IFRS 8 *Operating Segment* are as follows:

- Raw milk business – raising and breeding dairy cows, and raw milk production

- Comprehensive ruminant farming solutions – trading, production and sales of feeds, ruminant farming products, and breeding products.

***Segment revenue and results***

The following is an analysis of the Group's revenue and results by reportable segment:

| | Raw milk business | Comprehensive ruminant farming solutions | Segment total | Eliminations | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***For the year ended December 31, 2018*** | | | | | |
| Segment revenue | | | | | |
| External customers | 2,610,333 | 3,723,587 | 6,333,920 | – | 6,333,920 |
| Inter-segment revenue | – | 580,783 | 580,783 | (580,783) | – |
| | 2,610,333 | 4,304,370 | 6,914,703 | (580,783) | 6,333,920 |
| Segment results | 686,853 | 259,006 | 945,859 | | 945,859 |
| Loss arising from changes in fair value less costs to sell of biological assets | | | | | (87,271) |
| Unallocated other income and expenses | | | | | (89,815) |
| Unallocated finance costs | | | | | (71,572) |
| Profit before tax | | | | | 697,201 |
| ***For the year ended December 31, 2019*** | | | | | |
| Segment revenue | | | | | |
| External customers | 3,063,615 | 4,604,203 | 7,667,818 | – | 7,667,818 |
| Inter-segment revenue | – | 537,239 | 537,239 | (537,239) | – |
| | 3,063,615 | 5,141,442 | 8,205,057 | (537,239) | 7,667,818 |
| Segment results | 961,912 | 239,866 | 1,201,778 | | 1,201,778 |
| Loss arising from changes in fair value less costs to sell of biological assets | | | | | (133,255) |
| Unallocated other income and expenses | | | | | (130,382) |
| Unallocated finance costs | | | | | (87,286) |
| Profit before tax | | | | | 850,855 |

| | Raw milk business | Comprehensive ruminant farming solutions | Segment total | Eliminations | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***For the year ended December 31, 2020*** | | | | | |
| Segment revenue | | | | | |
| External customers | 6,994,592 | 4,786,603 | 11,781,195 | – | 11,781,195 |
| Inter-segment revenue | – | 1,481,744 | 1,481,744 | (1,481,744) | – |
| | 6,994,592 | 6,268,347 | 13,262,939 | (1,481,744) | 11,781,195 |
| Segment results | 2,136,050 | 233,705 | 2,369,755 | | 2,369,755 |
| Loss arising from changes in fair value less costs to sell of biological assets | | | | | (413,784) |
| Fair value loss on convertible notes | | | | | (10,769) |
| Share of profit of a joint venture | | | | | 25 |
| Unallocated other income and expenses | | | | | (195,378) |
| Unallocated finance costs | | | | | (155,414) |
| Profit before tax | | | | | 1,594,435 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment results represent the profit before tax earned by each segment without allocation of central administration costs and changes in fair value less costs to sell of biological assets and corporate income and expenses, share of profit of a joint venture and certain finance costs that are not directly attributable to operating segments. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

Inter-segment revenue is charged at prices agreed between group entities, which are determined by reference to the prices offered to third party customers.

***Segment assets and liabilities***

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

***Other segment information***

Amounts included in the measure of segment results:

| | Raw milk business | Comprehensive ruminant farming solutions | Segment total | Unallocated | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***For the year ended December 31, 2018*** | | | | | |
| **Amounts included in the measure of segment profit or loss:** | | | | | |
| Depreciation and amortization charged to profit or loss | 81,494 | 40,955 | 122,449 | 2,892 | 125,341 |
| Impairment loss of trade and other receivables under expected credit loss model, net of reversal | 210 | 1,243 | 1,453 | – | 1,453 |
| Impairment loss of property, plant and equipment | 26,204 | – | 26,204 | – | 26,204 |
| Loss on disposal of property, plant and equipment | 5,052 | 220 | 5,272 | – | 5,272 |
| Bank interest income | 3,433 | 2,682 | 6,115 | – | 6,115 |
| Finance costs | 7,654 | 855 | 8,509 | 71,572 | 80,081 |
| **Amounts not included in the measure of segment profit or loss** | | | | | |
| Additions to non-current assets *(Note)* | 1,748,724 | 52,722 | 1,801,446 | – | 1,801,446 |

| | Raw milk business | Comprehensive ruminant farming solutions | Segment total | Unallocated | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***For the year ended December 31, 2019*** | | | | | |
| **Amounts included in the measure of segment profit or loss:** | | | | | |
| Depreciation and amortization charged to profit or loss | 89,534 | 46,287 | 135,821 | 3,482 | 139,303 |
| Impairment loss of trade and other receivables under expected credit loss model, net of reversal | 531 | 24,230 | 24,761 | – | 24,761 |
| Impairment loss of property, plant and equipment | 8,271 | – | 8,271 | – | 8,271 |
| Loss on disposal of property, plant and equipment | 5,943 | 355 | 6,298 | – | 6,298 |
| Bank interest income | 2,334 | 2,056 | 4,390 | – | 4,390 |
| Finance costs | 15,899 | 886 | 16,785 | 87,286 | 104,071 |
| **Amounts not included in the measure of segment profit or loss** | | | | | |
| Additions to non-current assets *(Note)* | 1,872,954 | 94,991 | 1,967,945 | – | 1,967,945 |
| ***For the year ended December 31, 2020*** | | | | | |
| **Amounts included in the measure of segment profit or loss:** | | | | | |
| Depreciation and amortisation charged to profit or loss | 267,769 | 51,106 | 318,875 | 15,395 | 334,270 |
| Impairment loss of trade and other receivables under expected credit loss model, net of reversal | 6,621 | 38,462 | 45,083 | – | 45,083 |
| Impairment loss of property, plant and equipment | 15,197 | - | 15,197 | – | 15,197 |
| Loss on disposal of property, plant and equipment | 4,051 | 1,858 | 5,909 | – | 5,909 |
| Write-down of inventories | – | 5,190 | 5,190 | – | 5,190 |
| Bank interest income | (6,403) | (3,610) | (10,013) | (2,593) | (12,606) |
| Finance costs | 152,130 | 2,281 | 154,411 | 155,414 | 309,825 |
| **Amounts not included in the measure of segment profit or loss** | | | | | |
| Additions to non-current assets *(Note)* | 4,297,527 | 97,419 | 4,394,946 | 579 | 4,395,525 |
| Investment in a joint venture | – | – | – | 808 | 808 |
| Share of profit of a joint venture | – | – | – | 25 | 25 |

*Note:* Non-current assets excluded goodwill, equity instruments at FVTOCI, pledged and restricted bank deposits, interest in a joint venture, deferred tax assets, and non-current assets acquired through business combination (*Note 43*).

***Geographic information***

Since all revenue from external customers is derived from the customers located in Mainland China and all of the non-current assets are located in Mainland China and all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, no geographic information by segment is presented.

***Revenue from major customers***

Revenue from the customer individually contributing over 10% of the total revenue of the Group during the Track Record Period is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Customer A: | | | |
| Revenue from sales of raw milk | 2,393,105 | 2,845,380 | 6,701,441 |
| Revenue from sales of feeds | 70 | – | 27 |
| | 2,393,175 | 2,845,380 | 6,701,468 |

## 7. COST OF SALES

An analysis of cost of sales during the Track Record Period is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost of raw milk sold before fair value adjustments | 1,550,214 | 1,784,635 | 4,000,063 |
| Raw milk fair value adjustments | 1,013,075 | 1,224,957 | 2,863,723 |
| Cost of raw milk sold after fair value adjustments | 2,563,289 | 3,009,592 | 6,863,786 |
| Cost of feeds sold before forage grass fair value adjustments | 3,072,836 | 3,812,839 | 3,865,155 |
| Forage grass fair value adjustments | 9,323 | 7,711 | 7,000 |
| Cost of feeds sold after fair value adjustments | 3,082,159 | 3,820,550 | 3,872,155 |
| Cost of ruminant farming products sold | 165,179 | 184,084 | 283,015 |
| Cost of breeding products *(Note (i))* | – | – | 29,770 |
| Total cost of sales | 5,810,627 | 7,014,226 | 11,048,726 |

*Note:*

(i) The cost of breeding products for the year ended December 31, 2020 included write-down of inventories of RMB5,190,000, which was mainly attributable to the decline in market price. These inventories are written down to net realisable value.

## 8. OTHER INCOME

An analysis of other income during the Track Record Period is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Government grants released from deferred income *(Note 35)* | 27,033 | 38,773 | 26,487 |
| Incentive subsidies *(Note (i))* | 4,102 | 658 | 17,825 |
| Rental income | 5,002 | 3,306 | 6,691 |
| Bank interest income | 6,115 | 4,390 | 12,606 |
| Income from sale of scrap materials | 2,175 | 2,589 | 3,725 |
| Compensation income | 3,087 | 899 | 704 |
| Write-back of other payables | 796 | 1,515 | 4,441 |
| Others | 3,159 | 3,266 | 4,500 |
| | 51,469 | 55,396 | 76,979 |

*Note:*

(i) The amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development and unconditional subsidies for the purpose of giving financial support to the Group's operations. There are no unfulfilled conditions or contingencies relating to the above subsidies.

## 9. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Impairment loss recognised/(reversal of impairment loss) on: | | | |
| Trade receivables | 1,262 | 24,273 | 41,359 |
| Other receivables | 191 | 488 | 3,724 |
| | 1,453 | 24,761 | 45,083 |

Details of impairment assessments are set out in Note 45.

**10. OTHER GAINS AND LOSSES**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Foreign exchange differences, net | – | – | (29,371) |
| Loss on disposal of property, plant and equipment, net | (5,272) | (6,298) | (5,909) |
| Impairment loss on property, plant and equipment | (26,204) | (8,271) | (15,197) |
| Reduction in provision for other obligations *(Note 37)* | 943 | 1,515 | – |
| Fair value (loss)/gain on derivative financial instruments *(Note (a))* | (5,208) | (2,186) | 436 |
| Fair value gain on financial instruments at fair value through profit or loss | – | 209 | – |
| Gain on termination and modification of lease agreements | – | 105 | – |
| Others | 128 | (1,120) | (4,232) |
| | (35,613) | (16,046) | (54,273) |

*Note:*

(a) The fair value changes represent gain/loss on commodity forward contracts entered into during the Track Record Period for the purpose of hedging the market price fluctuations on soybean meal. The Group did not have open positions at the respective year end. The Group did not formally designate or document the hedging transactions with respect to the commodity forward contracts.

**11. FINANCE COSTS**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest expenses on: | | | |
| Bank and other borrowings | 69,705 | 91,417 | 261,705 |
| Other liabilities | – | – | 1,692 |
| Borrowings from related parties *(Note 47(b))* | 3,942 | – | – |
| Lease liabilities | 8,444 | 16,717 | 48,442 |
| Unwind of interest of other provisions *(Note 38)* | 65 | 69 | 334 |
| Total borrowing costs | 82,156 | 108,203 | 312,173 |
| Less: Amounts capitalised to construction in progress | – | (207) | (2,348) |
| Government grants for specific loan interests *(Note 35)* | (2,075) | (3,925) | – |
| | 80,081 | 104,071 | 309,825 |

Borrowing costs capitalised to qualifying assets during the Track Record Period were based on actual borrowing costs incurred for specific borrowings.

## 12. INCOME TAX EXPENSE

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Current tax: | | | |
| PRC Enterprise Income Tax ("EIT") | 42,454 | 55,902 | 57,377 |
| Underprovision/(overprovision) in prior periods: | | | |
| PRC EIT | 2,436 | (2,947) | 2,162 |
| Deferred tax *(Note 23)* | (556) | (3,982) | (5,734) |
| | 44,334 | 48,973 | 53,805 |

The Company is incorporated as an exempted company and as such is not subject to Cayman Islands taxation.

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong during the Track Record Period.

Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of the Company are exempted from PRC EIT for taxable profit from the operation of agricultural business in the PRC during the Track Record Period. In addition, certain subsidiaries operating in the PRC, including Muquan Yuanxing Feeds, Ningxia Bio-Technology, Wulanchabu Bio-Technology and Bayinnaoer Bio-Technology (as defined in Note 52), are eligible for preferential tax rate of 15% under relevant preferential tax policy in relation to PRC western development. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa 2012 No. 97), Ningxia Bio-Technology is eligible for 40% EIT reduction from 2018 to 2020 on the basis of 15% tax rate.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, except for the preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group operating in the PRC are subject to EIT at the statutory rate of 25% during the Track Record Period.

The tax expense during the Track Record Period can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive expenses as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit before tax | 697,201 | 850,855 | 1,594,435 |
| Tax at the statutory rate of 25% | 174,300 | 212,714 | 398,609 |
| Tax effect of expenses not deductible for tax purpose | 4,547 | 4,461 | 13,532 |
| Effect of PRC tax exemption granted to agricultural business | (119,269) | (151,839) | (342,403) |
| Effect of PRC tax concessions and preferential tax rates | (10,669) | (12,616) | (16,239) |
| Underprovision/(overprovision) in respect of prior periods | 2,436 | (2,947) | 2,162 |
| Utilisation of tax losses previously not recognised | – | – | (1,016) |
| Tax effect of additional deduction rate on certain research and development expenses | (742) | (742) | (790) |
| Share of profit of a joint venture | – | – | (6) |
| Others | (6,269) | (58) | (44) |
| Income tax expenses | 44,334 | 48,973 | 53,805 |

## 13. PROFIT FOR THE YEAR

The Group's profit for the year during the Track Record Period is arrived at after charging/(crediting):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation of: | | | |
| Property, plant and equipment | 187,477 | 212,838 | 491,016 |
| Investment properties | 5,106 | 3,239 | 2,851 |
| Right-of-use assets | 30,610 | 40,452 | 80,303 |
| Amortisation of intangible assets | 284 | 387 | 508 |
| Total depreciation and amortisation | 223,477 | 256,916 | 574,678 |
| Less: Capitalised in biological assets | (74,082) | (91,370) | (209,215) |
| Capitalised in construction in progress | (561) | (1,337) | (930) |
| Capitalised in inventories | (23,493) | (24,906) | (30,263) |
| Depreciation and amortisation charged directly to profit or loss | 125,341 | 139,303 | 334,270 |
| Lease payments not included in the measurement of lease liabilities | 21,699 | 18,198 | 22,878 |
| Less: Capitalised in biological assets | (5,903) | (6,166) | (9,199) |
| Capitalised in inventories | (4,244) | (3,689) | (2,927) |
| | 11,552 | 8,343 | 10,752 |
| Auditors' remuneration | 594 | 545 | 651 |
| Research and development costs recognised in profit or loss included in administrative expenses | 5,249 | 10,515 | 22,695 |
| Employee benefits expense (including directors' remuneration as disclosed in Note 14): | | | |
| Salaries and allowances | 423,731 | 499,153 | 834,307 |
| Retirement benefit scheme contributions | 43,723 | 49,216 | 21,461 |
| Total staff costs | 467,454 | 548,369 | 855,768 |
| Less: Capitalised in biological assets | (89,288) | (113,497) | (191,725) |
| | 378,166 | 434,872 | 664,043 |

An analysis of the Group's results before biological assets fair value adjustments during the Track Record Period is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit for the year before biological assets fair value adjustments | 740,138 | 935,137 | 1,954,414 |
| Loss arising from changes in fair value less costs to sell of biological assets* | (87,271) | (133,255) | (413,784) |
| Profit for the year | 652,867 | 801,882 | 1,540,630 |

* The balances included both realised and unrealised gain/loss arising from changes in fair value less costs to sell of biological assets. Included in balances are unrealised gain of RMB156,693,000, RMB134,069,000 and RMB561,575,000 for the years ended December 31, 2018, 2019 and 2020, respectively as estimated by the Group's management.

## 14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company (including emoluments for the services as employees of the group entities prior to becoming the directors of the Company) by the group entities during the Track Record Period are as follows:

| | Directors' fees | Salaries and allowance | Discretionary performance – related payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended December 31, 2018:** | | | | | |
| Mr. Zhang Xiaodong *(Note (i))* | – | 1,537 | – | 37 | 1,574 |
| Mr. Dong Jiping *(Note (i))* | – | 796 | – | 37 | 833 |
| | – | 2,333 | – | 74 | 2,407 |
| **Year ended December 31, 2019:** | | | | | |
| Mr. Zhang Xiaodong *(Note (i))* | – | 1,817 | – | 33 | 1,850 |
| Mr. Dong Jiping *(Note (i))* | – | 978 | – | 33 | 1,011 |
| | – | 2,795 | – | 66 | 2,861 |

| | Directors' fees | Salaries and allowance | Discretionary performance – related payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended December 31, 2020:** | | | | | |
| ***Executive directors:*** | | | | | |
| Mr. Zhang Xiaodong *(Note (i))* | – | 1,558 | – | 25 | 1,583 |
| Mr. Dong Jiping *(Note (i))* | – | 839 | – | 25 | 864 |
| ***Non-executive directors:*** | | | | | |
| Mr. Zhang Yujun *(Note (ii))* | – | – | – | – | – |
| Mr. Xu Jun *(Note (ii))* | – | – | – | – | – |
| Mr. Xu Zhan Kevin *(Note (ii))* | – | – | – | – | – |
| Mr. Qiu Zhongwei *(Note (ii))* | – | – | – | – | – |
| | – | 2,397 | – | 50 | 2,447 |

*Notes:*

(i) Mr. Zhang Xiaodong and Mr. Dong Jiping were appointed as directors of the Company on August 24, 2020. The directors' emoluments shown above were for their services in connection with the management of affairs of the Group.

(ii) Mr. Zhang Yujun, Mr. Xu Zhan Kevin, Mr. Xu Jun and Mr. Qiu Zhongwei were appointed as directors of the Company on August 24, 2020. Mr. Zhang Yujun is also the chief executive of the Company. The group entities did not pay any emoluments to these directors during the Track Record Period.

(iii) Subsequent to December 31, 2020, Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong were appointed as independent non-executive directors of the Company on June 7, 2021.

**(b) Employees' emoluments**

The five highest paid individuals of the Group included two directors for each of the year ended December 31, 2018, 2019 and 2020, details of whose remuneration are set out above. The emoluments of the remaining three individuals for each of the year ended December 31, 2018, 2019 and 2020 are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and allowances | 2,409 | 3,103 | 3,692 |
| Retirement benefit scheme contributions | 108 | 97 | 67 |
| | 2,517 | 3,200 | 3,759 |

The number of the highest paid individuals who are not directors of the Company whose remuneration fell within the following bands is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| Nil to HK$1,000,000 | 2 | – | – |
| HK$1,000,001 to HK$1,500,000 | 1 | 3 | 2 |
| HK$1,500,001 to HK$2,000,000 | – | – | 1 |
| | 3 | 3 | 3 |

During the Track Record Period, no remuneration was paid by the Group to any of the directors, the chief executive or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and the chief executive has waived or agreed to waive any emoluments during the Track Record Period.

## 15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Earnings for the purpose of basic earning per share | 652,867 | 801,882 | 1,340,735 |
| Effect of dilutive potential ordinary shares: | | | |
| Fair value loss on convertible notes | – | – | 10,769 |
| Earnings for the purpose of diluted earnings per share | 652,867 | 801,882 | 1,351,504 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *'000* | *'000* | *'000* |
| Number of shares: | | | |
| Weighted average number of ordinary shares for the purpose of calculating earnings per share | 2,000,000 | 2,000,000 | 3,255,627 |
| Effect of dilutive potential ordinary shares: | | | |
| Convertible notes | – | – | 152,756 |
| Earnings for the purpose of diluted earnings per share | 2,000,000 | 2,000,000 | 3,408,383 |

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the reorganisation as described in Note 2 had been effected since January 1, 2018.

No diluted earnings per share for the year ended December 31, 2018 and 2019 were presented as there were no potential ordinary shares in issue for that year.

## 16. DIVIDEND

No dividend was declared or paid by the group entities comprising the Group in respect of the Track Record Period, except that on 4 November 2020, the Company declared a dividend of US$180,348,072 (approximately RMB1,198,748,000) to the equity shareholders of the Company.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Machinery and equipment | Motor vehicles | Electronic equipment | Bearer plants | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *HK$'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **COST:** | | | | | | | | |
| At January 1, 2018 | 2,092,044 | – | 561,199 | 87,816 | 6,803 | 24,346 | 64,948 | 2,837,156 |
| Additions | 3,836 | – | 74,219 | 18,891 | 2,606 | – | 313,471 | 413,023 |
| Disposals | (3,333) | – | (11,547) | (1,587) | (393) | – | (522) | (17,382) |
| Transfer | 219,100 | – | 19,618 | 812 | 758 | – | (240,288) | – |
| Reclassified from investment properties *(Note 18)* | 38,259 | – | – | – | – | – | – | 38,259 |
| At December 31, 2018 | 2,349,906 | – | 643,489 | 105,932 | 9,774 | 24,346 | 137,609 | 3,271,056 |
| Additions | 7,026 | – | 130,630 | 32,171 | 1,146 | 4,332 | 587,527 | 762,832 |
| Disposals | (45,132) | – | (16,425) | (2,629) | (189) | – | – | (64,375) |
| Transfer | 526,249 | – | 34,321 | – | 2,319 | – | (562,889) | – |
| Reclassified from investment properties *(Note 18)* | 19,615 | – | – | – | – | – | – | 19,615 |
| At December 31, 2019 | 2,857,664 | – | 792,015 | 135,474 | 13,050 | 28,678 | 162,247 | 3,989,128 |
| Additions | 17,203 | – | 197,217 | 60,042 | 23,676 | 7,250 | 1,082,200 | 1,387,588 |
| Disposals | (9,051) | (213) | (21,945) | (23,736) | (5,591) | – | – | (60,536) |
| Transfer | 741,216 | – | 60,607 | 496 | 20,607 | – | (822,926) | – |
| Reclassified from investment properties *(Note 18)* | 13,416 | – | – | – | – | – | – | 13,416 |
| Acquisition of subsidiaries *(Note 43)* | 1,869,992 | 13,120 | 302,893 | 56,312 | 88,180 | – | 42,254 | 2,372,751 |
| At December 31, 2020 | 5,490,440 | 12,907 | 1,330,787 | 228,588 | 139,922 | 35,928 | 463,775 | 7,702,347 |
| **ACCUMULATED DEPRECIATION:** | | | | | | | | |
| At January 1, 2018 | 406,201 | – | 197,663 | 39,455 | 2,130 | 12,157 | – | 657,606 |
| Provided for the year | 112,801 | – | 59,658 | 8,690 | 1,322 | 5,006 | – | 187,477 |
| Reclassification from investment properties *(Note 18)* | 13,594 | – | – | – | – | – | – | 13,594 |
| Disposals | (1,065) | – | (8,221) | (1,202) | (373) | – | – | (10,861) |

| | Buildings | Leasehold improvements | Machinery and equipment | Motor vehicles | Electronic equipment | Bearer plants | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *HK$'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At December 31, 2018 | 531,531 | – | 249,100 | 46,943 | 3,079 | 17,163 | – | 847,816 |
| Provided for the year | 127,370 | – | 68,057 | 10,668 | 1,719 | 5,024 | – | 212,838 |
| Reclassification from investment properties *(Note 18)* | 8,093 | – | – | – | – | – | – | 8,093 |
| Disposals | (18,159) | – | (11,826) | (2,005) | (168) | – | – | (32,158) |
| At December 31, 2019 | 648,835 | – | 305,331 | 55,606 | 4,630 | 22,187 | – | 1,036,589 |
| Provided for the year | 268,201 | 1,054 | 136,660 | 39,785 | 42,011 | 3,305 | – | 491,016 |
| Reclassification from investment properties *(Note 18)* | 344 | – | – | – | – | – | – | 344 |
| Disposals | (4,046) | – | (15,207) | (21,419) | (2,849) | – | – | (43,521) |
| At December 31, 2020 | 913,334 | 1,054 | 426,784 | 73,972 | 43,792 | 25,492 | – | 1,484,428 |
| **ACCUMULATED IMPAIRMENT:** | | | | | | | | |
| At January 1, 2018 | 367 | – | 446 | 212 | – | – | – | 1,025 |
| Provided for the year | 24,386 | – | 1,811 | – | 7 | – | – | 26,204 |
| Disposals | (940) | – | (66) | (212) | – | – | – | (1,218) |
| At December 31, 2018 | 23,813 | – | 2,191 | – | 7 | – | – | 26,011 |
| Provided for the year | 6,826 | – | 1,445 | – | – | – | – | 8,271 |
| Disposals | (13,455) | – | (1,420) | – | (7) | – | – | (14,882) |
| At December 31, 2019 | 17,184 | – | 2,216 | – | – | – | – | 19,400 |
| Provided for the year | 10,150 | – | 5,016 | 30 | 1 | – | – | 15,197 |
| Disposals | – | – | (599) | (19) | – | – | – | (618) |
| At December 31, 2020 | 27,334 | – | 6,633 | 11 | 1 | – | – | 33,979 |
| **CARRYING AMOUNTS:** | | | | | | | | |
| At January 1, 2018 | 1,685,476 | – | 363,090 | 48,149 | 4,673 | 12,189 | 64,948 | 2,178,525 |
| At December 31, 2018 | 1,794,562 | – | 392,198 | 58,989 | 6,688 | 7,183 | 137,609 | 2,397,229 |
| At December 31, 2019 | 2,191,645 | – | 484,468 | 79,868 | 8,420 | 6,491 | 162,247 | 2,933,139 |
| At December 31, 2020 | 4,549,772 | 11,853 | 897,370 | 154,605 | 96,129 | 10,436 | 463,775 | 6,183,940 |

The above items of property, plant and equipment (other than construction in progress) after taking into account of their estimated residual values, are depreciated on a straight-line basis over the following periods:

| | |
|---|---|
| Buildings | 15 to 30 years |
| Leasehold improvements | Shorter of 5 to 10 years and the remaining terms of the lease |
| Machinery and equipment | 5 to 10 years |
| Motor vehicles | 5 to 10 years |
| Electronic equipment | 5 years |
| Bearer plants (alfalfa hay roots) | 5 years |

At December 31, 2018, 2019 and 2020 building ownership certificates in respect of certain buildings of the Group with an aggregate carrying amount of RMB1,830,000, RMB2,989,000 and RMB22,222,000, respectively, had not been issued by the relevant PRC authorities.

**Impairment of property, plant and equipment**

During the Track Record Period, impairment was made on certain property, plant and equipment due to ceased operations and technical obsolescence. The recoverable amounts of the property, plant and equipment were determined by fair value less cost of disposal.

**18. INVESTMENT PROPERTIES**

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **COST:** | | | |
| At the beginning of the year | 107,885 | 69,626 | 50,011 |
| Reclassified from property, plant and equipment *(Note 17)* | – | – | – |
| Reclassified to property, plant and equipment *(Note 17)* | (38,259) | (19,615) | (13,416) |
| Acquisition of subsidiaries *(Note 43)* | – | – | 13,416 |
| At the end of the year | 69,626 | 50,011 | 50,011 |
| **ACCUMULATED DEPRECIATION:** | | | |
| At the beginning of the year | 30,993 | 22,505 | 17,651 |
| Provided for the year | 5,106 | 3,239 | 2,851 |
| Reclassified to property, plant and equipment *(Note 17)* | (13,594) | (8,093) | (344) |
| At the end of the year | 22,505 | 17,651 | 20,158 |
| **CARRYING AMOUNTS:** | | | |
| At the beginning of the year | 76,892 | 47,121 | 32,360 |
| At the end of the year | 47,121 | 32,360 | 29,853 |

The above investment properties are measured using the cost model and represent dairy farms located in Mainland China and are depreciated on a straight-line basis over 15 to 30 years.

The fair value of the Group's investment properties at December 31, 2018, 2019 and 2020 was RMB51,492,000, RMB35,794,000 and RMB34,044,000, respectively, which has been arrived at on the basis of a valuation carried out as at that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang LaSalle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

In estimating the fair value of investment properties, the Group uses market observable data to the extent it is available. The management of the Group works closely with the valuer to establish the appropriate valuation techniques and inputs to the model.

The fair value was determined based on the cost approach, which values the investment properties with reference to their depreciated replacement cost as at the valuation dates. There has been no change in the valuation techniques during the Track Record Period. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair values of the Group's investment properties as at December 31, 2018, 2019 and 2020 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 during the Track Record Period.

## 19. RIGHT-OF-USE ASSETS

| | **Leasehold lands** | **Properties** | **Machinery and equipment** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amounts as at January 1, 2018 | 184,247 | 54,127 | – | 238,374 |
| Additions | 250,031 | 19,958 | 4,292 | 274,281 |
| Depreciation provided for the year | (15,299) | (14,591) | (720) | (30,610) |
| Carrying amounts as at December 31, 2018 | 418,979 | 59,494 | 3,572 | 482,045 |
| Additions | 108,966 | – | – | 108,966 |
| Early termination of lease agreements | (1,943) | (12,848) | (2,800) | (17,591) |
| Depreciation provided for the year | (24,492) | (15,212) | (748) | (40,452) |
| Carrying amounts as at December 31, 2019 | 501,510 | 31,434 | 24 | 532,968 |
| Additions | 376,437 | 109,909 | – | 486,346 |
| Early termination of lease agreements | (71) | – | – | (71) |
| Depreciation provided for the year | (49,573) | (28,318) | (2,412) | (80,303) |
| Acquisition of subsidiaries *(Note 43)* | 355,109 | 22,159 | 5,088 | 382,356 |
| Carrying amounts as at December 31, 2020 | 1,183,412 | 135,184 | 2,700 | 1,321,296 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Expense relating to short-term leases* | 9,480 | 5,721 | 9,235 |
| Variable lease payments not included in the measurement of lease liabilities* *(Note (i))* | 7,877 | 8,871 | 6,368 |
| Total cash outflow for leases | 69,951 | 105,590 | 194,357 |

*Note:*

* Before capitalisation to biological assets and inventories

(i) Lease payments for certain leasehold lands and machineries are variable payments, and determined based on the local grain prices and usage of the machineries, respectively, during the relevant lease periods.

The Group leases various lands, properties, and machinery and equipment to operate its business. Lease contracts are entered into for fixed terms of 2 to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for motor vehicles, machinery and office equipment. As at the end of each year, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in Note 13.

**Restrictions or covenants on leases**

Lease liabilities of RMB323,963,000, RMB325,717,000 and RMB967,489,000 were recognised with related right-of-use assets with an aggregate carrying amount of RMB391,595,000, RMB374,831,000 and RMB1,064,069,000 as at 31 December 2018, 2019 and 2020, respectively. These lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## 20. GOODWILL

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **CARRYING AMOUNT:** | | | |
| At beginning of the year | – | – | – |
| Acquisition of subsidiaries *(Note 43)* | – | – | 762,741 |
| At the end of the year | – | – | 762,741 |

Goodwill has been allocated to SKX Group (as defined in Note 43) as a group of cash generating units ("CGU") for impairment testing purpose. SKX Group mainly engaged in dairy farming business.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the CGU covering the following 5 years and pre-tax discount rate of 13% as at December 31, 2020. The cash flows beyond the five-year period are extrapolated using 2.5% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows in the cash flow projections include milk selling price, gross profit ratio, volume of sale and growth rate, and discount rate, which are determined based on the CGU's past performance and management expectations for the market development. The recoverable amount of the CGU exceeds its carrying amount by RMB466 million.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount. If the growth rate beyond the five-year period changed to 1.5% or discount rate changed to 14%, while other parameters remain constant, the recoverable amount of the CGU would still exceed its recoverable amount.

**21. INTANGIBLE ASSETS**

| | Computer software | Patents | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **COST:** | | | |
| At January 1, 2018 | 1,095 | – | 1,095 |
| Additions | 1,273 | – | 1,273 |
| At December 31, 2018 and 2019 | 2,368 | – | 2,368 |
| Additions | 3,309 | – | 3,309 |
| Acquisition of subsidiaries *(Note 43)* | – | 733 | 733 |
| At December 31, 2020 | 5,677 | 733 | 6,410 |
| **ACCUMULATED AMORTISATION:** | | | |
| At January 1, 2018 | 297 | – | 297 |
| Provided for the year | 284 | – | 284 |
| At December 31, 2018 | 581 | – | 581 |
| Provided for the year | 387 | – | 387 |
| At December 31, 2019 | 968 | – | 968 |
| Provided for the year | 338 | 170 | 508 |
| At December 31, 2020 | 1,306 | 170 | 1,476 |
| **CARRYING AMOUNTS:** | | | |
| At January 1, 2018 | 798 | – | 798 |
| At December 31, 2018 | 1,787 | – | 1,787 |
| At December 31, 2019 | 1,400 | – | 1,400 |
| At December 31, 2020 | 4,371 | 563 | 4,934 |

The above intangible assets have finite useful lives, and are amortised on a straight-line basis over the following periods:

| | |
|---|---|
| Computer software | 10 years |
| Patents | 10 to 15 years |

In determining the useful life, the directors of the Company consider a number of factors, including (i) the assets are used for the Group's farming operations; (ii) the assets are not subject to rapid technological changes; and (iii) no legal limit on the use of the assets, and considers that the useful life of 10-15 years is reasonable.

## 22. BIOLOGICAL ASSETS

### A Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, calves and heifers), feeder cattle and breeding stock to produce frozen bovine semen. The quantity of dairy cows and breeding stock owned by the Group at the end of each reporting period is shown below:

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *Heads* | *Heads* | *Heads* |
| Calves and heifers | 65,488 | 74,082 | 150,879 |
| Milkable cows | 61,857 | 77,955 | 157,316 |
| Feeder cattle | 369 | 1,269 | 915 |
| Breeding stock | – | – | 125 |
| Total | 127,714 | 153,306 | 309,235 |

Milkable cows, calves and heifers are dairy cows of the Group for the purpose of production of raw milk and are classified as non-current assets. Feeder cattle mainly include bull calves and beef cattles for sale to external customers. Feeder cattle is classified as current assets.

The Group is exposed to financial risks arising from changes in price of the raw milk and frozen bovine semen. The Group does not anticipate that the price of the raw milk and frozen bovine semen will decline significantly in the foreseeable future and the management of the Group are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the raw milk and frozen bovine semen.

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

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

***i. Regulatory and environmental risks***

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

***ii. Climate, disease and other natural risks***

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

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

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| Volume of raw milk produced for sale *(Ton)* | 572,093 | 655,786 | 1,529,835 |
| Volume of sales of frozen bovine semen produced *(Straw)* | – | – | 797,668 |

**C Value of biological assets**

The fair value of biological assets at the end of the reporting period are set out below:

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Dairy cows: | | | |
| Calves and heifers | 1,010,321 | 1,094,787 | 2,432,082 |
| Milkable cows | 1,596,129 | 2,228,130 | 4,564,233 |
| Feeder cattle | 1,629 | 12,070 | 9,564 |
| Breeding stock | – | – | 41,797 |
| Total | 2,608,079 | 3,334,987 | 7,047,676 |
| Less: current portion classified under current assets | (1,629) | (12,070) | (9,564) |
| Non-current portion classified under non-current assets | 2,606,450 | 3,322,917 | 7,038,112 |

As at December 31, 2018, certain of the Group's biological assets with an aggregate carrying amount of RMB39,679,000 are under a biological assets lease agreement (Note 37).

As at December 31, 2020, certain of the Group's biological assets with an aggregate carrying amount of RMB1,919,064,000 were pledged to secure certain bank facilities granted to the Group (Note 34).

The movements of biological assets during the Track Record Period are set out below:

| | **Calves and heifers** | **Milkable cows** | **Breeding stock** | **Total non-current assets** | **Feeder cattle** |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2018 | 649,174 | 1,192,842 | – | 1,842,016 | 964 |
| Purchase cost | 265,558 | 6,297 | – | 271,855 | – |
| Feeding and other related costs | 767,765 | – | – | 767,765 | 4,146 |
| Transfer | (675,267) | 675,267 | – | – | – |
| Transfer to feeder cattle | (6) | – | – | (6) | 6 |
| Decrease due to disposal/death | (12,369) | (174,469) | – | (186,838) | (4,558) |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 15,466 | (103,808) | – | (88,342) | 1,071 |

| | Calves and heifers | Milkable cows | Breeding stock | Total non-current assets | Feeder cattle |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At December 31, 2018 | 1,010,321 | 1,596,129 | – | 2,606,450 | 1,629 |
| Purchase cost | 158,077 | – | – | 158,077 | – |
| Feeding and other related costs | 972,139 | – | – | 972,139 | 55,038 |
| Transfer | (1,113,035) | 1,113,035 | – | – | – |
| Transfer to feeder cattle | (15,307) | (18,277) | – | (33,584) | 33,584 |
| Decrease due to disposal/death | (19,167) | (222,256) | – | (241,423) | (83,668) |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 101,759 | (240,501) | – | (138,742) | 5,487 |
| At December 31,2019 | 1,094,787 | 2,228,130 | – | 3,322,917 | 12,070 |
| Acquisition of subsidiaries *(Note 43)* | 1,029,837 | 1,678,931 | 42,412 | 2,751,180 | – |
| Purchase cost | 173,433 | – | 1,650 | 175,083 | – |
| Feeding and other related costs | 2,063,206 | – | 8,213 | 2,071,419 | 91,568 |
| Transfer | (1,837,545) | 1,837,545 | – | – | – |
| Transfer to feeder cattle | (20,764) | (88,425) | – | (109,189) | 109,189 |
| Decrease due to disposal/death | (293,474) | (448,221) | (2,547) | (744,242) | (218,535) |
| Gain/(loss) arising from changes in fair value less costs to sell of biological assets | 222,602 | (643,727) | (7,931) | (429,056) | 15,272 |
| At December 31, 2020 | 2,432,082 | 4,564,233 | 41,797 | 7,038,112 | 9,564 |

The directors of the Company have engaged an independent valuer, Jones Lang LaSalle, independent qualified professional valuers which are not connected to the Group, to assist the Group in assessing the fair values of Group's biological assets. The principal address of Jones Lang LaSalle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note 46.

The aggregate gain arising on initial recognition of agricultural produce (including raw milk, raw semen and forage grass) and the aggregate loss arising from the change in fair value less costs to sell of biological assets during the Track Record Period is analysed as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 1,022,398 | 1,232,668 | 2,870,723 |
| Loss arising from changes in fair value less costs to sell of biological assets | (87,271) | (133,255) | (413,784) |
| | 935,127 | 1,099,413 | 2,456,939 |

## 23. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred tax assets | 1,351 | 5,088 | 11,382 |
| Deferred tax liabilities | (7,147) | (6,902) | (6,667) |
| | (5,796) | (1,814) | 4,715 |

The following are the major deferred tax liabilities and assets recognised and movements thereon during the Track Record Period.

| | ECL provision | Impairment loss on assets | Tax losses | Government grants | Fair value adjustments | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000 (Note (i))* | *RMB'000* |
| At January 1, 2018 | 55 | 53 | 301 | 626 | (7,387) | (6,352) |
| Credited/(charged) to profit or loss | 329 | 3 | – | (16) | 240 | 556 |
| At December 31, 2018 | 384 | 56 | 301 | 610 | (7,147) | (5,796) |
| Credited/(charged) to profit or loss | 4,580 | – | (301) | (542) | 245 | 3,982 |
| At December 31, 2019 | 4,964 | 56 | – | 68 | (6,902) | (1,814) |
| Credited to profit or loss | 4,193 | 680 | – | 626 | 235 | 5,734 |
| Acquisition of subsidiaries *(Note 43)* | 795 | – | – | – | – | 795 |
| At December 31, 2020 | 9,952 | 736 | – | 694 | (6,667) | 4,715 |

*Note:*

(i) The deferred tax liabilities for fair value adjustments related to the fair value adjustments of certain land use rights and property, plant and equipment upon acquisition of subsidiaries before the Track Record Period.

Pursuant to the EIT Law, withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008. At December 31, 2018, 2019 and 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,438,919,000, RMB1,840,455,000 and RMB2,528,625,000, respectively, at December 31, 2018, 2019 and 2020, respectively.

## 24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Unlisted equity investments in the PRC, at fair value | – | – | 72,040 |

The above unlisted equity investments represent the Group's equity investment in certain private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI. During the year ended December 31, 2020, fair value gain of RMB25,352,000 was recorded and credited to other comprehensive income.

## 25. INVENTORIES

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 856,589 | 903,126 | 1,830,951 |
| Finished goods | 37,266 | 53,821 | 102,804 |
| Semi-finished goods* | 6,139 | 10,339 | 24,608 |
| Breeding products | – | – | 13,782 |
| | 899,994 | 967,286 | 1,972,145 |

* Including alfalfa hay and oat grass

## 26. TRADE AND BILLS RECEIVABLES

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 618,933 | 999,846 | 900,956 |
| Less: Allowance for credit loss | (1,275) | (25,548) | (66,435) |
| | 617,658 | 974,298 | 834,521 |
| Trade receivables from related parties | 128,571 | 142,892 | 555,676 |

The following is the aged analysis of trade receivables, net of allowance for credit losses, presented based on the delivery dates:

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 90 days | 563,418 | 825,441 | 740,925 |
| 90 days to 180 days | 51,809 | 146,921 | 83,832 |
| 181 days to 1 year | 2,431 | 1,936 | 5,889 |
| Over 1 year | – | – | 3,875 |
| | 617,658 | 974,298 | 834,521 |

As at December 31, 2018, 2019 and 2020, trade receivables from related parties are aged within 3 months based on the month of delivery.

The following is the past due analysis of the carrying amount of trade receivables:

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Not yet past due | 479,347 | 655,617 | 535,788 |
| Past due less than 30 days | 23,905 | 123,766 | 100,238 |
| Past due more than 30 days but less than 90 days | 106,022 | 148,663 | 153,371 |
| Past due more than 90 days | 8,384 | 46,252 | 45,124 |
| | 617,658 | 974,298 | 834,521 |

The above trade receivables which have been past due more than 90 days are not considered as in default because these trade receivables relate to a number of independent customers for whom there was no recent history of default and they have a good track record with the Group.

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit loss separately. The provision rates are based on ageing groupings of customer segments with similar loss patterns (i.e., by product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Further details of impairment assessment of trade receivables under IFRS 9 are set out in Note 45.

## 27. BILLS RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Bills receivables | 27,147 | 75,679 | 27,080 |

Bills receivables at FVTOCI are matured within one year. As at December 31, 2020, certain of the bills receivables with an aggregate carrying amount of RMB18,000,000 were pledged to secure certain bank facilities granted to the Group (Note 34).

As part of the Group's cash flow management, the Group has the practice of discounting some of the bills received from debtors to financial institutions before the bills are due for payment and derecognises bills discounted on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Under IFRS 9, the Group's bills receivables are considered as within the hold to collect contractual cash flows and to sell business model.

Further details of impairment assessment of bills receivables at FVTOCI under IFRS 9 are set out in Note 45.

## 28. CONTRACT ASSETS

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Dairy farm equipment: | | | |
| Classified under current assets | 15,547 | 7,527 | 12,139 |

The Group enters into certain feeds supply contracts (the "Contracts") with certain customers pursuant to which the Group agrees to provide dairy farm equipment to the customers upon the signing of the Contracts for free provided that the customers purchase from the Group a minimum quantity of feeds as stipulated in the Contracts within the contract period, which is normally one to two years. If the customers fail to meet the minimum purchase requirement, the customers are obliged to pay to the Group the price of the dairy farm equipment provided by the Group as a compensation at the end of the contract period.

The Group recognises revenue from sale of equipment upon delivery of the dairy farm equipment to the customers based on its normal selling price and amortises the amount to revenue from sale of feeds over the contract period.

As at January 1, 2018, contract assets amounted to RMB17,200,000.

## 29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Prepayments | 81,357 | 178,583 | 194,261 |
| Value-added tax recoverable | 20,420 | 22,752 | 11,776 |
| Deposits placed with brokers for commodity forward contracts | 18,117 | 16,112 | 8,606 |
| Rental receivables | 1,790 | 714 | 5,820 |
| Utility and other deposits | 1,495 | 3,905 | 8,414 |
| Security deposits for purchase of lands | – | 5,006 | – |
| Compensation receivable | 2,483 | 1,708 | 3,270 |
| Advances to staff | 696 | 589 | 1,717 |
| Capitalised issue cost | – | – | 7,479 |
| Other receivables | 828 | 1,445 | 9,077 |
| | 127,186 | 230,814 | 250,420 |
| Less: Allowance of doubtful debts | (638) | (5) | (3,729) |
| | 126,548 | 230,809 | 246,691 |

Details of impairment assessment of other receivables under IFRS 9 for the years ended December 31, 2018, 2019 and 2020 are set out in Note 45.

## 30. BANK BALANCES AND CASH, PLEDGED AND RESTRICTED BANK DEPOSITS

The Group

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank balances and cash | 311,884 | 570,476 | 2,619,113 |
| Pledged and restricted bank deposits | 750 | 61,951 | 149,649 |
| | 312,634 | 632,427 | 2,768,762 |

The Company

| | As at December 31, |
|---|---|
| | **2020** |
| | *RMB'000* |
| Bank balances and cash | 114,307 |
| | 114,307 |

Bank balances carry interest at prevailing market rates which range from 0.3% to 1.38%, 0.3% to 1.38% and 0.3% to 1.61% per annum as at December 31, 2018, 2019 and 2020, respectively.

An analysis of pledged and restricted bank deposits is as follows:

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Deposits pledged to banks to secure banking facilities granted to the Group: | | | |
| Bills payables | – | 60,000 | 128,202 |
| Bank loans | 100 | 100 | 165 |
| Restricted bank deposits | 650 | 1,851 | 21,282 |
| | 750 | 61,951 | 149,649 |
| Less: classified under current assets | (100) | (60,100) | (128,367) |
| Non-current portion | 650 | 1,851 | 21,282 |

The restricted bank deposits included deposits frozen under court orders in relation to ongoing litigations as disclosed in Note 38 and deposits restricted to use for land rehabilitation purpose only.

The restricted and pledged bank balances carry interest at prevailing market rates at 0.3%, ranging from 0.3% to 2.86% and 0.3% to 3.03% per annum as at December 31, 2018, 2019 and 2020, respectively.

## 31. TRADE AND BILLS PAYABLES

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 356,702 | 571,892 | 1,015,870 |
| Bills payables | – | 667 | 422,635 |
| | 356,702 | 572,559 | 1,438,505 |

The following is an aged analysis of trade payables presented based on delivery dates.

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 347,679 | 560,723 | 896,459 |
| 1 to 2 years | 6,855 | 9,120 | 74,789 |
| 2 to 3 years | 1,441 | 1,037 | 10,774 |
| More than 3 years | 727 | 1,012 | 33,848 |
| | 356,702 | 571,892 | 1,015,870 |

The maturity period of bills payables are normally within 1 year based on the invoice dates.

### 32. OTHER PAYABLES AND ACCRUALS

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Payables for purchase of property, plant and equipment | 191,266 | 252,212 | 565,102 |
| Salaries and welfare payables | 88,573 | 107,127 | 181,277 |
| Deposits received from suppliers | 55,721 | 70,708 | 94,464 |
| Service and professional fee payables | 25,950 | 47,347 | 58,636 |
| Freight charges payables | 42,639 | 39,987 | 35,285 |
| Storage fee payables | 22,229 | 26,969 | 13,722 |
| Consideration payable for the acquisition of SKX Group *(Note 43)* | – | – | 110,745 |
| Payables for acquisition of non-controlling interests | – | – | 24,781 |
| Non-income tax related tax payables | 5,554 | 11,664 | 8,607 |
| Sundry payables and accrued expenses | 23,862 | 25,348 | 41,101 |
| Accrued listing expenses | – | – | 13,392 |
| Accrued issue cost | – | – | 2,378 |
| | 455,794 | 581,362 | 1,149,490 |

### 33. CONTRACT LIABILITIES

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Receipts in advance from customers for: | | | |
| Sales of raw milk | – | 8 | – |
| Sales of feeds | 6,227 | 11,542 | 10,076 |
| Sales of ruminant farming products | 139 | 64 | 13,502 |
| Sales of breeding products | – | – | 2,207 |
| Sales of feeder cattle | 3,429 | 6,548 | 8,985 |
| | 9,795 | 18,162 | 34,770 |

Contract liabilities are expected to be settled within the Group's normal operating cycle and will be recognised as revenue when the related performance obligations are satisfied. The management of the Group expects the contract liabilities at the respective reporting period end will be recognised as revenue within one year.

Revenue recognised during each reporting period included the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognised during the Track Record Period that related to performance obligations that were satisfied in prior years.

As at January 1, 2018, contract liabilities amounted to RMB5,452,000.

**34. BANK AND OTHER BORROWINGS**

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank borrowings: | | | |
| Unsecured | 1,341,429 | 2,753,708 | 4,862,089 |
| Secured *(Note (i))* | 400,585 | – | 1,305,041 |
| Other borrowings *(Note (ii))* | – | 28,897 | 29,003 |
| | 1,742,014 | 2,782,605 | 6,196,133 |
| Fixed rate borrowing | 1,041,037 | 780,830 | 3,563,502 |
| Floating rate borrowing | 700,977 | 2,001,775 | 2,632,631 |
| | 1,742,014 | 2,782,605 | 6,196,133 |

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| The carrying amounts of the above borrowings are repayable*: | | | |
| Within one year | 1,742,014 | 1,682,945 | 4,224,527 |
| More than one year but within two years | – | 508,027 | 939,903 |
| More than two years but within five years | – | 591,633 | 933,648 |
| More than five years | – | – | 98,055 |
| | 1,742,014 | 2,782,605 | 6,196,133 |
| Less: Amounts due within one year shown under current liabilities | (1,742,014) | (1,682,945) | (4,224,527) |
| Amounts shown under non-current liabilities | – | 1,099,660 | 1,971,606 |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates of the Group's borrowings are as follows:

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | % | % | % |
| Effective interest rates: | | | |
| Floating rate borrowing | 4.35 to 4.57 | 4.57 to 5.46 | 3.30 to 5.46 |
| Fixed rate borrowing | 4.35 to 5.50 | 3.35 to 6.00 | 2.00 to 6.53 |

Interest rate of variable-rate borrowings are determined based on the relevant borrowing rates announced by the People's Bank of China ("PBOC").

*Notes:*

(i) The secured bank loans of the Group as at December 31, 2018 are secured by certain bank deposits of RMB100,000 (Note 30). The secured bank loans of the Group as at December 31, 2020 are secured by certain biological assets of the Group (Note 22) and bills receivables (Note 27).

(ii) Other borrowings represents loans from certain local governments which will be matured in March 2021. These loans bear a fixed interest rate of 4.75% per annum up to June 30, 2019 and 6% per annum from July 1, 2019 to the maturity date.

## 35. DEFERRED INCOME

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at beginning of the year | 246,918 | 231,622 | 207,843 |
| Government grants received | 15,948 | 19,203 | 35,697 |
| Released to other income *(Note 8)* | (27,033) | (38,773) | (26,487) |
| Released to finance costs *(Note 11)* | (2,075) | (3,925) | – |
| Released to other profit or loss items | (2,136) | (284) | (85) |
| Balance at end of year | 231,622 | 207,843 | 216,968 |

Deferred income arising from government grants of the Group represents the government grants received for capital expenditure incurred for the acquisition of property, plant and equipment, right-of-use assets and biological assets. The amounts are deferred and are credited to the profit or loss on a systematic basis over the useful lives of the related assets. In addition, the Group also received government grants to subsidise specific loan interests and other expense items, which are presented as a reduction in that related expenses reported in the profit or loss.

## 36. LEASE LIABILITIES

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Lease liabilities payable: | | | |
| Within one year | 24,595 | 12,405 | 38,684 |
| Within a period of more than one year but not more than two years | 13,133 | 15,547 | 33,115 |
| Within a period of more than two years but not more than five years | 48,097 | 42,156 | 99,473 |
| Within a period of more than five years | 238,138 | 255,609 | 796,217 |
| | 323,963 | 325,717 | 967,489 |
| Less: Amount due for settlement within 12 months shown under current liabilities | (24,595) | (12,405) | (38,684) |
| Amount due for settlement after 12 months shown under non-current liabilities | 299,368 | 313,312 | 928,805 |

The Group leases various properties to operate its dairy farm business and these lease liabilities were measured at the present value of the lease payments that are not yet paid. All leases are entered at fixed prices. As at December 31, 2018, 2019 and 2020, the weighted average incremental borrowing rate applied ranging from 4.89% to 5.15%, 4.89% to 5.15% and 4.89% to 5.25%, respectively.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function. The lease liabilities of the Group were unguaranteed and secured by rental deposits.

## 37. OTHER LIABILITIES

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Provision for other obligations | 39,679 | – | – |
| Other liabilities at amortised cost | – | 38,164 | 27,106 |
| | 39,679 | 38,164 | 27,106 |
| Less: Portion classified under current liabilities | – | (11,058) | (6,261) |
| Portion classified under non-current liabilities | 39,679 | 27,106 | 20,845 |

In January 2018, the Group entered into a biological assets lease agreement with a third party (the "Third Party") to lease certain dairy cows from the Third Party for a period of five years. Pursuant to the relevant lease agreement, the Group is required to return the same number of dairy cows with same age composition to the Third Party. At initial recognition, the provision for the obligation to return the dairy cows represented the best estimate of the consideration required to settle the present obligation which approximate the fair value of the dairy cows to be returned to the Third Party which amounted to RMB40,622,000. The amount have been recorded as biological assets with a corresponding credit to other liabilities.

The provision for the obligation is subsequently measured with reference to the fair value of the dairy cows to be returned. During the year ended December 31, 2018, reduction in provision of the above obligation of RMB943,000 was credited to profit or loss. During the year ended December 31, 2019 up to the date of termination of the lease agreement as mentioned below, reduction in provision of the above obligation of RMB1,515,000 was recognised to profit or loss.

In December 2019, the Group and the Third Party agreed to terminate the above lease agreement and entered into a biological assets purchase agreement pursuant to which the Group agreed to purchase all the dairy cows. The present value of the consideration amounted to RMB38,164,000, which will be settled by instalments in two years and bear interest at 5.3% per annum.

## 38. OTHER PROVISIONS

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Classified under current liabilities: | | | |
| Provisions for litigations *(Note (i))* | – | – | 18,546 |
| Classified under non-current liabilities: | | | |
| Provision for land rehabilitation *(Note (ii))* | 1,329 | 1,398 | 6,760 |
| | 1,329 | 1,398 | 25,306 |

*Notes:*

(i) The provisions represent the expected loss from a civil litigation against the Group for alleged failure to supply products to a customer.

(ii) The provisions are related to an obligation to incur rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing dairy farming operation. The movements during the Track Record Period represented additional provision made as required by local authority and the unwinding of the discount on the provisions charged to profit or loss as a finance cost.

## 39. CONVERTIBLE NOTES

In November 2020, several pre-IPO investors (the "Pre-IPO Investors") entered into subscription agreements with the Company in relation to issue of convertible notes with an aggregate principal amount of US$460 million (equivalent to approximately RMB3,051 million). The convertible notes are subject to cash interest and pay-in-kind interest (the "PIK Interest") on the outstanding principal amount at the rate of 4% per annum and 6% per annum, respectively. The cash interest is payable on the last day of each quarter in arrears commencing on December 31, 2020. The PIK Interest shall capitalise and be added into the then outstanding principal amount, whereupon PIK Interest shall accrue on the then outstanding principal amount plus any capitalised amount of PIK Interest at the same rate. Accrued and capitalised PIK Interest on any portion of the principal amount that is converted into ordinary shares of the Company shall be waived upon the completion of such conversion.

The key terms of the convertible notes are summarised as follows:

### (a) Conversion option

The Pre-IPO Investors shall have the right, but not the obligation, to convert the outstanding principal amount into such number of the ordinary shares of the Company at any time subject to and in accordance with terms and conditions attached to the convertible notes. The initial conversion price upon issuance shall be US$0.44605 per ordinary share, subject to anti-dilution adjustments for any subdivision, combination or reclassification of the ordinary shares of the Company, or for any capital distribution made to shareholders. The conversion price shall increase at a rate of 2% per annum, or 0.5% per quarter, on each interest payment date, commencing from the third anniversary of the relevant issuance date.

### (b) Redemption on maturity

The convertible notes will be matured on the third anniversary of the issuance date and, at the sole discretion of the Pre-IPO Investors, may be extended to the fifth anniversary of the issuance date. Unless the entire principal amount of the convertible notes have been redeemed or converted earlier in accordance with the terms thereof, the Company shall redeem the entire outstanding principal amount of the convertible notes in full together with accrued interest. The Pre-IPO Investors may at any time after the occurrence of an event of default as stipulated in the convertible notes instruments require the Company to redeem the outstanding principal amount of the convertible notes or any portion thereof at the redemption price as defined in the convertible notes instruments.

### (c) Early redemption

Upon the expiration of the fifteenth month of the issuance date, the Pre-IPO Investors has an one-off right to require the Company to redeem all outstanding principal amounts of this convertible notes (including the outstanding principal amount plus total accrued interest calculated at 10% per annum (cash interest and PIK Interest) on the principal), or any portion thereof.

The Group has designated the convertible notes as financial liabilities at FVTPL. The fair value change of the convertible notes is recognised in profit or loss except for the portion attributable to credit risk change which shall be recognised in other comprehensive income, if any. The directors of the Company consider that the credit risk change on the financial liabilities that drive the fair value change of the financial liabilities during year is immaterial.

| | *RMB'000* |
|---|---|
| At January 1, 2020 | – |
| Issue of convertible notes | 3,050,656 |
| Cash interest paid | (17,777) |
| Changes in fair value *(Note)* | 10,769 |
| At December 31, 2020 | 3,043,648 |

*Note:* The changes in fair value presented in RMB also includes the exchange effect on translation from United States dollar balances into RMB.

The convertible notes were valued by the directors of the Company with reference to an independent qualified professional valuer, Jones Lang LaSalle, not connected to the Group, which has appropriate qualifications and experiences in valuation of similar instruments. The principal address of Jones Lang LaSalle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

Binomial model was used to determine the underlying equity value of the Company.

Key valuation assumptions used to determine the fair value of the convertible notes are as follows:

| | **As at December 31, 2020** |
|---|---|
| Risk-free interest rate | 0.10% |
| Volatility | 37.15% |
| Stock price (HKD) | 3.94 |
| Dividend yield | 0.00% |
| Discount Rate | 27.63% |

Due to the change of the functional currency of the Company subsequent to the Reporting Period as detailed in Note 1, the Company reassessed the measurement of the debt component and derivative component of the convertible notes. Upon the change of the functional currency of the Company, the debt component of the convertible notes are remeasured at amortised cost using the effective interest method and the derivative component of the convertible notes are reclassified as an equity instrument and included in equity.

## 40. SHARE CAPITAL AND RESERVES OF THE COMPANY

### (a) Share capital of the Company

| | **Number of Ordinary shares** | **Nominal value of ordinary shares** | **Equivalent nominal value of ordinary shares** |
|---|---|---|---|
| | | *USD* | *RMB* |
| Authorised: | | | |
| At August 21, 2020 (date of incorporation) and December 31, 2020 | 10,000,000,000 | 100,000 | 691,070 |
| Issued: | | | |
| At August 21, 2020 (date of incorporation) | 1 | –* | –* |
| Issue of ordinary shares | 3,301,999,999 | 33,020 | 219,406 |
| At December 31, 2020 | 3,302,000,000 | 33,020 | 219,406 |

* Less than RMB1

On August 21, 2020, the Company was incorporated as an exempted company with limited liability under the laws of Cayman Islands with an authorised share capital of US$100,000 divided into 10,000,000,000 ordinary shares of US$0.00001 each. On incorporation, the Company issued 1 ordinary share with a par value of US$0.00001 to the subscriber. On October 27, 2020, the Company issued 3,301,999,999 ordinary shares with a par value of US$0.00001 to Youran Holding as part of the reorganisation as detailed in Note 2.

The reorganisation has not been completed as at December 31, 2019. For the purpose of presentation of the consolidated statement of financial position, the share capital as at December 31, 2018 and 2019 represents the issued share capital of Youran BVI, which was incorporated in the British Virgin Islands.

**(b) Reserves of the Company**

| | Share premium | Accumulated loss | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At August 21, 2020 (date of incorporation) | – | – | – |
| Loss and total comprehensive expense for the period | – | (75,196) | (75,196) |
| Effect of the reorganisation *(Note 2)* | 5,778,281 | – | 5,778,281 |
| Dividend paid *(Note 16)* | (1,198,748) | – | (1,198,748) |
| At December 31, 2020 | 4,579,533 | (75,196) | 4,504,337 |

## 41. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the PRC government. The PRC subsidiaries are required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit schemes during the Track Record Period are disclosed in Note 13.

## 42. PLEDGE OF ASSETS

Certain of the Group's bank and other borrowings and bills payables had been secured by the pledge of the Group assets and the carrying amounts of the respective assets are as follows:

| | As at December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Pledged bank deposits *(Note 30)* | 100 | 60,100 | 128,367 |
| Bills receivables *(Note 27)* | – | – | 18,000 |
| Biological assets *(Note 22)* | – | – | 1,919,064 |
| | 100 | 60,100 | 2,065,431 |

## 43. BUSINESS COMBINATION

On January 8, 2020, the Group acquired 536,066,738 issued ordinary shares of Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技術(集團)股份有限公司) ("SKX", together with its subsidiaries, collectively "SKX Group"), a company listed on the new over-the-counter market (新三板) in the PRC, from the existing shareholders, which represent approximately 58.36% equity interests in SKX, for an aggregate consideration of RMB2,278,284,000, subject to certain adjustment clauses.

Out of 536,066,738 issued ordinary shares acquired by the Group, 124,691,568 issued ordinary shares were held by three shareholders (the "Shareholders") and under trading restriction (the "Restricted Shares"), which prohibits the Shareholders from transferring the legal title of the Restricted Shares to the Group before the end of the restriction period. For the purpose of this acquisition, the Group has entered into share pledge agreements with the Shareholders whereby the Shareholders have agreed to grant all the shareholder rights, including the voting right, adhered to the Restricted Shares, to the Group until the legal title of the Restricted Shares can be transferred to the Group. The Restricted Shares were released and transferred to the Group on September 2, 2020.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB762,741,000. SKX Group is mainly engaged in the dairy breeding and farming. SKX Group was acquired so as to continue the expansion of the Group's dairy farming operations.

Goodwill arose in the acquisition of SKX Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The fair values of the identifiable assets and liabilities of SKX Group recognised at the date of acquisition are as follows:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 2,372,751 |
| Investment properties | 13,416 |
| Right-of-use assets | 382,356 |
| Intangible assets | 733 |
| Biological assets | 2,751,180 |
| Deferred tax assets | 795 |
| Interests in a joint venture | 733 |
| Equity instruments at FVTOCI | 46,688 |
| Deposits paid for purchase of property, plant and equipment and biological assets | 2,234 |
| Inventories | 678,067 |
| Trade receivables | 206,885 |
| Bills receivables at FVTOCI | 1,000 |
| Prepayments, deposits and other receivables | 32,933 |
| Pledged and restricted bank deposits | 24,997 |
| Bank balances and cash | 162,299 |
| Trade and bills payables | (1,304,917) |
| Other payables and accruals | (343,058) |
| Bank and other borrowings | (2,049,159) |
| Contract liabilities | (178,156) |
| Lease liabilities | (303,981) |
| Other provisions | (13,346) |
| Income tax payable | (16) |
| Total | 2,484,434 |

The fair value of trade receivables at the date of acquisition amounted to RMB206,885,000. The gross contractual amounts of those trade receivables acquired amounted to RMB251,657,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB44,772,000.

Acquisition-related costs amounting to RMB23,410,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended 31 December 2019, within the "other expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

**Goodwill arising on acquisition**

| | *RMB'000* |
|---|---|
| Purchase consideration | 2,278,284 |
| Less: Adjustments pursuant to the acquisition agreement *(Note 51)* | (69,041) |
| Adjusted purchase consideration | 2,209,243 |
| Plus: Non-controlling interests | 1,037,932 |
| Less: Net assets acquired | (2,484,434) |
| Goodwill arising on acquisition | 762,741 |

The purchase consideration of RMB2,278,284,000 is determined based on share price of SKX Group and business valuation. According to the relevant sale and purchase agreement, the purchase consideration is subject to adjustments if the assets of SKX Group recorded certain amount of impairment loss based on the PRC GAAP audited financial statements of SKX Group for the year ended December 31, 2019 as compared to the audited net assets as at December 31, 2018.

Out of the adjusted purchase consideration of approximately RMB2,209,243,000, RMB2,098,498,000 has been settled and the remaining balance of RMB110,745,000 has been recorded under other payables as at December 31, 2020.

The Group has elected to measure the non-controlling interest of SKX at the non-controlling interest's proportionate share of respective identified net assets.

**Net cash outflows on acquisition**

| | *RMB'000* |
|---|---|
| Consideration paid | (2,098,498) |
| Bank balances and cash acquired | 162,299 |
| Net cash outflows on acquisition | (1,936,199) |

Included in the profit for the year ended December 31, 2020 is RMB391,756,000 attributable to the additional business generated by SKX Group. Revenue for the year ended December 31, 2020 includes RMB2,959,784,000 generated from SKX Group.

Had the acquisition been completed on January 1, 2020, total group revenue for the year ended December 31, 2020 would have been RMB11,834,400,000, and profit for the year ended December 31, 2020 would have been RMB1,547,202,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2020, nor is it intended to be a projection of future results.

In determining the 'pro forma' revenue and profit of the Group had SKX Group been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

## 44. CATEGORIES OF FINANCIAL INSTRUMENTS

| | **As at December 31,** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets** | | | |
| Financial assets at amortised cost | 1,083,634 | 1,781,718 | 4,192,134 |
| Equity instruments at FVTOCI | – | – | 72,040 |
| Bills receivables at FVTOCI | 27,147 | 75,679 | 27,080 |
| **Financial liabilities** | | | |
| Financial liabilities at amortised cost | 2,460,455 | 3,856,056 | 8,635,607 |
| Convertible notes at FVTPL | – | – | 3,043,648 |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity instruments at FVTOCI, trade and bills receivables, deposits and other receivables, pledged and restricted bank deposits, bank balances and cash, amounts due from/to related parties, trade and bills payables, other payables, bank and other borrowings, convertible notes and other liabilities at amortised cost. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged during the Track Record Period.

**Market risk**

***Currency risk***

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from monetary assets and liabilities denominated in foreign currencies.

The Group operates mainly in the PRC and majority of revenue and cost of goods sold and operations are denominated in Renminbi ("RMB"). Almost all of the revenue and costs are denominated in the group entities' respective functional currency.

The Group is exposed to foreign currency risk primarily with respect to the changes of exchange rate of United States dollars ("US$") against RMB, which is the functional currency of most of the Group's operating entities. Several subsidiaries of the Company have foreign currency bank balances which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets (bank balances) and liabilities (convertible notes) at the end of each reporting period are as follows:

| | **As at December 31,** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank balances denominated in US$ | 218 | 241 | 115,112 |
| Convertible notes in US$ | – | – | 3,043,648 |

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

*Sensitivity analysis*

The Group is mainly exposed to the effects of fluctuation in RMB against US$. The following table details the Group's sensitivity to a 5% increase or decrease in RMB against US$. The percentage represents management's assessment of the reasonably possible change in foreign exchange rate. At the end of each reporting period, if the exchange rate had been weakened/strengthened in RMB against US$ by 5% and all other variables were held constant, the Group's post-tax profit for each reporting period would decrease/increase as follow:

| | **Change in exchange rate** | **Increase/(decrease) in profit after tax** | | |
|---|---|---|---|---|
| | | **2018** | **2019** | **2020** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| RMB strengthen against US$ | 5% | (11) | (12) | 146,426 |
| RMB weaken against US$ | 5% | 11 | 12 | (146,426) |

***Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 34 for details of these borrowings) and lease liabilities (see Note 36 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged and restricted bank deposits (see Note 30 for details) and variable-rate bank borrowings (see Note 34 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates quoted by PBOC arising from the Group's RMB denominated borrowings.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of each reporting period. The analysis is prepared assuming the variable-rate bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis point increase or decrease in variable-rate bank borrowings are used during the Track Record Period when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances, pledged and restricted bank deposits are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant during the Track Record Period.

If interest rates on variable interest rate borrowings had been 50 basis points higher/lower and all other variables were held constant (without taking into account the effect of interest capitalisation and government grants for specific loan interests), the potential effect on post-tax profit of the Group is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Post-tax profit would decrease/increase by | 3,505 | 9,991 | 13,123 |

***Other price risk***

The Group is exposed to equity price risk through its investments in certain unquoted equity securities for long term strategic purposes which had been designated as FVTOCI. The Group is also exposed to other price risk arising from convertible notes which had been designated as FVTPL.

*Sensitivity analysis*

Unquoted equity securities

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. Sensitivity analyses for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in Note 46. If the prices of the respective equity instruments had been 10% higher/lower as at December 31, 2020, the post-tax profit for the year ended December 31, 2020 would increase/decrease by RMB7,164,000 as a result of the changes in fair value of investments at FVTOCI.

Convertible notes

For the convertible notes outstanding at December 31, 2020, if the stock price of the Company had been 10% higher/lower, the post-tax profit of the Group for the year ended December 31, 2020 would decrease by RMB248,506,000 and increase by RMB229,264,000, as a result of the changes in fair value of the Company's equity value.

**Credit risk and impairment assessment**

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and the current economic environment.

The Group performs impairment assessment under ECL model on financial assets individually or based on provision matrix. The Group also reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group consider that the Group's credit risk is significantly reduced.

***Trade receivables and contract assets arising from contracts with customers***

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade receivables balances individually or on provision matrix, of which these receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to ageing for the customers. Details of the quantitative disclosures are set out below in this Note.

***Amounts due from related parties***

The receivables from related parties are trade in nature and mostly related to the sales of raw milk to a shareholder (Note 47). Payments are generally due in two weeks after delivery and there is no history of default. The directors of the Company believe that the failure of the shareholder to make required payments is unlikely after considering its past settlement records and financial position.

Other than concentration of credit risk on receivables from related parties of RMB128,571,000, RMB145,519,000 and RMB554,548,000 as at December 31, 2018, 2019 and 2020, respectively, the Group's trade receivables consist of a large number of customers and does not have any other significant concentration of credit risk.

***Deposits and other receivables, bills receivables***

For deposits and other receivables, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. During the Track Record Period, the Group assessed ECL for other receivables and deposits on an individual basis to ensure that adequate impairment loss is made. Details of the quantitative disclosures are set out below in this Note.

***Bank balances, pledged and restricted bank deposits***

The credit risk on bank balances, pledged and restricted bank deposits of the Group is limited because the counterparties are banks with good reputation in the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

| **Internal credit rating** | **Description** | **Trade receivables/contract assets** | **Other financial assets** |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL – not credit-impaired | 12-month ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Loss | There is evidence indicating the asset is credit- impaired | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment under IFRS 9:

| | | | | **Gross carrying amount As at December 31,** | | |
|---|---|---|---|---|---|---|
| | *Notes* | | | **2018** | **2019** | **2020** |
| | | | | *RMB'000* | *RMB'000* | *RMB'000* |
| ***Financial assets at amortised cost*** | | | | | | |
| Trade receivables | 26 | Low risk | Lifetime ECL (provision matrix) | 438,451 | 556,386 | 498,924 |
| | | Low risk | Lifetime ECL (assessed individually) | 40,896 | 102,684 | 48,712 |
| | | Doubtful | Lifetime ECL (provision matrix) | 110,075 | 300,866 | 302,469 |
| | | Doubtful | Lifetime ECL (assessed individually) | 28,236 | 19,614 | 3,281 |
| | | Loss | Credit-impaired | 1,275 | 20,296 | 47,570 |
| | | | | 618,933 | 999,846 | 900,956 |
| Bills receivables | 27 | Low risk | 12-month ECL | 27,147 | 75,679 | 27,080 |
| Deposits and other receivables | 29 | Low risk | 12-month ECL | 24,771 | 29,474 | 36,925 |
| | | Loss | Credit-impaired | 638 | 5 | 3,729 |
| | | | | 25,409 | 29,479 | 40,654 |

| | Notes | | | Gross carrying amount As at December 31, 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| | | | | RMB'000 | RMB'000 | RMB'000 |
| Amounts due from related parties | 47 | Low risk | Lifetime ECL (not credit-impaired) | 128,571 | 145,519 | 555,676 |
| Pledged and restricted bank deposits | 30 | Low risk | 12-month ECL | 750 | 61,951 | 149,649 |
| Bank balances | 30 | Low risk | 12-month ECL | 311,884 | 570,476 | 2,619,113 |
| ***Other item*** | | | | | | |
| Contract assets | 28 | Low risk | Lifetime ECL (not credit-impaired) | 15,547 | 7,527 | 12,139 |

For trade receivables, amounts due from related parties and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, which are assessed individually, the Group determines the expected credit losses on trade receivables and contract assets by using a provision matrix, grouped ageing status, as these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at December 31, 2018 and 2019 and 2020, within lifetime ECL (not credit impaired).

| | As at December 31, 2018 | 2019 | 2020 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Within 90 days | 515,809 | 740,963 | 697,317 |
| 90 days to 1 year | 32,717 | 116,289 | 104,076 |
| Total | 548,526 | 857,252 | 801,393 |

The average loss rate as at December 31, 2018, 2019 and 2020 is zero, ranging from 0.22% to 10.97% and 3.36% to 18.82%, respectively. The average loss rate as at 31 December 2018 is assessed as zero given no credit losses was incurred in the three years prior to 2018.

The exposure to credit risk of contract assets assessed based on provision matrix are insignificant during the Track Record Period.

The above calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables measured at amortised cost under the simplified approach.

| | Lifetime ECL (Not credit-impaired) | Lifetime ECL (credit-impaired) | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| As at January 1, 2018 | – | 300 | 300 |
| Changes for trade receivables recognised as at January 1, 2018: | | | |
| Impairment loss recognised | – | 609 | 609 |
| Write-offs | – | (287) | (287) |
| New trade receivables originated | – | 653 | 653 |
| As at December 31, 2018 | – | 1,275 | 1,275 |
| Changes for trade receivables recognised as at January 1, 2019: | | | |
| Impairment loss recognised | – | 4,470 | 4,470 |
| Impairment loss reversed | – | (209) | (209) |
| New trade receivables originated | 5,252 | 14,760 | 20,012 |
| As at December 31, 2019 | 5,252 | 20,296 | 25,548 |
| Changes for trade receivables recognised as at January 1, 2020: | | | |
| Impairment loss recognised | – | 11,721 | 11,721 |
| Impairment loss reversed | – | (11,588) | (11,588) |
| Write-offs | – | (472) | (472) |
| New trade receivables originated or purchased | 13,613 | 27,613 | 41,226 |
| As at December 31, 2020 | 18,865 | 47,570 | 66,435 |

During the years ended December 31, 2018, 2019 and 2020, the Group provided nil, RMB5,252,000 and RMB13,613,000 impairment allowance for trade receivables, respectively, based on the provision matrix. Additional impairment allowance of RMB1,262,000, RMB19,230,000 and RMB39,334,000 were made on debtors with significant balances or credit-impaired debtors for the years ended December 31, 2018, 2019 and 2020, respectively.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

The following table shows the movement in lifetime ECL (credited impaired) that has been recognised for other receivables measured at amortised cost under the simplified approach.

| | Lifetime ECL (credit-impaired) |
|---|---|
| | *RMB'000* |
| As at January 1, 2018 | 447 |
| Changes for other receivables recognised as at January 1, 2018: | |
| Impairment loss recognised | 191 |
| As at December 31, 2018 | 638 |
| Changes for other receivables recognised as at January 1, 2019: | |
| Impairment loss recognised | 488 |
| Write-offs | (1,121) |

| | Lifetime ECL (credit-impaired) |
|---|---|
| | *RMB'000* |
| As at December 31, 2019 | 5 |
| Changes for other receivables recognised as at January 1, 2020: | |
| Impairment loss recognised | 4,043 |
| Impairment loss reversed | (319) |
| As at December 31, 2020 | 3,729 |

During the years ended December 31, 2018, 2019 and 2020, the Group provided RMB191,000, RMB488,000 and RMB4,043,000 impairment allowance for other receivables, respectively, with credit-impaired debtors.

The Group writes off an other receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the other receivables are over two years past due, whichever occurs earlier.

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group had net current liabilities of RMB538,812,000 as at December 31, 2020, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the directors of the Company regularly monitor the operating cash flows of the Group to meet its liquidity requirement in the short and long term. The Group's net current liabilities position as at December 31, 2020 was mainly attributable to trade and bills payables, other payables and accruals, bank and other borrowings due within one year.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance and including unutilised bank loan facilities, in assessing whether the Group will have sufficient financial resources to continue as a going concern. Meanwhile, the Group recorded net operating cash inflows during the Track Record Period.

The directors of the Company have prepared a working capital forecast of the Group covering a period of not less than 12 months from December 31, 2020. Based on the forecast, the sufficiency of the Group's working capital for the next 12 months depends on the Group's ability to obtain the anticipated cash flows from the Group's operating activities and the unutilised bank loan facilities obtained. The directors of the Company, after taking into account the reasonably possible changes in the operational performance and the availability of borrowings, are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due.

The following table sets out the Group's remaining contractual maturity for its financial liabilities as at the end of each reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period.

| | Weighted average interest rate | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***As at December 31, 2018*** | | | | | | | |
| Trade and bills payables | – | 356,702 | – | – | – | 356,702 | 356,702 |
| Other payables and accruals | – | 331,505 | 12,296 | 17,866 | – | 361,667 | 361,667 |
| Amounts due to related parties | – | 72 | – | – | – | 72 | 72 |
| Bank borrowings: | | | | | | | |
| Fixed-rate | 4.35 to 5.50 | 1,064,962 | – | – | – | 1,064,962 | 1,041,037 |
| Variable-rate | 4.35 to 4.57 | 722,292 | – | – | – | 722,292 | 700,977 |
| Lease liabilities | 4.89 to 5.15 | 36,120 | 32,020 | 88,339 | 401,510 | 557,989 | 323,963 |
| | | 2,511,653 | 44,316 | 106,205 | 401,510 | 3,063,684 | 2,784,418 |
| ***As at December 31, 2019*** | | | | | | | |
| Trade and bills payables | – | 572,559 | – | – | – | 572,559 | 572,559 |
| Other payables and accruals | – | 434,976 | 21,220 | 6,375 | – | 462,571 | 462,571 |
| Amounts due to related parties | – | 157 | – | – | – | 157 | 157 |
| Bank and other borrowings: | | | | | | | |
| Fixed-rate | 3.35 to 6.00 | 693,206 | 112,815 | – | – | 806,021 | 780,830 |
| Variable-rate | 4.57 to 5.46 | 1,075,108 | 440,209 | 621,351 | – | 2,136,668 | 2,001,775 |
| Lease liabilities | 4.89 to 5.15 | 32,656 | 31,289 | 84,880 | 420,931 | 569,756 | 325,717 |
| Other liabilities | 5.30 | 12,750 | 7,500 | 22,500 | – | 42,750 | 38,164 |
| | | 2,821,412 | 613,033 | 735,106 | 420,931 | 4,590,482 | 4,181,773 |
| ***As at December 31, 2020*** | | | | | | | |
| Trade and bills payables | – | 1,438,505 | – | – | – | 1,438,505 | 1,438,505 |
| Other payables and accruals | – | 950,758 | 8,672 | 176 | – | 959,606 | 959,606 |
| Amounts due to related parties | – | 14,257 | – | – | – | 14,257 | 14,257 |
| Bank and other borrowings: | | | | | | | |
| Fixed-rate | 2.00 to 6.53 | 3,141,132 | 102,278 | 388,992 | 17,543 | 3,649,945 | 3,563,502 |
| Variable-rate | 3.30 to 5.46 | 1,200,656 | 926,718 | 625,381 | 81,769 | 2,834,524 | 2,632,631 |
| Lease liabilities | 4.89 to 5.25 | 92,462 | 73,529 | 202,880 | 1,578,175 | 1,947,046 | 967,489 |
| Convertible notes* | 10 | 120,058 | 3,241,495 | – | – | 3,361,553 | 3,043,648 |
| Other liabilities | 5.3 | 7,500 | 7,500 | 15,000 | – | 30,000 | 27,106 |
| | | 6,965,328 | 4,360,192 | 1,232,429 | 1,677,487 | 14,235,436 | 12,646,744 |

* In respect of the convertible notes, the Pre-IPO Investors has an one-off right to require the Company to redeem all outstanding principal amount upon the expiration of the fifteenth month of the issuance date as disclosed in Note 39. The interest rate 10% represents the contractual rates in the convertible notes, including 4% cash interest and 6% PIK interest.

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**46. FAIR VALUE MEASUREMENTS**

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Company reports its findings to the board of directors of the Company to explain the cause of fluctuations in the fair value.

The Group's biological assets and certain of the Group's financial assets are measured at fair value on a recurring basis at the end of each reporting period. The following table gives information about how the fair values of these biological assets and financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 2 and 3) based on the degree to which the inputs to the fair value measurements is observable.

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***As at December 31, 2018*** | | | | |
| Assets | | | | |
| Biological assets: | | | | |
| Calves and heifers *(Note (a))* | – | – | 1,010,321 | 1,010,321 |
| Milkable cows *(Note (b))* | – | – | 1,596,129 | 1,596,129 |
| Feeder cattle *(Note (c))* | – | – | 1,629 | 1,629 |
| Bills receivables at FVTOCI *(Note (e))* | – | – | 27,147 | 27,147 |
| | – | – | 2,635,226 | 2,635,226 |
| ***As at December 31, 2019*** | | | | |
| Assets | | | | |
| Biological assets: | | | | |
| Calves and heifers *(Note (a))* | – | – | 1,094,787 | 1,094,787 |
| Milkable cows *(Note (b))* | – | – | 2,228,130 | 2,228,130 |
| Feeder cattle *(Note (c))* | – | – | 12,070 | 12,070 |
| Bills receivables at FVTOCI *(Note (e))* | – | – | 75,679 | 75,679 |
| | – | – | 3,410,666 | 3,410,666 |
| ***As at December 31, 2020*** | | | | |
| Assets | | | | |
| Biological assets: | | | | |
| Calves and heifers *(Note (a))* | – | – | 2,432,082 | 2,432,082 |
| Milkable cows *(Note (b))* | – | – | 4,564,233 | 4,564,233 |
| Feeder cattle *(Note (c))* | – | – | 9,564 | 9,564 |
| Breeding stock *(Note (d))* | – | – | 41,797 | 41,797 |
| Bills receivables at FVTOCI *(Note (e))* | – | – | 27,080 | 27,080 |
| Equity instruments at FVTOCI *(Note (f))* | – | – | 72,040 | 72,040 |
| | – | – | 7,146,796 | 7,146,796 |
| Liability | | | | |
| Convertible notes *(Note (g))* | – | – | 3,043,648 | 3,043,648 |

There were no transfers between Level 1 and 2 during the Track Record Period and there were no transfers into or out of Level 3 during the Track Record Period.

| Notes | Assets | Valuation technique(s) input(s) | Significant unobservable input(s) | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|---|
| (a) | Biological assets – Calves and heifers | The fair value of 14 months old heifers is determined by reference to the local market selling price.<br><br>The fair values of calves and heifers at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser.<br><br>Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser. | Estimated local market selling prices of the heifers of 14 months old are ranging from RMB17,000 to RMB19,000, RMB18,500 and RMB19,000 to RMB19,400 per head as at December 31, 2018, 2019 and 2020, respectively.<br><br>Estimated feeding costs per head plus margin that would normally be required by a raiser for calves and heifers younger than 14 months old (i.e. from born to 14 months) are ranging from RMB16,184 to RMB18,474, RMB16,183 to RMB18,287 and RMB15,386 to RMB17,245 as at December 31, 2018, 2019 and 2020, respectively.<br><br>Estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are ranging from RMB10,876 to RMB13,365, RMB12,210 to RMB15,517 and RMB9,596 to RMB13,110 as at December 31, 2018, 2019 and 2020, respectively. | An increase in the estimated local market selling price used would result in an increase in the fair value measurement of calves and heifers, and vice versa.<br><br>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in an increase/ decrease in the fair value measurement of calves and heifers older/younger than 14 months old, and vice versa. |

| Notes | Assets | Valuation technique(s) input(s) | Significant unobservable input(s) | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|---|
| (b) | Biological assets – Milkable cows | The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows. | Estimated feed costs per kg of raw milk used in the valuation process are ranging from RMB2.06 to RMB2.97, RMB2.06 to RMB2.81, RMB2.01 to RMB2.54 for the years ended 31 December 2018, 2019 and 2020, respectively, based on the historical average feed costs per kg of raw milk after taking into consideration of inflation. | An increase in the estimated feed costs per kg of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa. |
| | | | A milkable cow could have as many as six lactation cycles. Estimated daily milk yield at each lactation cycle is ranging from 18.09kg to 29.02kg, 19.86kg to 30.49kg, 18.84kg to 31.92kg for the years ended 31 December 2018, 2019 and 2020, depending on the number of the lactation cycles and the individual physical condition. | An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of milkable cows, and vice versa. |
| | | | Estimated local future market prices for raw milk are ranging from RMB3,860 to RMB5,670 per tonne, RMB4,080 to RMB5,620 per tonne, and RMB4,230 to RMB5,690 per tonne as at 31 December 2018, 2019 and 2020, respectively. | An increase in the estimated average selling price of raw milk would result in an increase in the fair value measurement of milkable cows, and vice versa. |
| | | | Discount rate for estimated future cash flows used is 13%, 13% and 13% as at 31 December 2018, 2019 and 2020, respectively. | An increase in the estimated discount rate used would result in a decrease in the fair value measurement of milkable cows, and vice versa. |

| Notes | Assets | Valuation technique(s) input(s) | Significant unobservable input(s) | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|---|
| (c) | Biological assets – Feeder cattle | Feeder cattle includes bull calves and beef cattle.<br><br>The fair value of 15 days bull calf is determined by reference to the local market selling price.<br><br>The fair value of bull calves are determined by reference to the local market selling price of 15 days old bull calves and the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period.<br><br>The fair value of beef cattle is determined by reference to the local market selling price subtracting the estimated feeding costs to selling date. | Estimated local market selling prices of the 15 days bull calf are RMB3,015, RMB4,201 and RMB4,838 per head as at December 31, 2018, 2019 and 2020, respectively.<br><br>Estimated feeding costs per head daily for bull calves are RMB10.10, RMB15.88 and RMB24.44 for the years ended December 31, 2018, 2019 and 2020, respectively.<br><br>Estimated local market selling prices of the beef cattle are RMB8,462, RMB18,373 and RMB17,608 per head as at December 31, 2018, 2019 and 2020, respectively. | An increase in the estimated local market selling prices of bull calf used would result in an increase in the fair value measurement of bull calves, and vice versa.<br><br>An increase in the estimated feeding costs would normally be required by a raiser used would result in an increase/ decrease in the fair value measurement of bull calves older/younger than 15 days old, and vice versa.<br><br>An increase in the estimated local market selling prices of beef cattle used would result in an increase in the fair value measurement of beef cattle, and vice versa. |
| (d) | Biological assets – Breeding stock | The fair values of breeding stock are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such breeding stock. | The estimated feed costs per day per bull used in the valuation process are RMB41 for the year ended December 31, 2020 based on the historical average feed costs per day of breeding stock after taking into consideration of inflation.<br><br>Estimated local future market prices for sex-sorting frozen bovine semen are RMB134.04 per straw as at December 31, 2020.<br><br>Estimated local future market prices for conventional frozen bovine semen are RMB16.66 per straw as at December 31, 2020.<br><br>Discount rate for estimated future cash flow used is 13% as at December 31, 2020. | An increase in the estimated feed costs per day of breeding stock used would result in a decrease in the fair value measurement of the breeding stock, and vice versa.<br><br>An increase in the estimated selling price of frozen dairy bovine semen used would result in an increase in the fair value measurement of breeding stock, and vice versa.<br><br>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of breeding stock, and vice versa. |

| Notes | Assets | Valuation technique(s) input(s) | Significant unobservable input(s) | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|---|
| (e) | Bills receivables at FVTOCI | Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bills receivables. | Discount rate is 4.80%, 3.35% to 3.91% and 3.18% to 3.29% as at December 31, 2018, 2019 and 2020, respectively. | An increase in discounted rate would result in a decrease in the fair value measurement of the financial assets at FVTOCI, and vice versa.<br><br>If the discounted rate increases by 1%, the estimated fair value of bills receivables at FVTOCI will decrease by RMB1,575,000, RMB3,608,000 and RMB1,143,000 as at December 31, 2018, 2019 and 2020 respectively, and vice versa. |
| (f) | Equity instruments at FVTOCI | Market approach | Fair value is estimated based on value of comparable listed companies and discounted for lack of liquidity. | An increase in the discount of fair value for lack of liquidity would result in a decrease in the fair value measurement of the unquoted equity investments.<br><br>If the discount of fair value for lack of liquidity increase by 1%, the estimated fair value of equity instruments at FVTOCI will decrease by RMB889,000 as at December 31, 2020, vice versa. |

| Notes | Assets | Valuation technique(s) input(s) | Significant unobservable input(s) | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|---|
| (g) | Convertible notes | Debt component: Discount cash flow method<br><br>Conversion option component: Binominal model | Discount cash flow method: Discount rate is 27.63% at December 31, 2020.<br><br>Binominal model: Volatility of 37.15%, taking into account historical data of the comparable companies. | An increase in discount rate would result in a decrease in the fair value measurement of the convertible notes, and vice versa. If the discount rate increase 5% to 29.01% or decrease 5% to 26.24% while holding all other variables constant, the carrying amount of the convertible notes would decrease by RMB57,382,000 or increase by RMB59,780,000 as at December 31, 2020.<br><br>A slight increase in the expected volatility used in isolation would result in a slight increase in the fair value measurement of convertible notes, and vice versa. If the volatility increase 5% to 39.01% or decrease 5% to 35.29% while holding all other variables constant, the carrying amount of the convertible notes would increase by RMB36,986,000 or decrease by RMB37,164,000 as at December 31, 2020. |

**Reconciliation of Level 3 fair value measurements**

The reconciliations for biological assets are set out in Note 22. The reconciliations for financial assets under Level 3 fair value measurements are as follows:

| | **Bills receivables at FVTOCI** | **Equity instruments at FVTOCI** | **Convertible notes** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 27)* | *(Note 24)* | *(Note 39)* | |
| At January 1, 2018 | 36,209 | – | – | 36,209 |
| Purchases | 27,147 | – | – | 27,147 |
| Settlements | (36,209) | – | – | (36,209) |
| At December 31, 2018 | 27,147 | – | – | 27,147 |
| Purchases | 75,679 | – | – | 75,679 |
| Settlements | (27,147) | – | – | (27,147) |
| At December 31, 2019 | 75,679 | – | – | 75,679 |
| Purchases | 81,298 | – | – | 81,298 |
| Settlements | (129,897) | – | – | (129,897) |
| Acquisition of subsidiaries *(Note 43)* | – | 46,688 | – | 46,688 |
| Issue of convertible notes | – | – | (3,050,656) | (3,050,656) |
| Fair value changes during the year | – | 25,352 | (10,769) | 14,583 |
| Cash interest paid | – | – | 17,777 | 17,777 |
| At December 31, 2020 | 27,080 | 72,040 | (3,043,648) | (2,944,528) |

The fair value changes for equity instruments at FVTOCI during the year ended December 31, 2020 is reported as changes of "Investment revaluation reserve". No gain or loss relating to bills receivables at FVTOCI has been recognised during the Track Record Period.

**Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis**

The management of the Group considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair value.

## 47. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Historical Financial Information, the Group had the following material transactions and balances with Inner Mongolia Yili Industrial Group Co., Ltd. ("Yili", together with its subsidiaries, collectively "Yili Group"), a major shareholder of the Group, during the Track Record Period.

**Transactions with Yili Group**

| | *Notes* | Year ended December 31, 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Sales of raw milk to Yili Group | *(a)* | 2,393,105 | 2,845,380 | 6,701,441 |
| Sales of consumables to Yili Group | *(a)* | 70 | – | 27 |
| Purchase of raw materials from Yili Group | *(a)* | 8,878 | 14,704 | 30,138 |
| Purchase of property, plant and equipment from Yili Group | *(a)* | – | – | – |
| Interest expense to Yili Group | *(b)* | 3,942 | – | – |
| Advance from Yili Group | *(b)* | 300,000 | – | – |

*Notes:*

(a) The above sale and purchase transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved, and the prices are mainly determined based on prices offered to independent third parties.

(b) During the years ended December 31, 2018, short term loans were advanced from Yili Group which were unsecured, bore interest at 5.5% per annum and fully repaid before December 31, 2018.

**Balances with Yili Group**

| | *Notes* | As at December 31, 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Amounts due from related parties: | | | | |
| Trade receivables from Yili Group | *(d)* | 128,571 | 142,892 | 555,676 |
| Prepayments to Yili Group | *(e)* | – | 2,627 | – |
| | | 128,571 | 145,519 | 555,676 |
| Amounts due to related parties: | | | | |
| Trade payables to Yili Group | *(f)* | 57 | 81 | 6,941 |
| Deposits received from Yili Group | *(g)* | – | 22 | 7,268 |
| Current account balances with Yili Group | *(h)* | 15 | 54 | 48 |
| | | 72 | 157 | 14,257 |

*Notes:*

(d) The trade receivables are in trade nature, mainly related to the sale of raw milk to Yili Group. Details of which are set out in Note 26.

(e) The balance are in trade nature, represents prepayments to Yili Group for the purchase of raw materials.

(f) The trade payables are in trade nature, related to the purchase of raw materials from Yili Group, which aged within one year at the end of each reporting period.

(g) The balance are in trade nature, represents deposits received in respect of the sale of raw milk to Yili Group which is expected to be recognised as revenue within one year.

(h) The balances are non-trade in nature, unsecured, interest-free and no fixed terms of repayment and will be settled prior to listing.

**Settlement arrangements with Yili Group**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables from the sale of feeds settled on behalf by Yili Group | 929,130 | 693,475 | 421,798 |

Certain customers who purchase feeds from the Group are also raw milk suppliers of Yili Group (the "Overlapping Parties"). The Group, Yili Group and the Overlapping Parties have entered into an entrusted payment arrangement (the "Entrusted Payment Arrangement"), pursuant to which Yili Group would deduct the amount payable to the Group by the Overlapping Parties (the "Feeds Payments") from the payments made to the Overlapping Parties by Yili Group, and pay the Feeds Payments to the Group directly. The directors of the Company consider that the Entrusted Payment Arrangement is an industry norm in dairy farming products industry in the PRC to simplify the payment procedures.

**Compensation to key management personnel**

The remuneration of key management personnel, including members of the board of directors and other members of senior management of the Group, during the Track Record Period was as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and allowances | 5,840 | 5,462 | 9,094 |
| Retirement benefit scheme contributions | 259 | 172 | 167 |
| | 6,099 | 5,634 | 9,261 |

## 48. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

**Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Accrued issue cost | Lease liabilities | Bank and other borrowings | Other liabilities | Convertible notes | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* *(Note 32)* | *RMB'000* *(Note 36)* | *RMB'000* *(Note 34)* | *RMB'000* *(Note 37)* | *RMB'000* *(Note 39)* | *RMB'000* |
| At January 1, 2018 | – | 91,099 | 1,201,595 | – | – | 1,292,694 |
| Financing cash flows | – | (47,817) | 466,772 | – | – | 418,955 |
| New leases entered | – | 272,237 | – | – | – | 272,237 |
| Finance costs | – | 8,444 | 73,647 | – | – | 82,091 |
| At December 31, 2018 | – | 323,963 | 1,742,014 | – | – | 2,065,977 |
| Financing cash flows | – | (70,937) | 949,174 | – | – | 878,237 |
| New leases entered | – | 72,587 | – | – | – | 72,587 |
| Transfer from other liabilities | – | – | – | 38,164 | – | 38,164 |
| Finance costs | – | 16,717 | 91,417 | – | – | 108,134 |
| Early termination of lease agreements | – | (16,613) | – | – | – | (16,613) |
| At December 31, 2019 | – | 325,717 | 2,782,605 | 38,164 | – | 3,146,486 |
| Financing cash flows | (5,101) | (93,066) | 1,102,664 | (12,750) | 3,032,879 | 4,024,626 |
| Deferred share issue costs for IPO | 7,479 | – | – | – | – | 7,479 |
| New leases entered | – | 382,490 | – | – | – | 382,490 |
| Finance costs | – | 48,442 | 261,705 | 1,692 | – | 311,839 |
| Fair value changes | – | – | – | – | 10,769 | 10,769 |
| Early termination of lease agreements | – | (75) | – | – | – | (75) |
| Acquisition of subsidiaries *(Note 43)* | – | 303,981 | 2,049,159 | – | – | 2,353,140 |
| At December 31, 2020 | 2,378 | 967,489 | 6,196,133 | 27,106 | 3,043,648 | 10,236,754 |

**Major non-cash transactions**

Lease liabilities for lands, properties and machinery and equipment with a total amount of RMB272,237,000, RMB72,587,000 and RMB382,490,000 were recognised and the corresponding amount of RMB272,237,000, RMB72,587,000 and RMB382,490,000 were adjusted to right-of-use assets during the years ended December 31, 2018, 2019 and 2020, respectively.

## 49. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged during the Track Record Periods.

The capital structure of the Group consists of net debt, which included bank and other borrowings as disclosed in Note 34, net of bank balances and equity attributable to owners of the Company, comprising share capital, retained profits and other reserves as disclosed in the consolidated statements of changes in equity.

The management of the Group review the capital structure on a continuous basis. The Group considers the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

## 50. CAPITAL COMMITMENTS

At the end of each reporting period, the Group had the following capital commitments:

| | As at December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Capital expenditures in respect of acquisition of property, plant and equipment: contracted but not provided for | 545,302 | 664,055 | 1,681,760 |

## 51. CONTINGENT LIABILITIES

On December 7, 2020, the Group received a notice of arbitration regarding the adjustments made to the consideration for acquisition of SKX. The arbitration amount is RMB44.9 million. The directors of the Company have considered that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Accordingly, no provision has been made in relation to this arbitration.

Apart from an ongoing litigation for which provision has been made (Note 38), at the end of each reporting period, the Group had no significant contingent liability.

## 52. INTERESTS IN A SUBSIDIARY OF THE COMPANY AND PARTICULARS OF SUBSIDIARIES OF THE COMPANY

### Interests in a subsidiary

As at December 31, 2020, the interests in a subsidiary, Youran BVI, amounted to RMB7,468,262,000, which comprises investment cost of US$100 (equivalent to RMB708) and deemed investment cost through the capitalisation of shareholder's loan of RMB7,468,261,000 advanced to Youran BVI.

### General information of subsidiaries

At the date of report, the Company has direct and indirect shareholders/equity interests in the following subsidiaries:

| | | | | Equity interest attributable to the Group as at | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, | | | | | |
| **Name of subsidiary** | **Place and date of incorporation/ establishment** | **Principal place of operation** | **Issued and fully paid capital/ registered capital** | **2018** | **2019** | **2020** | **Date of this report** | **Principal activities** | **Notes** |
| | | | | % | % | % | % | | |
| Yogurt Holding II Limited | March 18, 2015 British Virgin Island ("BVI") | BVI | US$1.00 | 100 | 100 | 100 | 100 | Investment holding | (a) |
| Yogurt Holding I (HK) Limited | April 9, 2015 Hong Kong | Hong Kong | HK$1.00 | 100 | 100 | 100 | 100 | Investment holding | (a) |

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Issued and fully paid capital/ registered capital | Equity interest attributable to the Group as at December 31, 2018 | 2019 | 2020 | Date of this report | Principal activities | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | % | % | % | | |
| 內蒙古優然牧業有限責任公司 (Inner Mongolia Youran Dairy Co., Ltd.*) | August 1, 2007 PRC | PRC | RMB2,500,000,000 | 100 | 100 | 100 | 100 | Investment holding, raising and breeding dairy cows, and raw milk production | (d) |
| 內蒙古牧泉元興飼料有限責任公司 (Inner Mongolia Muquan Yuanxing Feed Co., Ltd.*) ("Muquan Yuangxing Feed") | July 30, 2000 PRC | PRC | RMB136,000,000 | 100 | 100 | 100 | 100 | Production and sales of feeds | (b) |
| 內蒙古盛德和泰商貿有限責任公司 (Inner Mongolia Shengde Hetai Business Co., Ltd.*) | November 11, 2014 PRC | PRC | RMB5,000,000 | 100 | 100 | 100 | 100 | Trading of feeds | (b) |
| 內蒙古伊禾綠錦農業發展有限公司 (Inner Mongolia Yihe Lvjin Agriculture Development Co., Ltd.*) | March 24, 2014 PRC | PRC | RMB100,000,000 | 100 | 100 | 100 | 100 | Planting of feeds | (c) |
| American Western Prataculture Corp. (美國西部草業有限公司) | August 16, 2018 Delaware, United States of America | United States of America | – | 100 | 100 | 100 | 100 | Inactive | (k) |
| 呼倫貝爾市優然牧業有限責任公司 (Hulun Buir Youran Dairy Co., Ltd.*) | December 22, 2008 PRC | PRC | RMB30,000,000 | 100 | N/A | N/A | N/A | Raising and breeding dairy cows, and raw milk production | (e) |
| 成都優然牧業有限責任公司 (Chengdu Youran Dairy Co., Ltd.*) | June 17, 2009 PRC | PRC | RMB136,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows and raw milk production | (c) |
| 合肥優然牧業有限責任公司 (Hefei Youran Dairy Co., Ltd.*) | January 26, 2010 PRC | PRC | RMB136,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (a) |
| 黃岡優然牧業有限責任公司 (Huanggang Youran Dairy Co., Ltd.*) | June 3, 2006 PRC | PRC | RMB226,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (a) |
| 錫林浩特市優然牧業有限責任公司 (Xilin Hot Youran Dairy Co., Ltd.*) | June 12, 2010 PRC | PRC | RMB222,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows and raw milk production | (a) |
| 吳忠優然牧業有限責任公司 (Wuzhong Youran Dairy Co., Ltd.*) | September 20, 2010 PRC | PRC | RMB74,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (d) |

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Issued and fully paid capital/ registered capital | Equity interest attributable to the Group as at December 31, 2018 | 2019 | 2020 | Date of this report | Principal activities | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | % | % | % | | |
| 肇東市長青畜牧有限公司 (Zhaodong Chang Qing Livestock Co., Ltd.*) | January 26, 2011 PRC | PRC | RMB191,500,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (c) |
| 南京優然牧業有限責任公司 (Nanjing Youran Dairy Co., Ltd.*) | January 17, 2011 PRC | PRC | RMB67,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (c) |
| 林甸優然牧業有限責任公司 (Lindian Youran Dairy Co., Ltd.*) | April 25, 2013 PRC | PRC | RMB472,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (d) |
| 銅川優然牧業有限責任公司 (Tongchaun Youran Dairy Co., Ltd.*) | May 24, 2012 PRC | PRC | RMB131,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (c) |
| 張北中都畜牧有限責任公司 (Zhangbei Zhong Du Livestock Co., Ltd.*) | January 14, 2014 PRC | PRC | RMB33,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (c) |
| 達拉特旗優然牧業有限責任公司 (Dalad Banner Youran Dairy Co., Ltd.*) | April 16, 2014 PRC | PRC | RMB286,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (d) |
| 杜爾伯特蒙古族自治縣中都畜牧有限責任公司 (Duerbote Mongolia Autonomous County Zhongdu Livestock Co., Ltd.*) | June 5, 2014 PRC | PRC | RMB124,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (c) |
| 濟南優然牧業有限責任公司 (Jinan Youran Dairy Co., Ltd.*) | March 27, 2018 PRC | PRC | RMB100,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (h) |
| 阜新優然牧業有限責任公司 (Fuxin Youran Dairy Co., Ltd.*) | April 13, 2018 PRC | PRC | RMB114,000,000 | 100 | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (h) |
| 平頂山優然牧業有限責任公司 (Pingdingshan Youran Dairy Co., Ltd.*) | May 16, 2019 PRC | PRC | RMB125,000,000 | N/A | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (g) |
| 呼倫貝爾優然牧業示範牧場有限責任公司 (Hulunbeier YouRan Dairy Co., Ltd.*) | May 17, 2019 PRC | PRC | RMB125,000,000 | N/A | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (g) |

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Issued and fully paid capital/ registered capital | Equity interest attributable to the Group as at December 31, 2018 | 2019 | 2020 | Date of this report | Principal activities | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | % | % | % | | |
| 武威市優然牧業有限責任公司 (Wuwei Youran Diary Co., Ltd.*) | September 20, 2019 PRC | PRC | RMB2,000,000 | N/A | 100 | 100 | 100 | Raising and breeding dairy cows, and raw milk production | (g) |
| 杜爾伯特牧泉元興飼料有限責任公司 (Duerbote Muquan Yuanxing Fodder Co., Ltd.*) | June 13, 2003 PRC | PRC | RMB5,400,000 | 100 | 100 | 100 | 100 | Production and sales of feeds | (b) |
| 保定伊和生物科技有限責任公司 (Baoding Yihe Bio-Technology Co., Ltd.*) | April 21, 2015 PRC | PRC | RMB10,000,000 | 100 | 100 | 100 | 100 | Production and sales of feeds | (b) |
| 寧夏伊康元生物科技有限公司 (Ningxia Yikangyuan Bio-Technology Co., Ltd.*) ("Ningxia Bio-Technology") | April 28, 2015 PRC | PRC | RMB80,000,000 | 100 | 100 | 100 | 100 | Production and sales of feeds | (d) |
| 山東牧泉元興生物科技有限責任公司 (Shandong Bio-Technology Co., Ltd.*) | March 27, 2019 PRC | PRC | RMB50,000,000 | N/A | 100 | 100 | 100 | Production and sales of feeds | (g) |
| 大慶牧泉元興生物科技有限責任公司 (Daqing Bio-Technology Co., Ltd.*) | June 18, 2019 PRC | PRC | RMB40,000,000 | N/A | 100 | 100 | 100 | Production and sales of feeds | (g) |
| 烏蘭察布市牧泉元興飼料有限責任公司 (Wulanchabu Bio-Technology Co., Ltd.*) ("Wulanchabu Bio-Technology") | July 31, 2018 PRC | PRC | RMB60,000,000 | 100 | 100 | 100 | 100 | Production and sales of feeds | (f) |
| 巴彥淖爾市牧泉元興飼料有限責任公司 (Bayinnaoer Bio-Technology Co., Ltd.*) ("Bayinnaoer Bio-Technology") | July 24, 2019 PRC | PRC | RMB35,000,000 | N/A | 100 | 100 | 100 | Production and sales of feeds | (g) |
| 興安盟優然牧業有限責任公司 (Hinggan League Youran Dairy Co. Ltd.*) | May 9, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 通遼優然牧業有限責任公司 (Tongliao Youran Dairy Co. Ltd.*) | July 7, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Issued and fully paid capital/ registered capital | Equity interest attributable to the Group as at December 31, 2018 | 2019 | 2020 | Date of this report | Principal activities | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | % | % | % | | |
| 呼和浩特優然牧業有限責任公司 (Hohhot Youran Dairy Co. Ltd.*) | August 31, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 凉城優然牧業有限責任公司 (Liangcheng Youran Dairy Co. Ltd.*) | September 21, 2020 PRC | PRC | RMB50,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 駐馬店優然牧業有限責任公司 (Zhumadian Youran Dairy Co. Ltd.*) | September 18, 2020 PRC | PRC | RMB250,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 呼和浩特金河優然牧業有限責任公司(Hohhot Jinhe Youran Dairy Co. Ltd. *) | October 19, 2020 PRC | PRC | RMB100,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 濰坊優然牧業有限責任公司 (Weifang Youran Dairy Co. Ltd.*) | October 19, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 壽光優然牧業有限責任公司 (Shouguang Youran Dairy Co. Ltd.*) | October 16, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 開魯優然牧業有限責任公司 (Kailu Youran Dairy Co. Ltd.*) | October 20, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 邢台優然牧業有限責任公司 (Xingtai Youran Dairy Co. Ltd.*) | October 23, 2020 PRC | PRC | RMB68,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 河北牧泉元興生物科技有限責任公司 (Hebei Muquan Yuanxing Biotechnology Co. Ltd.*) | October 21, 2020 PRC | PRC | RMB50,000,000 | N/A | N/A | 100 | 100 | Production and sales of feeds | |
| 延安洛川優然牧業有限責任公司 (Yan'an Luochuan Youran Dairy Co. Ltd.*) | November 10, 2020 PRC | PRC | RMB100,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 合肥元興牧業有限責任公司 (Hefei Yuanxing Dairy Co. Ltd.*) | November 19, 2020 PRC | PRC | RMB42,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Issued and fully paid capital/ registered capital | Equity interest attributable to the Group as at December 31, 2018 | 2019 | 2020 | Date of this report | Principal activities | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | % | % | % | | |
| 內蒙古聚牧城科技有限責任公司 (Inner Mongolia Jumucheng Technology Co. Ltd.*) | July 20, 2020 PRC | PRC | RMB10,000,000 | N/A | N/A | 100 | 100 | Sales of fodder | |
| SKX (as defined in Note 43) | July 31, 2006 PRC | PRC | RMB918,600,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production, and production and sale of breeding products | (i) |
| 聊城優然牧業有限責任公司 (Liaocheng Youran Dairy Co., Ltd.) | December 18, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 昌吉優然牧業有限責任公司 (Changji Youran Dairy Co., Ltd.) | December 12, 2020 PRC | PRC | RMB125,000,000 | N/A | N/A | 100 | 100 | Raising and breeding dairy cows and raw milk production | |
| 內蒙古賽科星牧業有限公司 (Inner Mongolia SK Xing Dairy Limited*) | April 18, 2013 PRC | PRC | RMB88,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 內蒙古犇騰牧業有限公司 (Inner Mongolia Benteng Dairy Limited*) | November 18, 2011 PRC | PRC | RMB560,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 寧夏賽科星養殖有限責任公司 (Ningxia SK Xing Breeding Co. Ltd.*) ("Ningxia SKX") | September 11, 2013 PRC | PRC | RMB74,200,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 鄂爾多斯市賽科星養殖有限責任公司 (Ordos SK Xing Breeding Co. Ltd.*) ("Ordos SKX") | October 12, 2013 PRC | PRC | RMB50,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 鄂托克旗賽優牧業有限公司 (Etuokeqi Saiyou Dairy Limited*) ("Etuokeqi Saiyou") | July 21, 2015 PRC | PRC | RMB45,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Issued and fully paid capital/ registered capital | Equity interest attributable to the Group as at December 31, 2018 | 2019 | 2020 | Date of this report | Principal activities | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | % | % | % | | |
| 內蒙古北方聯牛農牧業股份有限公司 (Inner Mongolia Northern Lianiu Agriculture and Dairy Co. Ltd.*) | August 27, 2012 PRC | PRC | RMB190,977,100 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 北京海華雲都生態農業有限公司 (Beijing Haihuayundu Ecological Agriculture Co. Ltd.*) ("Beijing Haihuayundu") | January 14, 2011 PRC | PRC | RMB477,188,074 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 呼倫貝爾市賽優牧業有限公司 (Hulun Buir Saiyou Dairy Co. Ltd.*) ("Hulun Buir Saiyou") | November 24, 2014 PRC | PRC | RMB210,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 河北犇放牧業有限公司 (Hebei Benfang Dairy Limited*) | April 24, 2014 PRC | PRC | RMB240,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 滄州賽科星牧業有限公司 (Cangzhou SK Xing Dairy Limited*) ("Cangzhou SKX") | July 1, 2015 PRC | PRC | RMB40,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 定州市賽科星伊人牧業有限公司 (Dingzhou SK Xing Yiren Dairy Limited*) ("Dingzhou SKX") | June 16, 2015 PRC | PRC | RMB41,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 達拉特旗賽優牧業有限公司 (Dalateqi Saiyou Dairy Limited*) ("Dalateqi Saiyou") | March 24, 2017 PRC | PRC | RMB100,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 武強賽優牧業有限公司 (Wuqiang Saiyou Dairy Limited*) | October 15, 2015 PRC | PRC | RMB51,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 華夏畜牧興化有限公司 (Huaxia Livestock Xinghua Limited*) ("Huaxia Xinghua") | January 2, 2014 PRC | PRC | RMB462,457,540 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Issued and fully paid capital/ registered capital | Equity interest attributable to the Group as at December 31, 2018 | 2019 | 2020 | Date of this report | Principal activities | Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | % | % | % | | |
| 濟源市賽科星牧業有限公司 (Jiyuan SK Xing Dairy Limited*) ("Jiyuan SKX") | January 20, 2015 PRC | PRC | RMB66,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 尋甸賽優牧業有限公司 (Xundian Saiyou Dairy Limited*) ("Xundian Saiyou") | July 5, 2016 PRC | PRC | RMB80,000,000 | N/A | N/A | 57.49 | 57.49 | Raising and breeding dairy cows, and raw milk production | (j) |
| 內蒙古賽科星家畜種業與繁育生物技術研究院有限公司 (Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd.*) | April 28, 2015 PRC | PRC | RMB48,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding of livestock, and cloning technology development | (j) |
| 內蒙古賽科星精源科技有限公司 (Inner Mongolia SK Xing Jingyuan Technology Company Limited*) | June 12, 2017 PRC | PRC | RMB10,000,000 | N/A | N/A | 58.36 | 58.36 | Trading of breeding products | (j) |
| 承德賽優牧業有限公司 (Chengde Saiyou Dairy Co., Ltd.*) | February 12, 2019 PRC | PRC | RMB40,000,000 | N/A | N/A | 58.36 | 58.36 | Raising and breeding dairy cows, and raw milk production | (j) |
| 呼倫貝爾賽科星牧業有限責任公司 (Hulun Buir SK Xing Dairy Co. Ltd.*) | April 13, 2020 PRC | PRC | RMB17,087,700/ RMB80,000,000 | N/A | N/A | 58.36 | 58.36 | Inactive | (j) |
| 清水河賽科星牧業有限責任公司 (Qingshuihe SK Xing Dairy Co. Ltd.*) | June 18, 2020 PRC | PRC | RMB40,000,000 | N/A | N/A | 58.36 | 58.36 | Inactive | (j)/(l) |
| 巴彥淖爾賽科星牧業有限責任公司 (Bayan Nur SKX Dairy Co. Ltd.*) | August 6, 2020 PRC | PRC | RMB100,000,000 | N/A | N/A | 58.36 | 58.36 | Inactive | (j)/(l) |

* *The English name of the Chinese company marked with "*" are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.*

All the companies comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

*Notes:*

(a) No statutory financial statements for each of the years ended December 31, 2018 and 2019 as there was no requirement to issue audited financial statements by local authorities.

(b) The statutory financial statements for each of the years ended December 31, 2018 and 2019 were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC (the "PRC GAAP") and audited by Da Hua Certified Public Accountants LLP, Inner Mongolia Branch, certified public accountants registered in the PRC ("Da Hua CPA").

(c) No statutory financial statements for each of the years ended December 31, 2018 as there was no requirements to issue audited financial statements by local authorities. The financial statements for the year ended December 31, 2019 were prepared in accordance with the PRC GAAP and audited by Da Hua CPA.

(d) The financial statements for each of the years ended December 31, 2018 and 2019 were prepared in accordance with the PRC GAAP and audited by Da Hua CPA.

(e) No statutory financial statements for each of the years ended December 31, 2018 as there was no requirements to issue audited financial statements by local authorities. This entity was deregistered in September 2019.

(f) No statutory financial statements for the period from date of establishment to December 31, 2018 and for the year ended December 31, 2019 as there was no requirements to issue audited financial statements by local authorities.

(g) No statutory financial statements for the period from date of establishment to December 31, 2019 as there was no requirements to issue audited financial statements by local authorities.

(h) No statutory financial statements for the period from date of establishment to December 31, 2018 as there was no requirements to issue audited financial statements by local authorities. The financial statements for the year ended December 31, 2019 were prepared in accordance with the PRC GAAP and audited by Da Hua CPA.

(i) The Group acquired 58.36% equity interests in SKX in January 2020 (see Note 43).

(j) These entities are subsidiaries of SKX.

(k) No capital has been injected to this entity up to the date of this report. No statutory financial statements for the period from date of incorporation to December 31, 2018 and for the year ended December 31, 2019 as there was no requirements to issue audited financial statements by local authorities.

(l) No capital has been injected to this entity up to the date of this report.

(m) None of the subsidiaries has issued any debt securities as at December 31, 2018, 2019 and 2020.

(n) No statutory financial statements for the year ended December 31, 2020 have been issued for any subsidiaries at the date of this report.

**Details of non-wholly owned subsidiaries that have material non-controlling interests**

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

| Name of subsidiary | Place of establishment and operations | Proportion of interests and voting rights held by non-controlling interests at December 31, 2020 | Profit allocated to non-controlling interests for the period ended December 31, 2020 | Accumulated non-controlling interests at December 31, 2020 |
|---|---|---|---|---|
| | | | *RMB'000* | *RMB'000* |
| SKX Group | The PRC | 41.64% | 199,895 | 1,241,328 |

Summarised financial information in respect of the Group's subsidiaries that has material non-controlling interests is set out below.

| | As at December 31, 2020 |
|---|---|
| | *RMB'000* |
| Current assets | 1,214,725 |
| Non-current assets | 5,908,653 |
| Current liabilities | (2,974,653) |
| Non-current liabilities | (789,331) |
| Net assets | 3,359,394 |
| Equity attributable to owners of the Company | 2,118,066 |
| Non-controlling interests of SKX Group | 1,240,756 |
| Non-controlling interests of SKX's subsidiary | 572 |
| | 3,359,394 |

| | From 8 January 2020 (date of acquisition of SKX Group) to December 31, 2020 |
|---|---|
| | *RMB'000* |
| Revenue | 2,959,784 |
| Expenses | (2,568,028) |
| Profit for the period | 391,756 |
| Other comprehensive income | 25,401 |
| Total comprehensive income for the period | 417,157 |
| Profit for the period attributable to: | |
| Owners of the Company | 191,861 |
| Non-controlling interests of SKX Group | 199,895 |
| | 391,756 |
| Total comprehensive income for the period attributable to: | |
| Owners of the Company | 206,685 |
| Non-controlling interests of SKX Group | 210,472 |
| | 417,157 |
| Net cash inflows/(outflows) from: | |
| Operating activities | 746,876 |
| Investing activities | (550,231) |
| Financing activities | (50,291) |
| | 146,354 |

**53. SUBSEQUENT FINANCIAL STATEMENTS**

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

**54. EVENTS AFTER THE REPORTING PERIOD**

Save as disclosed elsewhere in this report, events and transactions took place subsequent to December 31, 2020 are detailed as below:

Subsequent to the Track Record Period, on April 1, 2021, the Group completed the acquisition of the entire equity interest in Fonterra (Ying) Dairy Farm Co., Ltd. and Fonterra (Yutian) Dairy Farm Co., Ltd. (collectively "Fonterra China Farms Group") at an aggregate consideration of RMB2,530,566,000, which is subject to adjustment according to the terms of the relevant sale and purchase agreement. Fonterra China Farms Group is primarily engaged in the production and sale of raw milk in the PRC. For further details of the acquisition, please see the section headed "Summary – Recent Developments – Fonterra Acquisition" of this prospectus.

## III. PRE–ACQUISITION FINANCIAL INFORMATION

As stated in Note 43 to the Historical Financial Information, on January 8, 2020, the Group acquired SKX Group.

The pre-acquisition consolidated financial information of SKX for the period from January 1, 2018 to January 7, 2020 (the "Pre-acquisition Period") includes the financial information of SKX Group, for the Pre-acquisition Period and has been prepared in accordance with the accounting policies set out in Note 4, which conform with IFRSs issued by IASB.

## SUPPLEMENTARY PRE–ACQUISITION FINANCIAL INFORMATION FOR THE TWO YEARS ENDED DECEMBER 31, 2019 AND SEVEN DAYS ENDED JANUARY 7, 2020

| | NOTES | Year ended December 31, | | | | | | For the seven days ended January 7, | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2018 | | | 2019 | | | 2020 | | |
| | | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | *A* | 2,103,874 | – | 2,103,874 | 2,407,511 | – | 2,407,511 | 53,205 | – | 53,205 |
| Cost of sales | *E* | (2,008,473) | – | (2,008,473) | (2,312,015) | – | (2,312,015) | (51,462) | – | (51,462) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | *N* | 660,957 | – | 660,957 | 717,390 | – | 717,390 | 17,837 | – | 17,837 |
| Gross profit before impairment loss on inventories | | 756,358 | – | 756,358 | 812,886 | – | 812,886 | 19,580 | – | 19,580 |
| Impairment loss on inventories | | (5,030) | – | (5,030) | (45,959) | – | (45,959) | (18) | – | (18) |
| Gross profit after impairment loss on inventories | | 751,328 | – | 751,328 | 766,927 | – | 766,927 | 19,562 | – | 19,562 |
| Loss arising from changes in fair value less costs to sell of biological assets | *N* | – | (399,789) | (399,789) | – | (267,165) | (267,165) | – | (4,584) | (4,584) |
| Other income | *B* | 30,599 | – | 30,599 | 29,752 | – | 29,752 | 203 | – | 203 |
| Selling and distribution expenses | | (79,617) | – | (79,617) | (89,364) | – | (89,364) | (1,687) | – | (1,687) |
| Administrative expenses | | (100,233) | – | (100,233) | (141,008) | – | (141,008) | (4,025) | – | (4,025) |
| Other expenses | *C* | (5,362) | – | (5,362) | (16,148) | – | (16,148) | (85) | – | (85) |
| Share of profit of a joint venture | | 109 | – | 109 | 215 | – | 215 | – | – | – |
| Impairment loss under expected credit loss model, net of reversal | *D(I)* | (9,915) | – | (9,915) | (14,681) | – | (14,681) | (83) | – | (83) |
| Other gains and losses | *D(II)* | (4,565) | – | (4,565) | (18,419) | – | (18,419) | 71 | – | 71 |
| Finance costs | *F* | (129,444) | – | (129,444) | (141,064) | – | (141,064) | (2,800) | – | (2,800) |
| Profit before tax | | 452,900 | (399,789) | 53,111 | 376,210 | (267,165) | 109,045 | 11,156 | (4,584) | 6,572 |
| Income tax (expense)/credit | *G* | (285) | – | (285) | 192 | – | 192 | – | – | – |
| Profit for the year/period | *E* | 452,615 | (399,789) | 52,826 | 376,402 | (267,165) | 109,237 | 11,156 | (4,584) | 6,572 |

| | NOTES | Year ended December 31, 2018 Results before biological assets fair value adjustments | 2018 Biological assets fair value adjustments | 2018 Total | 2019 Results before biological assets fair value adjustments | 2019 Biological assets fair value adjustments | 2019 Total | For the seven days ended January 7, 2020 Results before biological assets fair value adjustments | 2020 Biological assets fair value adjustments | 2020 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Other comprehensive income/(expense), net of income tax:** | | | | | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | | | | | | |
| Fair value (loss)/gain on investments in equity instruments at FVTOCI | | (4,791) | – | (4,791) | 11,148 | – | 11,148 | – | – | – |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | | | |
| Exchange differences arising on translation of foreign investment | | 17 | – | 17 | 88 | – | 88 | (3) | – | (3) |
| **Other comprehensive (expense)/income, net of income tax** | | (4,774) | – | (4,774) | 11,236 | – | 11,236 | (3) | – | (3) |
| **Total comprehensive income for the year/period** | | 447,841 | (399,789) | 48,052 | 387,638 | (267,165) | 120,473 | 11,153 | (4,584) | 6,569 |
| Profit/(loss) for the year/period attributable to: | | | | | | | | | | |
| Owners of SKX | | | | 49,712 | | | 112,004 | | | 6,595 |
| Non-controlling interests | | | | 3,114 | | | (2,767) | | | (23) |
| Profit for the year/period | | | | 52,826 | | | 109,237 | | | 6,572 |
| Total comprehensive income/(expense) for the year/period attributable to: | | | | | | | | | | |
| Owners of SKX | | | | 44,938 | | | 123,240 | | | 6,592 |
| Non-controlling interests | | | | 3,114 | | | (2,767) | | | (23) |
| Total comprehensive income for the year/period | | | | 48,052 | | | 120,473 | | | 6,569 |
| Earnings per share | | | | | | | | | | |
| Basic (RMB) | J | | | 0.05 | | | 0.12 | | | 0.01 |

**AS AT DECEMBER 31, 2018 AND 2019 AND JANUARY 7, 2020**

| | *NOTES* | As at December 31, 2018 | As at December 31, 2019 | As at January 7, 2020 |
|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | |
| Property, plant and equipment | *K* | 2,220,605 | 2,289,212 | 2,285,832 |
| Right-of-use assets | *L* | 317,150 | 324,651 | 325,020 |
| Investment properties | *M* | 12,287 | 11,863 | 11,855 |
| Intangible assets | | 909 | 737 | 733 |
| Interests in a joint venture | | 431 | 733 | 733 |
| Biological assets | *N* | 2,541,223 | 2,746,839 | 2,751,180 |
| Deferred tax assets | *O* | 795 | 795 | 795 |
| Prepayments for acquisition of property, plant and equipment and biological assets | | – | 2,234 | 2,234 |
| Equity instruments at FVTOCI | *T* | 35,540 | 46,688 | 46,688 |
| | | 5,128,940 | 5,423,752 | 5,425,070 |
| **Current assets** | | | | |
| Inventories | *P* | 528,191 | 672,044 | 679,430 |
| Trade and bills receivables | *Q* | 223,530 | 171,046 | 207,885 |
| Prepayments, deposits and other receivables | *R* | 32,672 | 29,752 | 32,933 |
| Bank balances and cash | *S* | 153,131 | 195,300 | 162,299 |
| Pledged and restricted bank deposits | *S* | 27,963 | 24,997 | 24,997 |
| | | 965,487 | 1,093,139 | 1,107,544 |

| | NOTES | As at December 31, 2018 | As at December 31, 2019 | As at January 7, 2020 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| **Current liabilities** | | | | |
| Trade and bills payables | V | 928,743 | 1,256,423 | 1,304,917 |
| Other payables and accruals | W | 356,009 | 334,159 | 342,398 |
| Contract liabilities | X | 30,233 | 188,807 | 178,156 |
| Income tax payable | | 246 | 17 | 16 |
| Lease liabilities | AA | 4,921 | 5,604 | 5,651 |
| Bank borrowings | Y | 1,148,799 | 1,090,647 | 1,052,992 |
| Other provision | AC | – | 13,346 | 13,346 |
| | | 2,468,951 | 2,889,003 | 2,897,476 |
| **Net current liabilities** | | (1,503,464) | (1,795,864) | (1,789,932) |
| **Total assets less current liabilities** | | 3,625,476 | 3,627,888 | 3,635,138 |
| **Non-current liabilities** | | | | |
| Deferred income | Z | 31,653 | 29,538 | 29,480 |
| Lease liabilities | AA | 285,308 | 297,616 | 298,330 |
| Other liabilities | AB | 3,460 | 660 | 660 |
| Bank borrowings | Y | 892,728 | 996,142 | 996,167 |
| | | 1,213,149 | 1,323,956 | 1,324,637 |
| **Net assets** | | 2,412,327 | 2,303,932 | 2,310,501 |
| **Capital and reserves** | | | | |
| Share capital | AD | 918,600 | 918,600 | 918,600 |
| Reserves | | 1,364,290 | 1,379,458 | 1,386,050 |
| Equity attributable to owners of SKX | | 2,282,890 | 2,298,058 | 2,304,650 |
| Non-controlling interests | | 129,437 | 5,874 | 5,851 |
| **Total equity** | | 2,412,327 | 2,303,932 | 2,310,501 |

## FOR THE TWO YEARS ENDED DECEMBER 31, 2019 AND SEVEN DAYS ENDED JANUARY 7, 2020

| | Attributable to the owners of SKX | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Other reserve** | **Translation reserve** | **Statutory Surplus reserve** | **FVTOCI reserve** | **Retained profits** | **Sub-total** | **Non-controlling interests** | **Total equity** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(note i)* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2018 | 918,600 | 1,085,625 | (3,343) | 161 | 53,720 | (32,819) | 222,756 | 2,244,700 | 134,574 | 2,379,274 |
| Profit for the year | – | – | – | – | – | – | 49,712 | 49,712 | 3,114 | 52,826 |
| Other comprehensive income (expense) for the year | – | – | – | 17 | – | (4,791) | – | (4,774) | – | (4,774) |
| Total comprehensive income (expense) for the year | – | – | – | 17 | – | (4,791) | 49,712 | 44,938 | 3,114 | 48,052 |
| Transfer to statutory surplus reserve | – | – | – | – | 16,540 | – | (16,540) | – | – | – |
| Liquidation of subsidiaries *(note ii)* | – | – | (6,748) | – | – | – | – | (6,748) | (8,251) | (14,999) |
| At December 31, 2018 | 918,600 | 1,085,625 | (10,091) | 178 | 70,260 | (37,610) | 255,928 | 2,282,890 | 129,437 | 2,412,327 |
| Profit (loss) for the year | – | – | – | – | – | – | 112,004 | 112,004 | (2,767) | 109,237 |
| Other comprehensive income for the year | – | – | – | 88 | – | 11,148 | – | 11,236 | – | 11,236 |
| Total comprehensive income (expense) for the year | – | – | – | 88 | – | 11,148 | 112,004 | 123,240 | (2,767) | 120,473 |
| Transfer to statutory surplus reserve | – | – | – | – | 6,703 | – | (6,703) | – | – | – |
| Acquisition of non-controlling interests *(note iii)* | – | – | (110,624) | – | – | – | – | (110,624) | (118,593) | (229,217) |
| Liquidation of a subsidiary *(note iv)* | – | – | 2,552 | – | – | – | – | 2,552 | (2,203) | 349 |
| At December 31, 2019 | 918,600 | 1,085,625 | (118,163) | 266 | 76,963 | (26,462) | 361,229 | 2,298,058 | 5,874 | 2,303,932 |
| Profit (loss) for the period | – | – | – | – | – | – | 6,595 | 6,595 | (23) | 6,572 |
| Other comprehensive expense for the period | – | – | – | (3) | – | – | – | (3) | – | (3) |
| Total comprehensive income (expense) for the period | – | – | – | (3) | – | – | 6,595 | 6,592 | (23) | 6,569 |
| At January 7, 2020 | 918,600 | 1,085,625 | (118,163) | 263 | 76,963 | (26,462) | 367,824 | 2,304,650 | 5,851 | 2,310,501 |

*Notes:*

(i) Pursuant to the relevant laws and regulations in PRC, PRC companies with limited liability are required to make annual appropriations of 10% of after-tax profits prepared in accordance with generally accepted accounting principles in the PRC to its statutory surplus reserve until the balance reaches 50% of the relevant PRC entity's registered capital. The statutory surplus reserve can be used to make up previous years' losses, expand the existing operations or convert into additional capital of the respective entities.

(ii) During the year ended December 31, 2018, a subsidiary, namely Heilongjiang Qiqihar Saiyou Dairy Limited* (黑龍江省齊齊哈爾市賽優牧業有限公司) ("Qiqihar Saiyou") was liquidated and deregistered. The net asset value of RMB8,251,000 distributed to the non-controlling equity holder in excess of the carrying value of the non-controlling interests of RMB6,748,000 at the point of liquidation was debited to other reserve.

(iii) During the year ended December 31, 2019, SKX acquired additional 19.11% equity interest in a subsidiary: Ningxia SKX and additional 30% equity interests in the following subsidiaries: Etuokeqi Saiyou, Ordos SKX, Hulun Buir Saiyou, Jiyuan SKX, Dingzhou SKX and Cangzhou SKX from non-controlling equity holders at aggregate cash considerations of RMB229,217,000. The differences of RMB110,624,000, being the aggregate considerations paid in excess of the carrying value of the non-controlling interests of RMB118,593,000, was debited to other reserve.

(iv) During the year ended December 31, 2019, a subsidiary, namely Qinhuangdao Quannong Cow Breeding Co., Ltd* (秦皇島全農精牛繁育有限公司) was liquidated and deregistered. The net asset value of RMB2,203,000 was distributed to the non-controlling equity holder. RMB791,000 in excess of the carrying value of the non-controlling interests at the point of liquidation was debited to other reserve, together with a reverse of RMB3,343,000 resulting from the consideration paid in excess of the carrying value when SKX acquired the non-controlling interests of Qinhuangdao Quannong Cow Breeding Co., Ltd prior the Pre-acquisition Period.

* The English name of the Chinese company marked with "*" are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

**FOR THE TWO YEARS ENDED DECEMBER 31, 2019 AND SEVEN DAYS ENDED JANUARY 7, 2020**

| | Year ended December 31, 2018 | Year ended December 31, 2019 | For the seven days ended January 7, 2020 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| OPERATING ACTIVITIES | | | |
| Profit before tax | 53,111 | 109,045 | 6,572 |
| Adjustments for: | | | |
| Finance costs | 129,444 | 141,064 | 2,800 |
| Share of profit of a joint venture | (109) | (215) | – |
| Recognition of impairment loss on trade and bills receivables | 9,821 | 14,212 | 37 |
| Recognition of impairment loss on other receivables | 94 | 469 | 46 |
| Impairment loss on inventories | 5,030 | 45,959 | 18 |
| Impairment loss on property, plant and equipment | 1,224 | – | – |
| Depreciation of property, plant and equipment | 90,694 | 101,538 | 2,593 |
| Depreciation of right-of-use assets | 14,475 | 11,281 | 25 |
| Depreciation of investment properties | 420 | 424 | 8 |
| Amortisation of intangible assets | 173 | 173 | 3 |
| Release of deferred income | (6,220) | (6,414) | (58) |
| Loss/(gain) on disposal of property, plant and equipment | 1,824 | 2,671 | (18) |
| Loss arising from changes in fair value less costs to sell of biological assets | 399,789 | 267,165 | 4,584 |
| Government grants credited to biological assets | (5,000) | (5,710) | – |
| Provision for litigation | – | 13,346 | – |
| Exchange loss | 215 | 551 | – |
| Operating cash flows before movements in working capital | 694,985 | 695,559 | 16,610 |
| Movements in working capital: | | | |
| Decrease/(increase) in inventories | 60,936 | (120,893) | (6,288) |
| Decrease/(increase) in trade and bills receivables | 33,959 | 37,481 | (36,873) |
| Increase in prepayments, deposits and other receivables | (11,182) | (188) | (1,693) |
| Increase in trade and bills payables | 334,873 | 272,670 | 88,617 |
| Decrease in other payables and accruals | (6,316) | (120,727) | (265) |
| Increase/(decrease) in contract liabilities | 26,414 | 140,864 | (10,671) |
| Cash generated from operations | 1,133,669 | 904,766 | 49,437 |
| Income taxes paid | (1,331) | (37) | – |
| NET CASH FROM OPERATING ACTIVITIES | 1,132,338 | 904,729 | 49,437 |

| | NOTES | Year ended December 31, 2018 | Year ended December 31, 2019 | For the seven days ended January 7, 2020 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| INVESTING ACTIVITIES | | | | |
| Purchases of property, plant and equipment | | (302,209) | (222,823) | (352) |
| Addition in biological assets | | (942,320) | (895,890) | (58,471) |
| Proceeds from disposal of a subsidiary | | (118) | – | – |
| Proceeds from disposal of biological assets | | 331,237 | 537,950 | 16,324 |
| Proceeds from disposal of property, plant and equipment | | 15,122 | 3,068 | 161 |
| Withdrawal of pledged and restricted bank deposits | | 91,712 | 45,728 | – |
| Placement of pledged and restricted bank deposits | | (74,666) | (42,762) | – |
| Investment in equity instrument at FVTOCI | | (100) | – | – |
| Government grants received related to biological assets and other non-current assets | | 17,146 | 10,009 | – |
| NET CASH USED IN INVESTING ACTIVITIES | | (864,196) | (564,720) | (42,338) |
| FINANCING ACTIVITIES | | | | |
| Interest paid | | | | |
| – of borrowings | | (113,808) | (108,161) | (126) |
| – of lease liabilities | | (15,302) | (15,480) | – |
| New bank borrowings raised | | 743,424 | 1,274,561 | – |
| Repayment of borrowings | | (972,126) | (1,229,456) | (39,974) |
| Repayment of lease liabilities | | (3,718) | (10,203) | – |
| Payment of contingent considerations to non-controlling equity holders | AB | (600) | (2,800) | – |
| Acquisition of non-controlling interests | | – | (206,295) | – |
| NET CASH USED IN FINANCING ACTIVITIES | | (362,130) | (297,834) | (40,100) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (93,988) | 42,175 | (33,001) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD | | 247,130 | 153,131 | 195,300 |
| Effect of foreign exchange rate changes | | (11) | (6) | – |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD | | | | |
| Represented by bank balances and cash | | 153,131 | 195,300 | 162,299 |

## APPLICATION OF IFRSs

For the purpose of preparing the Historical Financial Information for the Pre-acquisition Period, SKX Group has consistently applied the IFRSs, that are effective for the financial years beginning from January 1, 2020, throughout the Pre-acquisition Period.

## A. REVENUE AND SEGMENT INFORMATION

### Revenue

***(i) Disaggregation of revenue from contracts with customers***

*Types of goods*

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from sales of: | | | |
| – Raw milk | 2,037,472 | 2,347,557 | 52,604 |
| – Breeding products | 66,402 | 59,954 | 601 |
| | 2,103,874 | 2,407,511 | 53,205 |
| **Timing of revenue recognition** | | | |
| A point in time | 2,103,874 | 2,407,511 | 53,205 |

***(ii) Performance obligations for contracts with customers***

The principal activities of SKX Group are breeding dairy cows and bulls, raw milk production and sales and breeding products production and sales.

For sales of raw milk and breeding products, revenue is recognized when control of the goods has transferred, being at the point the goods are received and accepted by the customers. Payment of the transaction prices are determined based on agreed prices with customers. The normal credit term is 30 to 180 days upon delivery.

***(iii) Transaction price allocated to the remaining performance obligation for contracts with customers***

Sales of raw milk and breeding products are for periods of one year or less. As a practical expedient of IFRS 15, SKX Group need not to disclose the transaction price allocated to these unsatisfied contracts with customers that has an original expected duration of one year or less.

**Segment information**

Segment results represent the profit earned by or loss incurred from each segment without changes in fair value less costs to sell of biological assets, share of profit/(loss) of a joint venture and other head office and corporate income and expenses that are not directly attributable to operating segments.

Information reported to the executive directors of SKX Group, being the chief operating decision makers ("CODM"), for the purposes of resources allocation and assessment of segment performance focuses on the type of goods delivered. No operating segment has been aggregated in arriving at the operating and reportable segments of SKX Group.

Specifically, SKX Group's reportable segments under IFRS 8 Operating Segment are as follows:

- Raw milk business: raising and breeding dairy cows, and raw milk production.
- Comprehensive ruminant farming solution-breeding business: production and sales of breeding products.

**Segment revenue and results**

***Year ended December 31, 2018***

| | Raw milk business | Comprehensive ruminant farming solution-breeding business | Segment total | Eliminations | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment revenue** | | | | | |
| External sales | 2,037,472 | 66,402 | 2,103,874 | – | 2,103,874 |
| Inter-segment sales | – | 15,722 | 15,722 | (15,722) | – |
| | 2,037,472 | 82,124 | 2,119,596 | (15,722) | 2,103,874 |
| Segment results | 504,017 | (52,363) | 451,654 | (173) | 451,481 |
| Loss arising from changes in fair value less costs to sell of biological assets | | | | | (399,789) |
| Share of profit of a joint venture | | | | | 109 |
| Unallocated other income | | | | | 1,310 |
| Profit before tax | | | | | 53,111 |

*Year ended December 31, 2019*

| | Raw milk business | Comprehensive ruminant farming solution-breeding business | Segment total | Eliminations | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment revenue** | | | | | |
| External sales | 2,347,557 | 59,954 | 2,407,511 | – | 2,407,511 |
| Inter-segment sales | – | 12,629 | 12,629 | (12,629) | – |
| | 2,347,557 | 72,583 | 2,420,140 | (12,629) | 2,407,511 |
| Segment results | 462,466 | (88,356) | 374,110 | 1,279 | 375,389 |
| Loss arising from changes in fair value less costs to sell of biological assets | | | | | (267,165) |
| Share of profit of a joint venture | | | | | 215 |
| Unallocated other income | | | | | 915 |
| Unallocated other gains and losses | | | | | 21 |
| Unallocated finance cost | | | | | (330) |
| Profit before tax | | | | | 109,045 |

*For the seven days ended January 7, 2020*

| | Raw milk business | Comprehensive ruminant farming solution-breeding business | Segment total | Eliminations | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment revenue** | | | | | |
| External sales | 52,604 | 601 | 53,205 | – | 53,205 |
| Inter-segment sales | – | – | – | – | – |
| | 52,604 | 601 | 53,205 | – | 53,205 |
| Segment results | 12,262 | (905) | 11,357 | – | 11,357 |
| Loss arising from changes in fair value less costs to sell of biological assets | | | | | (4,584) |
| Unallocated other income | | | | | 12 |
| Unallocated finance cost | | | | | (213) |
| Profit before tax | | | | | 6,572 |

Inter-segment elimination represents the elimination of sales of breeding products from comprehensive ruminant farming solution-breeding business segment to raw milk business segment.

Segment revenue of comprehensive ruminant farming solution-breeding business segment included inter-segment revenue of RMB15,722,000, RMB12,629,000 and nil during each of the Pre-acquisition Period, which are charged at prevailing market rates between comprehensive ruminant farming solution-breeding business segment and raw milk business segment.

**Segment assets and segment liabilities**

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

**Other segment information**

Amounts included in the measure of segment results:

***Year ended December 31, 2018***

| | Raw milk business | Comprehensive ruminant farming solution-breeding business | Segment total | Unallocated | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Amounts included in the measure of segment profit or loss: | | | | | |
| Depreciation and amortisation charged to profit or loss | 90,658 | 7,599 | 98,257 | 7,505 | 105,762 |
| Impairment loss of trade receivables, net | 2,371 | 7,450 | 9,821 | – | 9,821 |
| Impairment loss of other receivables, net | 87 | 7 | 94 | – | 94 |
| Impairment loss of property, plant and equipment | – | 1,224 | 1,224 | – | 1,224 |
| Loss on disposal of property, plant and equipment | 1,695 | 129 | 1,824 | – | 1,824 |
| Impairment loss of inventories | – | 5,030 | 5,030 | – | 5,030 |
| Finance costs | 124,639 | 4,805 | 129,444 | – | 129,444 |
| Bank interest income | (740) | (5) | (745) | (1,280) | (2,025) |

***Year ended December 31, 2019***

| | Raw milk business | Comprehensive ruminant farming solution-breeding business | Segment total | Unallocated | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Amounts included in the measure of segment profit or loss: | | | | | |
| Depreciation and amortization charged to profit or loss | 100,103 | 6,545 | 106,648 | 6,768 | 113,416 |
| Impairment loss of trade receivables, net | 6,530 | 7,682 | 14,212 | – | 14,212 |
| Impairment loss of other receivables, net | 290 | 179 | 469 | – | 469 |
| Loss on disposal of property, plant and equipment | 2,653 | 9 | 2,662 | 9 | 2,671 |
| Impairment loss of inventories | – | 45,959 | 45,959 | – | 45,959 |
| Finance costs | 136,040 | 4,694 | 140,734 | 330 | 141,064 |
| Bank interest income | (308) | (3) | (311) | (785) | (1,096) |

***For the seven days ended January 7, 2020***

| | Raw milk business | Comprehensive ruminant farming solution-breeding business | Segment total | Unallocated | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Amounts included in the measure of segment profit or loss: | | | | | |
| Depreciation and amortization charged to profit or loss | 2,375 | 141 | 2,516 | 114 | 2,630 |
| Impairment loss of trade receivables, net | – | 37 | 37 | – | 37 |
| Impairment loss of other receivables, net | 46 | – | 46 | – | 46 |
| Impairment loss of inventories | – | 18 | 18 | – | 18 |
| Gain on disposal of property, plant and equipment | (18) | – | (18) | – | (18) |
| Finance costs | 2,551 | 36 | 2,587 | 213 | 2,800 |
| Bank interest income | (17) | – | (17) | (12) | (29) |

**Geographic information**

Since all revenue from external customers is derived from the customers located in Mainland China and all of the non-current assets are located in Mainland China and all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, no geographic information by segment is presented.

**Revenue from major customers**

Revenue from the customers individually contributing over 10% of the total revenue of SKX Group during the Pre-acquisition Period is as follows:

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from sales of raw milk: | | | |
| Customer A | 826,587 | 2,106,631 | 50,158 |
| Customer B | 1,004,842 | N/A[1] | N/A[1] |

1 The corresponding revenue did not contribute over 10% of the total revenue of SKX Group for the relevant year/period.

No single customer contributed over 10% of SKX Group's revenue from sale of breeding products during the Pre-acquisition Period.

## B. OTHER INCOME

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Government grants related to | | | |
| – Biological assets *(note i)* | 5,000 | 5,710 | – |
| – Property, plant and equipment *(note Z)* | 4,479 | 3,810 | 51 |
| – Research and development activities *(note Z)* | 980 | 2,160 | 7 |
| – Income *(note ii)* | 10,949 | 3,613 | – |
| | 21,408 | 15,293 | 58 |
| Income from sales of raw materials | 2,522 | 8,775 | 8 |
| Bank interest income | 2,025 | 1,096 | 29 |
| Rental income | 4,613 | 4,202 | 80 |
| Others | 31 | 386 | 28 |
| | 30,599 | 29,752 | 203 |

*Notes:*

i. These government grants are government subsidies received by SKX Group from relevant government bodies for the purpose of rewarding SKX Group for procurement of dairy cows. SKX Group recognizes the government grants when the grants are received.

ii. These government grants are unconditional government subsidies received by SKX Group from relevant government bodies for the purpose of giving immediate financial support to SKX Group's daily operation.

## C. OTHER EXPENSES

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost of sales of raw materials | 2,420 | 13,092 | – |
| Depreciation of investment properties | 420 | 424 | 8 |
| Depreciation of right-of-use assets | 2,396 | 2,232 | 50 |
| Others | 126 | 400 | 27 |
| | 5,362 | 16,148 | 85 |

## D(I). IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Impairment losses recognized on: | | | |
| – Trade and bills receivables | (9,821) | (14,212) | (37) |
| – Other receivables | (94) | (469) | (46) |
| | (9,915) | (14,681) | (83) |

## D(II). OTHER GAINS AND LOSSES

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| (Loss)/gain on disposal on property, plant and equipment | (1,824) | (2,671) | 18 |
| Impairment loss of property, plant and equipment | (1,224) | – | – |
| Provision for litigation *(note AC)* | – | (13,346) | – |
| Exchange loss | (215) | (551) | – |
| Others | (1,302) | (1,851) | 53 |
| | (4,565) | (18,419) | 71 |

## E. PROFIT FOR THE YEAR/PERIOD

Profit for the year is arrived at after charging (crediting):

### (i) Cost of Sales

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost of raw milk sold before fair value adjustments | 1,318,493 | 1,566,654 | 33,406 |
| Raw milk fair value adjustments included in cost of sales | 660,957 | 717,390 | 17,837 |
| Cost of raw milk sold after fair value adjustments | 1,979,450 | 2,284,044 | 51,243 |
| Costs of sales of breeding products | 29,023 | 27,971 | 219 |
| | 2,008,473 | 2,312,015 | 51,462 |

**(ii) Staff cost (including directors' emoluments)**

| | Year ended December 31, 2018 | Year ended December 31, 2019 | For the seven days ended January 7, 2020 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and allowances | 213,627 | 234,144 | 4,645 |
| Contributions to retirement benefit scheme | 11,206 | 10,456 | 133 |
| Total employee benefits | 224,833 | 244,600 | 4,778 |
| Less: capitalised in biological assets | (70,444) | (81,059) | (1,471) |
| | 154,389 | 163,541 | 3,307 |

**(iii) Depreciation and amortisation**

| | Year ended December 31, 2018 | Year ended December 31, 2019 | For the seven days ended January 7, 2020 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation of property, plant and equipment | 168,604 | 179,567 | 3,589 |
| Depreciation of investment properties | 420 | 424 | 8 |
| Depreciation of right-of-use assets | 15,998 | 18,292 | 343 |
| Less: capitalised in biological assets | (79,433) | (85,040) | (1,313) |
| | 105,589 | 113,243 | 2,627 |
| Amortisation of intangible assets | 173 | 173 | 3 |

**(iv) Other items**

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Impairment loss on inventories | 5,030 | 45,959 | 18 |
| Impairment loss of property, plant and equipment | 1,224 | – | – |
| Credit losses recognised on: | | | |
| – Trade and bills receivables | 9,821 | 14,212 | 37 |
| – Other receivables | 94 | 469 | 46 |
| Auditor's remuneration | 500 | 500 | – |

Research and development expenses included in administrative expenses were RMB8,812,000, RMB9,441,000, and RMB155,000, for the two years ended December 31, 2018 and 2019 and for the seven days ended January 7, 2020, respectively.

**(v) An analysis of SKX Group's results before biological assets fair value adjustments during the Pre-acquisition Period is as follows:**

| | Year ended December 31, | | Seven days ended January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit for the year/period before biological assets fair value adjustments | 452,615 | 376,402 | 11,156 |
| Loss arising from changes in fair value less costs to sell of biological assets* | (399,789) | (267,165) | (4,584) |
| Profit for the year/period | 52,826 | 109,237 | 6,572 |

* Included in balances are unrealized gain/(loss) of RMB(109,705,000), RMB206,750,000 and RMB4,420,000 for the years ended December 31, 2018 and 2019 and seven days ended January 7, 2020, respectively, arising from changes in fair value less costs to sell of biological assets as estimated by SKX Group's management.

## F. FINANCE COSTS

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest expenses on: | | | |
| – Bank borrowings | 113,040 | 107,874 | 2,470 |
| – Lease liabilities | 15,302 | 15,480 | 310 |
| – Interest on contract liabilities from customers *(note X)* | 1,102 | 17,710 | 20 |
| | 129,444 | 141,064 | 2,800 |

## G. INCOME TAX EXPENSES/(CREDIT)

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Current enterprise income tax | 1,080 | – | – |
| Deferred tax | (795) | – | – |
| Over provision in prior years | – | (192) | – |
| | 285 | (192) | – |

SKX Group are subject to enterprise income tax at statutory tax rate of 25% for the Pre-acquisition Period.

According to the prevailing tax rules and regulation in the PRC, certain subsidiaries of SKX are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

The tax expense for the Pre-acquisition Period can be reconciled to the profit before tax of the consolidated statements of profit or loss and other comprehensive income as follows:

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit before tax | 53,111 | 109,045 | 6,572 |
| Tax at the statutory rate of 25% | 13,278 | 27,261 | 1,643 |
| Effect of tax exemptions granted to agricultural business | (103,750) | (97,563) | (2,772) |
| Effect of tax losses and deductible temporary difference not recognised | 89,956 | 68,939 | 1,127 |
| Effect on expenses not deductible for tax purpose | 828 | 1,417 | 2 |
| Tax effect of share of profit of a joint venture | (27) | (54) | – |
| Over provision in respect of prior years | – | (192) | – |
| | 285 | (192) | – |

## H. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (i) Directors' emoluments

Details of the emoluments paid or payable to the directors of SKX during the Pre-acquisition Period are as follows:

| | Directors' fees | Salaries and allowance | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended December 31, 2018:** | | | | |
| Executive directors: | | | | |
| – Mr. Yang Wenjun (Chief executive) | – | 29 | 7 | 36 |
| – Mr. Li Xihe | – | 401 | 7 | 408 |
| – Mr. Zhang Jian | – | 373 | 6 | 379 |
| | – | 803 | 20 | 823 |

| | Directors' fees | Salaries and allowance | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-executive directors: | | | | |
| – Mr. Chen Xiaodong | – | – | – | – |
| – Mr. Xie Maohua | – | – | – | – |
| – Mr. Zhang Yuan | – | – | – | – |
| – Mr. Ma Xiaowei | – | – | – | – |
| – Mr. Liu Xin | – | – | – | – |
| | – | – | – | – |
| **Year ended December 31, 2019:** | | | | |
| Executive directors: | | | | |
| – Mr. Yang Wenjun (Chief executive) | – | 21 | 7 | 28 |
| – Mr. Li Xihe | – | 461 | 7 | 468 |
| – Mr. Zhang Jian | – | 467 | 6 | 473 |
| | – | 949 | 20 | 969 |
| Non-executive directors: | | | | |
| – Mr. Chen Xiaodong | – | – | – | – |
| – Mr. Xie Maohua | – | – | – | – |
| – Mr. Zhang Yuan | – | – | – | – |
| – Mr. Ma Xiaowei | – | – | – | – |
| – Mr. Liu Xin | – | – | – | – |
| | – | – | – | – |
| **For the seven days ended January 7, 2020:** | | | | |
| Executive directors: | | | | |
| – Mr. Yang Wenjun (Chief executive) | – | – | – | – |
| – Mr. Li Xihe | – | – | – | – |
| – Mr. Zhang Jian | – | – | – | – |
| | – | – | – | – |
| Non-executive directors: | | | | |
| – Mr. Chen Xiaodong | – | – | – | – |
| – Mr. Xie Maohua | – | – | – | – |
| – Mr. Zhang Yuan | – | – | – | – |
| – Mr. Ma Xiaowei | – | – | – | – |
| – Mr. Liu Xin | – | – | – | – |
| | – | – | – | – |

**(ii) Employees' emoluments**

The five highest paid individuals of SKX Group included 2, 2 and 2 directors of SKX for each of the Pre-acquisition Period, respectively, whose emoluments and included in the disclosure above. The emoluments of the remaining 3, 3 and 3 individuals for each of the Pre-acquisition Period, respectively, are as follows:

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and allowances | 1,061 | 1,436 | 39 |
| Retirement benefit scheme contributions | 17 | 17 | – |
| | 1,078 | 1,453 | 39 |

The emoluments of the five highest paid individually, other than directors of SKX, were within the following band in Hong Kong Dollar ("HKD"):

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| Nil to HKD1,000,000 | 3 | 3 | 3 |

During the Pre-acquisition Period, no emoluments were paid by SKX Group to any of the executive directors, non-executive director, or the five highest paid individuals as an inducement to join or upon joining SKX Group or as compensation for loss of office. None of the directors and chief executive has waived any emoluments during the Pre-acquisition Period.

**I. DIVIDEND**

No dividend was paid or declared by the other companies comprising SKX Group during the Pre-acquisition Period.

## J. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of SKX is based on the following data:

Earnings figures are calculated as follows:

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit | | | |
| Earnings for the purpose of basic earnings | 49,712 | 112,004 | 6,595 |
| Number of shares | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 918,600 | 918,600 | 918,600 |

No diluted loss per share is presented as there was no potential dilutive shares during the Pre-acquisition Period.

## K. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery and equipment | Vehicles | Electronic equipment | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | | |
| As at January 1, 2018 | 1,784,339 | 355,495 | 94,551 | 112,859 | 19,196 | 96,636 | 2,463,076 |
| Additions | 36,497 | 26,250 | 721 | 11,907 | 3,220 | 230,193 | 308,788 |
| Transfer to investment properties | (818) | – | – | – | – | – | (818) |
| Transfer | 228,838 | 39,191 | – | 5,758 | – | (273,787) | – |
| Disposals | (1,319) | (24,058) | (582) | (5,155) | – | – | (31,114) |
| As at December 31, 2018 | 2,047,537 | 396,878 | 94,690 | 125,369 | 22,416 | 53,042 | 2,739,932 |
| Additions | 31,598 | 32,925 | 561 | 12,140 | 910 | 175,779 | 253,913 |
| Transfer | 132,758 | 44,648 | – | 4,012 | – | (181,418) | – |
| Disposals | (4,563) | (6,646) | (1,235) | (2,711) | – | – | (15,155) |
| As at December 31, 2019 | 2,207,330 | 467,805 | 94,016 | 138,810 | 23,326 | 47,403 | 2,978,690 |
| Additions | – | 66 | – | – | – | 286 | 352 |
| Disposals | – | (300) | – | (262) | – | – | (562) |
| As at January 7, 2020 | 2,207,330 | 467,571 | 94,016 | 138,548 | 23,326 | 47,689 | 2,978,480 |
| DEPRECIATION | | | | | | | |
| As at January 1, 2018 | (164,341) | (88,255) | (59,800) | (45,724) | (5,547) | – | (363,667) |
| Provided for the year | (95,279) | (51,691) | (2,889) | (15,755) | (2,990) | – | (168,604) |
| Disposals | 109 | 10,228 | 439 | 3,392 | – | – | 14,168 |
| As at December 31, 2018 | (259,511) | (129,718) | (62,250) | (58,087) | (8,537) | – | (518,103) |
| Provided for the year | (107,025) | (55,038) | (1,178) | (14,694) | (1,632) | – | (179,567) |
| Disposals | 1,073 | 3,860 | 1,143 | 2,116 | – | – | 8,192 |
| As at December 31, 2019 | (365,463) | (180,896) | (62,285) | (70,665) | (10,169) | – | (689,478) |
| Provided for the period | (2,105) | (989) | (29) | (429) | (37) | – | (3,589) |
| Disposals | – | 236 | – | 183 | – | – | 419 |
| As at January 7, 2020 | (367,568) | (181,649) | (62,314) | (70,911) | (10,206) | – | (692,648) |

| | Buildings | Machinery and equipment | Vehicles | Electronic equipment | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| IMPAIRMENT | | | | | | | |
| As at January 1, 2018 | – | – | – | – | – | – | – |
| Provided for the year | (1,069) | (46) | – | (109) | – | – | (1,224) |
| As at December 31, 2018 | (1,069) | (46) | – | (109) | – | – | (1,224) |
| Disposals | 1,069 | 46 | – | 109 | – | – | 1,224 |
| As at December 31, 2019 and January 7, 2020 | – | – | – | – | – | – | – |
| CARRYING VALUES | | | | | | | |
| As at January 1, 2018 | 1,619,998 | 267,240 | 34,751 | 67,135 | 13,649 | 96,636 | 2,099,409 |
| As at December 31, 2018 | 1,786,957 | 267,114 | 32,440 | 67,173 | 13,879 | 53,042 | 2,220,605 |
| As at December 31, 2019 | 1,841,867 | 286,909 | 31,731 | 68,145 | 13,157 | 47,403 | 2,289,212 |
| As at January 7, 2020 | 1,839,762 | 285,922 | 31,702 | 67,637 | 13,120 | 47,689 | 2,285,832 |

Property, plant and equipment other than construction in progress are depreciated using the straight line method after taking into account their estimated residual values with the following useful lives:

| | **Useful lives** |
|---|---|
| Buildings | 20-30 years |
| Machinery and equipment | 5-10 years |
| Vehicles | 5 years |
| Electronic equipment | 5 years |
| Leasehold improvements | Over the lease terms |

## L. RIGHT-OF-USE ASSETS

| | Leasehold lands | Properties | Machinery | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount as at January 1, 2018 | 312,736 | 34,643 | 23 | 347,402 |
| Additions | 1,418 | 13,809 | 3,629 | 18,856 |
| Early termination of lease agreements | (7,209) | (25,901) | – | (33,110) |
| Depreciation charge | (9,360) | (6,255) | (383) | (15,998) |
| Carrying amount as at December 31, 2018 | 297,585 | 16,296 | 3,269 | 317,150 |
| Additions | 8,196 | 15,592 | 4,204 | 27,992 |
| Early termination of lease agreements | – | (2,199) | – | (2,199) |
| Depreciation charge | (9,759) | (6,579) | (1,954) | (18,292) |
| Carrying amount as at December 31, 2019 | 296,022 | 23,110 | 5,519 | 324,651 |
| Additions | – | – | 712 | 712 |
| Depreciation charge | (180) | (116) | (47) | (343) |
| Carrying amount as at January 7, 2020 | 295,842 | 22,994 | 6,184 | 325,020 |

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Expense relating to short-term leases | 278 | 1,388 | 23 |
| Total cash outflow for leases | 19,298 | 27,071 | 23 |

During Pre-acquisition Period, SKX Group leases various lands, properties and machines for its operations. Lease contracts are entered into for fixed term of 1 year to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, SKX Group applies the definition of a contract and determines the period for which the contract is enforceable. Details of the lease maturity analysis of lease liabilities are set out in note AA.

The Group regularly entered into short-term leases for motor vehicles, machinery and office equipment. As at the end of each year/period, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed as above.

**Restrictions or covenants on leases**

Lease liabilities of RMB18,778,000, RMB28,401,000 and RMB29,143,000 are recognized with related right-of-use assets with an aggregate carrying amount of RMB19,565,000, RMB28,629,000 and RMB29,178,000 as at December 31, 2018 and 2019 and January 7, 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## M. INVESTMENT PROPERTIES

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| COST: | | | |
| At the beginning of the year/period | 12,283 | 13,101 | 13,101 |
| Transfer from property, plant and equipment | 818 | – | – |
| At the end of the year/period | 13,101 | 13,101 | 13,101 |
| DEPRECIATION: | | | |
| At the beginning of the year/period | (394) | (814) | (1,238) |
| Provided for the year/period | (420) | (424) | (8) |
| At the end of the year/period | (814) | (1,238) | (1,246) |
| CARRYING VALUES: | | | |
| At the beginning of the year/period | 11,889 | 12,287 | 11,863 |
| At the end of the year/period | 12,287 | 11,863 | 11,855 |

The fair value of SKX Group's investment properties as at December 31, 2018 and 2019 and January 7, 2020 were RMB13,705,000, RMB13,408,000 and RMB13,408,000, respectively.

SKX Group engages a qualified independent valuer Jones Lang LaSalle to perform the valuation. The valuer's address is set out in note 18. The management of SKX Group works closely with the valuer to establish the appropriate valuation techniques and inputs to the model.

In valuing the investment properties, Jones Lang LaSalle adopted the cost approach with reference to their depreciated replacement cost for the investment property as at the valuation date. There has been no change from the valuation technique used during the Pre-acquisition Period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair values of SKX Group's investment properties as at December 31, 2018 and 2019 and January 7, 2020 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 during the Track Record Period.

## N. BIOLOGICAL ASSETS

### A Nature of activities

The biological assets of SKX Group are dairy cows held to produce raw milk and breeding stock to produce frozen bovine semen.

SKX Group's dairy cows comprise milkable cows held for milk production, heifers and calves that have not reached the age that can produce raw milk, and breeding stock held for frozen bovine semen production, are all classified as non-current assets. The quantity of dairy cows and breeding stock owned by SKX Group at the end of each reporting period is shown below:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *Head* | *Head* | *Head* |
| Milkable cows | 66,912 | 70,134 | 70,333 |
| Heifers and calves | 64,657 | 60,500 | 60,487 |
| Breeding stock | 129 | 115 | 115 |
| Total biological assets | 131,698 | 130,749 | 130,935 |

SKX Group is exposed to financial risks arising from changes in prices of raw milk and sales of frozen bovine semen. SKX Group does not anticipate that the prices of the raw milk and frozen bovine semen will decline significantly in the foreseeable future and the management of SKX Group are of the view that there is no available derivative or other contracts which SKX Group can enter into to manage the risk of a decline in the prices of the raw milk and frozen bovine semen.

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

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

***i. Regulatory and environmental risks***

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

***ii. Climate, disease and other natural risks***

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

**B Quantity of the agricultural produce of SKX Group's biological assets**

| | Year ended December 31, 2018 | Year ended December 31, 2019 | For the seven days ended January 7, 2020 |
|---|---|---|---|
| | *Ton* | *Ton* | *Ton* |
| Volume – sales of raw milk produced | 554,995 | 605,020 | 12,569 |

| | Year ended December 31, 2018 | Year ended December 31, 2019 | For the seven days ended January 7, 2020 |
|---|---|---|---|
| | *Straw* | *Straw* | *Straw* |
| Volume – sales of frozen bovine semen | 1,276,488 | 928,088 | 9,124 |

**C Value of biological assets**

| | Year ended December 31, 2018 | | | |
|---|---|---|---|---|
| | Milkable cows | Heifers and calves | Breeding stock | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at January 1, 2018 | 1,340,619 | 959,748 | 34,270 | 2,334,637 |
| Purchase cost | 780 | 88 | 3,119 | 3,987 |
| Feeding cost and other related costs | – | 854,340 | 7,811 | 862,151 |
| Transfer | 723,336 | (723,336) | – | – |
| Decrease due to disposal/death | (183,356) | (69,418) | (6,989) | (259,763) |
| (Loss)/gain arising from changes in fair value less cost to sell | (409,042) | 19,136 | (9,883) | (399,789) |
| Balance at December 31, 2018 | 1,472,337 | 1,040,558 | 28,328 | 2,541,223 |

| | Year ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Milkable cows | Heifers and calves | Breeding stock | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at January 1, 2019 | 1,472,337 | 1,040,558 | 28,328 | 2,541,223 |
| Purchase cost | 178 | 605 | 966 | 1,749 |
| Feeding cost and other related costs | – | 869,740 | 9,646 | 879,386 |
| Transfer | 921,780 | (921,780) | – | – |
| Decrease due to disposal/death | (230,711) | (172,662) | (4,981) | (408,354) |
| (Loss)/gain arising from changes in fair value less cost to sell | (489,403) | 214,326 | 7,912 | (267,165) |
| Balance at December 31, 2019 | 1,674,181 | 1,030,787 | 41,871 | 2,746,839 |

| | For the seven days ended January 7, 2020 | | | |
|---|---|---|---|---|
| | Milkable cows | Heifers and calves | Breeding stock | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at January 1, 2020 | 1,674,181 | 1,030,787 | 41,871 | 2,746,839 |
| Feeding cost and other related costs | – | 16,998 | 111 | 17,109 |
| Transfer | 19,178 | (19,178) | – | – |
| Decrease due to disposal/death | (3,817) | (4,367) | – | (8,184) |
| (Loss)/gain arising from changes in fair value less cost to sell | (10,610) | 5,596 | 430 | (4,584) |
| Balance at January 7, 2020 | 1,678,932 | 1,029,836 | 42,412 | 2,751,180 |

The directors of SKX have engaged a qualified independent valuer Jones Lang LaSalle to assist SKX Group in assessing the fair values of SKX Group's cows. The valuer's address is set out in note 22. The valuer and the management of SKX Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in note AI.

The aggregate gain or loss arising on initial recognition of agricultural produce (raw milk and breeding products) and from the change in fair value less costs to sell of biological assets during the Pre-acquisition Period is analysed as follows:

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 660,957 | 717,390 | 17,837 |
| Loss arising from changes in fair value less costs to sell of biological assets | (399,789) | (267,165) | (4,584) |
| | 261,168 | 450,225 | 13,253 |

## O. DEFERRED TAX ASSETS

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred tax assets – ECL provision | 795 | 795 | 795 |

Details of tax losses and other temporary differences not recognized during the Pre-acquisition Period are set out below:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Tax losses | – | 4,066 | 4,132 |
| Other temporary differences | 125 | 2,921 | 2,921 |

Tax losses not recognised will expire during the period as below:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| 2024 | – | 4,066 | 4,066 |
| 2025 | – | – | 66 |
| | – | 4,066 | 4,132 |

## P. INVENTORIES

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 452,827 | 619,267 | 627,826 |
| Breeding products | 56,564 | 17,065 | 16,188 |
| Consumables | 18,800 | 35,712 | 35,416 |
| | 528,191 | 672,044 | 679,430 |

## Q. TRADE AND BILLS RECEIVABLES

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 254,181 | 214,781 | 251,657 |
| Less: allowances for credit losses | (30,801) | (44,735) | (44,772) |
| | 223,380 | 170,046 | 206,885 |
| Bills receivables | 150 | 1,000 | 1,000 |
| Trade and bills receivables | 223,530 | 171,046 | 207,885 |

As at January 1, 2018, trade receivables from contracts with customers amounted to RMB287,155,000.

Trade and bills receivables primarily represent receivables from sales of raw milk and breeding products.

The following is an aged analysis of trade and bills receivables net of allowance for credit losses (doubtful debts) presented based on the delivery dates at the end of each reporting period.

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables: | | | |
| – within 180 days | 172,177 | 149,023 | 180,699 |
| – 180 days to 1 year | 33,382 | 13,534 | 18,574 |
| – 1 year to 2 years | 13,995 | 6,215 | 6,445 |
| – over 2 years | 3,976 | 2,274 | 2,167 |
| | 223,530 | 171,046 | 207,885 |

Included in SKX Group's trade receivables balance are debtors with aggregate carrying amount of RMB225,161,000, RMB73,631,000 and RMB73,343,000 as at December 31, 2018 and 2019 and January 7, 2020, respectively, which are past due as at the reporting date. Out of the past due balances, RMB63,089,000, RMB41,364,000 and RMB46,259,000 as at December 31, 2018 and 2019 and January 7, 2020, respectively, has been past due 90 days or more and is not considered as in default because there is no significant change in credit quality and the amounts are still considered recoverable. SKX Group does not hold any collateral over these balances or charge any interest thereon.

Movements of the credit losses under expected loss model are set out as follows:

| | **Year ended December 31,** | | **For the seven days ended January 7,** |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of the year/period | 21,640 | 30,801 | 44,735 |
| Provided for the year/period | 9,821 | 14,212 | 37 |
| Written off | (660) | (278) | – |
| At the end of the year/period | 30,801 | 44,735 | 44,772 |

## R. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **As at December 31,** | | **As at January 7,** |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Prepayment | 12,748 | 15,705 | 15,528 |
| Deposits | 6,941 | 7,112 | 5,628 |
| Receivables for disposal of biological assets | 7,021 | 4,382 | 5,916 |
| Others | 6,590 | 3,018 | 6,372 |
| Less: allowances for credit losses | (628) | (465) | (511) |
| | 32,672 | 29,752 | 32,933 |

## S. PLEDGED AND RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Pledged and restricted bank deposits | 27,963 | 24,997 | 24,997 |
| Cash and cash equivalent | 153,131 | 195,300 | 162,299 |
| | 181,094 | 220,297 | 187,296 |
| Pledged and restricted bank deposits | | | |
| – for bills payable | 16,903 | 5,696 | 5,696 |
| – for bank borrowings | 584 | 60 | 60 |
| – frozen bank deposits *(note)* | 10,476 | 19,241 | 19,241 |
| | 27,963 | 24,997 | 24,997 |

*Note:* The frozen bank deposits represent deposits frozen by courts of justice in the PRC in relation to lawsuits where SKX Group is a defendant.

Cash and cash equivalents comprise cash and current deposits held by SKX, carrying interest at prevailing market rates of 0.30% per annum as at December 31, 2018 and 2019 and January 7, 2020.

The pledged and restricted bank deposits carried interest rates at 1.15% per annum as at December 31, 2018 and 2019 and January 7, 2020.

## T. EQUITY INSTRUMENTS AT FVTOCI

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Unquoted equity instruments | 35,540 | 46,688 | 46,688 |

The above unquoted equity investments represent SKX Group's equity investment in Inner Mongolia Xing Lianxing Pastoral Co., Ltd.* (內蒙古星連星牧業有限公司), Inner Mongolia Yixin Industrial Co., Ltd.* (內蒙古壹新實業有限公司) and Inner Mongolia Tuke Agriculture and Husbandry Technology Co., Ltd.* (內蒙古圖科農牧科技有限公司).

Details of fair value measurements are set out in note AI.

* The English name of the Chinese company marked with "*" are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

## U. PLEDGE OF OR RESTRICTIONS ON ASSETS

SKX Group's borrowings had been secured by the pledge of SKX Group's biological assets and the carrying amounts are as follows:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Biological assets | 1,403,989 | 1,449,034 | 1,449,034 |

SKX Group's pledged and restricted bank deposits and their carrying amounts are set out in note S.

## V. TRADE AND BILLS PAYABLES

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 834,533 | 1,050,239 | 1,098,733 |
| Bills payable | 94,210 | 206,184 | 206,184 |
| | 928,743 | 1,256,423 | 1,304,917 |

The maturity period of bills payables are normally within 1 year.

The following is an aged analysis of trade and bills payables at the end of each reporting period:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 869,858 | 1,207,990 | 1,256,484 |
| 1 to 2 years | 41,187 | 33,041 | 33,041 |
| 2 to 3 years | 4,511 | 4,230 | 4,230 |
| More than 3 years | 13,187 | 11,162 | 11,162 |
| | 928,743 | 1,256,423 | 1,304,917 |

## W. OTHER PAYABLES AND ACCRUALS

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Construction costs payable | 289,697 | 259,625 | 259,625 |
| Deposits received | 13,429 | 13,696 | 14,142 |
| Accrued staff costs | 33,523 | 31,546 | 35,812 |
| Other tax payables | 1,687 | 626 | 685 |
| Consideration payables for acquisition of non-controlling interests | – | 22,922 | 22,922 |
| Advance received from lessees | – | – | 4 |
| Advance received for disposal of dairy cows | 1,403 | 1,064 | 1,827 |
| Others | 16,270 | 4,680 | 7,381 |
| | 356,009 | 334,159 | 342,398 |

## X. CONTRACT LIABILITIES

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Sales of breeding products | 2,757 | 3,426 | 3,127 |
| Sales of raw milk *(note)* | 27,476 | 185,381 | 175,029 |
| | 30,233 | 188,807 | 178,156 |

*Note:* As at January 1, 2018, contract liabilities from contracts with customers amounted to RMB2,717,000.

During the years ended December 31, 2018 and 2019, and seven days ended January 7, 2020, certain customers made prepayments for purchase of raw milk from SKX Group. The prepayments from certain customers borne interests at rates ranging of 2.5%-4.5%. Interests shall be settled by delivery of raw milk as well.

Revenue recognized during each of the reporting period include the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognised during each of the Pre-acquisition Period that related to performance obligations that were satisfied in a prior year.

## Y. BANK BORROWINGS

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Secured *(note i)* | 1,285,828 | 1,175,102 | 1,175,127 |
| Unsecured *(note ii)* | 755,699 | 911,687 | 874,032 |
| | 2,041,527 | 2,086,789 | 2,049,159 |
| The carrying amounts of the above borrowings are repayable: | | | |
| Within one year | 1,148,799 | 1,090,647 | 1,052,992 |
| Within a period of more than one year but not exceeding two years | 282,753 | 555,547 | 532,502 |
| Within a period of more than two years but not exceeding five years | 439,572 | 340,978 | 365,943 |
| Within a period of more than five years | 170,403 | 99,617 | 97,722 |
| Less: Amounts due within one year shown under current liabilities | (1,148,799) | (1,090,647) | (1,052,992) |
| Amounts shown under non-current liabilities | 892,728 | 996,142 | 996,167 |

The bank borrowings comprise:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank borrowings at variable rate | 833,786 | 842,120 | 842,120 |
| Bank borrowings at fixed rate | 1,207,741 | 1,244,669 | 1,207,039 |
| | 2,041,527 | 2,086,789 | 2,049,159 |

The ranges of effective interest rates on SKX Group's bank borrowings are as follows:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | % | % | % |
| Effective interest rates: | | | |
| Variable rate | 4.90 to 6.96 | 4.35 to 6.96 | 4.35 to 6.96 |
| Fixed rate | 4.35 to 6.80 | 4.35 to 6.60 | 4.35 to 6.60 |

*Note:*

(i) As at December 31, 2018 and 2019 and January 7, 2020, certain bank borrowings were secured by biological assets owned by SKX Group as set out in note U.

(ii) As at December 31, 2018 and 2019 and January 7, 2020, certain bank borrowings with an aggregate carrying amount of RMB633,332,000, RMB735,261,000 and RMB735,261,000, respectively, were under personal guarantee executed by a director of SKX Group and his wife.

## Z. DEFERRED INCOME

| | Year ended December 31, | | For the seven days ended January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred income in respect of government grants: | | | |
| – Balance at beginning of the year | 25,727 | 31,653 | 29,538 |
| – Addition | 12,146 | 4,299 | – |
| – Release to income | | | |
| – related to property, plant and equipment | (4,479) | (3,810) | (51) |
| – related to research and development activities | (980) | (2,160) | (7) |
| – Release to compensate interest expense | (761) | (444) | – |
| | 31,653 | 29,538 | 29,480 |

Deferred income arising from government grants of SKX Group represents the government subsidies obtained in relation to the construction of property, plant and equipment, research and development activities and compensation for interest expense. Government grants are included in the consolidated statement of financial position as deferred income and credited to the profit or loss on a straight-line basis over the useful lives of the related assets. The government grants for the purpose of research and development are expensed in the period when the corresponding research and development activities incurred. The government grants related to interest compensation are expensed when corresponding interest accrued.

## AA. LEASE LIABILITIES

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 4,921 | 5,604 | 5,651 |
| Within a period of more than one year but not more than two years | 4,639 | 11,028 | 11,266 |
| Within a period of more than two years but not more than five years | 11,951 | 11,890 | 12,139 |
| Within a period of more than five years | 268,718 | 274,698 | 274,925 |
| | 290,229 | 303,220 | 303,981 |
| Less: amount due for settlement with 12 months shown under current liabilities | (4,921) | (5,604) | (5,651) |
| Amount due for settlement after 12 months shown under non-current liabilities | 285,308 | 297,616 | 298,330 |

## AB. OTHER LIABILITIES

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Contingent consideration to non-controlling equity holders *(note)* | 3,460 | 660 | 660 |

*Note:*

In July 2016, SKX acquired 28.125% equity interests of Xundian Saiyou, a subsidiary of SKX, from the non-controlling equity holders at cash consideration of RMB22,500,000 including contingent consideration of RMB4,500,000 which is conditional upon the non-controlling equity holders assisted the subsidiary to meet certain compliance requirements regarding land-use-right registration and environment requirements. The contingent consideration was settled as to RMB2,500,000 and RMB2,000,000 in year of 2017 and 2019, respectively. On March 6, 2017, SKX acquired 55% of the issued share capital of Dalateqi Saiyou for consideration of RMB55,000,000 including RMB2,060,000 of contingent consideration related to the compliance with land-use-right and environment requirements. During the Pre-acquisition Period, RMB600,000 and RMB800,000 was settled in year of 2018 and 2019, respectively, based on the purchase agreement.

## AC. OTHER PROVISION

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Litigation | – | 13,346 | 13,346 |

Litigation provision as at December 31, 2019 and January 7, 2020 represents expected loss from a civil litigation against SKX Group for alleged failure of supply of raw milk to a customer. The best estimation of compensation for the plaintiff is RMB13,346,000. As at the date of this report, the litigation was still in the process of the first instance.

## AD. SHARE CAPITAL

The balances of share capital as at December 31, 2018 and 2019 and January 7, 2020 represent the share capital of SKX.

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Issued and fully paid** | | | |
| At beginning/end of year/period | 918,600 | 918,600 | 918,600 |

## AE. RETIREMENT BENEFIT PLANS

The employees of SKX Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. SKX Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefit scheme to fund the benefits. The only obligation of SKX Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The amounts of contributions made by SKX Group in respect of the retirement benefit scheme during the Pre-acquisition Period are disclosed in note E.

## AF. CAPITAL COMMITMENTS

At the end of each reporting period, SKX Group had the following capital commitments:

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Capital expenditures in respect of acquisition of property plant and equipment: | | | |
| contracted but not provided for | 64,721 | 57,980 | 57,980 |

## AG. CAPITAL RISK MANAGEMENT

SKX Group manages its capital to ensure that SKX Group will be able to continue as a going concern while maximising the return to equity holders through the optimisation of the debt and equity balances. SKX Group's overall strategy remains unchanged during the Pre-acquisition Period.

The capital structure of SKX Group consists of net debt, which included bank borrowings as disclosed in note Y net of cash and cash equivalent, and equity attributable to owners of SKX, comprising share capital, reserves and accumulated profits.

During the Pre-acquisition Period, the management of SKX Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of SKX Group, SKX Group will balance its overall capital structure through new share issues as well as the issue of new debts.

## AH. FINANCIAL INSTRUMENTS

| | As at December 31, | | As at January 7, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Financial assets at FVTOCI | 35,540 | 46,688 | 46,688 |
| Financial assets at amortised cost | 424,548 | 405,390 | 412,586 |
| Financial liabilities at amortised cost | 3,291,069 | 3,645,199 | 3,659,977 |
| Financial liabilities at FVTPL | 3,460 | 660 | 660 |

### Financial risk management objectives and polices

SKX Group's major financial instruments include bank balances and cash, pledged and restricted bank deposits, trade and bills receivables, other receivables, equity investments at FVTOCI, trade and bills payables, other payables, lease liabilities, contingent consideration to non-controlling equity holders and bank borrowings. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The management of SKX Group manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. SKX Group's overall strategy remains unchanged during the Pre-acquisition Period.

**Market risk**

***(i) Currency risk***

As at the end of each reporting period, the SKX Group had no financial assets or financial liabilities in currencies other than RMB. SKX Group is not exposed to any significant currency risk.

***(ii) Interest rate risk***

SKX Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings and lease liabilities. SKX Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities at variable rates, mainly pledged and restricted bank deposits, bank balances and variable-rates bank borrowings. SKX Group cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Deposit Rate of the People's Bank of China.

***Interest rate sensitivity analyses***

The sensitivity analysis below has been determined based on the exposure to interest rates for pledged and restricted bank deposits, bank balances and borrowings at the end of each reporting period and assumed that the amount outstanding at the end of each reporting period was outstanding for the whole year. A 50 basis point increase or decrease for pledged and restricted bank deposits, bank balances and bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, SKX Group's post-tax profit for the two years ended December 31, 2019 and seven days ended January 7, 2020 would decrease/increase by RMB3,356,000, RMB3,058,000 and RMB3,204,000, respectively. This is mainly attributable to SKX Group's exposure to interest rates on its pledged and restricted bank deposits, bank balances and borrowings with variable rates.

***(iii) Other price risk***

SKX Group is exposed to equity price risk through its investments in unquoted equity investments measured at FVTOCI. SKX Group invested in certain unquoted equity securities for investees operating in pastoral industry sector for long term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

**Credit risk and impairment assessment**

SKX Group's maximum exposure to credit risk which will cause a financial loss to SKX Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position.

SKX Group has concentration of credit risk as 15.16%, 17.90% and 19.07% of the total trade receivables were due from SKX Group's largest customer as at December 31, 2018 and 2019 and January 7, 2020, respectively.

The Group also has concentration of credit risk on trade receivables. As at December 31, 2018 and 2019 and January 7, 2020, 71.93%, 80.60% and 74.84% of the total trade receivables were due from SKX Group's top five customers, respectively.

***Overview of SKX Group's exposure to credit risk***

Credit risk refers to the risk that SKX Group's counterparties default on their contractual obligations resulting in financial losses to SKX Group. SKX Group's credit risk exposures are primarily attributable to trade and bills receivables, other receivables, pledged and restricted bank deposits, and bank balances and cash. SKX Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimize the credit risk, the management of SKX Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In addition, SKX Group performs impairment assessment under ECL model in accordance with IFRS 9 on receivable balances individually or based on provision matrix.

SKX Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on pledged and restricted bank deposits and bank balances and cash is limited because the majority of the counterparties are banks with good reputation.

For trade receivables, SKX Group has applied the simplified approach of IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, SKX Group determines the ECL on these items by using a provision matrix by risk portfolio, which is estimated based on the financial quality of the debtors, historical credit loss experience and the past due status of the debtors, general economic conditions of the industry in which the debtors operate and assessment of both the current as well as the forward-looking information that available without undue cost or effort at the reporting date.

The SKX Group measures the loss allowance of other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL.

SKX Group measures the loss allowance on bank balances and pledged and restricted bank deposits on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition. The credit risk is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies.

The SKX Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade and bills receivables | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default | Lifetime ECL – not credit-impaired | 12-month ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and SKX Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at December 31, 2018 and 2019, and January 7, 2020, respectively, within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of RMB16,426,000, RMB23,379,000 and RMB23,379,000 as at December 31, 2018 and 2019 and January 7, 2020, respectively, were assessed individually.

| | | **December 31, 2018** |
|---|---|---|
| | | **Trade receivables –** |
| | **Average loss rate** | **Gross carrying amount** |
| | | *RMB'000* |
| Low risk | 2.37% | 164,203 |
| Doubtful | 14.26% | 73,552 |
| Total | | 237,755 |

| | | **December 31, 2019** |
|---|---|---|
| | | **Trade receivables –** |
| | **Average loss rate** | **Gross carrying amount** |
| | | *RMB'000* |
| Low risk | 1.78% | 137,542 |
| Doubtful | 35.10% | 53,860 |
| Total | | 191,402 |

| | | **January 7, 2020** |
|---|---|---|
| | | **Trade receivables –** |
| | **Average loss rate** | **Gross carrying amount** |
| | | *RMB'000* |
| Low risk | 1.46% | 173,932 |
| Doubtful | 34.68% | 54,346 |
| Total | | 228,278 |

The following table shows the movement of loss allowances in lifetime ECL that has been recognized for trade receivables under the simplified approach.

| | Lifetime ECL (not credit-impaired) | Lifetime ECL (credit-impaired) | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| As at January 1, 2018 | 9,209 | 12,431 | 21,640 |
| Impairment losses recognised | 5,220 | 4,614 | 9,834 |
| Impairment losses reversed | (13) | – | (13) |
| Written-off | (41) | (619) | (660) |
| As at December 31, 2018 | 14,375 | 16,426 | 30,801 |
| Impairment losses recognised | 7,402 | 8,048 | 15,450 |
| Impairment losses reversed | (143) | (1,095) | (1,238) |
| Written-off | (278) | – | (278) |
| As at December 31, 2019 | 21,356 | 23,379 | 44,735 |
| Impairment losses recognised | 37 | – | 37 |
| Impairment losses reversed | – | – | – |
| Written-off | – | – | – |
| As at January 7, 2020 | 21,393 | 23,379 | 44,772 |

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

| | 12-month ECL | Lifetime ECL (not credit-impaired) | Lifetime ECL (credit-impaired) | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at January 1, 2018 | 534 | – | – | 534 |
| Impairment losses recognised | 192 | – | – | 192 |
| Impairment losses reversed | (98) | – | – | (98) |
| At December 31, 2018 | 628 | – | – | 628 |
| Impairment losses recognised | 835 | – | – | 835 |
| Impairment losses reversed | (366) | – | – | (366) |
| Transfer to lifetime ECL | (632) | 632 | – | – |
| Written-off | – | (632) | – | (632) |
| At December 31, 2019 | 465 | – | – | 465 |
| Impairment losses recognised | 46 | – | – | 46 |
| Impairment losses reversed | – | – | – | – |
| As at January 7, 2020 | 511 | – | – | 511 |

SKX Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written-off is subject to enforcement activities.

**Liquidity risk**

In management of the liquidity risk, SKX Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance SKX Group's operations and mitigate the effects of fluctuations in cash flows. SKX Group relies on bank loans as a source of liquidity.

SKX Group had net current liabilities of RMB1,789,932,000 as at January 7, 2020, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the directors of SKX Group regularly monitor the operating cash flows of the Group to meet its liquidity requirement in the short and long term. SKX Group's net current liabilities position as at January 7, 2020 was mainly attributable to trade and bills payables and bank borrowings due within one year.

In view of these circumstances, the directors of SKX Group have given consideration to the future liquidity and performance of SKX Group and its available sources of finance in assessing whether SKX Group will have sufficient financial resources to continue as a going concern. Meanwhile, SKX Group recorded positive profit, positive net assets and net operating cash inflows during the Track Record Period.

The directors of SKX Group, after taking into account the reasonably possible changes in the operational performance, the availability of retained profits and the expected renewal of the short-term borrowings, are of the opinion that, SKX Group will have sufficient working capital to meet its financial obligations as and when they fall due.

The following table details SKX Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which SKX Group can be required to pay. The table includes both interest and principal cash flows.

***Liquidity tables***

| | Weighted average effective interest rate | Less than 1 year | 1-2 years | 2-5 years | Over 5 years | Total undiscounted cash flows | Carrying amount at 31/12/2018 |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| For the year ended December 31, 2018 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 834,533 | – | – | – | 834,533 | 834,533 |
| Bills payable | – | 94,210 | – | – | – | 94,210 | 94,210 |
| Other payables | – | 320,799 | – | – | – | 320,799 | 320,799 |
| Lease liabilities | 5.25 | 17,293 | 14,355 | 45,033 | 745,235 | 821,916 | 290,229 |
| Borrowings | | | | | | | |
| – fixed-rate | 4.35 to 6.80 | 801,493 | 195,243 | 295,361 | – | 1,292,097 | 1,207,741 |
| – variable-rate | 4.90 to 6.96 | 409,090 | 119,724 | 196,781 | 189,072 | 914,667 | 833,786 |
| | | 2,477,418 | 329,322 | 537,175 | 934,307 | 4,278,222 | 3,581,298 |

| | Weighted average effective interest rate | Less than 1 year | 1-2 years | 2-5 years | Over 5 years | Total undiscounted cash flows | Carrying amount at 31/12/2019 |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| For the year ended December 31, 2019 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 1,050,239 | – | – | – | 1,050,239 | 1,050,239 |
| Bills payable | – | 206,184 | – | – | – | 206,184 | 206,184 |
| Other payables | – | 301,987 | – | – | – | 301,987 | 301,987 |
| Lease liabilities | 5.25 | 21,863 | 22,380 | 46,588 | 737,250 | 828,081 | 303,220 |
| Borrowings | | | | | | | |
| – fixed-rate | 4.35 to 6.60 | 668,933 | 511,235 | 150,335 | – | 1,330,503 | 1,244,669 |
| – variable-rate | 4.35 to 6.96 | 499,155 | 82,817 | 232,875 | 106,301 | 921,148 | 842,120 |
| | | 2,748,361 | 616,432 | 429,798 | 843,551 | 4,638,142 | 3,948,419 |

| | Weighted average effective interest rate | Less than 1 year | 1-2 years | 2-5 years | Over 5 years | Total undiscounted cash flows | Carrying amount at 07/01/2020 |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| For the seven days ended January 7, 2020 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 1,098,733 | – | – | – | 1,098,733 | 1,098,733 |
| Bills payable | – | 206,184 | – | – | – | 206,184 | 206,184 |
| Other payables | – | 305,901 | – | – | – | 305,901 | 305,901 |
| Lease liabilities | 5.25 | 23,923 | 21,054 | 46,109 | 734,499 | 825,585 | 303,981 |
| Borrowings | | | | | | | |
| – fixed-rate | 4.35 to 6.60 | 628,062 | 487,193 | 174,442 | – | 1,289,697 | 1,207,039 |
| – variable-rate | 4.35 to 6.96 | 505,667 | 82,873 | 233,940 | 104,160 | 926,640 | 842,120 |
| | | 2,768,470 | 591,120 | 454,491 | 838,659 | 4,652,740 | 3,963,958 |

## AI. FAIR VALUE MEASUREMENTS

SKX Group's biological assets and certain of SKX Group's financial assets and financial liabilities are measured at fair value on a recurring basis at the end of each Pre-acquisition Period. The following table gives information about how the fair values of these biological assets, financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized based on the degree to which the inputs to the fair value measurements is observable.

| | As at December 31, 2018 | | | |
|---|---|---|---|---|
| **Recurring fair value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Heifers and calves | – | – | 1,040,558 | 1,040,558 |
| Milkable cows | – | – | 1,472,337 | 1,472,337 |
| Breeding stock | – | – | 28,328 | 28,328 |
| Equity instruments at FVTOCI | – | – | 35,540 | 35,540 |
| Contingent consideration to non-controlling equity holders | – | – | 3,460 | 3,460 |
| Total assets | – | – | 2,580,223 | 2,580,223 |

| | As at December 31, 2019 | | | |
|---|---|---|---|---|
| **Recurring fair value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Heifers and calves | – | – | 1,030,787 | 1,030,787 |
| Milkable cows | – | – | 1,674,181 | 1,674,181 |
| Breeding stock | – | – | 41,871 | 41,871 |
| Equity instruments at FVTOCI | – | – | 46,688 | 46,688 |
| Contingent consideration to non-controlling equity holders | – | – | 660 | 660 |
| Total assets | – | – | 2,794,187 | 2,794,187 |

| | As at January 7, 2020 | | | |
|---|---|---|---|---|
| **Recurring fair value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Heifers and calves | – | – | 1,029,836 | 1,029,836 |
| Milkable cows | – | – | 1,678,932 | 1,678,932 |
| Breeding stock | – | – | 42,412 | 42,412 |
| Equity instruments at FVTOCI | – | – | 46,688 | 46,688 |
| Contingent consideration to non-controlling equity holders | – | – | 660 | 660 |
| Total assets | – | – | 2,798,528 | 2,798,528 |

**Valuation techniques used in fair value measurements**

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used in the valuation models.

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|
| Unquoted equity Investments | Market approach. | Fair value is estimated based on comparable company enterprise value/ revenue and discount for lack of marketability ("DLOM"). | The higher the DLOM, the lower the fair value.<br><br>If the DLOM increases by 1%, the estimated fair value of equity instruments at FVTOCI will decrease by RMB470,000, RMB574,000 and RMB574,000 as at December 31, 2018 and 2019 and January 7, 2020 respectively, and vice versa. |
| Biological assets Heifers and calves | The fair value of 14 months old heifers is determined by reference to the local market selling price. | Average local market selling prices of the heifers of 14 months old were estimated at RMB17,000, RMB18,500 and RMB18,500 per head at December 31, 2018 and 2019 and January 7, 2020, respectively. | An increase in the estimated local market selling price used would result in an increase in the fair value measurement of the heifers and calves, and vice versa. |

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|
| | The fair values of heifers and calves at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser. | Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old are RMB9,278, RMB11,766 and RMB11,766 at December 31, 2018 and 2019 and January 7, 2020, respectively; average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB7,403, RMB8,902 and RMB8,902, respectively. | An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in an increase/decrease in the fair value measurement of the heifers and calves older/younger than 14 months old, and vice versa. |
| Milkable cows | The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows. | The estimated feed costs per kg of raw milk used in the valuation process are RMB1.94, RMB2.06 and RMB2.06 for the two years ended December 31, 2019 and seven days ended, January 7, 2020, respectively, based on the historical average feed costs per kg of raw milk after taking into consideration of inflation. | An increase in the estimated feed costs per kg of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.<br><br>An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of the milkable cows, and vice versa. |

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|
| | | A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 23.65 kg to 26.31 kg during year end December 31, 2018, lactation cycle is ranged from 22.23 kg to 24.28 kg during year ended December 31, 2019 depending on the number of the lactation cycles and the individual physical condition. Lactation cycle is ranged from 22.23 kg to 24.28 kg for the seven days ended January 7, 2020. | An increase in the estimated average selling price of raw milk used would result in an increase in the fair value measurement of the milkable cows, and vice versa.<br><br>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of the milkable cows, and vice versa. |
| | | Estimated local future market prices for raw milk are RMB3,671, RMB3,880 and RMB3,880 per tonne at December 31, 2018 and 2019 and January 7, 2020, Respectively. | |
| | | Discount rate for estimated future cash flow used is 13.00%, as at December 31, 2018 and 2019 and January 7, 2020. | |

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|
| Breeding stock | The fair values of breeding stock are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such breeding stock. | The estimated feed costs per day of breeding stock used in the valuation process are RMB32, RMB33 and RMB33 for the two years ended December 31, 2019 and seven days ended, January 7, 2020, respectively, based on the historical average feed costs per day of breeding stock after taking into consideration of inflation.<br><br>Estimated local future market prices for sex-sorting frozen bovine semen are RMB102, RMB107 and RMB107 per straw at December 31, 2018 and 2019 and January 7, 2020, Respectively.<br><br>Estimated local future market prices for conventional frozen bovine semen are RMB22, RMB18 and RMB18 per straw at December 31, 2018 and 2019 and January 7, 2020, Respectively.<br><br>Discount rate for estimated future cash flow used is 13.00%, as at December 31, 2018 and 2019 and January 7, 2020. | An increase in the estimated feed costs per day of breeding stock used would result in a decrease in the fair value measurement of the breeding stock, and vice versa.<br><br>An increase in the estimated average selling price of frozen bovine semen used would result in an increase in the fair value measurement of the breeding stock, and vice versa.<br><br>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of the breeding stock, and vice versa. |

**Reconciliation of Level 3 fair value measurements**

| | Equity instruments at FVTOCI | Contingent consideration to non-controlling equity holders |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At January 1, 2018 | 40,231 | 4,060 |
| Change in fair value | (4,791) | – |
| Investment in equity instruments at FVTOCI | 100 | – |
| Payment of contingent consideration to non-controlling equity holders | – | (600) |
| As at December 31, 2018 | 35,540 | 3,460 |
| Change in fair value | 11,148 | – |
| Payment of contingent consideration to non-controlling equity holders | – | (2,800) |
| As at December 31, 2019 | 46,688 | 660 |
| Change in fair value | – | – |
| As at January 7, 2020 | 46,688 | 660 |

The reconciliation from the beginning balances as at January 1, 2018 to the ending balances as at January 7, 2020 for fair value measurements of the biological assets are disclosed in note N.

During the Pre-acquisition Period, the management of SKX Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values at the end of each reporting period.

## AJ. MAJOR NON-CASH TRANSACTIONS

As disclosed in the note (ii) and (iv) of SKX Group's statements of changes in equity, SKX Group had non-cash distribution to non-controlling shareholders during the year ended December 31, 2018 and 2019. SKX Group did not have other major non-cash transactions during the Pre-acquisition Period.

## AK. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in SKX Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Consideration payables for acquisition of non-controlling interests | Bank borrowings | Lease liabilities | Contingent consideration to non-controlling equity holders | Total |
|---|---|---|---|---|---|
| | *Note W* | *Note Y* | *Note AA* | *Note AB* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At January 1, 2018 | – | 2,270,236 | 308,414 | 4,060 | 2,582,710 |
| Financing cash flows | – | (342,510) | (19,020) | (600) | (362,130) |
| Interest expenses | – | 113,040 | 15,302 | – | 128,342 |
| Decrease for the year | – | – | (14,467) | – | (14,467) |
| Others | – | 761 | – | – | 761 |
| At December 31, 2018 | – | 2,041,527 | 290,229 | 3,460 | 2,335,216 |
| Financing cash flows | (206,295) | (63,056) | (25,683) | (2,800) | (297,834) |
| Interest expenses | – | 107,874 | 15,480 | – | 123,354 |
| Acquisition of non-controlling interests | 229,217 | – | – | – | 229,217 |
| Increase for the year | – | – | 23,194 | – | 23,194 |
| Others | – | 444 | – | – | 444 |
| At December 31, 2019 | 22,922 | 2,086,789 | 303,220 | 660 | 2,413,591 |
| Financing cash flows | – | (40,100) | – | – | (40,100) |
| Interest expenses | – | 2,470 | 310 | – | 2,780 |
| Increase for the period | – | – | 451 | – | 451 |
| At January 7, 2020 | 22,922 | 2,049,159 | 303,981 | 660 | 2,376,722 |

## AL. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF SKX

As at the date of this report, SKX has the following subsidiaries:

| Name of subsidiary | Place of establishment | Paid up/Issue Registered capital | Shareholding/equity interest attributable to SKX Group as at December 31, 2018 | December 31, 2019 | January 7, 2020 | Principal activities |
|---|---|---|---|---|---|---|
| Inner Mongolia SK Xing Dairy Limited *(note vi)* | PRC | 88,000,000/ 88,000,000 | 100% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Inner Mongolia Benteng Dairy Limited *(note vi)* | PRC | 560,000,000/ 560,000,000 | 100% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Ningxia SKX *(note vi)* | PRC | 74,200,000/ 74,200,000 | 70% | 89.108% | 89.108% | Raising and breeding dairy cows, and raw milk production |
| Ordos SKX *(note vi)* | PRC | 50,000,000/ 50,000,000 | 70% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Etuokeqi Saiyou *(note vi)* | PRC | 45,000,000/ 45,000,000 | 70% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| 內蒙古賽科星農業有限公司 *(note i)* (Inner Mongolia SK Xing Agriculture Limited*) | PRC | –/ 10,000,000 | 100% | / | / | Raising and breeding dairy cows, and raw milk production |
| Inner Mongolia Northern Lianiu Agriculture and Dairy Co. Ltd *(note viii)* | PRC | 190,977,100/ 190,977,100 | 99.9961% | 99.9961% | 99.9961% | Raising and breeding dairy cows, and raw milk production |
| Beijing Haihuayundu *(note vi)* | PRC | 477,188,074/ 477,188,074 | 100% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Hulun Buir Saiyou *(note vi)* | PRC | 60,000,000/ 210,000,000 | 70% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Hebei Benfang Dairy Limited *(note vi)* | PRC | 240,000,000/ 240,000,000 | 100% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Cangzhou SKX *(note ix)* | PRC | 40,000,000/ 40,000,000 | 70% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |

| Name of subsidiary | Place of establishment | Paid up/Issue Registered capital | Shareholding/equity interest attributable to SKX Group as at December 31, 2018 | December 31, 2019 | January 7, 2020 | Principal activities |
|---|---|---|---|---|---|---|
| Dingzhou SKX *(note ix)* | PRC | 41,000,000/ 41,000,000 | 70% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Dalateqi Saiyou *(note vi)* | PRC | 100,000,000/ 100,000,000 | 100% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Wuqiang Saiyou Dairy Limited *(note ix)* | PRC | 51,000,000/ 51,000,000 | 100% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Huaxia Xinghua *(note vi)* | PRC | 462,457,540/ 462,457,540 | 100% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Jiyuan SKX *(note vi)* | PRC | 66,000,000/ 66,000,000 | 70% | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| Xundian Saiyou *(note viii)* | PRC | 78,800,000/ 80,000,000 | 98.5% | 98.5% | 98.5% | Raising and breeding dairy cows, and raw milk production |
| Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd *(note vi)* | PRC | 48,000,000/ 48,000,000 | 100% | 100% | 100% | Breeding of livestock; Cloning technology development |
| Qinhuangdao Quannong Cow Breeding Co. Ltd *(note ii)* | PRC | 2,000,000/ 2,000,000 | 80% | / | / | Trading of breeding products |
| Inner Mongolia SK Xing Jingyuan Technology Company Limited *(note vi)* | PRC | 10,000,000/ 10,000,000 | 100% | 100% | 100% | Trading of breeding products |
| Chengde Saiyou Dairy Co., Ltd. *(note vii)* | PRC | 40,000,000/ 40,000,000 | – | 100% | 100% | Raising and breeding dairy cows, and raw milk production |
| 內蒙古順星源畜牧科技有限公司 *(note iii)* (Inner Mongolia Shun Xing Yuan Livestock Technology Co. Ltd*) ("Shun Xing Yuan") | PRC | –/500,000 | / | / | / | Livestock technical development |

| Name of subsidiary | Place of establishment | Paid up/Issue Registered capital | Shareholding/equity interest attributable to SKX Group as at December 31, 2018 | December 31, 2019 | January 7, 2020 | Principal activities |
|---|---|---|---|---|---|---|
| 內蒙古賽科星家畜種業與繁育生物技術研究院 *(note iv)* (Inner Mongolia SK Xing Livestock Breeding and Breeding Biotechnology Research Institute*) | PRC | –/5,000,000 | / | / | / | Livestock technical development |
| Qiqihar Saiyou *(note v)* | PRC | –/ 1,000,000,000 | / | / | / | Raising and breeding dairy cows, and raw milk production |

* The English name of the Chinese company marked with "*" are translation of its Chinese name and is included for identification purpose only, and should not be regarded as its official English translation.

*Notes:*

(i) This company was deregistered on September 2019. No audited statutory financial statements for the year ended December 31, 2018 were available as there was no requirement to issue audited accounts by the local authorities.

(ii) This company was deregistered on July 2019. No audited statutory financial statements for the year ended December 31, 2018 were available as there was no requirement to issue audited accounts by the local authorities.

(iii) SKX Group dispose Shun Xing Yuan at the consideration of RMB255,000 on August 2018 after establishment on April 2018. The net cash outflow of the disposal is RMB118,000. No audited statutory financial statements for the period were available as there was no requirement to issue audited accounts by the local authorities.

(iv) This company was deregistered on July 2018.

(v) This company was deregistered on September 2018.

(vi) The statutory financial statements were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC Financial Reporting Standards. These financial statements for the years ended December 31, 2018 and 2019 were audited by Da Hua CPA.

(vii) No audited statutory financial statements were available for the years ended December 31, 2018 as this entity was incorporated/established during the year ended December 31, 2019. No audited statutory financial statements for the year ended December 31, 2019 were available as there was no requirement to issue audited accounts by the local authorities.

(viii) No audited statutory financial statements were available for the years ended December 31, 2018 and 2019 as there was no requirement to issue audited accounts by the local authorities.

(ix) The statutory financial statements were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC Financial Reporting Standards. These financial statements for the year ended December 31, 2019 were audited by Da Hua CPA. No audited statutory financial statements for the year ended December 31, 2018 were available as there was no requirement to issue audited accounts by the local authorities.

None of the subsidiaries had issued any debt securities during the Pre-acquisition Period.

*The following is the text of a report set out on pages II-1 to II-57, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, on the historical financial information of Fonterra China Farms Group for the purpose of incorporation in this Prospectus.*

KPMG

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF FONTERRA CHINA FARMS GROUP TO THE DIRECTORS OF CHINA YOURAN DAIRY GROUP LIMITED**

**Introduction**

We report on the historical financial information of Fonterra China Farms Group (as described in Note 1) set out on pages II-4 to II-57, which comprises the combined statements of financial position of Fonterra China Farms Group as at 31 December 2018, 2019 and 2020, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of Fonterra China Farms Group for each of the years ended 31 December 2018, 2019 and 2020 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Fonterra Historical Financial Information"). The Fonterra Historical Financial Information set out on pages II-4 to II-57 forms an integral part of this report, which has been prepared for inclusion in the prospectus of China Youran Dairy Group Limited (the "Company") dated 7 June 2021 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for Fonterra Historical Financial Information**

The directors of the Company are responsible for the preparation of Fonterra Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Fonterra Historical Financial Information.

The underlying financial statements of Fonterra China Farms Group as defined on page II-4, on which the Fonterra Historical Financial Information is based, were prepared by the directors of Fonterra China Farms Group. The directors of Fonterra China Farms Group are responsible for the preparation of the underlying financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of Fonterra China Farms Group determine is necessary to enable the preparation of the underlying financial statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Fonterra Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Fonterra Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the Fonterra China Farms Group's preparation of Fonterra Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Fonterra Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fonterra China Farms Group's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Fonterra Historical Financial Information.

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

**Opinion**

In our opinion, the Fonterra Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Fonterra China Farms Group's financial position as at 31 December 2018, 2019 and 2020 and of Fonterra China Farms Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Fonterra Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

***Adjustments***

In preparing the Fonterra Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

***Dividends***

We refer to Note 11 to the Fonterra Historical Financial Information which states that no dividends have been paid by Fonterra China Farms Group in respect of the Track Record Period.

*Certified Public Accountants*

8th Floor, Prince's Building
Central, Hong Kong

7 June 2021

## A FONTERRA HISTORICAL FINANCIAL INFORMATION

Set out below is the Fonterra Historical Financial Information which forms an integral part of this Accountants' Report.

The combined financial statements of Fonterra China Farms Group for the Track Record Period, on which the Fonterra Historical Financial Information is based, were audited by KPMG Huazhen LLP under separate terms of engagement in accordance with International Standards on Auditing issued by the IAASB ("Underlying Financial Statements").

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

## COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2018 | | | 2019 | | | 2020 | | |
| | | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Revenue** | *4* | 957,654 | – | 957,654 | 1,111,354 | – | 1,111,354 | 1,186,518 | – | 1,186,518 |
| Cost of sales | | (867,282) | – | (867,282) | (1,011,171) | – | (1,011,171) | (1,097,599) | – | (1,097,599) |
| Gains/(losses) arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | | (12,269) | – | (12,269) | 94,418 | – | 94,418 | 181,832 | – | 181,832 |
| **Gross profit** | | 78,103 | – | 78,103 | 194,601 | – | 194,601 | 270,751 | – | 270,751 |
| Losses arising from changes in fair value less costs to sell of biological assets | *15* | – | (157,748) | (157,748) | – | (8,922) | (8,922) | – | (104,400) | (104,400) |
| Other income | *5* | 5,401 | – | 5,401 | 23,100 | – | 23,100 | 15,196 | – | 15,196 |
| Other gains and losses | *6* | (10,133) | – | (10,133) | (902,126) | – | (902,126) | 10,916 | – | 10,916 |
| Selling and distribution expenses | | (62,876) | – | (62,876) | (69,338) | – | (69,338) | (50,763) | – | (50,763) |
| Administrative expenses | | (70,280) | – | (70,280) | (60,622) | – | (60,622) | (60,409) | – | (60,409) |
| (Loss)/profit from operations | | (59,785) | (157,748) | (217,533) | (814,385) | (8,922) | (823,307) | 185,691 | (104,400) | 81,291 |

The accompanying Notes form part of this Fonterra Historical Financial Information.

| | Notes | 2018 Results before biological assets fair value adjustments | 2018 Biological assets fair value adjustments | 2018 Total | 2019 Results before biological assets fair value adjustments | 2019 Biological assets fair value adjustments | 2019 Total | 2020 Results before biological assets fair value adjustments | 2020 Biological assets fair value adjustments | 2020 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| (Loss)/profit from operations | | (59,785) | (157,748) | (217,533) | (814,385) | (8,922) | (823,307) | 185,691 | (104,400) | 81,291 |
| Finance costs | *7* | (53,262) | – | (53,262) | (50,079) | – | (50,079) | (48,201) | – | (48,201) |
| **(Loss)/profit before tax** | | (113,047) | (157,748) | (270,795) | (864,464) | (8,922) | (873,386) | 137,490 | (104,400) | 33,090 |
| Income tax expense | *8* | – | – | – | – | – | – | – | – | – |
| **(Loss)/profit and total comprehensive income for the year** | *9* | (113,047) | (157,748) | (270,795) | (864,464) | (8,922) | (873,386) | 137,490 | (104,400) | 33,090 |

Year ended 31 December

The accompanying Notes form part of this Fonterra Historical Financial Information.

## COMBINED STATEMENTS OF FINANCIAL POSITION

| | Notes | As at 31 December 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 12 | 1,988,154 | 1,057,016 | 1,019,349 |
| Right-of-use assets | 13 | 91,396 | 87,701 | 83,816 |
| Intangible assets | 14 | 2,268 | 171 | 103 |
| Biological assets | 15 | 1,090,607 | 1,184,660 | 1,090,983 |
| | | 3,172,425 | 2,329,548 | 2,194,251 |
| **Current assets** | | | | |
| Inventories | 16 | 186,681 | 180,292 | 197,351 |
| Trade receivables | 17 | 99,806 | 121,661 | 122,359 |
| Prepayments, deposits and other receivables | 18 | 7,602 | 8,166 | 11,042 |
| Amounts due from related parties | 29 | 109,239 | 56,838 | 168,795 |
| Cash and cash equivalents | 19 | 18,320 | 14,399 | 67,621 |
| | | 421,648 | 381,356 | 567,168 |
| **Current liabilities** | | | | |
| Trade payables | 20 | 149,627 | 161,543 | 159,460 |
| Other payables and accruals | 21 | 69,021 | 65,250 | 60,203 |
| Contract liabilities | 22 | 608 | 1,390 | 1,757 |
| Amounts due to related parties | 29 | 38,311 | 36,269 | 30,762 |
| Bank borrowings | 23 | 143,982 | 95,936 | 95,936 |
| Borrowings from immediate controlling company, including due within one year | 23 | – | 740,539 | 430,403 |
| Lease liabilities | 25 | 14,973 | 5,715 | 299 |
| | | 416,522 | 1,106,642 | 778,820 |
| **Net current assets/(liabilities)** | | 5,126 | (725,286) | (211,652) |
| **Total assets less current liabilities** | | 3,177,551 | 1,604,262 | 1,982,599 |

The accompanying Notes form part of this Fonterra Historical Financial Information.

| | Notes | As at 31 December 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Borrowings from immediate controlling company, excluding due within one year | *23* | 2,458,632 | 1,733,220 | 702,333 |
| Lease liabilities | *25* | 41,901 | 38,110 | 39,778 |
| Deferred income | *24* | 1,100 | 950 | 800 |
| | | 2,501,633 | 1,772,280 | 742,911 |
| **Net assets/(liabilities)** | | 675,918 | (168,018) | 1,239,688 |
| **Capital and reserves** | *26* | | | |
| Share capital | | 1,343,927 | 1,343,927 | 2,827,927 |
| Reserves | | (668,009) | (1,511,945) | (1,588,239) |
| **Total equity/(deficit)** | | 675,918 | (168,018) | 1,239,688 |

The accompanying Notes form part of this Fonterra Historical Financial Information.

## COMBINED STATEMENTS OF CHANGES IN EQUITY

| | *Note* | **Share capital** *RMB'000* | **Capital reserve** *RMB'000* | **Accumulated losses** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|
| As at 1 January 2018 | | 1,343,927 | 173,278 | (752,979) | 764,226 |
| Loss and total comprehensive income for the year | | – | – | (270,795) | (270,795) |
| Capital contribution from the immediate controlling company through discounting of interest-free loans | *26(b)* | – | 182,487 | – | 182,487 |
| As at 31 December 2018 and 1 January 2019 | | 1,343,927 | 355,765 | (1,023,774) | 675,918 |
| Loss and total comprehensive income for the year | | – | – | (873,386) | (873,386) |
| Capital contribution from the immediate controlling company through discounting of interest-free loans | *26(b)* | – | 29,450 | – | 29,450 |
| As at 31 December 2019 and 1 January 2020 | | 1,343,927 | 385,215 | (1,897,160) | (168,018) |
| Profit and total comprehensive income for the year | | – | – | 33,090 | 33,090 |
| Capital contribution from the immediate controlling company through discounting of interest-free loans | *26(b)* | – | 3,118 | – | 3,118 |
| Conversion of borrowings from immediate controlling company into registered capital | *26(a)/(b)* | 1,484,000 | (112,502) | – | 1,371,498 |
| As at 31 December 2020 | | 2,827,927 | 275,831 | (1,864,070) | 1,239,688 |

The accompanying Notes form the part of this Fonterra Historical Financial Information.

**COMBINED STATEMENTS OF CASH FLOWS**

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | *Notes* | **2018** | **2019** | **2020** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| **Operating activities** | | | | |
| (Loss)/profit before tax | | (270,795) | (873,386) | 33,090 |
| Adjustments for: | | | | |
| Losses arising from changes in fair value less costs to sell of biological assets | *15* | 157,748 | 8,922 | 104,400 |
| Interest income | *5* | (4,231) | (3,316) | (7,663) |
| Finance costs | *7* | 53,262 | 50,079 | 48,201 |
| Depreciation and amortisation | *9* | 110,190 | 86,574 | 48,942 |
| Losses/(gains) on disposal of property, plant and equipment | *6* | 2,879 | (171) | 92 |
| Impairment losses on property, plant and equipment and intangible assets | *6* | – | 899,132 | – |
| Government grants | *5* | (150) | (150) | (150) |
| Operating cash flows before movements in working capital | | 48,903 | 167,684 | 226,912 |

The accompanying Notes form part of this Fonterra Historical Financial Information.

| | Notes | Year ended 31 December 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| Operating cash flows before movements in working capital | | 48,903 | 167,684 | 226,912 |
| Movements in working capital: | | | | |
| Decrease/(increase) in inventories | | 12,676 | 6,390 | (17,059) |
| Decrease/(increase) in trade receivables | | 5,594 | (21,854) | (698) |
| Decrease/(increase) in prepayments and other receivables | | 3,274 | (565) | (2,876) |
| Decrease in amounts due from related parties | | 573 | 909 | 99 |
| (Decrease)/increase in trade payables | | (13,424) | 11,916 | (2,083) |
| Increase/(decrease) in other payables and accruals | | 17,450 | (5,201) | 1,256 |
| Increase in contract liabilities | | 436 | 781 | 367 |
| (Decrease)/increase in amounts due to related parties | | (1,043) | 1,356 | (4,813) |
| Cash generated from operations | | 74,439 | 161,416 | 201,105 |
| Interest received | | 157 | 25 | 119 |
| **Net cash generated from operating activities** | | 74,596 | 161,441 | 201,224 |

The accompanying Notes form part of this Fonterra Historical Financial Information.

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | *Notes* | **2018** | **2019** | **2020** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| **Investing activities** | | | | |
| Payments for purchase of property, plant and equipment | | (20,712) | (51,596) | (13,429) |
| Expenditure on biological assets | | (215,163) | (157,420) | (160,781) |
| Proceeds from disposal of biological assets | | 188,136 | 51,594 | 151,123 |
| Payments for purchases of intangible assets | | – | – | (64) |
| Proceeds from disposal of property, plant and equipment | | 343 | 4,024 | – |
| Net lending to related parties through cash pooling arrangement | | (107,834) | – | (111,744) |
| Repayment of net lending by related parties through cash pooling arrangement | | – | 51,430 | – |
| Loans repaid by related parties | | 110,000 | – | – |
| Interest received | | 13,043 | 3,354 | 7,232 |
| **Net cash used in investing activities** | | (32,187) | (98,614) | (127,663) |

The accompanying Notes form part of this Fonterra Historical Financial Information.

| | Notes | Year ended 31 December 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 |
|---|---|---|---|---|
| **Financing activities** | | | | |
| Repayment of bank loans | | (177,509) | (131,224) | – |
| Proceeds from bank loans | | 99,455 | 83,178 | – |
| Interest paid | | (6,614) | (5,094) | (5,887) |
| Capital element of lease rentals paid | | (108) | (13,261) | (4,792) |
| Interest element of lease rentals paid | | (9) | (2,381) | (1,537) |
| **Net cash used in financing activities** | | (84,785) | (68,782) | (12,216) |
| **Net (decrease)/increase in cash and cash equivalents** | | (42,376) | (5,955) | 61,345 |
| **Cash and cash equivalents at the beginning of the year** | | 54,774 | 18,320 | 14,399 |
| **Effect of foreign exchange rate changes** | | 5,922 | 2,034 | (8,123) |
| **Cash and cash equivalents at the end of the year** | *19* | 18,320 | 14,399 | 67,621 |

The accompanying Notes form part of this Fonterra Historical Financial Information.

## B NOTES TO THE FONTERRA HISTORICAL FINANCIAL INFORMATION OF FONTERRA CHINA FARMS GROUP

### 1 BASIS OF PREPARATION AND PRESENTATION OF FONTERRA HISTORICAL FINANCIAL INFORMATION

### 1.1 General information

During the Track Record Period, Fonterra China Farms Group consisted of two companies which were owned by Fonterra Tangshan Dairy Farm (HK) Limited ("Fonterra HK") and ultimately controlled by Fonterra Co-operative Group Limited ("Fonterra Group").

On 3 October 2020, Fonterra HK reached an agreement to sell its equity interests in the Fonterra China Farms Group to Inner Mongolia Youran Dairy Co., Ltd. ("Youran Dairy"), which is a subsidiary of the Company (the "Transaction"). The Transaction was completed on 1 April 2021. Refer to Note 32 for details.

The Fonterra China Farms Group is comprised of two dairy farm legal entities situated in Ying County in Shanxi province and Yutian County in Hebei province in the People's Republic of China ("PRC"). The Fonterra China Farms Group is principally engaged in the raising and breeding of dairy cows and the production of raw milk.

Detailed information of the two companies, both of which are private companies, that form the Fonterra China Farms Group during the Track Record Period are as follows:

| **Companies comprising Fonterra China Farms Group** | **Nature of legal entity** | **Place and date of incorporation** | **Currency** | **Principal activity** | **Share capital/ paid-in capital** | **Proportion of ownership interest by Fonterra Group (indirect)** | *Note* |
|---|---|---|---|---|---|---|---|
| Tangshan Youran Diary Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.) ("Yutian HubCo") (唐山優然牧業有限責任公司,原名為:恒天然(玉田)牧場有限公司) | Limited company | Mainland China 14/12/2010 | RMB | Dairy farming | USD96,900,000 | 100% | *(i),(ii), (iii)* |
| Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.) ("Ying HubCo") (山西優然天合牧業有限責任公司,原名為:恒天然(應縣)牧場有限公司) | Limited company | Mainland China 11/02/2014 | RMB | Dairy farming | USD344,820,675 | 100% | *(i),(ii), (iii)* |

(i) The statutory financial statements of the two companies for each of the years ended 31 December 2018, 2019 and 2020 were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance applicable to enterprises in PRC. The statutory financial statements for the year ended 31 December 2018 were audited by PricewaterhouseCoopers Zhongtian LLP, while those for the year ended 31 December 2019 were audited by KPMG Huazhen LLP. The statutory financial statements for the year ended 31 December 2020 have not yet been audited.

(ii) Both companies adopt 31 December as their financial year end date.

(iii) The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

**1.2 Basis of preparation of the Fonterra Historical Financial Information**

During the Track Record Period, Fonterra Historical Financial Information represented the combined financial statements of Fonterra China Farms Group. Fonterra China Farms Group is not a separate legal consolidated group but is operated and controlled by Fonterra Group. Accordingly, the Fonterra Historical Financial Information has been prepared and presented on a combined basis as Yutian HubCo and Ying HubCo were under the common control of Fonterra Group. The assets and liabilities included in the Fonterra Historical Financial Information have been stated at the respective underlying book values of each legal entity which forms Fonterra China Farms Group.

The combined statements of financial position of Fonterra China Farms Group as at 31 December 2018, 2019 and 2020, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of Fonterra China Farms Group throughout the Track Record Period have been prepared by combining the financial statements of both companies, which are directly derived from the historical books and records of these companies. All intercompany transactions, balances and unrealised gains/losses on transactions and balances within Fonterra China Farms Group have been eliminated on combination.

The Fonterra Historical Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by IASB and the accounting policies adopted by the Company. Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Fonterra Historical Financial Information, Fonterra China Farms Group has consistently applied all applicable new and revised IFRSs, which are effective for the accounting period beginning on 1 January 2020, including IFRS 9, *Financial instruments*, IFRS 15, *Revenue from Contracts with Customers* and IFRS 16, *Leases*, throughout the Track Record Period. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2020 are set out in Note 31.

The Fonterra Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Fonterra Historical Financial Information.

As at 31 December 2019 and 2020, Fonterra China Farms Group had net current liabilities of RMB725,286,000 and RMB211,652,000 respectively. Notwithstanding the net current liabilities of Fonterra China Farms Group as at 31 December 2019 and 2020, the Fonterra Historical Financial Information has been prepared on a going concern basis considering the inclusion of Fonterra China Farms Group's business in a broader group and that Youran Dairy are committed to support the Fonterra China Farms Group's business operation after the date of the Transaction and for the following 12 months. In addition, the remaining borrowings from the immediate controlling company by Yutian HubCo as at 31 December 2020, the principal amount of which amounted to RMB1,165,773,000, have been converted into additional registered capital of USD186,473,353 on 6 February 2021 (See Note 32).

**2 SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of measurement**

The Fonterra Historical Financial Information has been prepared on the historical cost basis except for biological assets (Note 2(p)) that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Fonterra China Farms Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these combined financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; and

Level 2: inputs are other than quoted prices included within Level 1, observable for the asset or liability, either directly or indirectly; and

Level 3: inputs are unobservable inputs for the asset or liability.

The Fonterra Historical Financial Information is presented in RMB, rounded to the nearest thousand (unless otherwise stated), as Fonterra China Farms Group's businesses are all located in the PRC. The functional currency of Fonterra China Farms Group is RMB.

**(b) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

**(c) Revenue from contracts with customers and other income**

Fonterra China Farms Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which Fonterra China Farms Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of Fonterra China Farms Group's revenue and other income recognition policies are as follows:

***(i) Sales of goods***

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

***(ii) Provision of inspection services***

Revenue is recognised when services are rendered to customers for dairy cows' blood inspection services.

***(iii) Interest income***

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

**(d) Leases**

***Definition of a lease***

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

Fonterra China Farms Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

***As a lessee***

*Short-term leases and leases of low-value assets*

Fonterra China Farms Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis or another systematic basis over the lease term.

*Right-of-use assets*

The cost of a right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by Fonterra China Farms Group; and
- an estimate of costs to be incurred by Fonterra China Farms Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for short-term leases, Fonterra China Farms Group recognises a right-of-use asset at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

A right-of-use asset in which Fonterra China Farms Group is reasonably certain to obtain ownership of the underlying leased asset at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, a right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Fonterra China Farms Group presents right-of-use assets as a separate line item on the combined statements of financial position.

*Refundable rental deposits*

Refundable rental deposits paid are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, Fonterra China Farms Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, Fonterra China Farms Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees; and
- payments of penalties for terminating a lease, if the lease term reflects Fonterra China Farms Group exercising the option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Fonterra China Farms Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Fonterra China Farms Group presents lease liabilities as a separate line item on the combined statements of financial position.

**(e) Foreign currencies**

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

**(f) Borrowing costs**

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(g) Government grants**

Government grants are not recognised until there is reasonable assurance that Fonterra China Farms Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which Fonterra China Farms Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Fonterra China Farms Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the combined statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Fonterra China Farms Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**(h) Retirement benefit costs**

Payments to defined contribution retirement benefit schemes under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered services entitling them to the contributions.

**(i) Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

**(j) Taxation**

Income tax expenses represent the sum of the tax currently payable and deferred tax.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the Fonterra Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Fonterra China Farms Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**(k) Property, plant and equipment**

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses (Note 2(m)), if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with Fonterra China Farms Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress represents property, plant and equipment under construction and equipment pending installation. The construction in progress items are initially recognised at cost less impairment losses (Note 2(m)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant, and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

**(l) Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (Note 2(m)). Amortisation of intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

**(m) Impairment on property, plant and equipment, right-of-use assets and intangible assets**

At the end of Fonterra Group's fiscal year and at the end of the reporting period, Fonterra China Farms Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). Fonterra China Farms Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, Fonterra China Farms Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, Fonterra China Farms Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units.

In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the assets is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**(n) Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**(o) Provisions**

Provisions are recognised when Fonterra China Farms Group has a present obligation (legal or constructive) as a result of a past event, it is probable that Fonterra China Farms Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

**(p) Biological assets and agricultural produce**

Fonterra China Farms Group's biological assets comprise dairy cows. Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the period in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation costs and excluding finance costs and income taxes. The fair value of dairy cows is determined based on their present location and condition and is determined independently by a professional valuer.

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

Agricultural produce refers to the raw milk, which is recognised at the point of harvest at fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

**(q) Financial instruments**

Financial assets and financial liabilities are initially recognised when Fonterra China Farms Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15, *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

***Financial assets***

*(i) Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset, Fonterra China Farms Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

Impairment of financial assets

Fonterra China Farms Group performs impairment assessment under ECL model on financial assets (including trade receivables, other receivables, amounts due from fellow subsidiaries and bank balances) and other items which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on Fonterra China Farms Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Fonterra China Farms Group recognises lifetime ECL for trade receivables, and trade-related receivables from fellow subsidiaries. The ECL on these assets are assessed individually.

For all other instruments, Fonterra China Farms Group measures the loss allowance equal to 12-month ECL, unless there has been a significant increase in credit risk since initial recognition, Fonterra China Farms Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

*(ii) Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, Fonterra China Farms Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, Fonterra China Farms Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increase significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Fonterra China Farms Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*(iii) Definition of default*

For internal credit risk management, Fonterra China Farms Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including Fonterra China Farms Group, in full (without taking into account any collaterals held by Fonterra China Farms Group).

*(iv) Write-off policy*

Fonterra China Farms Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under Fonterra China Farms Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

*(v) Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to Fonterra China Farms Group in accordance with the contract and the cash flows that Fonterra China Farms Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial assets.

Fonterra China Farms Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

**(r) Contract liabilities**

A contract liability is recognised when the customer pays consideration before Fonterra China Farms Group recognises the related revenue (see Note 2(c)). A contract liability would also be recognised if Fonterra China Farms Group has an unconditional right to receive consideration before Fonterra China Farms Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(s)).

For a single contract with a customer, a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis. When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(c)).

**(s) Trade and other receivables**

A receivable is recognised when Fonterra China Farms Group has an unconditional right to receive consideration.

A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(q)).

**(t) Trade and other payables**

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(u) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(q).

**(v) Borrowings**

Borrowings are measured initially at fair value less transaction costs.

With regard to interest-free borrowings from the shareholder, borrowings are initially measured as the present value of all future cash repayments discounted using an effective borrowing interest rate. The difference between the amount borrowed and the fair value of the borrowing on initial recognition is credited to capital reserve as an additional capital contribution from the shareholder.

Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method. Interest expenses are recognised in accordance with Fonterra China Farms Group's accounting policy for borrowing costs (see Note 2(f)).

**(w) Related parties**

For the purposes of the Fonterra Historical Financial Information, a party is considered to be related to Fonterra China Farms Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control Fonterra China Farms Group or exercise significant influence over Fonterra China Farms Group in making financial and operating policy decisions, or has joint control over Fonterra China Farms Group;

(ii) Fonterra China Farms Group and the party are subject to common control;

(iii) the party is an associate of Fonterra China Farms Group or a joint venture in which Fonterra China Farms Group is a venturer;

(iv) the party is a member of key management personnel of Fonterra China Farms Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**(x) Segment reporting**

Operating segments, and the amounts of each segment item reported in the Fonterra Historical Financial Information, are identified from the financial information provided regularly to Fonterra China Farms Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of Fonterra China Farms Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

**Sources of estimation uncertainty**

Note 27 contains information about the assumptions and their risk factors relating to financial instruments. Key sources of estimation uncertainty are as follows:

***(i) Impairment of non-current assets***

Internal and external sources of information are reviewed by Fonterra China Farms Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years.

***(ii) Impairment losses and credit losses on trade and other receivables***

Impairment losses on trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the combined statements of profit or loss and other comprehensive income in future years.

***(iii) Fair value of dairy cows***

Fonterra China Farms Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of the reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of the dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable; or the cost when appropriate. Any change in the estimates may affect the fair value of the dairy cows significantly. An independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of assumptions used are disclosed in Note 27(e).

## 4 REVENUE AND SEGMENT INFORMATION

### (a) Revenue

***(i) Disaggregation of revenue from contracts with customers***

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| *Types of goods and services* | | | |
| Sales of raw milk | 930,158 | 1,080,509 | 1,148,464 |
| Sales of bull-calves | 26,913 | 29,863 | 37,632 |
| Revenue from provision of inspection services | 583 | 982 | 422 |
| | 957,654 | 1,111,354 | 1,186,518 |
| Timing of revenue recognition | | | |
| A point in time | 957,654 | 1,111,354 | 1,186,518 |

*(ii) Performance obligations for contracts with customers*

Fonterra China Farms Group sells raw milk and bull-calves and provides inspection services directly to its customers. Revenue is recognised when control of the goods or services has transferred, being at the point the customer takes possession of and accepts the goods or the services.

Payments are generally due within 30 to 90 days from the date of invoicing for the above contracts with customers. Fonterra China Farms Group requests advance payments from certain new customers and such advance payments are recorded as contract liabilities until the control of the goods is transferred to the customers.

*(iii) Transaction price allocated to the remaining performance obligation for contracts with customers*

All of the sale contracts are for periods of one year or less. As permitted by IFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

*(iv) Revenue from major customers*

Revenue from customers individually contributing over 10% of the total revenue of Fonterra China Farms Group during the Track Record Period is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from sale of raw milk: | | | |
| Customer A | 120,201 | N/A* | NA* |
| Customer B | 142,593 | N/A* | N/A* |
| Customer C | 139,842 | 163,194 | N/A* |
| Customer D | N/A* | N/A* | 122,718 |

* Less than 10% of Fonterra China Farms Group's revenue in the respective years.

**(b) Segment reporting**

Fonterra China Farms Group has one business segment, the dairy farming business, which is raising and breeding dairy cows and raw milk production. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, Fonterra China Farms Group's only operating segment is the dairy farming business. Accordingly, no additional business segment information is presented.

**(c) Geographic information**

Since all revenue from external customers is derived from customers located in the PRC and all non-current assets are located in the PRC and all segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, no geographic information by segment is presented.

## 5 OTHER INCOME

An analysis of other income during the Track Record Period is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Government grants | | | |
| – released from deferred income *(Note 24)* | 150 | 150 | 150 |
| – recognised through profit or loss upon receipt | 860 | 18,025 | 103 |
| Interest income | | | |
| – Interest income from bank | 157 | 24 | 119 |
| – Interest income from related parties | 4,074 | 3,292 | 7,544 |
| Income from sale of scrap materials | 160 | 224 | 134 |
| Insurance compensation | – | 1,379 | 7,145 |
| Others | – | 6 | 1 |
| | 5,401 | 23,100 | 15,196 |

## 6 OTHER GAINS AND LOSSES

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| (Losses)/gains on disposal of property, plant and equipment | (2,879) | 171 | (92) |
| Gains on waiver of liabilities *(Note)* | – | – | 2,020 |
| Impairment losses on property, plant and equipment *(Note 12)* | – | (898,475) | – |
| Impairment losses on intangible assets *(Note 14)* | – | (657) | – |
| Net foreign exchange gains/(losses) | (6,538) | (2,463) | 9,132 |
| Others | (716) | (702) | (144) |
| | (10,133) | (902,126) | 10,916 |

*Note:* Prior to the Track Record Period, a fellow subsidiary of Fonterra China Farms Group paid a third party on behalf of Fonterra China Farms Group in connection with purchase of equipment but has been unable to receive settlement of the associated receivable due from Fonterra China Farms Group. During the year ended 31 December 2020, the fellow subsidiary waived the receivable due from Fonterra China Farms Group, which amounted to RMB2,020,000.

## 7 FINANCE COSTS

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest expenses on: | | | |
| Bank borrowings | 6,446 | 4,776 | 3,889 |
| Borrowings from cash pooling arrangement | 845 | 898 | 834 |
| Borrowings from immediate controlling company | 43,709 | 42,542 | 41,716 |
| Lease liabilities | 2,262 | 1,863 | 1,762 |
| Total borrowing costs | 53,262 | 50,079 | 48,201 |

## 8 INCOME TAX EXPENSE

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current tax:** | | | |
| PRC Enterprise Income Tax | – | – | – |

Pursuant to the PRC Corporate Income Tax ("CIT") Law, Fonterra China Farms Group's entities are subject to PRC CIT at 25% during the Track Record Period.

Pursuant to the related regulations in respect of Article 27 of Corporate Income Tax Law of the People's Republic of China, Article 86 of Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China, and Article 4 of State Administration of Taxation Announcement [2018] No. 23 Measures on Handling of Enterprise Income Tax Incentives, the entities of Fonterra China Farms Group are entitled to be exempt to Enterprise Income Tax as the principal activities of the entities are raising and breeding of dairy cows and raw milk production in the PRC.

## 9 (LOSS)/PROFIT FOR THE YEAR

An analysis of Fonterra China Farms Group's results before biological assets fair value adjustments during the Track Record Period is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| (Loss)/profit for the year before biological assets fair value adjustments | (113,047) | (864,464) | 137,490 |
| Losses arising from changes in fair value less costs to sell of biological assets | (157,748) | (8,922) | (104,400) |
| (Loss)/profit for the year | (270,795) | (873,386) | 33,090 |

Fonterra China Farms Group's (loss)/profit during the Track Record Period is arrived at after charging:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation of: | | | |
| Property, plant and equipment | 104,701 | 81,563 | 45,172 |
| Right-of-use assets | 3,825 | 4,057 | 4,171 |
| Amortisation of intangible assets | 2,138 | 1,440 | 132 |
| Total depreciation and amortisation | 110,664 | 87,060 | 49,475 |
| Less: Capitalised in biological assets | (474) | (486) | (533) |
| Depreciation and amortisation charged directly to profit or loss | 110,190 | 86,574 | 48,942 |
| Less: Amounts included in cost of sales | (103,629) | (81,176) | (46,187) |
| | 6,561 | 5,398 | 2,755 |
| Lease payments not included in the measurement of lease liabilities | 5,573 | 3,168 | 2,515 |
| Auditors' remuneration | 727 | 1,836 | 1,905 |
| Employee benefits expenses (including directors' remuneration as disclosed in Note 10): | | | |
| Salaries and other benefits | 74,430 | 77,852 | 82,454 |
| Contributions to retirement benefit schemes | 22,040 | 17,775 | 12,884 |
| Total staff costs | 96,470 | 95,627 | 95,338 |
| Less: Capitalised in biological assets | (15,433) | (14,035) | (13,586) |
| | 81,037 | 81,592 | 81,752 |

**10 DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

**(a) Directors' emoluments**

Details of emoluments paid or payable to the directors of Fonterra China Farms Group during the Track Record Period are as follows:

| | Directors' fees | Salaries and allowances | Discretionary performance related payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2018:** | | | | | |
| Executive directors: | | | | | |
| Mr. Ralph Mark Kennerley *(Note (i))* | – | – | – | – | – |
| Mr. Hans Robert Berghorst *(Note (ii))* | – | – | – | – | – |
| Mr. Grant Alistair Duncan *(Note (iii))* | – | – | – | – | – |
| Mr. Sardar Iftekharuddin Ahmed *(Note (iv))* | – | – | – | – | – |
| Mr. Miles Wilson Hurrell *(Note (v))* | – | – | – | – | – |
| | – | – | – | – | – |
| **Year ended 31 December 2019:** | | | | | |
| Executive directors: | | | | | |
| Mr. Hans Robert Berghorst *(Note (ii))* | – | – | – | – | – |
| Mr. Grant Alistair Duncan *(Note (iii))* | – | – | – | – | – |
| Mr. Sardar Iftekharuddin Ahmed *(Note (iv))* | – | – | – | – | – |
| | – | – | – | – | – |
| **Year ended 31 December 2020** | | | | | |
| Executive directors: | | | | | |
| Mr. Hans Robert Berghorst *(Note (ii))* | – | – | – | – | – |
| Mr. Grant Alistair Duncan *(Note (iii))* | – | – | – | – | – |
| Mr. Sardar Iftekharuddin Ahmed *(Note (iv))* | – | – | – | – | – |
| Mr. Paul David Washer *(Note (vi))* | – | – | – | – | – |
| Ms. Xu Xiaohong *(Note (vi))* | – | – | – | – | – |
| | – | – | – | – | – |

During the Track Record Period, no emoluments were paid by Fonterra China Farms Group to the directors as an inducement to join or upon joining Fonterra China Farms Group or as compensation for loss of office. None of the directors has waived any emoluments during the Track Record Period.

*Notes:*

(i) Mr. Ralph Mark Kennerley was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 17 September 2014 and resigned on 4 April 2018. He was also appointed as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 9 June 2015 and resigned on 2 November 2018.

(ii) Mr Hans Robert Berghorst was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 2 November 2016 and resigned on 8 July 2020. He was also appointed as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 10 November 2016 and resigned on 29 July 2020.

(iii) Mr. Grant Alistair Duncan was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 17 September 2014 and also as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 9 June 2015. He resigned on 1 April 2021.

(iv) Mr. Sardar Iftekharuddin Ahmed was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 15 October 2018 and resigned on 8 July 2020. He was also appointed as a director of Fonterra (Ying) Dairy Farm Co., Ltd. on 2 November 2018 and resigned on 29 July 2020.

(v) Mr. Miles Wilson Hurrell was appointed as a director of Fonterra (Yutian) Dairy Farm Co., Ltd. on 4 April 2018 and resigned on 15 October 2018.

(vi) Mr. Paul David Washer and Ms. Xu Xiaohong were appointed as directors of Fonterra (Yutian) Dairy Farm Co., Ltd. on 8 July 2020 and resigned on 9 March 2021. Also, both of them were appointed as directors of Fonterra (Ying) Dairy Farm Co., Ltd. on 29 July 2020 and resigned on 26 February 2021.

**(b) Employees' emoluments**

None of the five individuals with the highest emoluments of Fonterra China Farms Group during the Track Record Period are directors. The emoluments in respect of the five highest paid individuals for each of the years ended 31 December 2018, and 2019 and 2020 are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and allowances | 2,072 | 1,635 | 1,970 |
| Discretionary bonuses | 468 | 156 | 524 |
| Retirement benefit scheme contributions | 141 | 176 | 39 |
| | 2,681 | 1,967 | 2,533 |

The number of the five highest paid individuals whose remuneration fell within the following bands is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| Nil to HK$1,000,000 | 5 | 5 | 5 |
| | 5 | 5 | 5 |

**11 DIVIDEND**

No dividend has been paid or declared by Fonterra China Farms Group during the Track Record Period to its equity shareholder.

**12 PROPERTY, PLANT AND EQUIPMENT**

| | Buildings | Machinery and equipment | Vehicles | Electronic equipment | Construction in progress ("CIP") | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | | | |
| At 1 January 2018 | 1,232,249 | 1,177,997 | 56,072 | 36,084 | 3,893 | 2,506,295 |
| Additions | – | – | – | – | 21,258 | 21,258 |
| Transfers from CIP | 8,065 | 10,015 | 53 | 588 | (18,721) | – |
| Disposals | (78) | (6,169) | (62) | (2,167) | – | (8,476) |
| At 31 December 2018 | 1,240,236 | 1,181,843 | 56,063 | 34,505 | 6,430 | 2,519,077 |
| Additions | – | – | – | – | 52,755 | 52,755 |
| Transfers from CIP | 21,850 | 16,969 | 3,504 | 2,013 | (44,336) | – |
| Disposals | – | – | (8,384) | (100) | – | (8,484) |
| At 31 December 2019 | 1,262,086 | 1,198,812 | 51,183 | 36,418 | 14,849 | 2,563,348 |
| Additions | – | – | – | – | 7,596 | 7,596 |
| Transfers from CIP | 16,199 | 2,111 | 2,060 | 742 | (21,112) | – |
| Disposals | – | (447) | – | (1,702) | – | (2,149) |
| At 31 December 2020 | 1,278,285 | 1,200,476 | 53,243 | 35,458 | 1,333 | 2,568,795 |

| | Buildings | Machinery and equipment | Vehicles | Electronic equipment | Construction in progress ("CIP") | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Depreciation** | | | | | | |
| At 1 January 2018 | (175,329) | (147,463) | (24,673) | (22,469) | – | (369,934) |
| Provided for the year | (41,665) | (52,597) | (6,217) | (4,222) | – | (104,701) |
| Disposals | 18 | 3,942 | 45 | 1,247 | – | 5,252 |
| At 31 December 2018 | (216,976) | (196,118) | (30,845) | (25,444) | – | (469,383) |
| Provided for the year | (32,826) | (41,191) | (4,914) | (2,632) | – | (81,563) |
| Disposals | – | – | 4,559 | 70 | – | 4,629 |
| At 31 December 2019 | (249,802) | (237,309) | (31,200) | (28,006) | – | (546,317) |
| Provided for the year | (20,218) | (21,867) | (2,067) | (1,020) | – | (45,172) |
| Disposals | – | 446 | – | 1,566 | – | 2,012 |
| At 31 December 2020 | (270,020) | (258,730) | (33,267) | (27,460) | – | (589,477) |

| | Buildings | Machinery and equipment | Vehicles | Electronic equipment | Construction in progress ("CIP") | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Impairment** | | | | | | |
| At 1 January 2018 | (5,083) | (56,457) | – | – | – | (61,540) |
| Impairment | – | – | – | – | – | – |
| At 31 December 2018 and 1 January 2019 | (5,083) | (56,457) | – | – | – | (61,540) |
| Impairment | (444,285) | (440,427) | (9,729) | (4,034) | – | (898,475) |
| At 31 December 2019 | (449,368) | (496,884) | (9,729) | (4,034) | – | (960,015) |
| Reversal of Impairment | – | – | – | 46 | – | 46 |
| At 31 December 2020 | (449,368) | (496,884) | (9,729) | (3,988) | – | (959,969) |
| **Carrying values** | | | | | | |
| At 31 December 2018 | 1,018,177 | 929,268 | 25,218 | 9,061 | 6,430 | 1,988,154 |
| At 31 December 2019 | 562,916 | 464,619 | 10,254 | 4,378 | 14,849 | 1,057,016 |
| At 31 December 2020 | 558,897 | 444,862 | 10,247 | 4,010 | 1,333 | 1,019,349 |

Depreciation is calculated to write off the cost or valuation of the above items of property, plant and equipment (other than construction in progress), less their estimated residual values, using the straight-line method over their estimated useful lives as follows:

| | Useful lives | Residual rate |
|---|---|---|
| Buildings | 15-30 years | 10% |
| Machinery and equipment | 5-30 years | 10% |
| Vehicles | 5-8 years | 10% |
| Electronic equipment | 3-8 years | 10% |

**Impairment of property, plant and equipment**

At the end of each Fonterra Group's fiscal year as at 31 July and at the end of the reporting period, Fonterra China Farms Group reviews internal and external sources of information to identify indications that property, plant and equipment may be impaired. As the two companies of Fonterra China Farms Group, Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd., incurred operating losses in the past few consecutive years, there are indications of possible impairment in respect of their property, plant and equipment during the Track Record Period.

Fonterra China Farms Group assessed the recoverable amounts of its property, plant and equipment compared to its carrying amount. The estimates of recoverable amount were based on value in use of the assets, by discounting the estimated future cash flows using a pre-tax discount rate of 9.13% and 9.14% for the Fonterra Group's fiscal years ended 31 July 2018 and 2019 respectively that reflects current market assessments of the time value of money and the risks specific to the assets.

No impairment was recognised with respect to Fonterra China Farms Group's property, plant and equipment for the year ended 31 December 2018 as the total carrying amount of property, plant and equipment is lower than its assessed recoverable amount.

However, Fonterra China Farms Group's performance was negatively impacted by heavy flooding at the Hebei dairy farm location in late 2018, which resulted in a temporary reduction in production volume. Subsequent increase in production volume took longer to achieve than previously forecasted. On the other hand, milk price increased in 2019 compared with 2018 but the speed of price increase was slower than previously forecasted. As such, Fonterra China Farms Group has revised the future milk price forecast to reflect a phased increase in pricing, considering the expected lag in the expansion of the premium customer base. In light of the combination of such circumstances, management of Fonterra China Farms Group reduced the estimated milk production by seven percent and lowered the future milk price in the 2019 impairment analysis, both of which are key impairment test assumptions given they are the primary drivers of earnings. Impairment losses of RMB898,475,000 and RMB657,000 were recognised in "Other gains and losses" for the year ended 31 December 2019, as a result of the carrying amount of property, plant and equipment and intangible assets being written down to their recoverable amounts as at 31 December 2019, respectively.

No impairment indicators were identified with respect to Fonterra China Farms Group's property, plant and equipment for the year ended 31 December 2020.

## 13 RIGHT-OF-USE ASSETS

| | **Leasehold lands** | **Vehicles** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount as at 1 January 2018 | 94,687 | – | 94,687 |
| Additions *(Note (i))* | – | 534 | 534 |
| Depreciation charges | (3,714) | (111) | (3,825) |
| Carrying amount as at 31 December 2018 | 90,973 | 423 | 91,396 |
| Additions *(Note (i))* | – | 362 | 362 |
| Depreciation charges | (3,714) | (343) | (4,057) |
| Carrying amount as at 31 December 2019 | 87,259 | 442 | 87,701 |
| Additions *(Note (i))* | – | 286 | 286 |
| Depreciation charges | (3,714) | (457) | (4,171) |
| Carrying amount as at 31 December 2020 | 83,545 | 271 | 83,816 |

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Amounts recognised in profit or loss:** | | | |
| Interest on lease liabilities *(Note 7)* | 2,262 | 1,863 | 1,762 |
| Variable lease payments not included in the measurement of lease liabilities *(Note (i))* | 5,573 | 3,168 | 2,515 |
| **Amounts recognised in the combined statements of cash flows:** | | | |
| Total cash flows for leases | 5,690 | 18,810 | 8,844 |

*Note:*

(i) Lease payments for certain vehicles are variable payments and determined based on the frequency of vehicles use during the relevant lease periods.

Fonterra China Farms Group leases various lands, properties, and vehicles to operate its business. Lease contracts are entered into for fixed terms of between 2 to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, Fonterra China Farms Group applies the definition of a contract and determines the period for which the contract is enforceable.

Fonterra China Farms Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB87,893,000, RMB84,251,000 and RMB80,609,000 as at 31 December 2018, 2019 and 2020, respectively. Fonterra China Farms Group has obtained the right to use these lands without certificates through tenancy agreements. The leases typically run for an initial period of between 24 to 30 years.

No impairment was recognised with respect to Fonterra China Farms Group's right-of-use assets during the Track Record Period as the carrying amount of the right-of-use assets is lower than the market value of the relevant assets.

## 14 INTANGIBLE ASSETS

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | |
| At the beginning of the year | 11,124 | 11,124 | 11,124 |
| Additions | – | – | 64 |
| At the end of the year | 11,124 | 11,124 | 11,188 |
| **Accumulated amortisation** | | | |
| At the beginning of the year | (6,718) | (8,856) | (10,296) |
| Provided for the year | (2,138) | (1,440) | (132) |
| At the end of the year | (8,856) | (10,296) | (10,428) |
| **Impairment** | | | |
| At the beginning of the year | – | – | (657) |
| Impairment for the year | – | (657) | – |
| At the end of the year | – | (657) | (657) |
| **Carrying value** | 2,268 | 171 | 103 |

Amortisation of intangible assets, which is computer software with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives over a period of 3 to 5 years.

During the year ended 31 December 2019, intangible assets were impaired in the amount of RMB657,000 to reduce their carrying amount to their recoverable amount of RMB171,000. Refer to Note 12 for details.

## 15 BIOLOGICAL ASSETS

### A Nature of activities

The biological assets of Fonterra China Farms Group are dairy cows comprising milkable cows held for milk production and heifers and calves that have not reached the age that can produce raw milk. The quantity of cows owned by the Fonterra China Farms Group at the end of each reporting period is shown below:

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *Heads* | *Heads* | *Heads* |
| Heifers and calves | 23,922 | 24,931 | 22,794 |
| Milkable cows | 28,473 | 31,618 | 29,502 |
| Total | 52,395 | 56,549 | 52,296 |

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

Fonterra China Farms Group is exposed to financial risks arising from changes in the market price of raw milk. The management of Fonterra China Farms Group are of the view that there is currently no available derivative or other contracts which Fonterra China Farms Group can enter into to manage the risk of a decline in the market price of raw milk.

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

Fonterra China Farms Group is exposed to a number of risks related to its biological assets as follows:

***i. Regulatory and environmental risks***

Fonterra China Farms Group is subject to laws and regulations in the location in which it operates. Fonterra China Farms Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify any significant environmental risks and to assess whether systems in place are adequate to manage these risks.

***ii. Climate, disease and other natural risks***

Fonterra China Farms Group's biological assets are (as with any business involved in agricultural activities) exposed to the risk of loss or damage arising from climatic changes, diseases and other natural forces. Fonterra China Farms Group has extensive processes in place aimed at monitoring and mitigating any such risks of a material nature, including by undertaking regular inspections, disease controls and surveys and, where appropriate and available, through insurance coverage.

### B Quantity of agricultural produce of Fonterra China Farms Group's biological assets

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *Ton* | *Ton* | *Ton* |
| Volume of raw milk sold | 246,261 | 269,048 | 279,348 |

**C Value of biological assets**

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

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Dairy cows: | | | |
| Heifers and calves | 444,339 | 416,964 | 350,409 |
| Milkable cows | 646,268 | 767,696 | 740,574 |
| Total | 1,090,607 | 1,184,660 | 1,090,983 |

The directors of Fonterra China Farms Group have engaged an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") to assist Fonterra China Farms Group in assessing the fair values of Fonterra China Farms Group's biological assets. The independent valuer and the management of Fonterra China Farms Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note 27.

Movements in biological assets during the Track Record Period are set out below:

| | **Heifers and calves** | **Milkable cows** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2018 | 569,760 | 647,079 | 1,216,839 |
| Purchase costs | 45,480 | – | 45,480 |
| Feeding and other related costs | 174,172 | – | 174,172 |
| Transfers | (344,761) | 344,761 | – |
| Decrease due to disposals/death | (79,117) | (109,019) | (188,136) |
| Gains/(losses) arising from changes in fair value less cost to sell of biological assets | 78,805 | (236,553) | (157,748) |
| At 31 December 2018 | 444,339 | 646,268 | 1,090,607 |
| Purchase costs | 8,160 | – | 8,160 |
| Feeding and other related costs | 146,409 | – | 146,409 |
| Transfers | (246,963) | 246,963 | – |
| Decrease due to disposal/death | (6,738) | (44,856) | (51,594) |
| Gains/(losses) arising from changes in fair value less cost to sell of biological assets | 71,757 | (80,679) | (8,922) |
| At 31 December 2019 | 416,964 | 767,696 | 1,184,660 |
| Feeding and other related costs | 161,846 | – | 161,846 |
| Transfers | (239,965) | 239,965 | – |
| Decrease due to disposals/death | (42,111) | (109,012) | (151,123) |
| Gains/(losses) arising from changes in fair value less cost to sell of biological assets | 53,675 | (158,075) | (104,400) |
| At 31 December 2020 | 350,409 | 740,574 | 1,090,983 |

## 16 INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Feed | 170,424 | 162,712 | 178,516 |
| Others | 16,257 | 17,580 | 18,835 |
| | 186,681 | 180,292 | 197,351 |

**(a) The amount of inventories recognised as an expense and included in profit or loss is as follows:**

| | Year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount of inventories consumed | 526,140 | 582,705 | 619,779 |

## 17 TRADE RECEIVABLES

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 99,806 | 121,661 | 122,359 |

All of the trade receivables are expected to be recovered or recognised as an expense within one year.

As of the end of the reporting period, all trade receivables based on invoice date are aged within 90 days.

The following is the aging analysis of trade receivables presented based on invoice date.

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 30 days | 86,747 | 121,519 | 122,359 |
| 31 to 60 days | 13,059 | 90 | – |
| 61 to 90 days | – | 52 | – |
| | 99,806 | 121,661 | 122,359 |

Trade receivables are normally due within 30 to 90 days from the date of invoicing. Fonterra China Farms Group generally does not hold any collateral over the trade receivable balances. An impairment analysis is performed at each reporting date using a provision matrix. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Further details as to Fonterra China Farms Group's credit policy are set out in Note 27(a).

## 18 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Prepayments to suppliers | 1,420 | 1,549 | 1,454 |
| Utilities and other deposits | 4,331 | 4,440 | 4,384 |
| Compensations receivable | 870 | 903 | – |
| Advances to staff | 500 | 590 | 710 |
| Insurance prepayments | 274 | 639 | 3,142 |
| Other receivables | 207 | 45 | 1,352 |
| | 7,602 | 8,166 | 11,042 |

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

## 19 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalent comprise:

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash at bank | 18,320 | 14,399 | 67,621 |
| Cash and cash equivalents in the combined statements of financial position | 18,320 | 14,399 | 67,621 |

**(b) Reconciliation of liabilities arising from financing activities:**

| | Lease liabilities | Bank borrowings | Borrowings from immediate controlling company | Interest payable | Amounts due to related parties | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2018** | 53,887 | 222,036 | 2,591,488 | 363 | 14,400 | 2,882,174 |
| **Changes from financing cash flows:** | | | | | | |
| Proceeds from new loans | – | 99,455 | – | – | – | 99,455 |
| Repayments of bank loans | – | (177,509) | – | – | – | (177,509) |
| Capital element of lease rentals paid | (108) | – | – | – | – | (108) |
| Interest element of lease rentals paid | (9) | – | – | – | – | (9) |
| Other borrowing costs paid | – | – | – | (6,144) | (470) | (6,614) |
| Total changes from financing cash flows | (117) | (78,054) | – | (6,144) | (470) | (84,785) |
| **Exchange adjustments** | – | – | 5,922 | – | – | 5,922 |
| **Other changes:** | | | | | | |
| Increase in lease liabilities from entering into new leases during the year | 534 | – | – | – | – | 534 |
| Interest expenses | 2,262 | – | 43,709 | 6,446 | 845 | 53,262 |
| Capitalised interest expenses | 308 | – | – | – | – | 308 |
| Capital contribution from immediate controlling company | – | – | (182,487) | – | – | (182,487) |
| Total other changes | 3,104 | – | (138,778) | 6,446 | 845 | (128,383) |
| **At 31 December 2018** | 56,874 | 143,982 | 2,458,632 | 665 | 14,775 | 2,674,928 |

| | Lease liabilities | Bank borrowings | Borrowings from immediate controlling company | Interest payable | Amounts due to related parties | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2019** | 56,874 | 143,982 | 2,458,632 | 665 | 14,775 | 2,674,928 |
| **Changes from financing cash flows:** | | | | | | |
| Proceeds from new loans | – | 83,178 | – | – | – | 83,178 |
| Repayment of bank loans | – | (131,224) | – | – | – | (131,224) |
| Capital element of lease rentals paid | (13,261) | – | – | – | – | (13,261) |
| Interest element of lease rentals paid | (2,381) | – | – | – | – | (2,381) |
| Other borrowing costs paid | – | – | – | (4,504) | (590) | (5,094) |
| Total changes from financing cash flows | (15,642) | (48,046) | – | (4,504) | (590) | (68,782) |
| **Exchange adjustments** | – | – | 2,035 | – | – | 2,035 |
| **Other changes:** | | | | | | |
| Increase in lease liabilities from entering into new leases during the year | 362 | – | – | – | – | 362 |
| Interest expenses | 1,863 | – | 42,542 | 4,776 | 898 | 50,079 |
| Capitalised interest expenses | 368 | – | – | – | – | 368 |
| Capital contribution from immediate controlling company | – | – | (29,450) | – | – | (29,450) |
| Total other changes | 2,593 | – | 13,092 | 4,776 | 898 | 21,359 |
| **At 31 December 2019** | 43,825 | 95,936 | 2,473,759 | 937 | 15,083 | 2,629,540 |

| | Lease liabilities | Bank borrowings | Borrowings from immediate controlling company | Interest payable | Amounts due to related parties | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2020** | 43,825 | 95,936 | 2,473,759 | 937 | 15,083 | 2,629,540 |
| **Changes from financing cash flows:** | | | | | | |
| Capital element of lease rentals paid | (4,792) | – | – | – | – | (4,792) |
| Interest element of lease rentals paid | (1,537) | – | – | – | – | (1,537) |
| Other borrowing costs paid | – | – | – | (4,359) | (1,528) | (5,887) |
| Total changes from financing cash flows | (6,329) | – | – | (4,359) | (1,528) | (12,216) |
| **Exchange adjustments** | – | – | (8,123) | – | – | (8,123) |
| **Other changes:** | | | | | | |
| Conversion into additional registered capital | – | – | (1,371,498) | – | – | (1,371,498) |
| Increase in lease liabilities from entering into new leases during the year | 286 | – | – | – | – | 286 |
| Interest expenses | 1,762 | – | 41,716 | 3,889 | 834 | 48,201 |
| Capitalised interest expenses | 533 | – | – | – | – | 533 |
| Capital contribution from immediate controlling company | – | – | (3,118) | – | – | (3,118) |
| Total other changes | 2,581 | – | (1,332,900) | 3,889 | 834 | (1,325,596) |
| **At 31 December 2020** | 40,077 | 95,936 | 1,132,736 | 467 | 14,389 | 1,283,605 |

## 20 TRADE PAYABLES

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 149,627 | 161,543 | 159,460 |

As at the end of each reporting period, the ageing analysis of trade payables based on the invoice date is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 month | 83,520 | 93,129 | 106,880 |
| 2 to 3 months | 62,507 | 62,456 | 51,789 |
| 4 to 6 months | 3,588 | 5,652 | 791 |
| Over 6 months | 12 | 306 | – |
| | 149,627 | 161,543 | 159,460 |

All of the trade payables are expected to be settled or recognised as other income within one year.

## 21 OTHER PAYABLES AND ACCRUALS

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Payables for purchases of property, plant and equipment | 5,313 | 6,470 | 638 |
| Salaries and welfare payables | 7,436 | 9,043 | 8,477 |
| Deposits received from suppliers | 4,240 | 11,555 | 6,333 |
| Services and professional fees payable | 452 | 569 | 1,489 |
| Freight charges payable | 16,613 | 15,623 | 20,101 |
| Non-income tax related tax payables | – | 29 | 371 |
| Interest payables | 665 | 937 | 467 |
| Sundry payables and accrued expenses | 34,302 | 21,024 | 22,327 |
| | 69,021 | 65,250 | 60,203 |

## 22 CONTRACT LIABILITIES

| | As at 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Receipts in advance from customers for: | | | |
| Sales of bull-calves | 608 | 1,390 | 1,757 |

Contract liabilities are recognised as revenue when the related performance obligations are satisfied. Management of Fonterra China Farms Group expects the contract liabilities at the respective reporting period end will be recognised as revenue within one year.

Revenue recognised during each reporting period included the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognised during the Track Record Period related to performance obligations that were satisfied in prior years.

## 23 BANK AND OTHER BORROWINGS

### (a) Bank and other borrowings comprise:

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank borrowings – Unsecured | 143,982 | 95,936 | 95,936 |
| Borrowings from immediate controlling company – Current | – | – | 247,448 |
| Non-current borrowings from immediate controlling company due within one year | – | 740,539 | 182,955 |
| Non-current borrowings from immediate controlling company due over one year | 2,458,632 | 1,733,220 | 702,333 |
| | 2,602,614 | 2,569,695 | 1,228,672 |
| Less: Amounts due within one year shown under current liabilities | (143,982) | (836,475) | (526,339) |
| Amounts shown under non-current liabilities | 2,458,632 | 1,733,220 | 702,333 |

The unsecured bank loans carry interest at rates ranging from 3.6% to 5.22% per annum, which is determined based on the borrowing rates announced by the People's Bank of China ("PBOC"). All bank loans are unsecured and supported by a letter of comfort from Fonterra Group during the Track Record Period.

As at 31 December 2018, 2019 and 2020, the bank and other borrowings were repayable as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 143,982 | 836,475 | 526,339 |
| More than one year but within two years | 726,870 | 182,815 | 542,403 |
| More than two years but within five years | 767,102 | 568,105 | – |
| More than five years | 964,660 | 982,300 | 159,930 |
| | 2,602,614 | 2,569,695 | 1,228,672 |

### (b) Borrowings from immediate controlling company:

Borrowings from the immediate controlling company are unsecured, interest-free and are in the form of promissory notes, whose terms of repayment is between 3 to 10 years. Borrowings are initially recognised at their fair value, which is represented by the net present value of all future cash repayments discounted using an effective borrowing interest rate. The difference between the principal amount and the fair value of the borrowings on initial recognition is credited to capital reserve as an additional capital contribution from the immediate controlling company.

As at 31 December 2018, 2019 and 2020, the principal amount of borrowings from the immediate controlling company was RMB2,656,138,000, RMB2,658,039,000 and RMB1,165,773,000 respectively. The borrowings from the immediate controlling company were discounted to their net present value at an effective borrowing interest rate of 1.71% per annum for the years ended 31 December 2018, 2019 and 2020. Movements in the principal amounts of borrowings and discounted amounts of borrowings from the immediate controlling company during the Track Record Period are as follows:

| | **Principal amounts** | **Discounted amounts** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January 2018 | 2,649,928 | 2,591,488 |
| Credit to capital reserve | – | (182,487) |
| Foreign exchange losses | 6,210 | 5,922 |
| Finance costs – imputed interest | – | 43,709 |
| At 31 December 2018 | 2,656,138 | 2,458,632 |
| Credit to capital reserve | – | (29,450) |
| Foreign exchange losses | 1,901 | 2,035 |
| Finance costs – imputed interest | – | 42,542 |
| At 31 December 2019 | 2,658,039 | 2,473,759 |
| Credit to capital reserve | – | (3,118) |
| Foreign exchange losses | (8,266) | (8,123) |
| Finance costs – imputed interest | – | 41,716 |
| Conversion into additional registered capital | (1,484,000) | (1,371,498) |
| At 31 December 2020 | 1,165,773 | 1,132,736 |

## 24 DEFERRED INCOME

| | **As at 31 December** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at the beginning of the year | 1,250 | 1,100 | 950 |
| Released to other income *(Note 5)* | (150) | (150) | (150) |
| Balance at the end of year | 1,100 | 950 | 800 |

Deferred income arising from government grants to Fonterra China Farms Group represents government grants received for capital expenditure incurred for the acquisition of property, plant and equipment, right-of-use assets and biological assets. The amounts are deferred and are credited to the profit or loss on a systematic basis over the useful lives of the related assets.

## 25 LEASE LIABILITIES

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Lease liabilities payable: | | | |
| Within one year | 14,973 | 5,715 | 299 |
| Within a period of more than one year but not more than two years | 5,251 | 155 | – |
| Within a period of more than two years but not more than five years | 7,708 | 15,787 | 16,307 |
| More than five years | 28,942 | 22,168 | 23,471 |
| Total | 56,874 | 43,825 | 40,077 |
| Less: Amounts due for settlement within 12 months shown under current liabilities | (14,973) | (5,715) | (299) |
| Amounts due for settlement after 12 months shown under non-current liabilities | 41,901 | 38,110 | 39,778 |

Fonterra China Farms Group leases various properties to operate its farms and these lease liabilities are measured at the present value of the lease payments that are not yet paid. All leases are entered into at fixed prices. As at 31 December 2018, 2019 and 2020, the weighted average incremental borrowing rate used for determination of the present value of the remaining lease payments range from 4.5% to 4.8%.

Fonterra China Farms Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within Fonterra China Farms Group's treasury function. The lease liabilities of Fonterra China Farms Group are unguaranteed and secured by rental deposits.

## 26 CAPITAL AND RESERVES

### (a) Share capital

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Authorised and issued share capital | 1,343,927 | 1,343,927 | 2,827,927 |

For the purpose of the Fonterra Historical Financial Information as at 31 December 2018, 2019 and 2020, the above authorised and issued share capital balance of Fonterra China Farms Group represents the aggregate amount of the paid-in capital of Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. at the respective dates.

According to the debt-to-equity conversion agreement entered into on 4 December 2020 between Ying HubCo and Fonterra HK, Ying HubCo's borrowings from the immediate controlling company, the principal amount of which was RMB1,484,000,000, were converted into additional registered capital of USD226,541,000. The difference between the principal and the carrying amount of the borrowings from the immediate controlling company was recognised as Capital reserve.

**(b) Capital reserve**

The Capital reserve comprises cumulative contributions from the shareholder generated by the difference between the principal and the initial present value of intra-group borrowings from the immediate controlling company. The Capital reserve is further reduced by the difference between the principal amount and the carrying amount of the borrowings from the immediate controlling company when such borrowings are converted into registered capital.

**(c) Capital risk management**

Fonterra China Farms Group's primary objectives when managing capital are to safeguard Fonterra China Farms Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholder, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

Fonterra China Farms Group defines "capital" as including all components of equity plus long-term loans from immediate controlling company.

Fonterra China Farms Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and adjusts the capital structure in light of changes in economic conditions.

Fonterra China Farms Group was not subject to any externally imposed capital requirements during the Track Record Period.

**27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE**

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of Fonterra China Farms Group's business. Fonterra China Farms Group's exposure to these risks and the financial risk management policies and practices used by Fonterra China Farms Group to manage these risks are described below.

**(a) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fonterra China Farms Group. Fonterra China Farms Group's credit risk is primarily attributable to trade receivables. Fonterra China Farms Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks, for which Fonterra China Farms Group considers they have low credit risk.

***Trade receivables***

Fonterra China Farms Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2018, 2019 and 2020, 6%, 22% and 5% of the total trade receivables were due from Fonterra China Farms Group's largest customer respectively and 59%, 43% and 42% of the total trade receivables were due from Fonterra China Farms Group's five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer's past history of payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of invoicing. Normally, Fonterra China Farms Group does not obtain collateral from customers.

Fonterra China Farms Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As Fonterra China Farms Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between Fonterra China Farms Group's different customer bases.

Expected loss rates are based on actual historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and Fonterra China Farms Group's view of economic conditions over the expected lives of the receivables.

As at 31 December 2018, 2019, and 2020, Fonterra China Farms Group assessed the expected loss rates for trade receivables to be immaterial. As such, no loss allowance has been recognised in accordance with IFRS 9 as 31 December 2018, 2019 and 2020.

**(b) Liquidity risk**

Liquidity risk is the risk that Fonterra China Farms Group will not be able to meet its financial obligations as they fall due.

Fonterra China Farms Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Fonterra China Farms Group's reputation.

Fonterra China Farms Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and/or from controlling parties to meet its liquidity requirements in the short and longer term.

During the Track Record Period, Fonterra China Farms Group has been able, if needed, to obtain bank loans, which are supported by a letter of support from Fonterra Group to repay bank loans upon their maturity and agree with its immediate controlling company to extend intra-group borrowing repayment dates.

The following are the contractual maturities of Fonterra China Farms Group's financial liabilities at each reporting date, which are based on contractual undiscounted cash flows and the earliest date Fonterra China Farms Group can be required to pay.

| | **At 31 December 2018 – Contractual undiscounted cash flow** | | | | |
|---|---|---|---|---|---|
| | **Within 1 year or on demand** | **More than 1 year but less than 5 years** | **More than 5 years** | **Total** | **Financial statement carrying amount** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 218,648 | – | – | 218,648 | 218,648 |
| Amounts due to related parties | 38,311 | – | – | 38,311 | 38,311 |
| Bank borrowings | 147,540 | – | – | 147,540 | 143,982 |
| Borrowings from immediate controlling company | – | 1,526,138 | 1,130,000 | 2,656,138 | 2,458,632 |
| Lease liabilities | 15,563 | 15,141 | 50,108 | 80,812 | 56,874 |
| At 31 December 2018 | 420,062 | 1,541,279 | 1,180,108 | 3,141,449 | 2,916,447 |

| | At 31 December 2019 – Contractual undiscounted cash flow | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 5 years | More than 5 years | Total | Financial statement carrying amount |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 226,793 | – | – | 226,793 | 226,793 |
| Amounts due to related parties | 36,269 | – | – | 36,269 | 36,269 |
| Bank borrowings | 97,562 | – | – | 97,562 | 95,936 |
| Borrowings from immediate controlling company | 754,714 | 773,325 | 1,130,000 | 2,658,039 | 2,473,759 |
| Lease liabilities | 5,923 | 19,265 | 40,362 | 65,550 | 43,825 |
| At 31 December 2019 | 1,121,261 | 792,590 | 1,170,362 | 3,084,213 | 2,876,582 |

| | At 31 December 2020 – Contractual undiscounted cash flow | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 5 years | More than 5 years | Total | Financial statement carrying amount |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 219,663 | – | – | 219,663 | 219,663 |
| Amounts due to related parties | 30,762 | – | – | 30,762 | 30,762 |
| Bank borrowings | 96,485 | – | – | 96,485 | 95,936 |
| Borrowings from immediate controlling company | 431,448 | 553,325 | 181,000 | 1,165,773 | 1,132,736 |
| Lease liabilities | 303 | 19,154 | 40,362 | 59,819 | 40,077 |
| At 31 December 2020 | 778,661 | 572,479 | 221,362 | 1,572,502 | 1,519,174 |

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fonterra China Farms Group's interest-bearing financial instruments at variable rates as at 31 December 2018, 2019 and 2020 are cash at bank, and the cash flow interest risk arising from a change in market interest rate on these balances of relatively short maturity is not considered significant. Fonterra China Farms Group's interest-bearing financial instruments at fixed interest rates as at 31 December 2018, 2019 and 2020 are fixed-rate bank borrowings, fixed-rate borrowings from the immediate controlling company and fixed-rate lease liabilities that are measured at amortised cost. Fonterra China Farms Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates arising from bank borrowings.

***Sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of each reporting period. A 50-basis point increase or decrease in the fixed-rate bank borrowings are used during the Track Record Period when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on fixed interest rate borrowings had been 50 basis points higher/lower and all other variable were held constant, the potential effect on post-tax profit of Fonterra China Farms Group is as follows:

| | Years ended 31 December | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Post-tax profit would increase by | 7,199 | 4,797 | 4,797 |

**(d) Currency risk**

Fonterra China Farms Group's businesses are principally conducted in RMB and most of Fonterra China Farms Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors consider Fonterra China Farms Group's exposure to foreign currency risk is not significant.

**(e) Fair value**

Fonterra China Farms Group's biological assets are measured at fair value on a recurring basis at the end of each reporting period. The following table gives information about how the fair values of these biological assets are determined (in particular, the valuation technique(s) and the inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (level 3) based on the degree to which the inputs to the fair value measurements are observable.

| **At 31 December 2018** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Biological assets | | | | |
| Milkable cows *(Note (a))* | – | – | 646,268 | 646,268 |
| Heifers and calves *(Note (b))* | – | – | 444,339 | 444,339 |
| | – | – | 1,090,607 | 1,090,607 |

| **At 31 December 2019** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Biological assets | | | | |
| Milkable cows *(Note (a))* | – | – | 767,696 | 767,696 |
| Heifers and calves *(Note (b))* | – | – | 416,964 | 416,964 |
| | – | – | 1,184,660 | 1,184,660 |

| **At 31 December 2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Biological assets | | | | |
| Milkable cows *(Note (a))* | – | – | 740,574 | 740,574 |
| Heifers and calves *(Note (b))* | – | – | 350,409 | 350,409 |
| | – | – | 1,090,983 | 1,090,983 |

There were no transfers between Level 1 and 2 during the Track Record Period and there were no transfers into or out of Level 3 during the Track Record Period.

Fonterra China Farms Group engages an external independent professional valuer to evaluate the fair value of Fonterra China Farms Group's biological assets – dairy cows. The above valuation results are verified and accounted for by Fonterra China Farms Group's management and are based on verified valuation results to produce disclosures relating to fair value.

| Notes | Assets | Valuation technique(s) input(s) | Significant unobservable input(s) | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|---|
| (a) | Biological assets – Milkable cows | The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows. | Estimated feed costs per kg of raw milk used in valuation process range from RMB2.14 to RMB2.36, RMB2.15 to RMB2.37, and RMB2.25 to RMB2.76 for the years ended 31 December 2018, 2019 and 2020, respectively, based on the historical average feed costs per kg of raw milk after taking into consideration inflation. | An increase in the estimated feed costs per kg of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa. |
| | | | A milkable cow could have as many as seven lactation cycles. Estimated daily milk yield for each lactation cycle ranges from 25.1kg to 25.4kg, 23.5kg to 23.9kg, and 24.7kg to 25.0kg for the years ended 31 December 2018, 2019 and 2020 respectively, depending on the number of lactation cycles and the individual physical condition. | An increase in the estimated daily milk yield per head would result in an increase in the fair value measurement of milkable cows, and vice versa. |
| | | | Estimated local future market prices for raw milk ranges from RMB3,830 to RMB4,530 per tonne, RMB3,880 to RMB4,590 per tonne, and RMB4,050 to RMB4,560 per tonne as at 31 December 2018, 2019 and 2020, respectively. | An increase in the estimated average selling price of raw milk would result in an increase in the fair value measurement of milkable cows, and vice versa. |
| | | | Discount rate for estimated future cash flows used is 11.77%, 11.61% and 10.91% as at 31 December 2018, 2019 and 2020, respectively. | An increase in the estimated discount rate would result in a smaller percentage decrease in the fair value measurement of milkable cows, and vice versa. |

| Notes | Assets | Valuation technique(s) input(s) | Significant unobservable input(s) | Inter-relationship between significant unobservable inputs and fair value measurements |
|---|---|---|---|---|
| (b) | Biological assets – Heifers and calves | The fair value of 14 months old heifers is determined by reference to the local market selling price.<br><br>The fair values of heifers and calves at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser.<br><br>Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser. | Estimated local market selling prices of heifers of 14 months old are RMB21,154, RMB19,154 and RMB19,250 per head as at 31 December 2018, 2019 and 2020, respectively.<br><br>Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old (i.e. from birth to 14 months) are RMB8,904, RMB9,126 and RMB9,042 as at 31 December 2018, 2019 and 2020, respectively.<br><br>Estimated average feeding costs per head plus margin that would normally be required by a raiser of heifers older than 14 months old range from RMB6,413, RMB5,847 and RMB6,398 as at 31 December 2018, 2019 and 2020, respectively. | An increase in the estimated local market selling price of heifers of 14 months old would result in an increase in the fair value measurement of heifers and calves, and vice versa.<br><br>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser would result in an increase in the fair value measurement of heifers and calves older/younger than 14 months old, and vice versa. |

The reconciliations for biological assets are set out in Note 15.

## 28 COMMITMENTS

Capital commitments outstanding and not provided for in the combined financial statements were as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Contracted for | 10,236 | 13,287 | 4,246 |

**29 MATERIAL RELATED PARTY TRANSACTIONS**

**(a) Key management personnel remuneration**

All members of key management personnel are directors of the Fonterra China Farms Group and the highest paid employees and their remuneration is disclosed in Note 10.

**(b) Identity of related parties**

During the Track Record Period, the directors of Fonterra China Farms Group are of the view that the following are related parties of Fonterra China Farms Group:

| Name of party | Relationship |
|---|---|
| Fonterra Co-operative Group Limited and its subsidiaries | Ultimate controlling company and its subsidiaries |
| Falcon Dairy Holdings Limited | Jointly controlled fellow subsidiary |

**(c) Related party transactions**

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | *Note* | **2018** | **2019** | **2020** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Sales of raw milk | | (239) | (356) | – |
| Sales of biological assets | | (46,298) | – | (5,011) |
| Provision of inspection services | | (583) | (982) | (422) |
| Purchase of biological assets | | 45,480 | 8,160 | – |
| Farm management fees payable | | 38,508 | 27,488 | 25,049 |
| Gains on waiver of liabilities | *6* | – | – | (2,020) |
| Interest income | *5* | (4,074) | (3,292) | (7,544) |
| Interest expenses | *7* | 44,554 | 43,440 | 42,550 |
| Inter-company loans repaid by related parties | | 110,000 | – | – |
| Net increase/(decrease) in amounts due from/(to) related parties through cash pooling arrangements | | 107,834 | (51,430) | 111,744 |
| Conversion of borrowings from the immediate controlling company into registered capital | *26(a)* | – | – | 1,484,000 |

**(d) Related party balances**

| | Note | As at 31 December 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| **Amounts due from related parties** | | | | |
| *Trade related:* | | | | |
| Trade receivables from related parties | | 1,007 | 99 | – |
| *Non-trade related:* | | | | |
| Other receivables from related parties | *(i)* | 108,232 | 56,739 | 168,795 |
| | | 109,239 | 56,838 | 168,795 |
| **Amounts due to related parties** | | | | |
| *Non-trade related:* | | | | |
| Interest payable to related parties | *(ii)* | (14,775) | (15,083) | (14,389) |
| Other payables to related parties | *(iii)* | (23,536) | (21,186) | (16,373) |
| | | (38,311) | (36,269) | (30,762) |
| **Borrowings from the immediate controlling company** | *(iv)* | (2,458,632) | (2,473,759) | (1,132,736) |

*Notes:*

(i) The balances are non-trade in nature, unsecured and interest-bearing. In December 2017, Fonterra China Farms Group entered into a cash pooling arrangement, which is operated by another subsidiary in the Fonterra Group, pursuant to which cash of Fonterra China Farms Group is pooled with the cash of other entities of the Fonterra Group operating in PRC. The outstanding borrowings have all been repaid by the other entities of Fonterra Group as at the date of this report.

(ii) The balances are interest payable on borrowings from the immediate controlling company undertaken prior to 31 December 2017. The outstanding balances have all been settled as at the date of this report.

(iii) The balances comprise farm consultancy fees payable to a fellow subsidiary of Fonterra Group for services rendered. The balances are non-trade in nature, unsecured, interest-free and have all been settled as at the date of this report.

(iv) Borrowings from the immediate controlling company are unsecured, interest-free and discounted to their net present value (See Note 23(b)). On 26 February 2021, the remaining balance of borrowings from the immediate controlling company as at 31 December 2020, the principal amount of which amounted to RMB1,165,773,000, were converted into additional registered capital of USD186,473,353 (See Note 32).

## 30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

During the Track Record Period, the directors of Fonterra China Farms Group considered the immediate controlling company to be Fonterra HK, which is incorporated in Hong Kong. Fonterra China Farms Group was ultimately controlled by Fonterra Co-operative Group Limited, which is incorporated in New Zealand and produces financial statements available for public use.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE TRACK RECORD PERIOD

Up to the date of issue of the Fonterra Historical Financial Information, the IASB has issued a number of amendments and a new standard, which are not yet effective for the Track Record Period. The following table shows developments that may be relevant to Fonterra China Farms Group but have not been adopted in the Fonterra Historical Financial Information.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to IFRS 16, *COVID-19-Related Rent Concessions* | 1 June 2020 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform – Phase 2* | 1 January 2021 |
| Annual Improvements to IFRS 2018-2020 Cycle | 1 January 2022 |
| Amendments to IFRS 3, *Reference to the Conceptual Framework* | 1 January 2022 |
| Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use* | 1 January 2022 |
| Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract* | 1 January 2022 |
| Amendments to IAS 1, *Classification of Liabilities as Current or Non-current* | 1 January 2023 |
| IFRS 17, *Insurance contracts* and related Amendments | 1 January 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies* | 1 January 2023 |
| Amendments to IAS 8, *Definition of Accounting Estimates* | 1 January 2023 |
| Amendments to IFRS 4, *Extension of the temporary exemption from applying IFRS 9* | 1 January 2023 |
| Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture* | To be determined |

Fonterra China Farms Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Fonterra China Farms Group's financial statements.

## 32 SUBSEQUENT EVENTS

On 3 October 2020, Fonterra Group announced that Youran Dairy has agreed to purchase Fonterra Group's two dairy farm legal entities in Ying and Yutian for a consideration of RMB2.31 billion, which is subject to adjustments according to the specific terms of the share sales and purchase agreement.

On 1 April 2021, the Transaction was completed at an aggregate consideration of RMB2.53 billion, which has been applied a preliminary purchase price adjustment and is subject to a further adjustment.

On 26 February 2021, Yutian HubCo's borrowings from its immediate controlling company, the principal of which amounted to RMB1,165,773,000 as at 31 December 2020 were converted into additional registered capital.

## 33 IMPACT OF COVID-19 PANDEMIC

The COVID-19 pandemic from early 2020 has brought about additional uncertainties in the operations and financial conditions of various industry sectors in Mainland China, including the dairy farming industry. Fonterra China Farms Group has been closely monitoring the impact of these developments on its businesses.

As far as Fonterra China Farms Group's businesses are concerned, the COVID-19 pandemic has not adversely impacted total sales due to Fonterra China Farms Group being involved in the dairy farming business. In view that the COVID-19 pandemic in Mainland China has been relatively brought under control, there has not been a significant disruption to business activities.

## C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Fonterra China Farms Group in respect of any period subsequent to 31 December 2020.

*The information set forth in this appendix does not form part of the accountants' report on historical financial information of the Group for each of the three years ended December 31, 2020 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus and is included herein for information only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" to this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.*

## (A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rules 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering (as defined in this prospectus) on the audited consolidated net tangible assets of the Group as at December 31, 2020, as if the Global Offering had taken place on such date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at December 31, 2020 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of the Group as at December 31, 2020 as shown in the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

| | Audited consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2020 | Estimated net proceeds from the Global Offering | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share | |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB* | *HK$* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* | *(Note 5)* |
| Based on the Offer Price of HK$8.66 per Offer Share | 7,052,767 | 3,356,981 | 10,409,748 | 2.74 | 3.33 |
| Based on the Offer Price of HK$6.98 per Offer Share | 7,052,767 | 2,698,818 | 9,751,585 | 2.57 | 3.12 |

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2020 is based on the audited consolidated net assets of the Group attributable to owners of the Company amounted to RMB7,820,208,000, deducted by goodwill and intangible assets of RMB762,741,000 and RMB4,681,000 (which represents carrying amount of RMB4,934,000 less amount attributable to non-controlling interests of RMB253,000), respectively, extracted from the Accountants' Report set out in Appendix I to this Prospectus.

2. The estimated net proceeds from the Global Offering are based on 493,404,000 Offer Shares at indicative Offer Prices of HK$6.98 and HK$8.66 per Offer Share, being the low-end and high-end of the stated offer price range, respectively, after deduction of the estimated underwriting commissions and fees and other related expenses incurred and to be incurred by the Group (excluding approximately RMB34,365,000 of listing expenses recognised in profit or loss prior to December 31, 2020). It does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

   For the purpose of this unaudited pro forma financial information, the estimated net proceeds from the Global Offering is converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8228 to HK$1.00. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2020 per Share has been arrived on the basis of a total of 3,795,404,000 Shares, taking into account 3,302,000,000 existing Shares in issue; and assuming that 493,404,000 Offer Shares to be issued pursuant to the Global Offering had been completed on December 31, 2020. It does not take into account of any Shares which may be issued upon conversion of convertible notes, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2020 to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2020. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as shown on page III-1 have not been adjusted to illustrate the effect of the conversion of the convertible notes issued by the Company after December 31, 2020 into ordinary shares. Had the convertible notes been converted on December 31, 2020, US$460,000,000 convertible notes with an aggregate carrying value of RMB3,043,648,000 as at December 31, 2020 would be reclassified from liabilities to equity. The conversion of convertible notes would have increased the total share in issue assumption stated in Note 3 by 1,031,274,521 shares to a total of 4,826,678,521 shares in issue.

   The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2020 after conversion of the convertible notes would be approximately RMB13,453,396,000, assuming an Offer Price of HK$8.66 per Share, and approximately RMB12,795,233,000, assuming an Offer Price of HK$6.98 per Share; and the unaudited pro forma adjusted consolidated net tangible assets of the Group as at December 31, 2020 per Share after conversion of the convertible notes would be approximately RMB2.79 (equivalent to HK$3.39), assuming an Offer Price of HK$8.66 per Share, and approximately RMB2.65 (equivalent to HK$3.22), assuming an Offer Price of HK$6.98 per Share.

5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at December 31, 2020 is converted from Renminbi to Hong Kong dollars at an exchange rate of RMB0.8228 to HK$1.00, which was the rate prevailing on May 28, 2021 as published by People's Bank of China. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

## (B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP

### (1) BASIS OF PREPARATION

On October 3, 2020, the Group entered into a share purchase agreement to acquire the entire equity interest in Fonterra (Ying) Dairy Farm Co., Ltd. and Fonterra (Yutian) Dairy Farm Co., Ltd. (collectively as "Fonterra China Farms Group") (the "Fonterra Acquisition"). The Fonterra Acquisition was completed in April 2021.

The unaudited pro forma financial information is presented to illustrate the impact on the financial performance and financial position of the Group as if the Fonterra Acquisition has been completed at January 1, 2020 and December 31, 2020, respectively, which comprise the unaudited pro forma consolidated statement of profit or loss for the year ended December 31, 2020, and the unaudited pro forma consolidated statement of financial position at December 31, 2020 of the Group and Fonterra China Farms Group (collectively as the "Enlarged Group with Fonterra China Farms Group"). The unaudited pro forma financial information has been prepared in accordance with paragraph 4.29 of the Listing Rules.

The unaudited pro forma consolidated statements of profit or loss of the Enlarged Group with Fonterra China Farms Group are prepared based on the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended December 31, 2020 as set out in Appendix I to the Prospectus, after making unaudited pro forma adjustments relating to the Fonterra Acquisition that are (i) directly attributable to the acquisition; and (ii) factually supportable as if the acquisition had been completed on January 1, 2020.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group with Fonterra China Farms Group is prepared based on the audited consolidated statement of financial position of the Group at December 31, 2020 as set out in Appendix I to the Prospectus, after making unaudited pro forma adjustments relating to the Fonterra Acquisition that are (i) directly attributable to the acquisition; and (ii) factually supportable as if the acquisition had been completed on December 31, 2020.

The unaudited pro forma financial information has been prepared by the directors of the Company based on a number of assumptions, estimates and uncertainties for illustrative purposes only and, because of its hypothetical nature, it does not purport to describe the actual results of the Enlarged Group with Fonterra China Farms Group that would have been attained had the acquisition been completed at the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group with Fonterra China Farms Group does not purport to predict the future financial results of the Enlarged Group with Fonterra China Farms Group.

## (2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP FOR THE YEAR ENDED DECEMBER 31, 2020

| | The Group | Fonterra China Farms Group | Pro forma adjustments | | | | | The Enlarged Group with Fonterra China Farms Group |
|---|---|---|---|---|---|---|---|---|
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | *Note 5* | *Note 6* | *Note 7* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 11,781,195 | 1,186,518 | – | (97,295) | – | – | – | 12,870,418 |
| Cost of sales | (11,048,726) | (1,097,599) | – | 97,295 | (62,628) | – | – | (12,111,658) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | 2,870,723 | 181,832 | – | – | – | – | – | 3,052,555 |
| **Gross profit** | 3,603,192 | 270,751 | – | – | (62,628) | – | – | 3,811,315 |
| Loss arising from changes in fair value less costs to sell of biological assets | (413,784) | (104,400) | – | – | – | – | – | (518,184) |
| Other income | 76,979 | 15,196 | – | – | – | – | – | 92,175 |
| Impairment loss under expected credit loss model, net of reversal | (45,083) | – | – | – | – | – | – | (45,083) |
| Other gains and losses | (54,273) | 10,916 | 226,401 | – | – | – | – | 183,044 |
| Fair value loss on convertible notes | (10,769) | – | – | – | – | – | – | (10,769) |
| Selling and distribution expenses | (453,116) | (50,763) | – | – | – | – | – | (503,879) |
| Administrative expenses | (744,516) | (60,409) | – | – | (3,680) | – | – | (808,605) |
| Other expenses | (20,030) | – | – | – | – | – | – | (20,030) |
| Listing expenses | (34,365) | – | – | – | – | – | – | (34,365) |
| Share of profit of a joint venture | 25 | – | – | – | – | – | – | 25 |
| Finance costs | (309,825) | (48,201) | – | – | – | 41,716 | (105,023) | (421,333) |
| **Profit/(loss) before tax** | 1,594,435 | 33,090 | 226,401 | – | (66,308) | 41,716 | (105,023) | 1,724,311 |
| Income tax expense | (53,805) | – | – | – | – | – | 15,753 | (38,052) |
| **Profit/(loss) for the year** | 1,540,630 | 33,090 | 226,401 | – | (66,308) | 41,716 | (89,270) | 1,686,259 |
| Attributable to: | | | | | | | | |
| Owners of the Company | 1,340,735 | 33,090 | 226,401 | – | (66,308) | 41,716 | (89,270) | 1,486,364 |
| Non-controlling interests | 199,895 | – | – | – | – | – | – | 199,895 |
| Profit for the year | 1,540,630 | 33,090 | 226,401 | – | (66,308) | 41,716 | (89,270) | 1,686,259 |

Notes to the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group with Fonterra China Farms Group for the year ended December 31, 2020:

1 The amounts are extracted from the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended December 31, 2020 as set out in Appendix I to this Prospectus.

2 The amounts are extracted from the audited combined statement of profit or loss and other comprehensive income of Fonterra China Farms Group for the year ended December 31, 2020 as set out in Appendix II to the Prospectus.

3 The adjustments represent the effect of bargain purchase from the Fonterra Acquisition, which has no continuing effect, as set out below.

| | *Notes* | *RMB'000* |
|---|---|---|
| Fair value of net identifiable assets of Fonterra China Farms Group at January 1, 2020 | *(a)* | 2,484,966 |
| Purchase consideration | *(b)* | 2,310,000 |
| Adjustment to purchase consideration | *(b)* | (51,435) |
| Adjusted purchase consideration | | 2,258,565 |
| Bargain purchase gain | | 226,401 |

*Notes:*

(a) The fair value is based on the valuation report of Jones Lang La Salle performed for the net identifiable assets of Fonterra China Farms Group at January 1, 2020. Jones Lang La Salle is independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

The fair value of the property are based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

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

The fair value of the right-of-use assets are based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the fair value at an appropriate capitalization rate.

(b) The purchase consideration and adjustment thereto are based on the share purchase agreement dated October 3, 2020. The purchase consideration adjustment is determined by a formula set out in the share purchase agreement, which is calculated as (1) the net debt amount which is the difference between cash amount and certain debt amounts at completion date; and (2) the difference between the net working capital at completion date and the target net working capital; and (3) certain devaluation adjustments (where applicable) based on the number of biological assets at completion date and capital expenditures incurred from the date of share purchase agreement to completion date. The above adjustment is preliminarily determined based on the management accounts as of January 1, 2020 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

4 The adjustment represents the elimination of intercompany transactions, which is expected to have continuing effect.

5 The adjustments represent additional depreciation and amortisation charges based on the fair value of property, plant and equipment and right of use assets acquired at January 1, 2020. This is expected to have continuing effect.

6 The adjustment represents the reversal of interest expense on the Fonterra China Farms Group's debt due to the original shareholder converted to equity in accordance with the share purchase agreement dated October 3, 2020 as if the acquisition was completed on January 1, 2020. This is expected to have no continuing effect.

7 The directors of the Company intend to fund the adjusted purchase consideration of RMB2,258,565,000 by a term loan, and estimate an interest rate of 4.65% per annum based on the Group's existing loans with similar terms and tax effect. Total interest expenses on the aforesaid loan is estimated to be RMB105,023,000 for the year ended December 31, 2020. This is expected to have continuing effect.

8 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of the Group and Fonterra China Farms Group entered into subsequent to December 31, 2020.

## (3) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP WITH FONTERRA CHINA FARMS GROUP AS AT DECEMBER 31, 2020

| | The Group | Fonterra China Farms Group | Pro forma adjustments | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | *Note 5* | *Note 6* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 6,183,940 | 1,019,349 | – | 80,198 | – | – | 7,283,487 |
| Investment properties | 29,853 | – | – | – | – | – | 29,853 |
| Right-of-use assets | 1,321,296 | 83,816 | – | 14,327 | – | – | 1,419,439 |
| Goodwill | 762,741 | – | – | – | – | – | 762,741 |
| Intangible assets | 4,934 | 103 | – | – | – | – | 5,037 |
| Biological assets | 7,038,112 | 1,090,983 | – | – | – | – | 8,129,095 |
| Deferred tax assets | 11,382 | – | – | – | – | – | 11,382 |
| Interest in a joint venture | 808 | – | – | – | – | – | 808 |
| Equity instrument at fair value through other comprehensive income | 72,040 | – | – | – | – | – | 72,040 |
| Pledged and restricted bank deposits | 21,282 | – | – | – | – | – | 21,282 |
| Prepayment for purchase of property, plant and equipment | 140,352 | – | – | – | – | – | 140,352 |
| Deposits for biological assets | 208,907 | – | – | – | – | – | 208,907 |
| | 15,795,647 | 2,194,251 | – | 94,525 | – | – | 18,084,423 |
| **Current assets** | | | | | | | |
| Inventories | 1,972,145 | 197,351 | – | – | – | – | 2,169,496 |
| Trade receivables | 834,521 | 122,359 | – | – | – | (28,073) | 928,807 |
| Bill receivables at fair value through other comprehensive income | 27,080 | – | – | – | – | – | 27,080 |
| Contract assets | 12,139 | – | – | – | – | – | 12,139 |
| Biological assets | 9,564 | – | – | – | – | – | 9,564 |
| Prepayments, deposits and other receivables | 246,691 | 11,042 | – | – | – | – | 257,733 |
| Amounts due from related parties | 555,676 | 168,795 | – | – | – | – | 724,471 |
| Pledged and restricted bank deposits | 128,367 | – | – | – | – | – | 128,367 |
| Bank balances and cash | 2,619,113 | 67,621 | – | – | – | – | 2,686,734 |
| | 6,405,296 | 567,168 | – | – | – | (28,073) | 6,944,391 |

| | The Group | Fonterra China Farms Group | Pro forma adjustments | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | *Note 5* | *Note 6* | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current liabilities** | | | | | | | |
| Trade and bills payables | 1,438,505 | 159,460 | – | – | – | (28,073) | 1,569,892 |
| Other payables and accruals | 1,149,490 | 60,203 | – | – | – | – | 1,209,693 |
| Contract liabilities | 34,770 | 1,757 | – | – | – | – | 36,527 |
| Amounts due to related parties | 14,257 | 30,762 | – | – | – | – | 45,019 |
| Bank and other borrowings | 4,224,527 | 95,936 | – | – | – | – | 4,320,463 |
| Non-current borrowings from immediate controlling company due within one year | – | 430,403 | (430,403) | – | – | – | – |
| Lease liabilities | 38,684 | 299 | – | – | – | – | 38,983 |
| Other liabilities | 6,261 | – | – | – | – | – | 6,261 |
| Other provisions | 18,546 | – | – | – | – | – | 18,546 |
| Income tax payable | 19,068 | – | – | – | – | – | 19,068 |
| | 6,944,108 | 778,820 | (430,403) | – | – | (28,073) | 7,264,452 |
| **Net current liabilities** | (538,812) | (211,652) | 430,403 | – | – | – | (320,061) |
| **Total assets less current liabilities** | 15,256,835 | 1,982,599 | 430,403 | 94,525 | – | – | 17,764,362 |
| **Non-current liabilities** | | | | | | | |
| Bank and other borrowings | 1,971,606 | – | – | – | 2,463,177 | – | 4,434,783 |
| Borrowings from immediate controlling company | – | 702,333 | (702,333) | – | – | – | – |
| Convertible notes | 3,043,648 | – | – | – | – | – | 3,043,648 |
| Deferred tax liabilities | 6,667 | – | – | – | – | – | 6,667 |
| Deferred income | 216,968 | 800 | – | (800) | – | – | 216,968 |
| Lease liabilities | 928,805 | 39,778 | – | – | – | – | 968,583 |
| Other liabilities | 20,845 | – | – | – | – | – | 20,845 |
| Other provision | 6,760 | – | – | – | – | – | 6,760 |
| | 6,195,299 | 742,911 | (702,333) | (800) | 2,463,177 | – | 8,698,254 |
| **Net assets** | 9,061,536 | 1,239,688 | 1,132,736 | 95,325 | (2,463,177) | – | 9,066,108 |
| **Capital and reserves** | | | | | | | |
| Share capital | 219 | 2,827,927 | 760 | – | (2,828,687) | – | 219 |
| Reserves | 7,819,989 | (1,588,239) | 1,131,976 | 95,325 | 365,510 | – | 7,824,561 |
| Equity attributable to owners of the Company | 7,820,208 | 1,239,688 | 1,132,736 | 95,325 | (2,463,177) | – | 7,824,780 |
| Non-controlling interests | 1,241,328 | – | – | – | – | – | 1,241,328 |
| **Total equity** | 9,061,536 | 1,239,688 | 1,132,736 | 95,325 | (2,463,177) | – | 9,066,108 |

*Notes:*

1 The amounts are extracted from the audited consolidated statement of financial position of the Group as at December 31, 2020 as set out in Appendix I to the Prospectus.

2 The amounts are extracted from the audited combined statement of financial position of Fonterra China Farms Group as at December 31, 2020 as set out in Appendix II to the Prospectus.

3 The adjustments represent the Fonterra China Farms Group's debt of RMB1,132,736 due to the original shareholder converted to equity in accordance with the share purchase agreement dated October 3, 2020 as if the acquisition was completed at December 31, 2020.

4 The adjustments represent the fair value adjustments on net identifiable assets of Fonterra China Farms Group at December 31, 2020.

The Group has applied the acquisition method in accordance with IFRS 3 "Business Combinations" to account for the Fonterra Acquisition as if the acquisition had been completed on December 31, 2020 and the calculation of pro forma bargain purchase gain is as follows:

| | *Notes* | *RMB'000* |
|---|---|---|
| Fair value of net identifiable assets of Fonterra China Farms Group at December 31, 2020 | *(a)* | 2,467,749 |
| Purchase consideration | *(b)* | 2,310,000 |
| Adjustment to purchase consideration | *(b)* | 153,177 |
| Adjusted purchase consideration | | 2,463,177 |
| Bargain purchase gain | | 4,572 |

*Notes:*

(a) The fair value of the net identifiable assets is based on the carrying amount of identifiable net assets of Fonterra China Farms Group as at December 31, 2020 and the fair value adjustment.

The carrying amount of identifiable net assets acquired is extracted from the audited combined statement of financial position of Fonterra China Farms Group as at December 31, 2020 as set out in Appendix II to the Prospectus, and adjusted for the debt conversion in note 3 above.

The pro forma fair value adjustment is based on the valuation report of Jones Lang LaSalle on the net identifiable assets of Fonterra China Farms Group at December 31, 2020. Jones Lang La Salle is independent qualified professional valuers which are not connected to the Group. The principal address of Jones Lang La Salle is 7/F, One Taikoo Place, 979 King's Road, Hong Kong.

The fair value of the property are based on depreciated replacement cost as the main method, which is adopted by buildings and structures. Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

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

The fair value of the right of use assets are based on the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the fair value at an appropriate capitalization rate.

(b) The adjusted purchase consideration is calculated according to the share purchase agreement dated October 3, 2020. The purchase consideration adjustment is determined by a formula set out in the share purchase agreement, which is calculated as (1) the net debt amount which is the difference between cash amount and certain debt amounts at completion date; and (2) the difference between the net working capital at completion date and the target net working capital; and (3) certain devaluation adjustments (where applicable) based on the number of biological assets at completion date and capital expenditures incurred from the date of share purchase agreement to completion date. The above adjustment is preliminarily determined based on the management accounts as of December 31, 2020 provided by the seller. The actual adjustment amount should be determined based on a completion audit on the completion date, which will be different from the above unaudited pro forma amount.

The amounts of fair values of net identifiable assets, bargain purchase gain and adjusted purchase consideration in relation to the acquisition are subject to change upon the completion of purchase price allocation at the actual completion date of the acquisition, which may be different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

5 The directors of the Company intend to fund the consideration of RMB2,463,177,000 by a non-current term loan. The adjustments to share capital and reserves represent the elimination of pre-acquisition reserves of Fonterra China Farms Group at December 31, 2020 and recognition of the pro forma bargain purchase gain of RMB4,572,000 as set out in note 4 above.

6 The adjustments represent the elimination of intercompany balances.

7 Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of the Group and Fonterra China Farms Group entered into subsequent to December 31, 2020.

*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 prospectus.*

Deloitte. 德勤

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

**To the Directors of China Youran Dairy Group Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Youran Dairy Group Limited (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 (i) the unaudited pro forma statement of adjusted consolidated net tangible assets as at December 31, 2020 and related notes as set out on pages III-1 to III-2 of Appendix III to the prospectus issued by the Company dated June 7, 2021 (the "Prospectus"); (ii) the unaudited pro forma consolidated statements of profit or loss for the year ended December 31, 2020, the unaudited pro forma consolidated statement of financial position as at December 31, 2020, and related notes of the enlarged group (being the Group together with Fonterra (Ying) Dairy Farm Co., Ltd. and Fonterra (Yutian) Dairy Farm Co., Ltd. (collectively as "Fonterra China Farms Group")) as set out on pages III-3 to III-10 of Appendix III to the Prospectus. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-10 of the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to separately illustrate the impact of (i) the Global Offering (as defined in this prospectus) on the Group's financial position as at December 31, 2020 as if the Global Offering had taken place at December 31, 2020; and (ii) the proposed acquisition on the Group's financial performance for the year ended December 31, 2020 as if the proposed acquisition had taken place at January 1, 2020 and on the Group's financial position as at December 31, 2020 as if the proposed acquisition had taken place at December 31, 2020. As part of this process, information about the Group's financial performance and financial position has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended December 31, 2020, on which an accountants' report set out in Appendix I to the Prospectus 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 the Prospectus 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 December 31, 2020 or January 1, 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

June 7, 2021

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of the Cayman Companies Act.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 21, 2020 under the Cayman Companies Act. Our Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

## 1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in Section 27(2) of the Cayman Companies Act and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on May 17, 2021 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

### (a) Shares

#### *(i) Classes of shares*

The share capital of our Company consists of ordinary shares.

#### *(ii) Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Act, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

***(iii) Alteration of capital***

Our Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

***(iv) Transfer of shares***

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Stock Exchange or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Cayman Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The Board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The Board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of our Company.

***(v) Power of our Company to purchase its own shares***

Our Company is empowered by the Cayman Companies Act and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The Board may accept the surrender for no consideration of any fully paid share.

***(vi) Power of any subsidiary of our Company to own shares in our Company***

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

***(vii) Calls on shares and forfeiture of shares***

The Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the Board determines.

**(b) Directors**

***(i) Appointment, retirement and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to our Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

***(ii) Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may determine.

Subject to the provisions of the Cayman Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company are at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither our Company nor the Board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

### *(iii) Power to dispose of the assets of our Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Cayman Companies Act to be exercised or done by our Company in general meeting.

### *(iv) Borrowing powers*

The Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Cayman Companies Act, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

### *(v) Remuneration*

The ordinary remuneration of the Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An Executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The Board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of our Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than our Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, our Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by our Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

***(vi) Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

***(vii) Loans and provision of security for loans to Directors***

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance as if our Company were a company incorporated in Hong Kong.

***(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries***

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our

Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and our Company's name**

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

**(e) Meetings of members**

***(i) Special and ordinary resolutions***

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Cayman Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

*(ii) Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings and extraordinary general meeting*

Our Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by our Company.

***(iv) Notices of meetings and business to be conducted***

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

***(v) Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

***(vi) Proxies***

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) Accounts and audit**

The Board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Cayman Companies Act or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the Board or our Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Our Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the Board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Act or, upon a maximum payment of HK$1.00 or such lesser sum specified by the Board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Act divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

### (k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Act, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

## 3. CAYMAN ISLANDS COMPANIES ACT

Our Company is incorporated in the Cayman Islands subject to the Cayman Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

### (a) Company operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. An exempted company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

### (b) Share capital

The Cayman Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Cayman Companies Act provides that the share premium account may be applied by a company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Cayman Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Cayman Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Cayman Companies Act permits, subject to a solvency test and the provisions, if any, of a company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of a company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

The Cayman Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to the Tax Concessions Act of the Cayman Islands, our Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from November 13, 2020.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Cayman Companies Act prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of a company have no general right under the Cayman Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Cayman Companies Act required or permitted to be kept. A company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Cayman Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

**(o) Register of Directors and Officers**

A company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(p) Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands.

Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of a company are listed on the Stock Exchange, the company is not required to maintain a beneficial ownership register.

**(q) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(s) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## 4. GENERAL

Ogier, our Company's legal counsel as to Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Companies Act. This letter, together with a copy of the Cayman Companies Act, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection – 2. Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR GROUP

### 1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability on August 21, 2020. Our registered office is situated at the office of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. We have established a principal place of business in Hong Kong at 31/F., Tower Two, Times Square 1 Matheson Street, Causeway Bay, Hong Kong on September 25, 2020 and have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on October 14, 2020. Ms. Yu Wing Sze (余詠詩) has been appointed as the authorized representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at the above address.

### 2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US$100,000 divided into 10,000,000,000 shares with a par value of US$0.00001 each.

The following alterations in the share capital of our Company have taken place within the two years immediately preceding the date of this prospectus:

(a) On October 27, 2020, 3,301,999,999 Shares were allotted and issued to China Youran Dairy Holding Limited at par value; and

(b) On October 27, 2020, China Youran Dairy Holding Limited transferred 2,502,000,000 Shares to the following Shareholders:

| Name of the Shareholders | Number of Shares |
|---|---|
| PAG I | 1,353,800,000 |
| Jingang Holding | 520,800,000 |
| Meadowland | 627,400,000 |

Save as disclosed above and in this prospectus, there has been no alteration in the share capital of our Company since our incorporation.

### 3. Resolutions in Writing of the Shareholders of Our Company Passed on May 17, 2021

Pursuant to the resolutions in writing passed by our Shareholders on May 17, 2021:

(a) our Company approved and adopted the Memorandum of Association and the Articles of Association conditional upon and with effect from the Listing;

(b) subject to the conditions stated in the section headed "Structure of the Global Offering – Conditions of the Global Offering" in this prospectus being fulfilled or where applicable of waiver, being waived by the Joint Global Coordinators (on behalf of the International Underwriters and the Hong Kong Underwriters):

(i) the Global Offering be approved and the Board (or any committee thereof established by the Board) was authorized to determine the offer price for the Shares, to allot and issue the new Shares, and to approve the transfer of the Sale Shares, pursuant to the Global Offering;

(ii) the proposed Listing of the Shares on the Main Board be approved and the Board (or any committee thereof established by the Board) was authorized to implement such Listing; and

(iii) the Over-allotment Option be approved and the Board (or any committee thereof established by the Board) was authorized to approve the transfer of the Sale Shares upon the exercise of the Over-allotment Option;

(c) subject to the Global Offering becoming unconditional, a general conditional mandate was given to our Directors to issue, allot and otherwise deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by our Company's shareholders) which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares issued, allotted or dealt with or agreed to be issued, allotted or dealt with by the Directors shall not exceed the aggregate of 20% of the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering;

(d) subject to the Global Offering becoming unconditional, a general conditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase for cancellation the Shares representing up to 10% of its share capital in issue, immediately following completion of the Global Offering (excluding the Shares which may be issued upon the execution of the Over-allotment Option); and

(e) the general conditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general conditional mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above.

Each of the general conditional mandates referred to in paragraphs (c), (d) and (e) above will remain in effect until the earlier of (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting before then, either unconditionally or subject to conditions; (ii) the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

**4. Our Corporate Reorganization**

The companies comprising our Group underwent the Reorganization in preparation for the Listing. Please refer to the section headed “History, Reorganization and Group Structure” in this prospectus for further details.

**5. Changes in the Share Capital of Our Subsidiaries**

Our subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) On February 12, 2019, Chengde Saiyou Dairy Co. Ltd. (承德賽優牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB40.0 million.

(b) On March 27, 2019, Shandong Bio-Technology Co., Ltd. (山東牧泉元興生物科技有限責任公司) was established under the laws of PRC with a registered capital of RMB50.0 million;

(c) On May 16, 2019, Pingdingshan Youran Dairy Co. Ltd. (平頂山優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(d) On May 17, 2019, Hulunbuir Youran Dairy Co. Ltd. (呼倫貝爾優然牧業示範牧場有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(e) On June 4, 2019, Fuxin Youran Dairy Limited (阜新優然牧業有限責任公司) increased its registered capital from RMB100.0 million to RMB114.0 million;

(f) On June 18, 2019, Daqing Bio-Technology Co. Ltd. (大慶牧泉元興生物科技有限責任公司) was established under the laws of PRC with a registered capital of RMB40.0 million;

(g) On July 24, 2019, Bayannaoer Bio-Technology Co. Ltd. (巴彥淖爾市牧泉元興飼料有限責任公司) was incorporated under the laws of PRC with a registered capital of RMB35.0 million;

(h) On September 20, 2019, Wuwei Youran Dairy Co. Ltd. (武威市優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(i) On December 25, 2019, Inner Mongolia SK Xing Livestock Seed Industry and Breeding Biotechnology Research Institute Co. Ltd. (內蒙古賽科星家畜種業與繁育生物技術研究院有限公司) increased its registered capital from RMB13.0 million to RMB48.0 million;

(j) On January 2, 2020, Youran Dairy increased its registered capital from RMB2,500.0 million to RMB4,127.5 million;

(k) On April 13, 2020, Hulun Buir SK Xing Dairy Co. Ltd. (呼倫貝爾賽科星牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB80.0 million;

(l) On May 9, 2020, Hinggan League Youran Dairy Co. Ltd. (興安盟優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(m) On May 28, 2020, Hulun Buir Saiyou Dairy Co. Ltd. (呼倫貝爾市賽優牧業有限公司) increased its registered capital from RMB60.0 million to RMB210.0 million;

(n) On June 5, 2020, Youran Dairy increased its registered capital from RMB4,127.5 million to RMB4,778.5 million;

(o) On June 18, 2020, Qingshuihe SKX Dairy Co. Ltd. (清水河賽科星牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB40.0 million;

(p) On July 7, 2020, Tongliao Youran Dairy Co. Ltd. (通遼優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(q) On July 20, 2020, Inner Mongolia Jumucheng Technology Co. Ltd. (內蒙古聚牧城科技有限責任公司) was established under the laws of PRC with a registered capital of RMB10.0 million;

(r) On August 6, 2020, Bayan Nur SKX Dairy Co. Ltd. (巴彥淖爾賽科星牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB100.0 million;

(s) On August 31, 2020, Hohhot Youran Dairy Co. Ltd. (呼和浩特優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(t) On September 18, 2020, Zhumadian Youran Dairy Co. Ltd. (駐馬店優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB250.0 million;

(u) On September 21, 2020, Liangcheng Youran Dairy Co. Ltd. (涼城優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB50.0 million;

(v) On October 16, 2020, Shouguang Youran Dairy Co. Ltd. (壽光優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(w) On October 19, 2020, Hohhot Jinhe Youran Dairy Co. Ltd. (呼和浩特金河優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB100.0 million;

(x) On October 19, 2020, Weifang Youran Dairy Co. Ltd. (濰坊優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(y) On October 20, 2020, Kailu Youran Dairy Co. Ltd. (開魯優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(z) On October 21, 2020, Hebei Muquan Yuanxing Biotechnology Co. Ltd. (河北牧泉元興生物科技有限責任公司) was established under the laws of PRC with a registered capital of RMB50.0 million;

(aa) On October 23, 2020, Xingtai Youran Dairy Co. Ltd. (邢台優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB68.0 million;

(bb) On November 9, 2020, Hulunbuir Youran Dairy Co. Ltd. (呼倫貝爾優然牧業示範牧場有限責任公司) increased its registered capital from RMB125.0 million to RMB250.0 million;

(cc) On November 10, 2020, Yan'an Luochuan Youran Dairy Co. Ltd. (延安洛川優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB100.0 million;

(dd) On November 17, 2020, Hohhot Youran Dairy Co. Ltd. (呼和浩特優然牧業有限責任公司) increased its registered capital from RMB125.0 million to RMB700.0 million;

(ee) On November 19, 2020, Hefei Yuanxing Dairy Co. Ltd. (合肥元興牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB42.0 million;

(ff) On December 12, 2020, Changji Youran Dairy Co. Ltd. (昌吉優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(gg) On December 18, 2020, Liaocheng Youran Dairy Co. Ltd. (聊城優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million;

(hh) On December 21, 2020, Youran Dairy increased its registered capital from RMB4,778.5 million to RMB6,468.0 million;

(ii) On March 12, 2021, Changyi Youran Dairy Co. Ltd. (昌邑優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million; and

(jj) On May 18, 2021, Yunnan Youran Dairy Co. Ltd. (雲南優然牧業有限責任公司) was established under the laws of PRC with a registered capital of RMB125.0 million.

Save as disclosed in this prospectus, there has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

**6. Repurchases of Our Own Shares**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange. This section includes information relating to the repurchase by us of our own Shares, including information required by the Stock Exchange to be included in this prospectus concerning the repurchase.

***(a) Shareholders' approval***

All our proposed repurchases of Shares (which must be fully-paid up) must be approved in advance by an ordinary resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction. On May 17, 2021, our Directors were granted a general unconditional mandate ("Repurchase Mandate") to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Global Offering on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of: (i) the conclusion of the next annual general meeting of our Company; (ii) the date by which the next annual general meeting of our Company is required to be held by the Articles or any applicable law; or (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting of our Company.

Under the Listing Rules, the shares which are proposed to be repurchased by a company must be fully paid up.

***(b) Number of shares which may be repurchased***

Exercising in full of the Repurchase Mandate, on the basis of 3,795,404,000 Shares in issue immediately after completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the conversion of the Convertible Notes, could accordingly result in up to 379,540,000 Shares being repurchased by us during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the section headed "A. Further Information about Our Group – 6. Repurchases of Our Own Shares – (a) Shareholders' approval" in this Appendix.

***(c) Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such Share repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

***(d) Funding of repurchase***

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Articles of Association, the Cayman Companies Act, the applicable laws and regulations of the Cayman Islands and the Listing Rules. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

We will make repurchases pursuant to the Repurchase Mandate out of funds legally available for such purpose, including out of profits of our Company, out of the share premium account of our Company or out of the proceeds of a fresh issue of shares made for such purpose or, if authorized by the Articles and subject to the Cayman Companies Act, our of capital. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of either or both of the profits of our Company or out of sums standing to the credit of the share premium account of our Company or, if authorized by the Articles and subject to the Cayman Companies Act, out of capital.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

***(e) Status of repurchased shares***

The listing of all repurchased shares (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, the repurchased Shares shall be treated as cancelled and the amount of our Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased Shares accordingly, although the authorized share capital of our Company will not be reduced.

***(f) Trading restrictions***

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering (without taking into account any Shares which may be issued upon the conversion of the Convertible Notes). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Our Company is required to procure that the broker (appointed by our Company to effect a repurchase of Shares) will disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

***(g) Suspension of repurchase***

Pursuant to the Listing Rules, our Company may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time when the price sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of our board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of our shares on the Stock Exchange if our Company has breached the Listing Rules.

***(h) Procedural and reporting requirements***

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

***(i) Directors' undertakings***

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands and the Articles of Association.

***(j) Takeovers code***

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provisions may apply as a result of any such increase. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases pursuant to the Repurchase Mandate.

If the repurchase mandate is fully exercised immediately following completion of the Global Offering (but taking no account of any Shares which may be issued upon the conversion of the Convertible Notes), the total number of Shares which will be repurchased pursuant to the repurchase mandate shall be 379,540,400 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions).

***(k) Share repurchase made by our Company***

No repurchase of Shares has been made by our Company since its incorporation.

***(l) Connected parties***

Our Company is prohibited from knowingly purchasing Shares on the Stock Exchange from a connected person (as defined under the Listing Rules), and a connected person shall not knowingly sell his or her or its shares to our Company on the Stock Exchange.

As of the Latest Practicable Date, none of our Directors, nor to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) has any present intention to sell any Shares to us or any of our subsidiaries if the Repurchase Mandate is exercised. As of the Latest Practicable Date, no connected person of our Company has notified us that he, she or it has a present intention to sell any Shares to us or any of our subsidiaries, if the Repurchase Mandate is exercised.

## B. FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) the amended and restated shareholders' agreement dated November 4, 2020 entered into among, Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), China Youran Dairy Holding Limited (中國優然牧業控股有限公司), HONGKONG JINGANG TRADE HOLDING CO., LIMITED (香港金港商貿控股有限公司), PAGAC Yogurt Holding I Limited, PAGAC Yogurt Holding II Limited, Meadowland Investment Limited Partnership and our Company pursuant to which shareholder rights were agreed among the parties;

(b) the subscription agreement dated November 10, 2020 entered into between our Company and Victory Ride Holdings Limited ("**Victory Ride Subscription Agreement**") pursuant to which Victory Ride Holdings Limited subscribed for, and our Company issued, Convertible Note in the principal amount of US$30 million;

(c) the amendment agreement dated November 20, 2020 entered into between our Company and Victory Ride Holdings Limited pursuant to which certain amendments were made to the terms of the Victory Ride Subscription Agreement stated in (b) above;

(d) the subscription agreement dated November 3, 2020 entered into between our Company and PAGAC Yogurt Holding III Limited pursuant to which PAGAC Yogurt Holding III Limited subscribed for, and our Company issued, Convertible Note in the principal amount of US$330 million;

(e) the subscription agreement dated November 19, 2020 entered into between our Company and Good Virtue Limited (嘉煌有限公司) pursuant to which Good Virtue Limited (嘉煌有限公司) subscribed for, and our Company issued, Convertible Note in the principal amount of US$25 million;

(f) the subscription agreement dated November 19, 2020 entered into between our Company and BCC Piano Investments, L.P. pursuant to which BCC Piano Investments, L.P. subscribed for, and our Company issued, Convertible Note in the principal amount of US$75 million;

(g) the cornerstone investment agreement dated June 3, 2021 entered into between our Company, CITIC-Prudential Life Insurance Company Limited, Huatai Financial Holdings (Hong Kong) Limited, Credit Suisse (Hong Kong) Limited and Citigroup Global Markets Asia Limited, pursuant to which CITIC-Prudential Life Insurance Company Limited agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US$30 million;

(h) the cornerstone investment agreement dated June 3, 2021 entered into between our Company, Harvest Private Wealth Thematic Fund SPC, H Partners Private Wealth Management (Singapore) Pte. Ltd. and Huatai Financial Holdings (Hong Kong) Limited, Credit Suisse (Hong Kong) Limited, pursuant to which Harvest Private Wealth Thematic Fund SPC agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US$20 million; and

(i) the Hong Kong Underwriting Agreement.

**2. Intellectual Property Rights of Our Group**

As of the Latest Practicable Date, we have registered the following intellectual property rights which are material in relation to our business.

***(a) Trademarks***

As of the Latest Practicable Date, we have registered the following trademarks, details of which are as follows:

| No. | Trademark |
|---|---|
| 1. | 优然牧业 YOURAN DAIRY |
| 2. | |
| 3. | Rubeiyou 乳倍优 |
| 4. | 喜乐特格 Xiletege |
| 5. | 戴瑞特 Dairuite |
| 6. | |
| 7. | 聚牧城 JUMUC.COM |
| 8. | 盛德和泰 SHENG DE HE TAI |
| 9. | 犊特 |
| 10. | 牧元优能 |
| 11. | 艾瑞特 |
| 12. | 艾护包 |

| No. | Trademark |
|---|---|
| 13. | 牧元优能 MyyN |
| 14. | 犊特 DUTE |
| 15. | 康顺宝 |
| 16. | Sk·xing 赛科星 |

### *(b) Domain Names*

As of the Latest Practicable Date, we have registered the following domain names:

| No. | Domain Name | Registered Owner | Date of Registration | Expiry Date |
|---|---|---|---|---|
| 1. | yourandairy.hk | Youran Dairy | July 15, 2016 | July 15, 2021 |
| 2. | yourandairy.com.cn | Youran Dairy | July 15, 2016 | July 15, 2021 |
| 3. | yourandairy.cn | Youran Dairy | July 15, 2016 | July 15, 2021 |
| 4. | yourandairy.net | Youran Dairy | July 15, 2016 | July 15, 2021 |
| 5. | yourandairy.com | Youran Dairy | July 15, 2016 | July 15, 2021 |

### *(c) Utility Patents*

As of the Latest Practicable Date, we have registered the following utility patents in the PRC:

| No. | Registered Owner | Title of Utility | Place of Registration |
|---|---|---|---|
| 1. | Youran Dairy | A feed additive for the treatment of cryptogenic mastitis in cows | PRC |
| 2. | Youran Dairy | A kind of rumen regulator for cows and its preparation method | PRC |
| 3. | Youran Dairy | Functional feed mixes for feeding high-yielding cows | PRC |
| 4. | Youran Dairy | Microbial fermentation method for preparation of dairy feed | PRC |
| 5. | Youran Dairy | Selenium yeast for feed and its preparation method | PRC |

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of Interests

#### *(a) Interests of Our Directors and the Chief Executive of Our Company in the Shares*

Immediately following the completion of the Global Offering, our Directors are not aware of any Director or chief executive of our Company whose interests or short positions in our Shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed.

#### *(b) Interests of the Substantial Shareholders in the Shares*

Save as disclosed in the section headed "Substantial Shareholders", immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the conversion of the Convertible Notes, our Directors are not aware of any other person (not being a Director or chief executive of our Company) who will have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

#### *(c) Interests of the Substantial Shareholders in Other Members of our Group*

So far as our Directors are aware and save as disclosed in this prospectus, as of the Latest Practicable Date, no persons are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group.

### 2. Particulars of Directors' Service Contracts and Appointment Letters

#### *(a) Executive Directors*

Each of our executive Directors has entered into a service contract with our Company. The initial term of their respective service contract shall commence from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice.

*(b) Non-executive Directors and Independent non-executive Directors*

Each of the non-executive Directors has entered into a service contract and each of the independent non-executive Directors has entered into an appointment letter with our Company. The initial term for their service contracts or appointment letters shall commence from the date of their appointment for a period of three years (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

Details of the Company's remuneration policy is described in the section headed "Directors and Senior Management – Compensation of Directors and Senior Management" in this Prospectus.

**3. Disclaimers**

Save as disclosed in this prospectus:

(a) none of our Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;

(b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(c) none of our Directors nor any of the persons listed in the section headed "– D. Other Information – 5. Qualification of experts" below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) none of our Directors nor any of the persons listed in the section headed "– D. Other Information – 5. Qualification of experts" below are materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(e) save as set out in the sections headed "Underwriting" and "Structure of the Global Offering", none of the persons listed in the section headed "– D. Other Information – 5. Qualification of experts" below (i) has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares in any member of our Group; or (ii) is legally or beneficially interested in any securities of any member of our Group;

(f) none of our Directors have entered or have proposed to enter into any service contracts with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and

(g) none of our Directors or their respective associates (as defined under the Listing Rules), or the existing Shareholders (who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

## D. OTHER INFORMATION

### 1. Proceedings

**Arbitration in relation to the Acquisition of SKX**

On December 7, 2020, we received a notice of defense issued by the Beijing Arbitration Commission (the "**Arbitration**") (the "**Arbitration Commission**"), notifying Youran Dairy that 29 former shareholders of SKX, as the arbitration claimants (the "**Claimants**"), requested the Arbitration Commission for a ruling that Youran Dairy to pay the Claimants the outstanding consideration for the share transfer pursuant to the relevant share purchase agreement (the "**Share Purchase Agreement**") in an aggregate amount of RMB44,909,459.44.

The Share Purchase Agreement was entered into between Youran Dairy on one hand, and 79 former shareholders of SKX (the "**Sellers**", among which 29 are the Claimants) on the other hand, on July 9, 2019, pursuant to which Youran Dairy agreed to purchase and the Sellers agreed to sell approximately 58.36% of the equity interest of SKX, to Youran Dairy at a consideration of approximately RMB2.28 billion (the "**Consideration**"), subject to a post-completion downward adjustment (the "**Adjustment**"). Based on the comparison of the assets value as recorded in the audited financial statements of SKX on the last day of the month before completion (the "**Completion Accounts**") and the assets value as recorded in the audited financial statements of SKX of December 31, 2018 ("**2018 Accounts**"), in the event that the impairment to a single asset item in the Completion Accounts exceeded RMB100 million, or in the event that the accumulated impairment to total assets in the Completion

Accounts exceeded 10%, the Consideration shall be downward adjusted by the amount of impairment proportionately according to the terms of the Share Purchase Agreement. Subsequent to the completion of the acquisition of SKX on January 8, 2020, Youran Dairy engaged the accountants previously agreed in the Share Purchase Agreement to prepare the Completion Accounts. Based on the Completion Accounts issued on June 19, 2020, the assets value of a single asset held by SKX was impaired by more than RMB100 million as compared to the 2018 Account. Adjustment was therefore made to the Consideration and the Consideration was downward adjusted by RMB69,040,867.85 (the "**Downward Adjusted Amount**") according to the terms of the Share Purchase Agreement. Youran Dairy subsequently settled all outstanding Consideration payable after deducting the Downward Adjusted Amount, in June and September 2020, in accordance with the terms of the Share Purchase Agreement. The Claimants, being 29 of the Sellers of the Share Purchase Agreement, disputed that (i) Youran Dairy's request to downward adjust the Consideration did not comply with the terms of the Share Purchase Agreement; and (ii) the Completion Accounts contain errors and shall not be used as the basis of Adjustment, and requested Youran Dairy to pay the outstanding Consideration, being the respective Claimants' portion of the Downward Adjusted Amount. Arbitral hearing took place on March 12, 2021 which requested the supplement of further evidence. As of the Latest Practicable Date, such proceedings are still in progress and no judgement has been rendered.

Our Company is of the view that, based on the advice of our PRC legal advisor to the Arbitration, Beijing Zhong Wen Law Firm (the "**Arbitration Legal Advisor**"), the procedures and calculation of the Adjustment were clearly stated in the Share Purchase Agreement and the Adjustment was made by Youran Dairy in accordance with the terms the Share Purchase Agreement and that it is not necessary to obtain any prior approval or consent from the Sellers before the making the Adjustment in accordance with the Share Purchase Agreement. As advised by the Arbitration Legal Advisor, on the bases that (i) the methodology and procedure for the Adjustment made by Youran Dairy comply with the Share Purchase Agreement; (ii) the accounting standards adopted by the accountants engaged by Youran Dairy to prepare the Completion Accounts comply with the financial standards and regulatory requirements; and (iii) the Adjustment to the Consideration brought the transaction price closer in line with the actual transaction target, and therefore, there is no violation of the principle of good faith as proposed by the Claimants, the Claimants' arbitration claim lacks factual and legal basis and the likelihood of the Claimant obtaining a favorable ruling from Arbitration Commission is relatively low.

Having considered that (i) the damages claimed by the Claimants amounted to approximately RMB45,000,000, which accounted for approximately 2.9% of the net profit of our Group for the year ended December 31, 2020, (ii) SKX has become one of our Company's non-wholly-owned subsidiaries upon completion of the acquisition of SKX and as advised by the PRC Legal Advisor, the acquisition of SKX was legally and properly completed on January 8, 2020 in accordance with the relevant PRC laws and regulations, including the rules and regulations of the NEEQ, (iii) as advised by the Arbitration Legal Advisor, and concurred by our PRC Legal Advisor, the Arbitration will not affect the effectiveness and validity of the share transfer under the Share Purchase Agreement, and (iv) the unlikelihood that an outflow of resources embodying economic benefits will be required to settle the obligation as the

Arbitration Legal Advisor is of the view that the likelihood of the Claimants obtaining a favorable ruling from Arbitration Commission is relatively low on the bases aforementioned, no provision has been made in relation to this Arbitration, and the Company is of the view that such Arbitration will not have a material adverse impact on the business and financial condition of the Group, as a whole or on SKX.

The Company had also received a complaint in December 2020 (the "**Complaint**") alleging that the Company's acquisition of SKX has infringed the rights of the minority shareholders. As advised by the Company's PRC Legal Advisor, since (i) there are no mandatory tender offer requirements for companies listed on the NEEQ under the PRC laws, the Interim Measures for Agreement-based Transfer of Shares of Companies Listed on the National Equities Exchange and Quotations for Specific Matters (the "**Interim Measures**", 全國中小企業股份轉讓系統掛牌公司股份特定事項協議轉讓業務暫行辦法) and the NEEQ rules; (ii) the articles of association of SKX does not stipulate any mandatory tender offer mechanism; and (iii) under the PRC Company Law, the shareholders of a company limited by shares do not have preemptive right to the transfer among other shareholders of the company, the acquisition of SKX did not require offer to all shareholders under the NEEQ rules and did not require approval from non-transferring shareholders. Considering (i) the acquisition has obtained necessary approval from the the National Equities Exchange and Quotations Co., Ltd., which as advised by the PRC Legal Advisor, is the competent authority of governing the transfer of shares under the acquisition, and duly registered with the China Securities Depository and Clearing Co., Ltd.; and (ii) the acquisition has satisfied all other preconditions to its completion under the relevant share purchase agreement, including obtaining unconditional approval from the Anti-Monopoly Bureau, and has been announced in accordance with the NEEQ rules, the PRC Legal Advisors are of the view that the acquisition has gone through due procedures, does not violate the relevant PRC laws and regulations and is legal and valid. As of the Latest Practicable Date, to the best knowledge of the Directors of the Company after due inquiries, there has not been any illegal or improper transfer of interest or related party transactions as alleged in the Complaint.

## 2. Joint Sponsors

The Joint Sponsors made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, and to be issued (i) pursuant to the Global Offering, and (ii) upon conversion of the Convertible Notes.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors' fees payable by us in respect of the Joint Sponsors' services as sponsors for Listing are US$800,000.

## 3. Shares will be eligible for CCASS

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued (i) pursuant to the Global Offering, and (ii) upon conversion of the Convertible Notes.

All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

## 4. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2020 (being the date on which our latest audited combined financial statements was made up) up to the date of this prospectus.

## 5. Qualification of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

| Name | Qualifications |
|---|---|
| Huatai Financial Holdings (Hong Kong) Limited | Licensed corporation under the SFO for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO |
| Credit Suisse (Hong Kong) Limited | Licensed corporation under the SFO for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO |
| Deloitte Touche Tohmatsu | Certified Public Accountants<br>Registered Public Interest Entity Auditors |

| Name | Qualifications |
|---|---|
| KPMG | Certified Public Accountants<br>Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance |
| Tian Yuan Law Firm | PRC legal advisor |
| Beijing Zhong Wen Law Firm | PRC legal advisor |
| Frost & Sullivan (Beijing) Inc. | Industry consultant |
| Ogier | Cayman Islands legal advisor |
| Jones Lang LaSalle Corporate Appraisal and Advisory Limited | Independent qualified professional valuer |

**6. Consents of experts**

Each of the experts whose names are set out in the paragraph headed "– D. Other Information – 5. Qualification of experts" in this Appendix has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its statements, report, letter and/or opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

As at the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the paragraph headed "– D. Other Information – 5. Qualification of experts" in this Appendix has any shareholding interests in any of our Company or any of our subsidiaries or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

**7. Agency fees or commissions received**

Save as disclosed in the section headed "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this prospectus.

**8. Promoter**

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our Company nor is any cash, securities or benefit intended to be paid, allotted or given in connection with the Global Offering or the related transactions described in this prospectus.

## 9. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately US$7,000 and have been paid by our Company.

## 10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## 11. Taxation of holders of Shares

### *(a) Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

### *(b) Cayman Islands*

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of our Shares, save for those which hold interests in land in the Cayman Islands.

### *(c) Consultation with professional advisors*

Intending holders of the Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising rights attached to them. It is emphasized that none of our Company, our Directors or the other parties, involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attached to them.

### 12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

### 13. Particulars of the Selling Shareholders and the Option Grantors

The name, address and description of the Selling Shareholders and Option Grantors are as follows:

| | |
|---|---|
| Name: | PAGAC Yogurt Holding I Limited |
| Description: | A company incorporated in the BVI with limited liability |
| Date of Incorporation: | March 18, 2015 |
| Address: | Commence Chambers, P.O. Box 2208, Road Town, Tortola, British Virgin Islands |
| Nature of Business: | Investing holding |
| Sale Shares: | • 170,793,000 (assuming the Over-allotment Option is not exercised)<br>• 272,420,000 (assuming the Over-allotment Option is exercised in full) |
| Name: | PAGAC Yogurt Holding II Limited |
| Description: | A company incorporated in Hong Kong with limited liability |
| Date of Incorporation: | May 3, 2019 |
| Address: | 2503 Bank of America Tower, 12 Harcourt Road, Central, Hong Kong |
| Nature of Business: | Investing holding |
| Sale Shares: | • 51,238,000 (assuming the Over-allotment Option is not exercised)<br>• 56,926,000 (assuming the Over-allotment Option is exercised in full) |

**14. Miscellaneous**

(a) Save as disclosed in this prospectus:

(i) none of our Directors or experts referred to in the paragraph headed "– D. Other Information – 5. Qualification of experts" of this Appendix has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(ii) none of the Directors or experts referred to in the paragraph headed "– D. Other Information – 5. Qualification of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(iii) save for the Underwriting Agreements, none of the experts referred to under the paragraph headed "– D. Other Information – 5. Qualification of experts" of this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(iv) within the two years preceding the date of this prospectus, no share or loan capital of the Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(v) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group;

(vi) within the two years preceding the date of this prospectus, no commission has been paid or is payable (except commissions to sub-underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in the Company;

(vii) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(viii) our Company has no outstanding convertible debt securities or debentures;

(ix) no capital of the Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(x) there is no arrangement under which future dividends are waived or agreed to be waived;

(xi) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus; and

(xii) no member of our Group is presently listed on any stock exchange or traded on any trading system, and no listing or permission to deal is being or proposed to be sought.

## 1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) a copy of the **GREEN** Application Form;

(b) a copy of each of the material contracts referred to in "Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts" in Appendix V to this prospectus;

(c) a copy of each of the written consents issued by each of the experts referred to in "Statutory and General Information – D. Other Information – 6. Consents of experts" in Appendix V to this prospectus; and

(d) the statement of particulars of the Selling Shareholders and the Option Grantors.

## 2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell, 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the Accountants' Report of the Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

(c) the audited consolidated financial statements of our Group for the financial years ended December 31, 2018, 2019 and 2020;

(d) the Accountants' Report of Fonterra China Farms Group prepared by KPMG, the text of which is set out in Appendix II to this prospectus;

(e) the audited consolidated financial statements of Fonterra China Farms Group for the financial years ended December 31, 2018, 2019 and 2020;

(f) the report on the unaudited pro forma financial information from Deloitte Touche Tohmatsu, the text of which is set out in Appendix III to this prospectus;

(g) the valuation reports prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent qualified professional valuer;

(h) the legal opinions issued by Tian Yuan Law Firm on PRC law in respect of certain aspects of our Group, the property interests of our Group and the Litigation as referred to in the section headed "Business – Legal Proceedings" in this prospectus;

(i) the legal opinion issued by Beijing Zhong Wen Law Firm on PRC law in respect of the Arbitration as referred to in the section headed "Business – Legal Proceedings" in this prospectus;

(j) the industry report prepared by Frost & Sullivan (Beijing) Inc. referred to in the section headed "Industry Overview" in this prospectus;

(k) the letter prepared by Ogier, our legal advisor on Cayman Islands laws, summarizing certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus;

(l) the material contracts referred to in "Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts" in Appendix V to this prospectus;

(m) the written consents referred to in "Statutory and General Information – D. Other Information – 6. Consents of experts" in Appendix V to this prospectus;

(n) the service contracts and letters of appointment referred to in "Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – 2. Particulars of Directors' Service Contracts and Appointment Letters" in Appendix V to this prospectus;

(o) the Cayman Companies Act; and

(p) the statement of particulars of the Selling Shareholders and the Option Grantors.

優然牧業
YOURAN DAIRY